Brighton and Hove CC

Build to Rent Study

Final Report

August 2019

(DSP18584)

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Report

Build to Rent (BTR) study

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Introduction - Purpose

Brighton & Hove City Council (BHCC) appointed Dixon Searle Partnership (DSP) to undertake an assessment of Build to Rent (BTR) in the city and its likely viability in terms of delivery.

This study provides information that may be used to inform and support the Council's policy development for BTR in the emerging City Plan Part Two, which aims to boost the supply of housing for rent, provide more choice of good quality rented accommodation, and contribute towards meeting identified housing needs in the city.

National Context

The revised National Planning Policy Framework (NPPF) indicates that affordable housing in BTR schemes should normally be provided in the form of 'affordable private rent' (APR), and the associated guidance suggests that the inclusion of 20% APR in a BTR scheme is a suitable benchmark; but that local authorities can set a different proportion in local plan policy if justified by local housing need (and with reference to viability).

The principal difference between BTR and other tenures is that BTR schemes are financed via a long-term investment approach (for example usually backed by a by a pension fund or similar). All homes in a scheme remain in the same ownership and are managed as one investment, usually without the involvement of a Registered Provider of affordable housing (e.g. a housing association).

BTR developments are usually aimed at young professionals (and are often aimed at graduates, for example as a natural progression from high quality student halls of residence) rather than the wider private rented market which includes properties that are more affordable. Schemes vary but often include facilities such as 24-hour concierge and maintenance, inclusive WIFI, workspaces and car clubs.

Viability Assessment Approach

We have based our study on appropriate information and assumptions, following extensive research including stakeholder consultation.

A Discounted Cash Flow method was used to consider investment value, based on a range of assumed net rental income flows. Cashflow was assessed over a 15-year period using a 6% discount rate.

The Council is proposing to introduce a Community Infrastructure Levy (CIL) and the proposed CIL charging rates (which are currently subject to examination) have been factored into the methodology.

A Residual Land Value (RLV) approach was taken, assessing investment values against the costs of acquisition, development, finance, profit and sale; with the resulting value being compared against indicative levels of land value, to enable trends to be seen. We used the same benchmark land values (BLVs) as were considered in the BHCC CIL viability study, also by DSP, to ensure consistency of approach.

In our appraisals we have tested different levels of Affordable Private Rent to show their impact on viability generally and therefore on the number of APR units that can potentially be provided as part of a BTR scheme.

Where is BTR development likely to occur, and should policy requirements vary in different areas of Brighton and Hove?

The Council may wish to consider whether geographical variation is introduced to its approach to BTR and related affordable housing policy, for example linked to the emerging CIL charging zones.

However, in our opinion, the option of an approach that seeks to provide as much simplicity and clarity as possible, and which is therefore applied across the whole City area, could be more appropriate - particularly as the current and anticipated activity suggests that most BTR dwellings are likely to come forward within proposed CIL Zone 2.

Affordability of APR units

The results of our viability testing demonstrate that when affordable housing is included in a BTR scheme, the level of rent charged on any affordable housing units has a very significant effect on viability.

The findings of our appraisals show that setting affordable rent levels within BTR developments at below 75% of market rent will often make scheme viability challenging, even when only 10% APR is required on site. The context for this is that the starting point viability of a BTR scheme is generally below that of a general market scheme.

On the other hand, with reference to the affordability section of this report, it is clear that rents at 75% of market rent in a BTR scheme will not meet the needs of the majority of applicants on the Council's housing register, who would be eligible for 'traditional' rented affordable housing.

These inevitable opposing tensions between affordability and viability are likely to be difficult to match-up and it may be that the affordable element of BTR will need to be viewed as fulfilling a different role in the overall provision of choice within the local housing market offer as a whole.

CONCLUSIONS

- We consider that an approach including a simple percentage target requirement for APR across the whole BHCC area would be appropriate and could be considered by the Council; rather than necessarily needing to differentiate by locality or similar.

- Provision should be made for integrated affordable housing in the form of affordable private rented (APR) homes, to remain so in perpetuity.

- Within this context, the review and findings suggest that, generally, the provision of 10% APR on-site is likely to represent a sufficiently challenging target for BTR whilst meeting all other policy costs including CIL at the proposed charging rates. At this level of provision there should be opportunities to ensure a good level of affordability of the APR dwellings, however.

- However, the PPG references the need to create certainty of expectations within policy requirements. BHCC could therefore seek up to 20% affordable housing (as a target) at rents to be considered specifically, but again consistent with the PPG and thus on the basis of targeting levels of not more than 75% to 80% of market rent.

- In many instances there is likely to be a measure of balance and trade-off between the workable affordable housing quantum and its affordability, as is often the case with affordable housing more generally. Rents at up to 75-80% market levels for BTR schemes would mean the Council accepting that the APR units would not be genuinely affordable in relation to the incomes of households in the most pressing need, as well as increasing the likelihood of individual schemes struggling to meet a 20% affordable housing target. Therefore, the Council will need to consider the balance between the quantum of affordable housing that can be provided on BTR sites and the probability of increased BHCC resources being required to verify site-specific viability (or to consider alternatives together with any other funding opportunities) as well as adding to the time needed to determine planning applications.

- At 10% affordable housing a rent level of 50% of market rent including all service charges (and linked to an agreed inflation benchmark) most closely aligns with the rest of BHCC's affordable homes programme and the Council's policy income caps. The Council may have to show flexibility in allowing a variation to rent levels or quantum of APR on particular sites, however, and the exact combination of these that will be most suitable and can be achieved will be influenced by the scheme specifics.

- On sites which are nil-rated for CIL, 10% APR at 50% of market rent should be broadly achievable.

- Depending on what are identified as the key affordable housing priorities for BHCC, the Council may also wish to consider whether in some instances an off-site financial contribution would be appropriate in lieu of APR, thus enabling social housing provision through other routes.

The following, full report provides the assessment detail.

1. Introduction (Project brief and local context)

Project/brief

1.1. Brighton & Hove City Council (BHCC) has appointed Dixon Searle Partnership (DSP) to undertake an assessment of Build to Rent (BTR) in the city and its likely viability in terms of delivery. BTR is a relatively new form of development delivering housing provision, which has not previously been reviewed in this local authority area in terms of viability. BHCC has, therefore, asked DSP to carry out a viability study which was commissioned to inform the Council's approach to considering BTR, including the following elements:

- Consideration of the housing market in Brighton and Hove and the demand for BTR, including who it could cater for (including an affordable housing i.e. "affordable private rented" component of BTR development);
- The viability of delivering affordable housing as part of BTR schemes (generally provided as affordable private rent (APR)), including testing different scenarios for the percentage of this affordable housing element and the levels at which affordable rents might be set;
- Recommendations on the above as an input to Council planning policy and practice for the delivery of BTR schemes.

1.2. This study provides information that may be used as evidence to inform and support the Council's policy development for BTR in the emerging City Plan Part Two. It will help to inform an update to the Council's Affordable Housing Brief, which provides guidance for developers on the Council's requirements for affordable housing. The study will also aid negotiations with site promoters and developers to ensure that proposed BTR schemes maximise benefits for the city and its residents by providing high quality housing that helps improve housing choice, contributes to the achievement of mixed and sustainable communities, as well as contributing towards meeting the city's identified need for affordable housing.

2. National context

National policy concerning BTR

2.1. With the average first-time buyer being 37 years old and the lack of supply of new homes for first time buyers as well as a problem of affordability, there is high demand for rental housing.

2.2. The Government is promoting BTR as a means of improving the supply, choice and quality of private rented accommodation. A £10 billion housing debt guarantee has been made available to builders of BTR homes.

2.3. The revised National Planning Policy Framework (NPPF) published on 24 July 2018 (subsequently updated 2019) defines BTR as:

"Purpose built housing that is typically 100% rented out. It can form part of a wider multi-tenure development comprising either flats or houses, but should be on the same site and/or contiguous with the main development. Schemes will usually offer longer tenancy agreements of three years or more, and will typically be professionally managed stock in single ownership and management control."

2.4. The NPPF indicates that affordable housing in BTR schemes should normally be provided in the form of 'affordable private rent' (APR), as noted above, with both the market rent and APR units within a development managed collectively by a single landlord. To support the NPPF policy the Government has recently published Planning Practice Guidance covering the delivery and management of BTR on 13 September 2018 (See Appendix 3 of this report). This follows earlier draft guidance that was published for consultation in March 2018.

2.5. The Guidance suggests that the inclusion of 20% APR in a BTR scheme is a suitable benchmark; but that local authorities can set a different proportion in local plan policy if justified by local housing need (and with reference to viability).

What distinguishes BTR from other tenures?

2.6. The principal difference between BTR and other tenures is that BTR schemes are financed via a long-term investment approach (for example usually backed by a by a pension fund or similar). All homes in a scheme remain in the same ownership and are managed as one investment.

2.7. Partly because of the need to maintain all homes in the same ownership (and thus also preclude the Right to Buy applying), traditional affordable housing, i.e. managed by RPs and councils with long-term tenancies and often coming with the Right to Acquire or Right to Buy, is not usually provided as part of BTR schemes. However, there are many cases where the rent levels and nomination rights applicable to the affordable elements within BTR schemes are similar to those of stand-alone affordable housing for rent.

2.8. Generally, our research indicates that where affordable housing has been provided as part of a BTR scheme, it has been provided as part of an integrated and consistent design "tenure blind" so that the discounted rental units are not distinguishable from others in the scheme. This is now set out as an expectation in the national guidance.

2.9. Another key difference from traditional affordable housing is that usually a Registered Provider (housing association) is not involved – unless they are developing the scheme themselves – and all units are managed by the same company. Again, this is set as an expectation in the national guidance. Some issues can arise from this concerning the level of service charges relating to the development, which can affect affordability. For the purposes of our appraisals we have assumed rents to be inclusive of all service charges, as set out in the NPPF.

2.10. BTR lends itself to modular construction, with efficiencies coming from repeatable design which can help to offset the potential lower value of a BTR scheme when compared with housing for market sale. Most schemes have been, and are expected to be, apartments rather than houses.

2.11. A 2017 survey by CBRE[1] found that, whilst many people are choosing to rent privately through lack of other options due to issues with market housing availability/affordability, there were other motivating factors in choosing to rent, such as:

- Not wanting the commitment of owning, and valuing the ability to move at short notice
- Preferring to share with friends
- A wider choice of properties
- Preferring to leave repairs and maintenance to a landlord
- Lower upfront costs

2.12. In particular, many younger renters have a philosophy that places more value on lifestyle and experiences than on ownership/possessions – this group is attracted to a high quality purpose-built rental product which promises quality accommodation and service.

2.13. A common theme among BTR providers is the view of their customers as 'residents' rather than tenants, and an attempt to add value by building a positive relationship between landlord and resident.

[1] Millennials: Myths and Realities, CBRE 2017

2.14. Schemes often include facilities such as 24-hour concierge and maintenance, inclusive WIFI, complimentary coffee, cinema rooms, gyms, workspaces, roof terraces and car clubs. Unlike the majority of flatted developments, pets are often allowed.

2.15. BTR developments are usually aimed at young professionals (and are often aimed at graduates, as a natural progression from high quality serviced student halls of residence) rather than wider private rented market which includes properties that are more affordable.

2.16. As far as the size of BTR developments is concerned, feedback from the BTR development sector is that a certain critical mass is usually required – generally of at least 200 units. However, our research has found examples of several schemes of 100 units and indeed some even smaller scale schemes exist. Schemes of a low number of units are less likely to support the provision of APR units, and indeed may have higher market rents than larger schemes, due to the proportional effect of relatively high construction costs, letting and management and provision of services; as opposed to larger scale schemes which can more readily support such costs through spreading these costs across a greater scale of development – i.e. buy-in.

Specification

2.17. BTR developments generally use high quality materials – there tends to be more focus on durability, associated with potential occupancy turnover, and communal areas are often larger and may be differently presented/fitted-out compared with similarly sized developments for market sale.

Investment returns from BTR

2.18. BTR appeals to institutional investors such as pension funds looking to invest in opportunities that will provide a stable, long-term income. With the current housing market uncertainty, it may be that the popularity of BTR increases amongst investors, who may see it as a safer investment than a scheme for sale that is exposed to a more volatile market scenario. A view might also be taken on whether a building could convert to housing for sale at a later stage when the market is more buoyant, potentially also giving an alternative "exit" route or view that underpins the value of the holding

2.19. Research from Arcadis and Hometrack ranked local authority areas by the residual land value generated by BTR, and concluded that Brighton and Hove was in the top ten areas in the South East (although acknowledging that employment and rental affordability amongst the target group of 25 to 35 year olds was not as strong as in some other areas).

Benefits of BTR

2.20. The ongoing shortfall against Government targets for delivery demonstrates that housebuilding in recent years has not sufficiently delivered the homes that are needed. BTR providers consider that there is generally a lack of provision of smaller units for the younger generation. Where there are flats available for purchase, property prices put them beyond the reach of most young professionals, new graduates or others at a similar stage of looking for their own first/move-on home. BTR is, therefore, seen as a type of provision that can contribute to filling this gap, and of encouraging housebuilding in a market where supply is not coming through quickly enough – for example perhaps incentivising schemes to be built where housing for sale is put on hold due to uncertainty in the market. BTR is also seen as a means of improving the private rental sector by providing an expanded source of well-managed, good quality options for those who cannot or do not wish to buy. It is also hoped that as the BTR sector expands it will begin to be used more by downsizers, thus freeing up family homes and reducing under-occupation.

Completed BTR developments around the country

2.21. The British Property Federation provides statistics on the number of BTR developments in the country. There are currently 29,416 units completed, 43,374 under construction and a further 66,718 in planning[2]. Nearly half of these are outside London. The following table lists examples in London and the South East.

2.22. **Figure 1: Example Build to Rent Developments**

[2] British Property Federation/Savills Build to Rent Q4 2018 statistics

EXAMPLE BUILD TO RENT DEVELOPMENTS IN THE SOUTH EAST					
Locality	**Name**	**Status**	**No. units**	**Comments**	**Website**
Crawley	The Green	Complete	60	Residential apartments, M&G investments	https://www.mandg.co.uk/institutions/articles/the-green-crawley/
Southampton	Bow Square	Complete	25	1 and 2 bed apartments	http://www.bowsquare.co.uk/
Coulsdon	Welford House	Complete	5	1 and 2 bed apartments, High End gated development of BTR. Rents from £800 to £1500pcm	http://www.residential-akelius.co.uk/welford-house/floorplans.aspx
Epsom	Fizzy Epsom	Complete	-	1 and 2 bed apartments, TVHA	https://www.fizzyliving.com/locations/epsom#
Ashford	Victoria Way	Permission	225	225 new homes, a 120 bed hotel, a foodstore, Chapel Down's new Curious Brewery and visitor centre and flexible office / retail floorspace all at the heart of Ashford.	http://www.victoriawayashford.com/
Croydon	Vertex	Construction	16	1 and 2 bed apartments, available for very short term rental i.e. 1 week at a time	https://www.apartmentnetwork.co.uk/apartments/vertex-house-croydon/
London	East Village	Complete	17	1 - 4 bed apartments, penthouses and 5 bedroom townhouses, Private outdoor space, bike service stations, car parking	https://www.getliving.com/family-homes.aspx
London	Alto	Complete	120	Modern apartments either balcony or terrace with italian style court-yard wth gym and roof terrace	https://www.tipi.london/apartments
London	Montana & Dakota	Complete	140	Stylish apartments with shared gym, cinema room and two resident lounges	https://www.tipi.london/apartments
London, Islington	Vantage point	Complete	118	24 hour on-site team, no agent fees, pet friendly and shared gym	https://www.essentialliving.co.uk/development/vantage-point/
London, Bethnal Green	Dressage Court	Complete	104	24 hour on-site team, no agent fees, pet friendly and social spaces	https://www.essentialliving.co.uk/development/dressage-court/
London, Maidenhead	Berkshire House	Complete	68	24 hour on-site team, no agent fees, pet friendly and social spaces	https://www.essentialliving.co.uk/development/berkshire-house/
London Greenwich	Union Wharf	Complete	249	24 hour on-site team, no agent fees, pet friendly and shared gym	https://www.essentialliving.co.uk/development/union-wharf/

3. Local context

The rental market in Brighton and Hove

3.1. The Council's Housing Strategy team produces regular market reports which analyse rents in the area and compare them with Local Housing Allowance (LHA) rates. The most recent report available at the time of writing is from September 2018.

3.2. The report provides the following information on average monthly rents and shows that over the past two years rents have remained fairly stable, with the exception of rents on 4-bed family houses which have increased by 7.0%. Given the nature of the study, we focus here on the smaller homes.

3.3. **Figure 2: Advertised cost of renting in Brighton & Hove[3]**

FLATS	Room	Studio	1 Bed Flat	2 Bed Flat
Average	**£620**	**£718**	**£1,001**	**£1,371**
Last Quarter (2018 Q2 Apr-Jun)	£580	£701	£941	£1,329
% Change from last quarter	*+6.9%*	*+2.5%*	*+6.4%*	*+3.1%*
Last Year (2017 Q3 Jul-Sep)	£588	£722	£960	£1,339
% Change from last year	*+5.4%*	*-0.5%*	*+4.3%*	*+2.4%*
Highest	£750	£950	£2,383	£2,500
Lowest	£399	£480	£625	£840
Half the prices were higher than	£635	£725	£950	£1,300
Most frequent price	£700	£750	£850	£1,250
Average of lowest quartile	**£564**	**£664**	**£875**	**£1,195**
Last Quarter (2018 Q2 Apr-Jun)	£539	£625	£825	£1,100
% Change from last quarter	*+4.5%*	*+6.2%*	*+6.1%*	*+8.6%*
Last Year (2017 Q3 Jul-Sep)	£525	£650	£850	£1,150
% Change from last year	*+7.4%*	*+2.1%*	*+2.9%*	*+3.9%*

3.4. The Council has also assessed information from the Valuation Office which indicates that the cost of renting a flat or room privately in the city has been increasing, and appears to still be on an upwards trajectory.

3.5. **Figure 3: Statistics on rents paid for private properties**

[3] Source: BHCC Housing Market Report September 2018

Valuation Office Agency

Statistics on rents paid for private rented properties in the City

The following information it taken from data collected by the Valuation Office Agency on rents paid for properties in the city's private rented sector. The data is based on a sample of rental information. Although this sample changes over time, it still provides an indication of changes in the rental market.

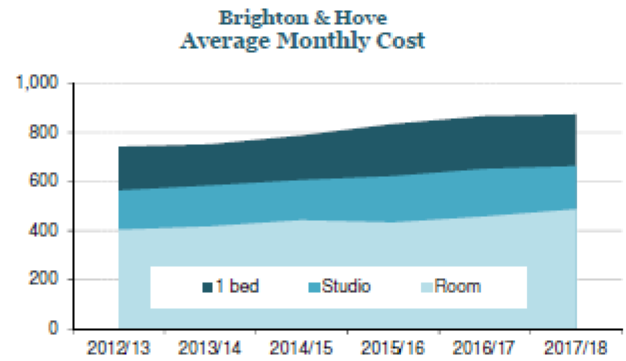
The charts and tables compare the 12 month period from 1 April 2017 to 31 March 2018 to the pervious 12 month period from 1 April 2016 to 31 March 2017.

Sample Size							
Period	Rooms	Studios	1 beds	2 beds	3 beds	4+ beds	Total
1 Apr 17 – 31 Mar 18	200	260	1,100	1,280	490	720	4,050
1 Apr 16 – 31 Mar 17	210	290	1,000	1,090	490	880	3,960

When comparing the sample data there has been an increase in the rent paid for all the different sized properties, with rooms showing the greatest increase at +6.6%

Single People and Couples

Annual Average Monthly Rent & Inflation			
Size	2017/18	2016/17	Increase
Room	£486	£456	+6.6%
Studio	£662	£650	+1.8%
1 bed	£873	£866	+0.8%



Source: VOA

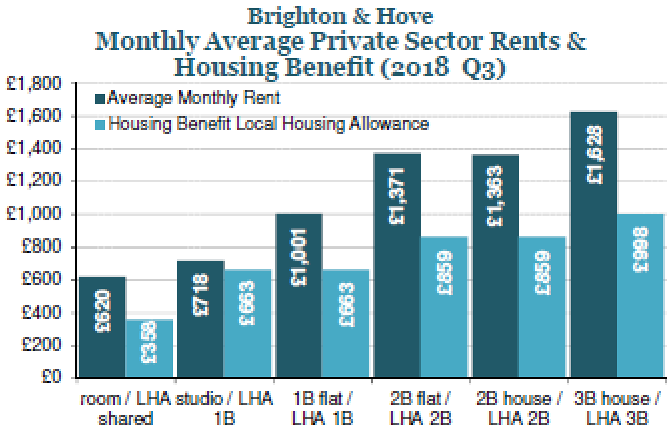
3.6. Local Housing Allowance rates in Brighton and Hove are currently as follows:

3.7. **Figure 4: LHA rates**

Category	Weekly rate	Monthly rate
Shared accommodation	£ 82.66	£ 358.19
One bedroom	£ 153.02	£ 663.09
Two bedroom	£ 198.25	£ 859.08
Three bedroom	£ 230.28	£ 997.88
Four bedroom	£ 339.36	£ 1,470.56

3.8. BHCC's comparison of average private sector rents and housing benefit demonstrates that BTR flats let at market rates are unlikely to cater for many of the households on the Council's housing register, and that APR will have to be considerably below market rates to be affordable to this group. In our appraisals we have tested different levels of Affordable Private Rent to show the impact on viability generally and therefore on the number of APR units that can potentially be provided on a BTR scheme.

3.9. **Figure 5: Private Sector Rents and Housing Benefits**

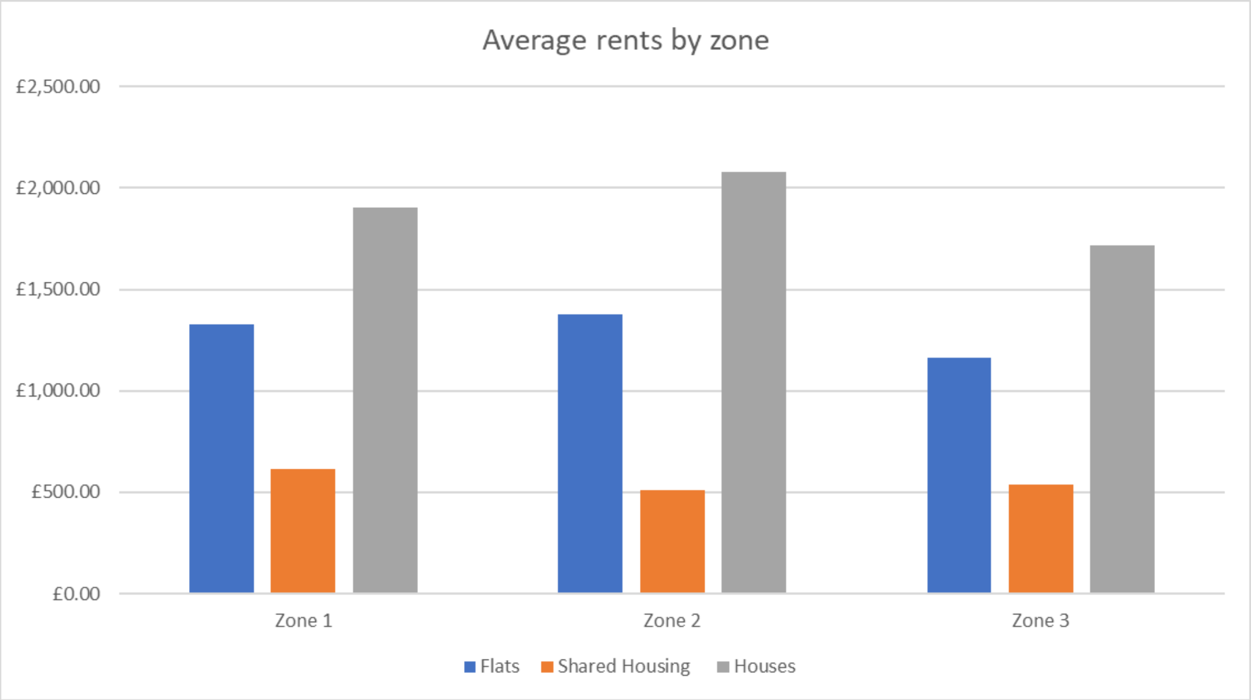


Note: The housing benefit local housing allowance calculated is only based on the number of bedrooms required, as all tenants are entitled to a kitchen and bathroom.

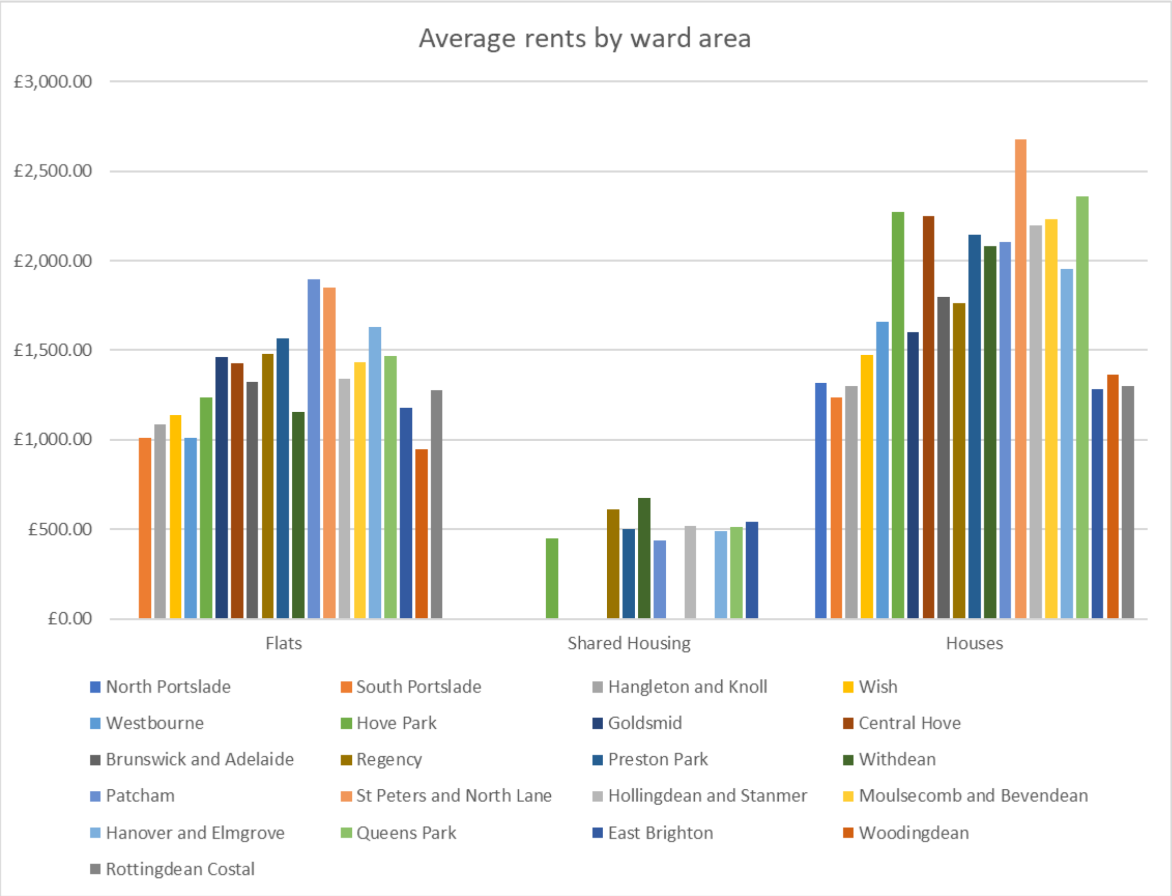
3.10. We have carried out our own detailed research into rents across the BHCC area. The full dataset is included in Appendix 5. The charts below illustrate the different rent levels, firstly with reference to the Council's currently proposed Community Infrastructure Level (CIL) charging zones, and then by ward area (advertised rents as at February 2019). We have referred to these in setting our appraisal assumptions for rental income from BTR, and in assessing the maximum percentage of market rent required on a BTR unit to achieve certain levels of affordability (as explained later in this section of the report).

3.11. It should be noted that whilst average rents for flats in (proposed CIL) Zone 1 are slightly lower than in Zone 2, the majority of flats in Zone 1 are smaller, therefore the rent per m² is significantly higher (inverse correlation). This has been taken into account in setting the proposed BTR rents for our study.

3.12. **Figure 6: Average rents by (proposed CIL) zone**



3.13. **Figure 7: Average rents by ward area**



Affordability

3.14. We have compared the market rental information provided by BHCC with our own research into the rental market, and taken into account stakeholder feedback on BTR rent levels which indicate that a typical BTR rent will be above the average rent for a similar sized flat in the area (which difference usually relates to the age and type of accommodation/shared services and amenities available in many of these schemes). We have also carried out analysis of published information on BTR schemes across the country, which combined with stakeholder feedback has led to our assumption that BTR rent levels will be on average 20% above market rent levels for the private sector generally.

3.15. We were asked by the Council's housing service to consider the impact of charging 'Living Rents'. These are based on the London Living Rents introduced with the aim of allowing people to rent privately whilst saving a deposit to buy a home. Living rents are set at two-thirds of the median rent, which puts them above social rent level but below the local housing allowance maximum.

3.16. The following table compares different rent levels with BTR rents, showing the % of rent that will have to be achieved from APR to achieve parity with the different affordable rent levels:

3.17. **Figures 8 and 9: Comparison of different rent levels**

	Rents (per week)					
	BTR rent (average across all Zones)	Market Rent generally	Affordable Rent generally (80% of MR)	LHA rate	Living Rent	Social Rent
1 bed flat	£ 285	£ 238	£ 190	£ 153	£ 148	£ 65
2 bed flat	£ 399	£ 332	£ 265	£ 198	£ 177	£ 80
3 bed flat	£ 451	£ 374	£ 299	£ 230	£ 207	£ 100

	BTR rent	Market Rent generally	Affordable Rent generally (80% of MR)	LHA rate	Living Rent	Social Rent
1 bed flat	100%	83%	67%	54%	52%	23%
2 bed flat	100%	83%	66%	50%	44%	20%
3 bed flat	100%	83%	66%	51%	46%	22%

3.18. For the purposes of this study, we have tested rates of:

- 75% of a BTR rent - this provides a discount from the rent on a BTR unit, but will be only slightly less than the average market rent for a similar unit in the private rented sector generally.
- 50% of a BTR rent - this should fall within or close to the LHA rate for the area
- 40% of a BTR rent - this will fall within the parameters of the 'Living Rent'
- 30% of a BTR rent - this will be closer to a typical social rent in Brighton and Hove

3.19. Subsequently, at BHCC's request, we have carried out further testing of APR at 80% of market rent. Due to the premium attached to BTR rents, this may in practice be a rent level closer to the market rate for a similar sized apartment in the general private sector rental market locally given the above noted point about the BTR rents often being above the general market rental levels owing to the development type and offer.

Housing Register – income caps

3.20. BHCC have a total household income cap for each property size which was revised in the council's adopted Allocations Policy in September 2018. These caps are set out below.

3.21. **Figure 10: Household income caps in the Council's allocations policy**

Size of flat	Household income cap for eligibility as per BHCC allocations policy 2018
1 bed	£ 22,000
2 bed	£ 32,000
3 bed and above	£ 36,000

3.22. The 'Get Living' BTR development at Elephant and Castle in London requires tenants to have an annual household income of 30 times the monthly rent – a fairly common calculation in the private rented sector from what we can see. Based on the assumed BTR rents shown in Figure 8, this would require broadly the following levels of annual income to access BTR schemes in Brighton & Hove:

3.23. **Figure 11: Level of income required to access BTR schemes**

Size of flat	Income required to access BTR at full market rent, based on 30 times monthly income (average across all CIL zones)
1 bed flat	£ 37,000
2 bed flat	£ 52,000
3 bed flat	£ 59,000

3.24. For illustration/comparison, if the same calculation were applied to APR at 75% and 50% of market rent, the income requirements would be as follows:

3.25. **Figure 12: level of income required to access APR properties**

Size of flat	Income required to access APR at 75% of MR	Income required to access APR at 50% of MR
1 bed flat	£ 28,000	£ 18,500
2 bed flat	£ 39,000	£ 26,000
3 bed flat	£ 44,000	£ 29,000

3.26. BTR Rents at greater than 50% of market rent would be unaffordable to most of those eligible to join the Council's housing register. A BTR rent at 75% of market rent would require an income far in excess of the household income caps set out in BHCC's allocations policy.

Planning policy in Brighton and Hove

3.27. There is a high level of housing need in Brighton and Hove, with around 10,000 households on the housing register.

3.28. The City Plan Part One was adopted in March 2016 and sets the strategic and spatial vision for land use and development in Brighton & Hove to 2030. It includes policies which set out the broad planning policy framework for housing delivery in the city, in particular through the following policies.

3.29. Policy CP1 (Housing Provision) makes provision for delivery of at least 13,200 new homes in the city over the period 2010-2030 to be achieved through a combination of strategic site allocations within 8 identified Development Areas, smaller sites throughout the built-up area, and the release of a limited number of sites on the city's urban fringe. It should be noted that the City Plan housing target will provide for only around 44% of the city's assessed objectively assessed housing need.

3.30. Policy CP19 (Housing Mix) seeks to improve housing choice and ensure an appropriate mix of housing in terms of housing type, size and tenure, including seeking to meet the accommodation requirements of groups with specific needs. The policy indicates that housing developments coming forward on specific sites should have regard to local assessments of housing demand and need, the characteristics of existing neighbourhoods and communities, and make a positive contribution to the achievement of mixed and sustainable communities.

3.31. Policy CP20 (Affordable Housing) of City Plan Part One states that the Council will require the provision of affordable housing on all sites of 5 or more dwellings (net) and will negotiate to achieve 40% onsite affordable housing on sites of 15 or more (net) dwellings; 30% affordable housing on sites of 10-14 dwellings (net) whether onsite or as an offsite contribution; and 20% affordable housing as an offsite contribution on sites of 5-9 dwellings (net).

3.32. The Council's Affordable Housing Brief sets out guidance for developers on the Council's requirements for affordable housing to ensure the delivery of mixed, balanced and sustainable communities providing high quality affordable housing for local people in housing need. Based on assessments of local housing need and affordability, it currently identifies a citywide objective to achieve a broad tenure split for affordable housing comprising 55% rented (social rent or affordable rent) and 45% intermediate (e.g. shared ownership). It also states that affordable housing should be delivered by a Registered Provider of Affordable Housing (RP) engaged with the Council through the Brighton and Hove Affordable Housing Delivery Partnership and signed up to the Council's Partnership Agreement.

3.33. Applicants for residential development that provides on-site affordable housing in accordance with Policy CP20 are required to provide an Affordable Housing Statement setting out details of the proposed tenure, type and size of the affordable units proposed, having regard to Policy CP19 (Housing Mix) and the Affordable Housing Brief.

3.34. Where planning applications do not meet the affordable housing policy requirements and this is being justified on viability grounds, applicants are required to submit a detailed viability assessment meeting requirements specified in the Council's Viability Assessment Checklist. The applicant's viability assessment is made publicly available and reviewed independently by the Council.

3.35. The Affordable Housing Brief sets out that where a housing scheme does not comply with the policy requirements for affordable housing for viability reasons, the Section 106 agreement will incorporate a review mechanism for re-appraisal of scheme viability to ensure that any uplift in development values is shared with the Council in the form of an improved affordable housing contribution.

City Plan Part Two

3.36. The Council is currently preparing the City Plan Part Two, which will include more detailed development management policies and additional site allocation policies, helping to meet the city's housing requirement set in City Plan Part One. The Council undertook public consultation (Regulation 18 stage) on the draft City Plan Part Two over the period from 5 July to 13 September 2018. It is our understanding that the Council intend to submit the plan for examination next year.

3.37. In response to the revised NPPF and increasing local development interest, the Council has included a specific policy for BTR in the draft City Plan Part Two.

3.38. The draft policy aims to facilitate the delivery of high quality BTR schemes that will help boost the supply of housing for rent in the city, provide more choice of good quality rented accommodation, and contribute towards meeting identified housing needs in the city. It seeks to ensure that BTR developments contribute towards an appropriate mix of housing types, tenures and sizes (avoiding an over-concentration of BTR on key strategic sites) and states that the Council will seek to use S106 agreements to set out the key details of the lettings agreement, rent levels, management and marketing of the proposed scheme.

3.39. The policy also seeks to ensure that BTR schemes provide a proportion of genuinely affordable homes for rent for households in need in accordance with Policy CP20 in City Plan Part One, with provision to maintain the affordability in perpetuity. The supporting text indicates that the Council will negotiate to ensure that the affordable housing within BTR schemes is offered at rents equivalent to those in the Affordable Housing Brief and will also seek to agree eligibility criteria for the occupants of the affordable homes through a S106 agreement.

3.40. However, it is recognised that the economics of BTR schemes differ from build for sale as they are based on a long-term income stream and do not generate an early capital sum within overall project phasing (typical cashflow based review of revenue and costs). As a consequence, the Council has acknowledged that viability assessment will require a different approach for BTR compared with housing for sale, which potentially could allow for viability review mechanisms to be included in the S106 agreement.

3.41. The supporting text for the draft policy states that the Council intends to commission further evidence looking at the viability and deliverability of BTR in the city, in particular with respect to the provision of affordable housing, hence the commissioning of this study.

3.42. The private rented market in Brighton makes up a significant proportion of the available housing with more than a quarter of Brighton and Hove residents are living in rented properties[4].

3.43. The Council operates a housing options service advising those seeking housing in the city, which assists households with accessing private rented housing. Services include a Direct Letting Scheme which offers a deposit guarantee scheme. The Council can also provide assistance with rent via Housing Benefit subject to applicants' eligibility. Once applicants are housed via this route, they are removed from the housing register as they are considered to have been adequately housed. We understand that the letting service advises that most demand is for 1 and 2-bed self-contained flats rather than larger family housing.

3.44. BHCC have nomination rights to Registered Provider (RP) properties, but the national planning practice guidance indicates that BTR scheme operators will have the final decision over the occupancy criteria for affordable homes in BTR schemes (although eligibility criteria can be set out in a S106 agreement). The Council intends to set the criteria which the BTR management will be required to follow and the Council will expect regular monitoring reports to show that residents meet that criteria.

Off-site contributions/payments in lieu of affordable housing

3.45. BHCC's preference is for on-site provision of affordable housing. A key concern for the Council is that if BTR developments provide a smaller proportion of affordable housing than market sale led developments, this will reduce the potential for affordable housing delivery in the city. This is something that should be borne in mind when setting policy for BTR. However, the Council has a successful method of calculating off-site contributions, based on a sum equal to the difference between an Open Market Value (OMV) and Affordable Housing Value (AHV), using an annually updated table of commuted sums[5]. We will consider this later in the report in relation to off-site

[4] 35,959 households, (29.6% of the total households in Brighton and Hove) live in rented properties, almost double the proportion in the South East (16.3%) and England (16.8%).
[5] Planning policy CP7: S106 Developer Contributions Technical Guidance

contributions, should BHCC consider this to be an option where an appropriate case is made in respect of BTR developments.

Existing/forthcoming B&HCC applications for BTR

3.46. There are currently no completed BTR developments in Brighton & Hove. The Council has received two planning applications for new BTR schemes, however, as detailed below.

Longley Industrial Estate – Legal & General

BH2018/02598 | Demolition of existing buildings and redevelopment to provide: 3,270sqm of office/research/development floorspace (B1 (a)/(b) use), 308sqm of flexible commercial/retail floorspace fronting elder Place (B1 (a)/(b) ad A1-A4 use), 201 residential units (C3 use) in buildings ranging between 3 and 18 storeys plus roof plant level, together with associated car and cycle parking, further plant at lower ground level, supporting facilities and landscaping. | Longley Industrial Estate New England Street & Elder Place Brighton
Applicant: Legal & General Investment Management
Viability Consultant: Quod
Status: Planning Committee resolution to permit subject to S106 agreement

3.47. Legal and General describes the scheme as being in a strong micro-location within the centre of the city, and the 201 units proposed form part of a wider programme of BTR development across the country, with a total of 6,000 units planned including in Leeds, Bristol, Bath, Walthamstow, Birmingham and Salford.

3.48. Following an independent review of the applicant's viability assessment, the development is proposing 10% affordable housing to be provided as APR offered at a range of discounts (ranging from close to the LHA up to a maximum of 80% market rent). The average rent across all affordable homes would be 75% of market rent. The application was considered by the Council's Planning Committee on 20 March 2019 which resolved to grant permission subject to a S106 agreement.

Sackville Trading Estate – MODA Living

BH2018/03697 | Demolition and redevelopment of Sackville Trading Estate and Hove Goods Yard, with erection of buildings ranging from 2 to 15 storeys comprising 581no residential units (C3) and 10no live/work units (Sui Generis) with associated amenity provision; a care community comprising 260no units (C2) together with associated communal facilities; 3899m2 of flexible office accommodation (B1); 671m2 of flexible retail floorspace (A1 and/or A3) and community facilities including a multi-functional health and wellbeing centre (946m2) (D1/D2). Associated landscaping, car and cycle parking, public realm and vehicular access via existing entrance from Sackville Road. | Sackville Trading Estate and Hove Goods Yard Sackville Road Hove BN3 7AN
Applicant: Coal Pension Properties Limited and MODA Living (Sackville Road) Limited
Viability Consultant: Turley
Status: Application under consideration

3.49. Moda has stated that tenancies will be for a minimum of three years (and up to five), and that the affordable housing on site will be 'tenure blind'. A 'Moda hub' is intended to act as a focal point for the community. On site amenities include residents' lounges, health and wellbeing facilities, BBQ roof terraces, bicycle rental, a car club and allotments.

3.50. Following an independent review of the applicant's viability assessment, the applicant offered provision of 10% affordable housing (58 units) at 75% of market rent levels. However, the application was refused by Planning Committee on 10 July 2019.

Other sites

3.51. As well as the two sites above, we understand that Grainger is seeking to amend existing consented proposals for 229 units at Anston House (which included 13% affordable housing) to a BTR scheme.

4. Methodology

Stakeholder research – feedback from property specialists (local and national)

4.1. BHCC and DSP jointly carried out a stakeholder consultation process with a select number of relevant property specialists, and we are grateful for the responses received. Necessarily, responses have been kept confidential due to the commercial sensitivities involved. However, the information provided has been used to inform assumptions for the development appraisals used in this study, and in settling the methodology for appraisal modelling.

4.2. Feedback was received on the methodology suggesting the use of a Discounted Cash Flow model to value BTR schemes, and it was suggested that a consistent approach to land value should be taken in line with other types of development. These suggestions were as proposed by DSP, consistent with our experience, and have been implemented in our study. We have assumed land values based on the values adopted by DSP in the 2017 CIL Viability Study which informed the Council's Draft CIL charging schedule and therefore ensuring consistency with a methodology that is also suitable for other strategic policy/Local Plan development purposes

4.3. The information received on appraisal assumptions, for example relating to build costs and rent levels was broadly consistent and within the expected range based on our experience to date of this sector, and desktop research.

Methodology for financial viability

4.4. Our main financial appraisals were carried out using Argus developer appraisal software, assessing the strength of the estimated investment value vs estimated build and other costs (development costs). Example appraisals are included as Appendices 1c and 1d.

4.5. Development timings include a 3-month lead-in to allow for pre-construction planning and selection of a building contractor, with sale of the BTR scheme at its investment value in the month following completion. The construction period is taken to be 15 months for a 200 unit scheme and 38 months for a 500 unit scheme. It has also been assumed that the 200 unit typology will be built on a 2.35 hectare site (a density of 85/ha) and the 500 unit typology will be more densely developed, on a 3.6ha site (thus a density of 139/ha).

4.6. As suggested during our stakeholder consultation, a Discounted Cash Flow (DCF) method is preferable for assessing investment value. Tailored DCF calculations were first undertaken separately, and the results for investment value based on the net rental flows were entered in the Argus appraisal accordingly. Letting/legal fees were also calculated separately based on rental income and entered as separate inputs to the Argus appraisal, alongside other costs.

4.7. Cashflow was assessed over a 15-year period using a 6% discount rate. Full details of the assumptions including market rents for each proposed CIL zone are included in Appendix 1b.

4.8. The Council is proposing to introduce a Community Infrastructure Levy (CIL) and the proposed CIL charging rates (which are currently subject to examination) have been factored into the methodology. These are as follows:

4.9. **Figure 13: CIL charging rates assumed within development costs**

USE	LOCATION	LEVY (£/m²)
Residential – applies to C3 use class	**Zone 1**	**175**
	Zone 2	**150**
	Zone 3	**75**

4.10. The proposed CIL costs as they impact BTR schemes are dealt with in the Argus appraisals by entering the appropriate rate for the relevant CIL zone, and then adjusting this downwards in appraisals which include affordable housing to reflect the fact that affordable housing is exempt from CIL. For example, as highlighted in the following appraisal extract, the CIL rate for Zone 3 has been reduced by 20% (from £75/m² to £60/m²) and applied to the gross area. The level of CIL discount factored in to the calculations is adjusted according to the proportion of affordable housing (with a higher proportion of affordable housing translating to a lower CIL liability).

CONSTRUCTION COSTS
Construction

	m²	Build Rate m²	Cost	
BtR Apartments	43,300.00	1,998.00	86,513,400	**86,513,400**
Contingency		5.00%	4,974,520	
CIL Zone 3	43,300.00 m²	60.00	2,598,000	
Building Regs - Access	500.00 un	2,400.00 /un	1,200,000	
Sustainable Design / Construction		2.00%	1,730,268	
s106	500.00 un	3,000.00 /un	1,500,000	
				12,002,788
Other Construction				
Site & Externals Infrastructure		15.00%	12,977,010	
FF&E	500.00 un	2,500.00 /un	1,250,000	
				14,227,010

4.11. Overview of assumptions (full details of assumptions are in Appendix 1)

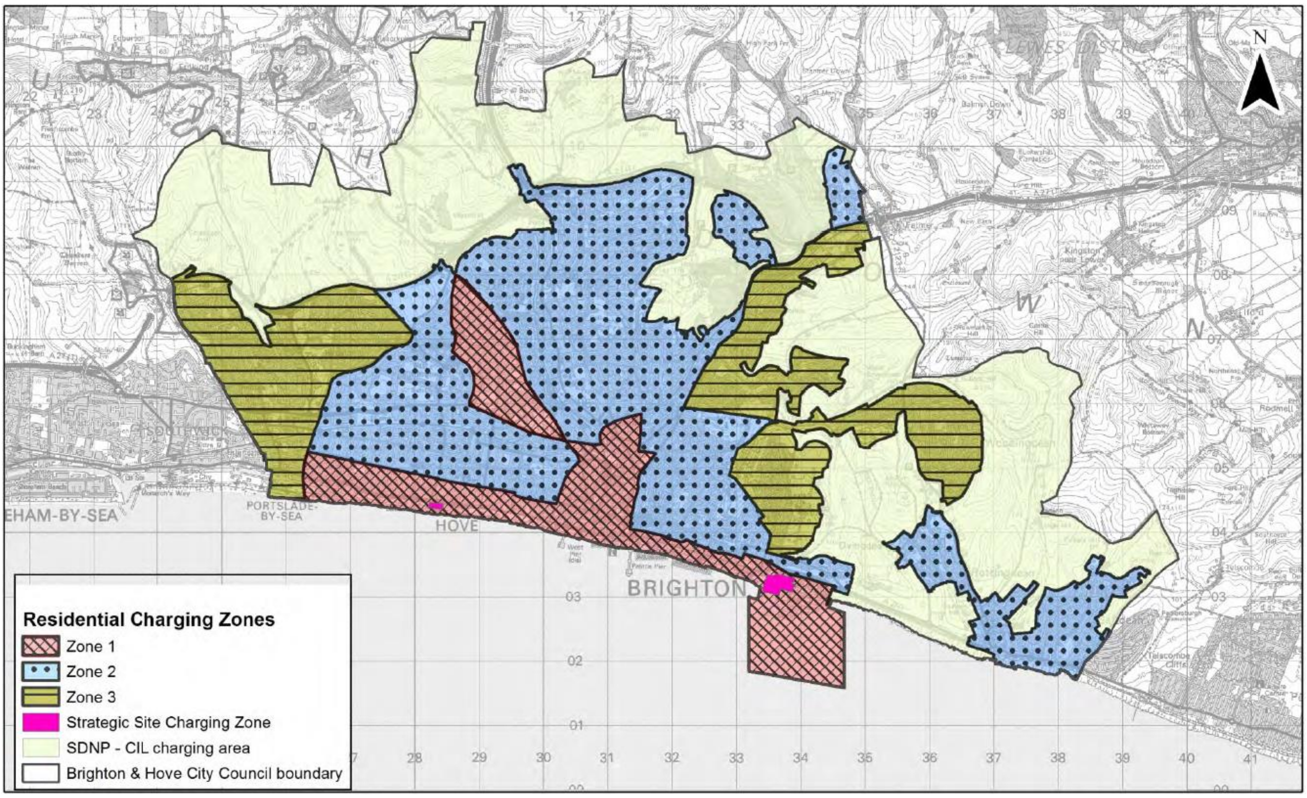
4.12. **Figure 14: Variables adjusted in the appraisals**

<table>
<tr><th>Item</th><th colspan="4">Variables</th></tr>
<tr><td>CIL charging zone:</td><td>Zone 1 (£175/m²)</td><td colspan="2">Zone 2 (£150/m²)</td><td>Zone 3 (£75/m²)</td></tr>
<tr><td>CIL charges</td><td colspan="2">With CIL</td><td colspan="2">Without CIL</td></tr>
</table>

Size of scheme:	200 units		500 units	
Proportion of affordable housing (APR) provided on site	Zero	10%	20%	40%
Rent level of affordable housing (APR as % of MR on a BTR unit)	75%	50%	40%	30%

4.13. The Council's proposed CIL charging zones are shown on the following map:

4.14. **Figure 15: BHCC proposed CIL charging zones**



4.15. These CIL zones 1, 2 and 3 are representative of higher, mid and lower value areas, as used in the BHCC CIL review, and taking a ward-based view, after review consistent with the regularly reviewed area based (zones) work undertaken for the Council by the DVS (on affordable housing contributions) with indicative Ward areas as follows:

- CIL Zone 1: Wish A, Westbourne A, Central Hove A, Brunswick & Adelaide A, Regency, St Peters & North Laine A, Preston Park A, Hove Park B, Queens Park A, East Brighton A, Rottingdean Coastal A
- CIL Zone 2: Withdean, Patcham, Hangleton C, Hove Park A, Hangleton A, Wish B, Westbourne B, Central Hove B, Goldsmid, Brunswick & Adelaide B, Preston Park B, Hollingdean & Stanmer,

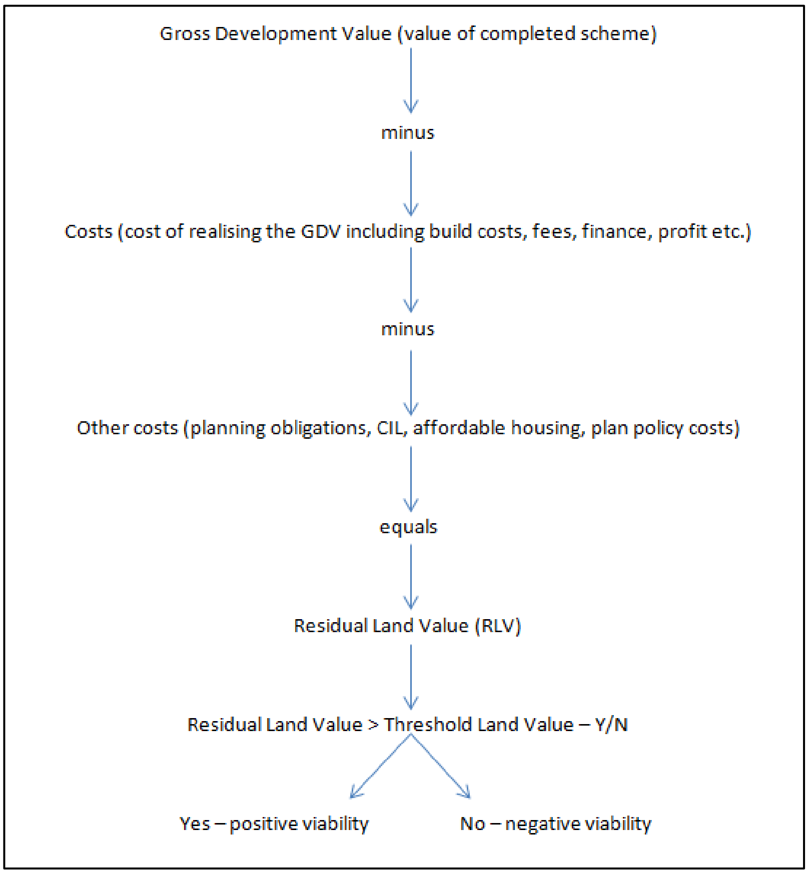
St Peter's & North Lane B, Hanover & Elmgrove, Queens Park B, East Brighton B, Rottingdean Coastal B

- CIL Zone 3: North Portslade, South Portslade, Hangleton B, Moulsecomb & Bevendean, Woodingdean, East Brighton C

4.16. The residual value generated by the appraisals was then compared to four land value benchmarks, varying from industrial land at one end, up to the highest value land with established residential use.

4.17. The most established and accepted route for studying development viability at a strategic level, including for whole plan viability, affordable housing viability, CIL and site-specific viability assessments is Residual Valuation. This is as also supported by the “Harman Report” on viability testing local plans; further guidance that we have also taken account of in the last few years of conducting strategic level viability assessments. The approach is also consistent with the PPG (see Appendix 3 of this report). Figure 16 sets out the residual valuation principles in simplified form.

4.18. **Figure 16: Simplified Residual Land Valuation Principles**



4.19. Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

4.20. In considering the RLV results and making judgements as above, we are making reference to four indicative levels of land values, used for comparison - to enable trends to be seen. We have used the same benchmark land values as were used in the BHCC CIL viability study, to ensure consistency of approach.

4.21. **Figure 17: Benchmark Land Values**

Benchmark	Industrial land	Commercial use (Out of Town)	Commercial use (Commercial Business District)	Residential land
Value per hectare	£ 1,800,000	£ 2,160,000	£ 2,748,000	£ 3,009,300
Value per acre	£ 728,400	£ 874,100	£ 1,112,000	£ 1,218,000

4.22. Land in former / redundant industrial use or commercial use on lower value sites (excluding the commercial business district) is considered the most likely to come forward for BTR development (our indicative 'Viability tests' for 'Industrial land' and 'Commercial use (Out of Town) @ £1.8m/Ha to £2.75m/Ha).

4.23. The tests @ above £2.75m/Ha represent the potential, as discussed above, to see some significantly higher value sites, and this element is therefore also included for context bearing in mind the great variety of potential development sites and scenarios here.

4.24. In all cases, these levels are not indicative of firm cut-offs or land price guides; they help inform our review and judgements for consideration by BHCC.

4.25. A full summary of the appraisals is contained in Appendix 6. The results of the appraisals are analysed in section 7 of this report.. In the summary sheets and extracts in this report, the columns where the appraisal outcome i.e. residual land value (RLV) is compared against the benchmark land value (BLV) show the surplus or deficit once the relevant benchmark has been applied to the relevant site size (which for our 200 unit typology is 2.35 hectares, and for our 500 unit typology is 3.6 hectares). If a surplus is shown against the benchmark this represents that amount remaining once all costs and profit have been accounted for and the affordable housing has been provided at the stated tested level (alongside the BHCC proposed CIL and all other usual costs of development).

5. Scenario testing and results

(including the effect of different variables such as scheme size)

5.1. As set out above, to test viability we carried out appraisals of two hypothetical BTR schemes, one of 200 units and one of 500 units, across each of the three proposed CIL zones in Brighton and Hove, to assess the effect of adjusting the following variables:

- Proportion of units provided as affordable housing
- Rent level charged on the affordable units.

5.2. In total, 98 appraisals were carried out (156 potential scenarios were proposed; however, appraisal testing was not necessary for 58 of these once it became apparent that the land value benchmark would not be met in the case of some combinations of appraisal assumptions).

5.3. The results are summarised in the tables in Appendix 6, which look at each tested proportion of affordable housing (zero, 10%, 20% and 40%) across each proposed CIL zone and size of scheme. The headline findings are set out below.

How to read the tables in Appendix 6

5.4. Each row sets out the applicable CIL Zone (i.e. assumed location with within those areas the City), size of scheme, affordable housing (AH) rent level (where AH is included), and whether CIL payments have been included in the scheme costs. The Residual Land Value (RLV) is the amount remaining after all costs (including construction, fees, profit, CIL, S106 contributions) have been deducted from the Gross Development Value (GDV).

5.5. The final four columns show the surplus remaining (or deficit) once the assumed land cost (based on the relevant BLV – benchmark land value) has been deducted from the RLV – the four columns representing the application of different land value benchmarks ranging from industrial land up to land in existing residential use. As noted above, the land value benchmarks are based on those used in the BHCC CIL study – for details of these see section 4 of this report.

5.6. As well as the figures showing the surplus (or deficit) after the benchmark land value (BLV) has been deducted[6], the shading used in the table aims to provide a quick overview of the relative viability of different appraisal (assumptions combinations) outcomes. Shading is applied as follows, with increasing strength of green shading indicating increasing viability and pink to red colouring indicating marginal to likely non-viability based on the assumptions used.

[6] This is an absolute surplus, not a surplus per hectare. It is calculated by subtracting *BLV x Site Size* from the scheme residual value.

KEY	Viability position	Surplus
	Not viable	More than £200,000 deficit against benchmark site value
	Will require reduction in the quantum of APR, or a variation to APR rent levels in order to move the scheme to viability.	Marginal viability - within £200,000 of benchmark site value
	Viable	Surplus of £0 to £1,000,000 against benchmark site value
		Surplus of £1,000,001 to £2,000,000 against benchmark site value
		Surplus of £2,000,001 to £3,000,000 against benchmark site value
		Surplus of over £3,000,000 against benchmark site value

5.7. The findings below and in Appendix 6 should be viewed in the appropriate context. In our opinion, policy should be kept as simple and straightforward as possible. This study is necessarily high level, and therefore we seek to inform an approach and policies which can be applied across the City area as a whole, and will be deliverable on most of the relevant developments coming forward.

5.8. It is important to note that this is not site-specific level and cannot be expected to reflect outcomes seen on a potential range of individual schemes as those come through at planning application stages under a variety of circumstances – we are having to make a strategic overview here. The high-level approach is appropriate, and as expected by the available guidance – including, to recap, through the new NPPF and PPG (Planning Practice Guidance) as well as sources such as the often referred to Sir John Harman and Local Housing Delivery Group Report on Local Plans Viability Assessment (2012).

Where is BTR development likely to occur, and what is a suitable benchmark land value?

5.9. Upon review of relevant information and through discussion with the Council, we consider BTR developments are most likely to come forward on sites of sufficient size which are reasonably centrally located/accessible but currently in lower value use (e.g. industrial/commercial) rather than seafront or other prime locations which tend to provide residential housing for market sale, or commercial sites within the commercial business district where the existing uses such as for retail or as offices are already viable, being sustained and thus a change of use to BTR is less likely. Currently, such sites are most likely to be located within proposed CIL Zone 2. Those sites coming forward in Zone 1 are likely to be at the upper benchmark land values assumed, so although the results of our study show much greater residual values in Zone 1, this has to be viewed in the context of a likely greater land cost in many cases i.e. the upper commercial BLV level related land values, or higher, are likely applicable more often in this zone.

Rent levels

5.10. The results of the viability testing demonstrate that when affordable housing is included in a BTR scheme, the level of rent charged on any affordable housing units has a very significant effect on viability.

Typical form of development, and developing an area-wide policy

5.11. With a view to making recommendations for a policy approach that is as simple and straightforward as possible, we consider that a proportion of affordable housing which would be broadly viable in these scenarios should be deliverable for BTR schemes across the BHCC area, whilst being a sufficiently challenging target. We therefore look at a selection of the results to draw out this information for the Council.

Highlighted results from the summary tables in Appendix 6

5.12. The following sections look at different proportions of affordable housing, within the typoplogy schemes of 200 and 500 BTR units. The summary results presented below focus on proposed CIL Zone 2 as this is where the majority of BTR proposals are considered likely to come forward.

ZERO AFFORDABLE HOUSING

ZONE	SCHEME	AH RENT LEVEL	CIL	Residual Land Value (RLV)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)
					EUV+ £/ha (Industrial Benchmark)	EUV+ £/ha (Commercial OOT)	EUV+ £/ha (Commercial CBD)	EUV+ £/ha (Residential)
Zone 2	200 units	n/a	with CIL	£ 6,213,594	£ 1,983,594	£ 1,137,594	-£ 244,206	-£ 858,261
Zone 2	500 units	n/a	with CIL	£ 6,891,662	£ 2,661,662	-£ 884,338	-£ 3,001,138	-£ 3,941,818

5.13. On 100% market BTR schemes, a 'typical' scenario in Zone 2 with a 200 unit scheme shows a significant surplus against the Commercial OOT benchmark as indicated above, and the upper commercial benchmark is almost reached and presents overall a relatively marginal viability position.

5.14. The results indicate that a 500 unit scheme is less viable, primarily due to the extra time taken to build out the scheme and extended cashflow assumed – thus greater finance costs and a longer time before completion/point of sale. To demonstrate viability a scheme proposal should be able to support an

RLV at, or close to, the Commercial OOT benchmark in our view. Thus, viability appears challenging in this example.

10% AFFORDABLE HOUSING

ZONE	SCHEME	AH RENT LEVEL	CIL	Residual Land Value (RLV)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)
					EUV+ £/ha (Industrial Benchmark)	EUV+ £/ha (Commercial OOT)	EUV+ £/ha (Commercial CBD)	EUV+ £/ha (Residential)
Zone 2	200 units	75%	with CIL	£ 5,202,495	£ 972,495	£ 126,495	-£ 1,255,305	-£ 1,869,360
Zone 2	200 units	50%	with CIL	£ 3,941,490	-£ 288,510	-£ 1,134,510	-£ 2,516,310	-£ 3,130,365
10% AH (500 units) - ZONE 2								
Zone 2	500 units	75%	with CIL	£ 4,723,162	-£ 1,756,838	-£ 3,052,838	-£ 5,169,638	-£ 6,110,318
Zone 2	500 units	50%	with CIL	£ 1,929,876	-£ 4,550,124	-£ 5,846,124	-£ 7,962,924	-£ 8,903,604

5.15. When 10% affordable housing is included, schemes based on APR at 50% market rent or below indicate non-viability. However, a 200 unit scheme with affordable rent set at 75% of market rent indicates a positive viability scenario with clear surpluses achievable for the Industrial and Commercial out of Town BLVs. However, a 500 unit scheme combined with 10% AH indicates a significant deficit even at the 75% affordable rent level.

20% AFFORDABLE HOUSING

ZONE	SCHEME	AH RENT LEVEL	CIL	Residual Land Value (RLV)	RLV minus BLV	RLV minus BLV	RLV minus BLV	RLV minus BLV
					Surplus per ha above Industrial Benchmark	Surplus per ha above Commercial	Surplus per ha above Commercial	Surplus per ha above Residential
Zone 2	200 units	75%	with CIL	£ 4,170,857	-£ 59,143	-£ 905,143	-£ 2,286,943	-£ 2,900,998
Zone 2	200 units	50%	with CIL	£ 1,628,122	-£ 2,601,878	-£ 3,447,878	-£ 4,829,678	-£ 5,443,733
20% AH - 500 UNITS - ZONE 2								
Zone 2	500 units	75%	with CIL	£ 2,536,651	-£ 3,943,349	-£ 5,239,349	-£ 7,356,149	-£ 8,296,829
Zone 2	500 units	50%	with CIL	-£ 3,188,649	-£ 9,668,649	-£ 10,964,649	-£ 13,081,449	-£ 14,022,129

5.16. When 20% affordable housing is included, the results indicate a potential deficit even at affordable rent levels set at 75% market rent. 20% affordable housing appears marginally viable for a 200 unit BTR scheme on industrial land.

Proposed Nil-CIL charge zones

5.17. Several sites across the City Plan area are proposed for a nil CIL rating. The impact of this in terms of the potential viability of BTR and affordable housing is considered briefly below.

ZERO AFFORDABLE HOUSING (on proposed nil-CIL rated sites)

ZONE	SCHEME	AH RENT LEVEL	CIL	Residual Land Value (RLV)	RLV minus BLV (viability surplus) EUV+ £/ha (Industrial Benchmark)	RLV minus BLV (viability surplus) EUV+ £/ha (Commercial OOT)	RLV minus BLV (viability surplus) EUV+ £/ha (Commercial CBD)	RLV minus BLV (viability surplus) EUV+ £/ha (Residential)
Zone 2	200 units	n/a	NO CIL	£ 8,713,580	£ 4,483,580	£ 3,637,580	£ 2,255,780	£ 1,641,725
Zone 2	500 units	n/a	NO CIL	£ 13,141,627	£ 8,911,627	£ 5,365,627	£ 3,248,827	£ 2,308,147

5.18. BTR developments where CIL is charged at £0/sq. m and which do not provide affordable housing are viable in most scenarios, even at the higher land value benchmarks.

10% AFFORDABLE HOUSING (on nil-CIL rated sites)

ZONE	SCHEME	AH RENT LEVEL	CIL	Residual Land Value (RLV)	RLV minus BLV (viability surplus) EUV+ £/ha (Industrial Benchmark)	RLV minus BLV (viability surplus) EUV+ £/ha (Commercial OOT)	RLV minus BLV (viability surplus) EUV+ £/ha (Commercial CBD)	RLV minus BLV (viability surplus) EUV+ £/ha (Residential)
Zone 2	200 units	75%	NO CIL	£ 7,452,482	£ 3,222,482	£ 2,376,482	£ 994,682	£ 380,627
Zone 2	200 units	50%	NO CIL	£ 6,191,478	£ 1,961,478	£ 1,115,478	-£ 266,322	-£ 880,377
Zone 2	200 units	40%	NO CIL	£ 5,687,114	£ 1,457,114	£ 611,114	-£ 770,686	-£ 1,384,741
Zone 2	200 units	30%	NO CIL	£ 5,182,655	£ 952,655	£ 106,655	-£ 1,275,145	-£ 1,889,200
10% AH (500 units) - ZONE 2								
Zone 2	500 units	75%	NO CIL	£ 10,348,131	£ 3,868,131	£ 2,572,131	£ 455,331	-£ 485,349
Zone 2	500 units	50%	NO CIL	£ 7,554,844	£ 1,074,844	-£ 221,156	-£ 2,337,956	-£ 3,278,636
Zone 2	500 units	40%	NO CIL	£ 6,437,530	-£ 42,470	-£ 1,338,470	-£ 3,455,270	-£ 4,395,950
Zone 2	500 units	30%	NO CIL	£ 5,320,215	-£ 1,159,785	-£ 2,455,785	-£ 4,572,585	-£ 5,513,265

5.19. For sites which are nil-CIL rated, 10% affordable housing appears generally viable with affordable rents at 75% of market rent and there is likely to be scope to reduce affordable rent levels to or towards 50% of market rent (broadly equivalent to the LHA maximum) across at least some of the AH units, although the indications are that, using the assumptions made, viability would be likely to remain marginal for 500 unit schemes.

20% AFFORDABLE HOUSING (on nil-CIL rated sites)

ZONE	SCHEME	AH RENT LEVEL	CIL	Residual Land Value (RLV)	RLV minus BLV	RLV minus BLV	RLV minus BLV	RLV minus BLV
					Surplus per ha above Industrial Benchmark	Surplus per ha above Commercial	Surplus per ha above Commercial	Surplus per ha above Residential
Zone 2	200 units	75%	NO CIL	£ 6,170,846	£ 1,940,846	£ 1,094,846	-£ 286,954	-£ 901,009
Zone 2	200 units	50%	NO CIL	£ 3,628,111	-£ 601,889	-£ 1,447,889	-£ 2,829,689	-£ 3,443,744
20% AH - 500 UNITS - ZONE 2								
Zone 2	500 units	75%	NO CIL	£ 7,536,623	£ 1,056,623	-£ 239,377	-£ 2,356,177	-£ 3,296,857
Zone 2	500 units	50%	NO CIL	£ 1,931,620	-£ 4,548,380	-£ 5,844,380	-£ 7,961,180	-£ 8,901,860

5.20. At 20% affordable housing (APR), even for nil-CIL rated sites, it would be necessary to allow affordable rents at up to 75% of market rent to achieve viability, and particularly it appears for the larger typology tested.

Further testing – Affordable Housing Rent Levels at 80% of market rent

5.21. Following the initial draft of this study report, owing to emerging findings indicating the above and the clear sensitivity of viability to chargeable APR level, BHCC requested further testing, to include affordable housing rents at 80% of market rent. This is the maximum level specified in national guidance, and places affordable rents on this basis close to the market rent levels for a similar size of property (though not necessarily directly comparable in type/offer overall) within the general private rented market sector. It should be noted that these rents will be above the maximum payable via housing benefit (as would rents at 75% of market rent). Affordable units at this level would be suitable for a similar group to those able to afford shared ownership or other forms of 'intermediate' affordable housing in our view.

5.22. To illustrate the potential effect of allowing APR at this level, we have tested different proportions of affordable housing based on our 'typical' schemes in proposed CIL Zone 2.

ZONE	SCHEME	AHRL	CIL	Residual Land Value (RLV)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)
					EUV+ £/ha (Industrial Benchmark)	EUV+ £/ha (Commercial OOT)	EUV+ £/ha (Commercial CBD)	EUV+ £/ha (Residential)
10% AH (200 units) - ZONE 2								
Zone 2	200 units	80%	with CIL	£ 5,454,770	£ 1,224,770	£ 378,770	-£ 1,003,030	-£ 1,617,085
10% AH (500 units) - ZONE 2								
Zone 2	500 units	80%	with CIL	£ 5,281,820	-£ 1,198,180	-£ 2,494,180	-£ 4,610,980	-£ 5,551,660

ZONE	SCHEME	AFFORDABLE RENT LEVEL	CIL	Residual Land Value (RLV)	RLV minus BLV	RLV minus BLV	RLV minus BLV	RLV minus BLV
					Surplus per ha above Industrial Benchmark	Surplus per ha above Commercial	Surplus per ha above Commercial	Surplus per ha above Residential
20% AH - 200 UNITS - ZONE 2								
Zone 2	200 units	80%	with CIL	£ 4,679,347	£ 449,347	-£ 396,653	-£ 1,778,453	-£ 2,392,508
20% AH - 500 UNITS - ZONE 2								
Zone 2	500 units	80%	with CIL	£ 3,657,694	-£ 2,822,306	-£ 4,118,306	-£ 6,235,106	-£ 7,175,786

ZONE	SCHEME	AHRL	CIL	Residual Land Value (RLV)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)	RLV minus BLV (viability surplus)
					EUV+ £/ha (Industrial Benchmark)	EUV+ £/ha (Commercial OOT)	EUV+ £/ha (Commercial CBD)	EUV+ £/ha (Residential)
40% AH - 200 UNITS - ZONE 2								
Zone 2	200 units	80%	with CIL	£ 3,145,194	-£ 1,084,806	-£ 1,930,806	-£ 3,312,606	-£ 3,926,661
40% AH - 500 UNITS - ZONE 2								
Zone 2	500 units	80%	with CIL	£ 409,023	-£ 6,070,977	-£ 7,366,977	-£ 9,483,777	-£ 10,424,457

5.23. Although an improvement in viability is shown from the higher rents, the results are broadly similar to those from the appraisals with affordable rents at 75% of market rent. The Commercial OOT benchmark is comfortably reached on a 200 unit scheme with 10% affordable housing in CIL Zone 2, whereas a 500 unit scheme with the consequent higher build costs and longer build period shows a significant deficit. On balance, therefore, it may be that the Council would wish to favour affordability over a potentially marginally increased quantum of deliverable affordable private rented homes, but these types of trade-offs can be considered by the Council and, as above, could be expected to vary with scheme specifics.

6. Overview of findings

6.1. The analysis above considers the likely influence on or impact of a number of variables on the potential viability of BTR schemes in Brighton & Hove; and their potential to deliver an integrated element of affordable housing (i.e. delivered as part of the scheme most likely in the form of affordable private rented dwellings, available to rent at sub-market rental levels). These are discussed below.

Size of BTR scheme

6.2. We have tested two scheme typology sizes, comprising 200 units and 500 BTR units (containing a mix of apartment sizes in each case). Using the selected assumptions that are considered to be representative of schemes coming forward, of these, the 200 unit scenarios show stronger viability. This appears to be due to the effect of higher build costs for the taller, more dense development required for a 500 unit scheme and the longer build period over which there is no revenue therefore a less favourable cashflow position. However, these are simply two scenarios intended to capture, at a high level, the broad viability picture and in reality there may be many factors such as site size/density, the location of blocks/cores enabling release and occupation of some units earlier, mixed-use development and other methods of optimising a site that could change that position. As our research has shown, sites may come in at under 200 units too, as well as between the tested scenarios, so an overall view has to be taken as to the viability prospects at this stage.

Location (CIL charging zone and nil CIL rating)

6.3. The Council may wish to consider whether geographical variation is introduced to its approach to BTR and affordable housing policy, linked to emerging CIL charging zones, bearing in mind also that those same zones are as used within the DVS work as a part of the BHCC general affordable housing approach in relation to financial contributions.

6.4. However, in our opinion, the option of an approach that seeks to provide as much clarity as possible and which is therefore applied across the whole City area could be more appropriate as the most simple route, and particularly as the current and anticipated activity suggests that most BTR dwellings are likely to come forward within CIL Zone 2. Any schemes coming forward in CIL Zone 1 are likely to have stronger viability prospects compared with that base level, even taking into account potentially higher site values, and any schemes in CIL Zone 3 could be dealt with via a site-specific viability assessment if necessary.

6.5. The CIL charging zones provide a useful geographical basis for considering any differentiation though, even if CIL is not charged, as likely applicable rent levels differ from one zone to another (as shown in section 5, above and Appendices 5a) and 5b). The likely applicable rents that help reach the best possible balance between affordability and viability (a key matter for the Council to consider priorities on, and whether this may vary by area/particular development), cannot be separated from the AH quantum (% of APR) to be provided. We come back to considering rent levels below, rounding up briefly from the detail provided.

Quantum of APR housing on BTR schemes

6.6. Overall, in our view there are potential options to consider in setting out an approach. A simple, City-wide approach should be considered as an option. If adopting that route (for example as a % guide or similar), it should provide a workable level of viability in the majority of scenarios, and the findings are such that a proportion of 10% affordable housing on-site most closely represents such a position. We consider this would allow developments to remain viable whilst meeting all other policy considerations - including CIL at the proposed charging rates. It would also enable rents to be made as affordable as possible, particularly if that side of the equation is the Council's priority. It follows that based on the assumptions used, either regularly seeking or set as a standard requirement or similar, a higher proportion of affordable private rented homes within BTR developments would certainly be likely to place upward pressure on the rent levels that these elements of schemes could be made available at.

6.7. The Council may however wish to consider a more open approach or one that places the target balanced more towards the quantum of BTR homes available at beneath full market rent levels to some extent; recognising also the acknowledged contribution to increased local market housing choice that BTR is likely to begin providing. On such a basis, provision of up to 20% affordable housing should be achievable on some sites and, consistent with national policy (NPPF/PPG[7]) this could represent a suitable policy position as a part of creating clarity of expectations, also in accordance with the PPG[8]. However, aside from on sites which are nil-rated for CIL, this would be likely to mean having to accept affordable rents at 75% to 80% of market levels, at least on some of the affordable private rented homes, and might also make negotiations around viability on individual sites more likely. The Council may consider the possible frequency of site-specific discussions to be relatively small though, given the likely overall number of relevant developments – only time will tell on this.

6.8. As noted, the consideration of the affordable private rented homes quantum within BTR schemes cannot be separated from the review of their rent levels. This is discussed below and will need to be a factor in both how the Council sets out its approach and deals with site-specific proposals.

[7] Paragraph 002 of the PPG on Build to Rent (Last revised 13 September 2018): "20% is generally a suitable benchmark for the level of affordable private rent homes to be provided. […] If local authorities wish to a set a different proportion they should justify this using the evidence emerging from their local housing need assessment, and set the policy out in their local plan. Similarly, the guidance on viability permits developers, in exception, the opportunity to make a case seeking to differ from this benchmark".

[8] Paragraph 001 of the PPG on Build to Rent (Last revised 9 may 2019): "Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types or location of site or types of development."

Affordable private rent levels

6.9. The results of our appraisals show that setting affordable rent levels within BTR developments at below 75% of market rent will often make scheme viability challenging, even when only 10% APR is required on site. The context for this is that the starting point viability of BTR scheme is generally below that of a general market scheme – apartments for market sale. Another way of looking at this is that typically BTR viability would generally not be able to support any meaningful level of traditional affordable housing in our experience to date.

6.10. On the other hand, with reference to the affordability section of this report, it is clear that rents at 75% of market rent in a BTR scheme will not meet the needs of the majority of applicants on the Council's housing register, who would be eligible for 'traditional' rented affordable housing. A level of 50% of market rent (including service charges) would certainly be preferable from an affordability viewpoint, with rents at roughly the level of the local housing allowance and therefore broadly in line with those for 'Affordable Rented' properties that make up a significant part of the current wider affordable homes programme (e.g. as supported through s.106 quotas derived from LP policy CP20).

6.11. These inevitable opposing tensions between affordability and viability are likely to be difficult to match-up and it may be that the affordable element of BTR will need to be viewed as fulfilling a different role in the overall provision of choice within the local housing market offer as a whole.

6.12. Since it is unlikely that the Council would be directly nominating potential tenants to properties in a BTR development, in our view it may be worth considering whether in some instances a financial contribution in-lieu of on-site provision) could be part of an approach that may more appropriate for meeting needs – supporting the enabling affordable housing elsewhere, or the conversion of affordable homes to more affordable tenure on other schemes for example. This is put forward purely for the Council's consideration of wider matters around this, as it is understood that its delivery focus needs to be on direct (physical) provision of more affordable homes.

6.13. On sites that are nil rated for CIL, our findings are such that a proportion of 10% affordable housing could be required from all BTR developments, with rents targeted at 50% of MR. This represents a sufficiently challenging target which broadly should be viable and also provides affordable homes which can be accessed by those falling within the Council's allocation policy income caps.

6.14. The Council has statutory housing duties and needs to use all available tools to maximize initiatives towards meeting the needs. In this challenging context, a further argument for achieving 50% MR rent levels (or rents as close to that as possible across a range of circumstances) and certainly affordable homes provision from BTR developments, is that BTR will mean the loss of affordable homes that would otherwise have been provided as part of standard schemes for market sale.

Lettings/management and marketing of units

6.15. Management and letting of private rented units and affordable units on BTR schemes is usually carried out by a single landlord. However, the Council could put in place requirements for eligibility criteria against which applicants for APR units will be assessed, and to require regular reporting back to the Council.

Future changes in tenure

6.16. APR units would not be social housing owned by an RP, would not be grant funded, and as such would not be subject to the Right to Acquire or Right to Buy.

6.17. Some BTR schemes have included a covenant which requires BTR units to be held as BTR tenure for at least 15 years. If affordable housing is to be provided on site, provision should be made to ensure that it remains so in perpetuity, and that a sales restriction be entered in the land registry which requires the landlord to reprovide the affordable housing elsewhere or provide an appropriate payment to the Council to achieve this, if any units are converted to a different rent level or tenure at any point following their completion[9]. Although not an aspect covered by this report scope, it may be that s106 agreements will also specify matters associated with both the BTR provision and the affordable private rented provision within that.

Rent increases and service charges

6.18. We recommend that rent increases on APR should be linked to an agreed inflation benchmark and limited to a maximum percentage increase above this benchmark, to ensure that they remain affordable in perpetuity. As is the case with Affordable Rents, the rent can be rebased each time a property becomes vacant.

6.19. Service charges should be included in the APR – thus a 50% MR affordable unit should, with service charges included, be at no more than 50% of the market rent of the property.

Off-site contributions

6.20. As introduced above, we have also considered, in outline only, an alternative approach to seeking AH contributions on BTR schemes as follows. If the Council's priority is for affordable housing at LHA rent levels BHCC may wish to consider whether a financial contribution in lieu of affordable housing would be more appropriate than on-site provision. This could then be used to support a range of enabling activities – potentially including acquiring land or housing elsewhere to allow provision of affordable homes to which the Council would have nomination rights, providing subsidy to RP or Council-led schemes, supporting additional AH quantum or improved affordability/tenure conversion on other schemes. If this approach were to be adopted a suitable level of contributions per unit (equivalent)

[9] The national Planning Policy Guidance (PPG) sets out that the affordable housing element within BTR schemes should be maintained as a community benefit in perpetuity. It states that S106 agreements should include provision to recoup (clawback) the value of the AH provision in the event of the sale of BTR units, either through alternative provision of affordable housing or an equivalent financial contribution.

would have to be agreed. Provisonally this could be based on the existing Developer Contributions Technical Guidance (BHCC policy CP7 – existing DVS based and consistent with the proposed CIL zones mapped approach, as mentioned above) which could be applied to a suitable equivalent proportion of affordable housing.

CONCLUSIONS

6.21. Based on current experience and review of available information, BTR development appears most likely to occur in CIL Zone 2.

6.22. We consider that an approach including a simple percentage target requirement for APR across the whole BHCC area would be appropriate.

6.23. Provision should be made for affordable housing to remain so in perpetuity.

6.24. Within this context, the review and findings suggest that, generally, 10% APR on site is likely to represent a sufficiently challenging target for BTR whilst meeting all other policy costs including CIL at the proposed charging rates. At this level of provision there should be opportunities to ensure a good level of affordability.

6.25. However, as discussed in 6.7, above, the PPG references the need to create certainty of expectations within policy requirements. BHCC could therefore seek up to 20% affordable housing (as a target) at rents to be considered specifically, but again consistent with the PPG and thus on the basis of targeting levels of not more than 75% to 80% of market rent.

6.26. In many instances there is likely to be a measure of balance and trade-off between affordable housing quantum and its affordability, as is often the case with affordable housing more generally. Rents at up to 75-80% market levels for BTR schemes would mean the Council accepting that the APR units would not be genuinely affordable in relation to the incomes of households in the most pressing need, as well as increasing the likelihood of individual schemes struggling to meet this affordable housing target. Therefore the Council will need to consider the balance between the quantum of affordable housing that can be provided on BTR sites and the probability of increased BHCC resources being required to verify site-specific viability[10] (or to consider alternatives together with any other funding opportunities) as well as adding to the time needed to determine planning applications.

6.27. At 10% affordable housing a rent level of 50% of market rent including all service charges (and linked to an agreed inflation benchmark) most closely aligns with the rest of BHCC's affordable homes programme and the Council's policy income caps. The Council may have to show flexibility in allowing

[10] Paragraph 019 of the PPG on viability states: "…for individual schemes, developers may propose alternatives to the policy, such as variations to the discount and proportions of affordable private rent units across a development, and the ability to review the value of a scheme (rent levels) over the duration of its life".

a variation to rent levels or quantum of APR on particular sites, however, and the exact combination of these that will be most suitable and can be achieved will be influenced by the scheme specifics.

6.28. On sites which are nil-rated for CIL, 10% APR at 50% of market rent should be broadly achievable.

6.29. Depending on what are identified as the key affordable housing priorities for BHCC, the Council may wish to consider whether in some instances an off-site financial contribution would be appropriate in lieu of APR, thus enabling social housing provision through other routes.

Appendices

Appendix 1a – Development Appraisal Assumptions – Build and Policy Costs

Appendix 1b – Development Appraisal Assumptions – Rental and Investment Value

Appendix 1c – Example Development Appraisal Summary – 200 units

Appendix 1d – Example Development Appraisal Summary – 500 units

Appendix 2 – City Plan Part Two Policy DM6 – BTR

Appendix 3 – BTR Planning Guidance – published 13 September 2018 by MHCLG

Appendix 4 – List of published information and reports on BTR (for reference)

Appendix 5 – Rents in the BHCC area

Appendix 6 – Summary tables of appraisal results

Report ends 15.08.2019