



Harrogate Borough Council – Affordable Housing Viability – Brief Review

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1. Introduction

- 1.1.1 In 2009/2010 Harrogate Borough Council had an Affordable Housing Economic Viability Assessment (AHEVA) carried out to provide part of the evidence base to the Council in developing affordable housing policies for its Sites and Policies Development Plan Document (SAPDPD) – part of the Harrogate District Local Plan. This study used a number of assumptions to test the potential impact of planning policies on development viability at a strategic level including the level of affordable housing (proportion of homes that should be affordable on residential market developments), the point at which it is requested (threshold level) and the tenure. These were correct and reflected practice at the time of undertaking and publishing the study but of course could not have foreseen future changes to a combination of market conditions (values), costs and Government policy.
- 1.1.2 The research informing the AHEVA (including seeking of soundings from development industry stakeholders) was carried out in the main during September to December 2009, though kept open through to the September 2010 study completion date.
- 1.1.3 The AHEVA assumptions need to be fixed at a point in time, to allow the appraisal stage to go-ahead. Nevertheless, the established AHEVA approach to sensitivity testing allows the review of a wide range of scenarios; including in respect of varying values (seen through the use of a range of Value Levels – VLS) enabling review of results based on varying values by location / scheme type and / or through market variations.
- 1.1.4 Given the time between the date of the AHEVA and the submission of the Council's SAPDPD, the Council have therefore asked Dixon Searle LLP (DSP) to undertake a light touch review of property market conditions and development costs to determine any substantial changes that may theoretically impact on development viability (both positively and negatively) between the date of the AHEVA and now.
- 1.1.5 It is important to note that this is not a new study and serves simply to provide a brief update on market conditions since the time of the original Affordable Housing Economic Viability Assessment, an overview of the property market, and in particular house price and cost trends given the time between the date of the report and date of the forthcoming Examination. A sample of the original appraisals have also been

re-run to test the results of the original AHEVA against current costs and values including any potential changes to policy costs (for example attainment of sustainable design and construction requirements, recommended Community Infrastructure Levy rates etc.).

1.1.6 The following brief report therefore sets out:

- A brief summary of both the recent and current property market (between September 2009 and March 2014 (most current available property market data);
- Brief overview of current property prices across Harrogate Borough;
- Brief commentary on changes to potential development costs between September 2009 – March 2014 (including base build costs and Local Plan policy costs);
- Summary of results of sample development appraisals (re-run using current data);
- Brief conclusions

1.1.7 Dixon Searle LLP are a vastly experienced consultancy in the field of development viability and planning economics with the two Partners having carried out hundreds of strategic level viability studies covering affordable housing viability, whole plan viability, Community Infrastructure Levy viability, strategic sites viability and site specific viability reviews.

1.1.8 Dixon Searle LLP have supported numerous Local Authorities across the Country in providing the evidence base to support Local Plan policies and Community Infrastructure Levy rates and our significant experience in dealing with site specific also allows us to regularly test and review site specific development appraisal assumptions. Further information can be found at dixonsearle.co.uk.

2. Property Market Overview

2.1 Economic Context

Bank of England

2.1.1 The current official Bank Rate (Base Rate) has remained at 0.5% - since being reduced to that level in March 2009.

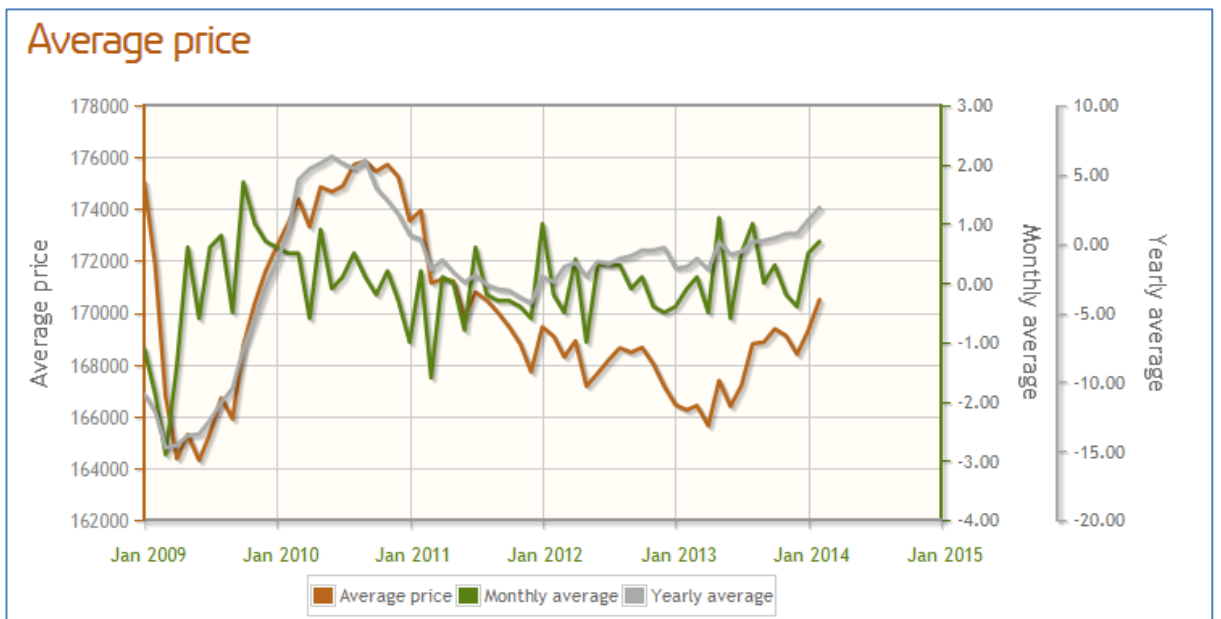
The Agent's Summary of Business Conditions (March 2014) stated:

- Annual growth in the value and volume of retail sales had increased slightly over the past three months. Consumer services turnover growth had also edged higher.
- The recovery in housing market activity had continued.
- Investment intentions had continued to point to moderate growth in capital expenditure in the year ahead.
- Turnover in business services had edged a little higher.
- Manufacturing output for the domestic market had continued to grow steadily. Manufactured exports growth had increased.
- Construction output growth had risen further.
- Credit availability had continued to increase gradually and demand had edged higher.
- Employment intentions over the next six months pointed to modest headcount growth. Recruitment difficulties had edged higher, and were marginally above normal.
- Capacity utilisation had remained close to normal.
- Labour costs per employee had continued to grow moderately.
- Inflation in materials costs and imported finished goods prices had fallen further.
- Output price inflation had edged lower for manufacturing companies, but had risen slightly for business services firms. Profitability had continued to improve overall.
- Consumer price inflation had slowed further, particularly for goods.

2.2 Housing Market Context

2.2.1 The following tables set out the changes to the property market between September 2009 and current available data.

House Price Index Report (January 2009 – February 2014) - North Yorkshire Region





Land Registry – House Price Index Data North Yorkshire Region

Month	Index	Month	Index	Month	Index
Jan-09	259.25	Oct-10	259.81	Jul-12	249.03
Feb-09	254.33	Nov-10	260.21	Aug-12	249.73
Mar-09	246.94	Dec-10	259.49	Sep-12	249.47
Apr-09	243.4	Jan-11	256.99	Oct-12	249.75
May-09	244.77	Feb-11	257.58	Nov-12	248.8
Jun-09	243.29	Mar-11	253.44	Dec-12	247.53
Jul-09	244.81	Apr-11	253.66	Jan-13	246.47
Aug-09	246.87	May-11	253.55	Feb-13	246.18
Sep-09	245.67	Jun-11	251.5	Mar-13	246.43
Oct-09	249.89	Jul-11	252.92	Apr-13	245.28
Nov-09	252.27	Aug-11	252.46	May-13	247.86
Dec-09	254.11	Sep-11	251.73	Jun-13	246.39
Jan-10	255.54	Oct-11	250.94	Jul-13	247.57
Feb-10	256.86	Nov-11	249.96	Aug-13	249.96
Mar-10	258.22	Dec-11	248.36	Sep-13	250.06
Apr-10	256.64	Jan-12	250.93	Oct-13	250.81
May-10	258.92	Feb-12	250.4	Nov-13	250.43
Jun-10	258.66	Mar-12	249.21	Dec-13	249.36
Jul-10	258.96	Apr-12	250.13	Jan-14	250.73
Aug-10	260.2	May-12	247.54	Feb-14	252.48
Sep-10	260.41	Jun-12	248.27		

Source: www.landregistry.gov.uk

The rows highlighted in yellow indicate (in order of appearance):

- *Market trough – North Yorkshire*
- *Date of original data collection*
- *Publication of AHEVA*
- *Most recent available market data – North Yorkshire*

Note: *Data for the two most recent months are not used as comparisons due to the lag in the registration of sold properties.*

2.2.2 For the North Yorkshire region, the above HPI data shows a 3.6% increase in values since the market trough in June 2009 in line with recent market reporting and a 2.8% increase since September 2009 (date of original data collection of AHEVA). This data covers North Yorkshire as a whole but as 2.4 below illustrates, Harrogate Borough outperforms North Yorkshire overall, with significantly higher house prices than the North Yorkshire data suggests.

2.2.3 The **February 2014 Land Registry House Price Index Report** (released 28th March 2014) provided the following information, in summary, in terms of market trends:

- *“The February data shows a monthly price change of 0.7 per cent.*
- *The annual price change now stands at 5.3 per cent, bringing the average house price in England and Wales to £170,000.*
- *The number of property transactions has increased over the last year. From September to December 2012 there was an average of 58,195 sales per month. In the same months a year later, the figure was 75,318.”*

The February 2014 report stated: -

For England Wales overall:

- Annual change in average house prices 5.3% (positive)
- Monthly change in average house prices 0.7% (positive)
- Average price £170,000

For Yorkshire and Humber overall:

- Annual change in average house prices 1.2% (positive)

- Monthly change in average house prices 0.1% (positive)
- Average price £117,025

For North Yorkshire overall:

- Annual change in average house prices 2.6% (positive)
- Monthly change in average house prices 0.7% (positive)
- Average price £170,495

2.2.4 This data indicates that the North Yorkshire region is outperforming the England and Wales average.

2.3 Office for National Statistics (ONS) – House Price Index (January 2014)

NOTE: Previously published by the Department for Communities and Local Government (DCLG)

2.3.1 The latest UK house price index statistics (mix-adjusted) produced by the Office for National Statistics (ONS) were released on 25th March 2014.

2.3.2 The key points from the release were:

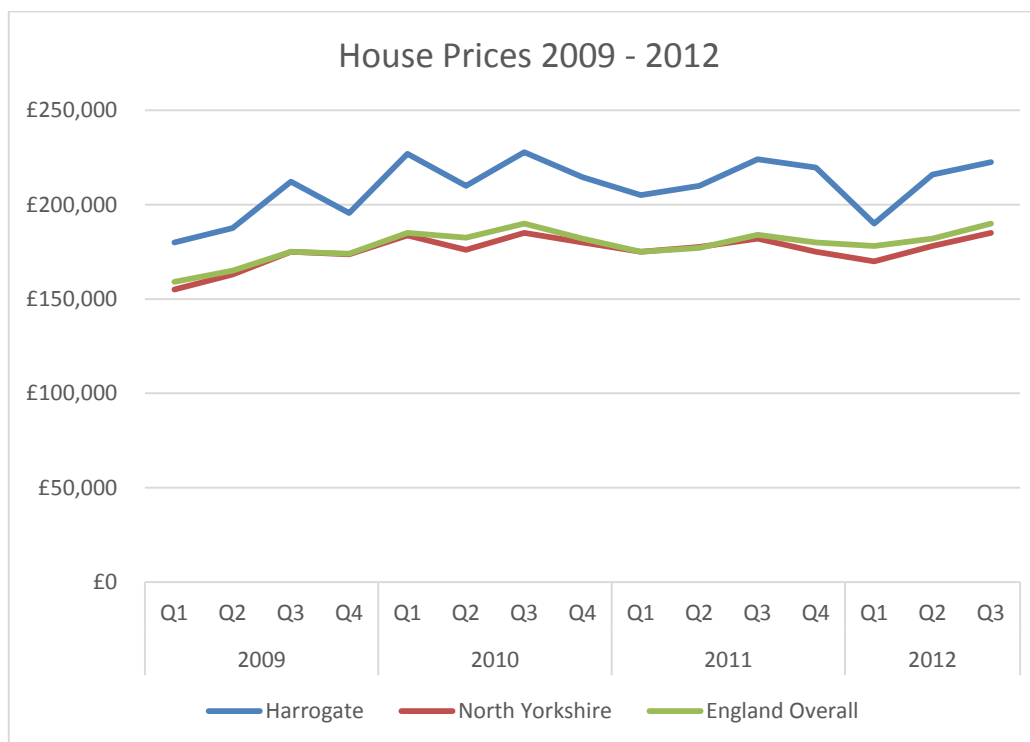
- UK house prices increased by 6.8% in January 2014 compared with a year earlier, up from 5.5% in December 2013.
- House prices grew by 7.1% in England, 6.9% in Wales, 1.4% in Scotland and 2.7% in Northern Ireland.
- House price growth is increasing strongly across some parts of the UK, with prices in London again showing the highest growth.
- Annual house price increases in England were driven by rises in London (13.2%), the South East (7.1%) and the West Midlands (5.3%).
- Excluding London and the South East, UK house prices increased by 3.8% in the 12 months to January 2014.
- On a seasonally adjusted basis, average house prices increased by 0.6% between December 2013 and January 2014.
- In January 2014, prices paid by first-time buyers were 7.6% higher on average than in January 2013. For owner-occupiers (existing owners), prices increased by 6.5% for the same period.

NOTE: The index is calculated using mortgage financed transactions that are collected via the Regulated Mortgage Survey by the Council of Mortgage Lenders. Source: ons.gov.uk

2.4 DCLG Statistical Data Set: House Prices Table 582

Note: Data only available up to Q3 2012. Illustrative of general trend of house prices since the original study research in 2009.

Location	2009				2010				2011				2012		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Harrogate	£180,000	£187,500	£212,250	£195,500	£227,000	£210,000	£227,750	£214,500	£205,000	£210,000	£224,000	£219,620	£190,000	£216,000	£222,500
North Yorkshire	£155,000	£163,000	£175,000	£173,750	£183,750	£176,000	£185,000	£180,000	£175,000	£177,500	£182,000	£175,000	£170,000	£178,000	£185,000
England Overall	£159,000	£165,000	£175,000	£174,000	£185,000	£182,500	£190,000	£182,000	£175,000	£177,000	£184,000	£179,950	£178,000	£182,000	£190,000



2.5 RICS Residential Market Report (February 2014)

2.5.1 Headline reads: *“Market Continues to Tighten as Demand Strengthens Further”*

- *“Sales-to-stock ratio hits a post-crisis high*
- *Price momentum remains strong across all UK regions*
- *Expectations for price and sales growth at the 12 month horizon remain at or near series peaks”*

2.5.2 *“The February 2014 RICS Residential Market Survey shows a broad continuation at the national level of the trends that we have witnessed since the middle of last year. The headline price net balance remains firmly in positive territory with prices reported to be rising across all of the UK’s regions.*

The momentum behind this price growth is the sustained increase in demand alongside a lack of new instructions. This lack of new stock coming to the market seems to be particularly apparent across the regions in the south of the country, but the problem is becoming increasingly visible elsewhere.

Although anecdotal reports suggest that some members have noticed marginal increases in supply in some areas, the number of new instructions still remains unusually subdued relative to cyclical patterns observed in the past. This is reflected in the negative net balance reading.

The continued strengthening of demand has pushed sales higher again in February. Although activity increased at a more moderate pace than in recent months, this may have been due to the combination of the adverse weather conditions experienced in some parts of the country and the lack of property coming to market. Agreed sales are reported to have either increased or remained broadly stable across all of the UK’s regions in February. The sales-to-stock ratio, measuring the tightness of the market, increased again last month to 38% as respondents’ stock levels reached record lows. This represents the highest level since mid-2007, before the onset of the financial crisis.

This positive trend in demand, evident across all regions, has kept both price and sales expectations relatively high. Sales expectations net balances of 34 and 69 at the 3 and 12 months horizons indicate that confidence in the outlook for activity is relatively strong. Easier credit conditions are supporting this strengthening in activity with mortgage approvals in January reaching their highest level since late 2007. RICS

respondents are noticing higher LTV ratios are on offer across all broad buyer groups (based on the 3 month moving averages of respondents' perceived LTV ratios).

The RICS price expectations series also reflect the strengthening of demand. While the 3 month price expectations net balance remained broadly stable at 48, confidence in price appreciation at the 12 month horizon strengthened to a series high value of 78 (this series has been running since 2010). Over the coming 5 years, respondents now expect prices to grow by an average of 5.9% per year, amounting to compound growth of over 30% over the period. Price expectations are substantially higher in London and the South East than in other regions, with expectations for average growth of 8.8% and 8% per year respectively over this period.

In the lettings market, rent expectations increased only marginally over the month as tenant demand grew at a slightly greater pace (on a non-seasonally adjusted basis) than in January, while new landlord instructions were broadly unchanged again. Over the coming year, rents are expected to increase by around 2%."

The survey is based on surveyors' and agents' soundings. A selection of comments from the North Yorkshire region generally was noted as follows:

"There is still no significant new house building to increase the supply."

Knaresborough

"Active market with new instructions selling well. High demand for properties up to £500,000." **Wetherby**

"Lower end and Harrogate town market both performing very strongly, middle and, in particular, the top end still struggling." **Harrogate**

2.6 Savills Residential Property Focus Q1 2014 Source: www.savills.co.uk

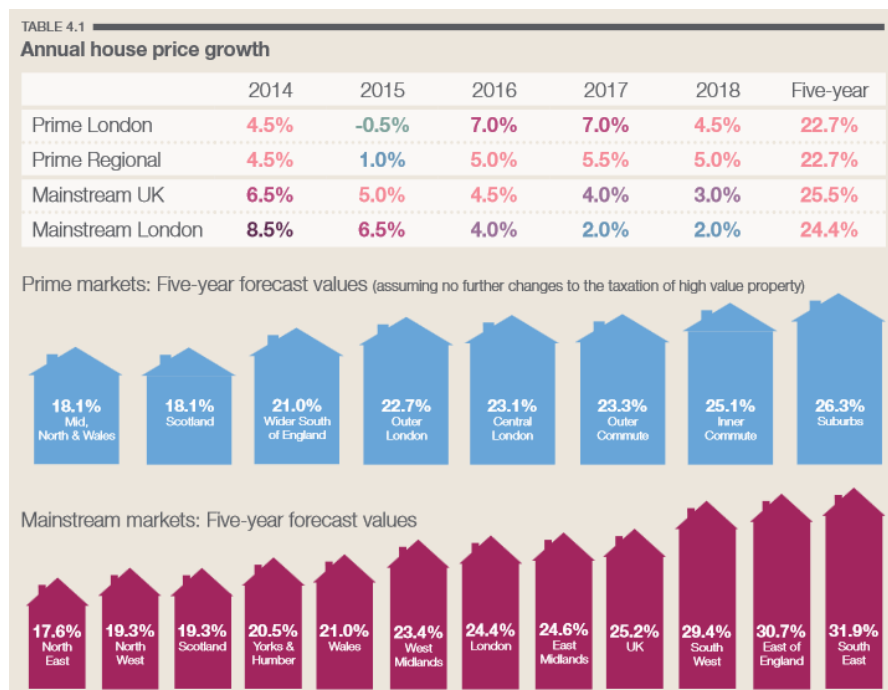
2.6.1 Headline reads: *Market Forecasts – House Prices 2014 – 2018*

2.6.2 *“With such a division between the housing haves and have-nots, never before has there been such speculation regarding whether current levels of house price growth are sustainable or desirable, so early in a housing market recovery.*

Given that interest rates set to rise sooner or later, there is little doubt increased costs of debt will temper the exuberance of house buyers, as affordability becomes tighter. However, with less of the market dependent on the cost of mortgage debt and its direct cost, neither is there reason to believe that prices are set to triple-dip unless either prices rise too rapidly or interest rates balloon.

As the economic recovery takes root and earnings rise, we believe the average UK house price has the capacity to grow by 25% over the next five years. London may well look expensive if prices continue to rise at their current rate for very much longer, but there is greater capacity for house price growth in other parts of the country.

Not everyone will benefit from that house price growth, as the trends of the past decade continue. The flipside of price growth is reduced access to homeownership and contraction in the mortgaged owner occupied market. Were it not for the political backdrop, the most equity-rich prime housing markets should see the most growth. However, with the taxation of high value property high on the political agenda and an election looming in 2015, these markets face some unique short-term challenges.”



2.7 Average House Prices by Location – Re-Sale & New Build

2.7.1 The following data sets, sourced from internet property website indicate average house prices across Harrogate Borough based on research carried out by DSP in April 2014. The data shown for new build properties consists just of those properties advertised in April 2014 and show asking prices. DSP have also indicated the price with a 5% deduction from asking price to reflect the potential reduction in asking price that may be required to incentivise a sale (not always required under current market conditions).

Average values data (searched settlement/locality names)

follows: (Source of information in tables on this and following pages: www.zoopla.co.uk – April 2014)

Harrogate

Property type	Avg. current value	Avg. £ per sq. ft.	Avg. # beds	Avg. £ paid (last 12m)
Detached	£463,953	£279	3.9	£416,070
Semi-detached	£251,702	£249	3.2	£247,479
Terraced	£214,617	£232	3	£206,062
Flats	£220,915	£262	2	£204,654

Period	Average Price Paid (£)	No. of Sales
Last year	£271,247	1,537
Last 3 years	£267,363	4,325
Last 5 years	£265,312	7,113
Last 7 years	£267,313	9,995

Average current value estimate: £295,386

Average current asking price: £406,278

Ripon

Property type	Avg. current value	Avg. £ per sq. ft.	Avg. # beds	Avg. £ paid (last 12m)
Detached	£354,653	£228	3.8	£304,721
Semi-detached	£213,373	£229	3.1	£210,941
Terraced	£181,114	£187	3	£179,558
Flats	£149,358	£189	1.9	£135,672

Period	Average Price Paid (£)	No. of Sales
Last year	£227,351	295
Last 3 years	£225,217	872
Last 5 years	£233,597	1,381
Last 7 years	£233,970	2,072

Average current value estimate: £245,431

Average current asking price: £343,720

Killinghall

Property type	Avg. current value	Avg. £ per sq. ft.	Avg. # beds	Avg. £ paid (last 12m)
Detached	£338,317	£236	3.7	£269,240
Semi-detached	£191,159	£248	2.8	£202,741
Terraced	£159,409	£233	2.6	£145,205
Flats	£177,791	-	1.6	£110,469

Period	Average Price Paid (£)	No. of Sales
Last year	£209,090	94
Last 3 years	£214,894	282
Last 5 years	£219,211	436
Last 7 years	£221,850	603

Average current value estimate: £246,601

Average current asking price: £311,682

Knarborough

Property type	Avg. current value	Avg. £ per sq. ft.	Avg. # beds	Avg. £ paid (last 12m)
Detached	£396,171	£264	3.8	£363,182
Semi-detached	£229,022	£223	3.2	£212,965
Terraced	£202,182	£235	2.9	£198,272
Flats	£148,168	£185	1.8	£118,625

Period	Average Price Paid (£)	No. of Sales
Last year	£256,246	237
Last 3 years	£261,121	682
Last 5 years	£259,715	1,182
Last 7 years	£263,938	1,808

Average current value estimate: £285,946

Average current asking price: £382,320

Boroughbridge

Property type	Avg. current value	Avg. £ per sq. ft.	Avg. # beds	Avg. £ paid (last 12m)
Detached	£322,938	£232	3.6	£285,417
Semi-detached	£197,670	£205	2.8	£182,143
Terraced	£180,611	£208	2.7	£181,392
Flats	£115,135	£186	1.7	£90,383

Period	Average Price Paid (£)	No. of Sales
Last year	£223,386	63
Last 3 years	£217,696	162
Last 5 years	£219,280	279
Last 7 years	£215,047	395

Average current value estimate: £239,104

Average current asking price: £323,922

Note: No entries for the smaller villages.

Quick Zoopla Analysis

The table below is a quick analysis of the Zoopla 'Average £ per sq. ft.' data above, which has been sorted to represent a values hierarchy of the Borough. Small rural villages have been excluded.

Settlement	Average £ per sq.	Average £ per sq.m
Harrogate	£256	£2,754
Killinghall	£239	£2,571
Knaresborough	£226	£2,431
Ripon	£208	£2,238
Boroughbridge	£207	£2,227

New Build Properties for Sale – April 2014

Source: DSP research - www.rightmove.co.uk; various house builders' & estate agents' websites

Address	Description	Price	Size (m2)	Price per m2	Price Less 5%	Price Less 10%	Price Plus 10%	Developer / Agent
Central Harrogate								
Houses								
Mornington Terrace	3 Bed Terrace	£374,950	90.7	£4,134	£3,927	£3,720	£4,547	Mandale Homes
Mornington Terrace	3 Bed Terrace	£344,950	90.7	£3,803	£3,613	£3,423	£4,183	Mandale Homes
Mornington Terrace	3 Bed Terrace	£324,950	106.0	£3,066	£2,912	£2,759	£3,372	Mandale Homes
North Lodge Avenue	3 Bed Terrace	£215,000	98.9	£2,174	£2,065	£1,957	£2,391	Sherringtons
Woodfield Road	3 Bed Terrace	£210,000	91.2	£2,303	£2,188	£2,073	£2,533	Ash Tree Developments
Bower Street	2 Bed Terrace	£150,000	81.8	£1,834	£1,742	£1,650	£2,017	Verity Frearson
Average:		£269,975	93.22	£2,885	£2,741	£2,597	£3,174	
Ripon								
Houses								
Canal Road	3 Bed Detached	£350,000	104.0	£3,365	£3,197	£3,029	£3,702	Vinden estates
Average:		£350,000	104	£3,365	£3,197	£3,029	£3,702	

Address	Description	Price	Size (m2)	Price per m2	Price Less 5%	Price Less 10%	Price Plus 10%	Developer / Agent
Boroughbridge								
Houses								
Wetherby Road	4 Bed Detached	£409,995	132	£3,106	£2,951	£2,795	£3,417	Bellway
Wetherby Road	4 Bed Detached	£324,995	116.6	£2,787	£2,648	£2,509	£3,066	Bellway
Wetherby Road	4 Bed Detached	£299,995	105	£2,857	£2,714	£2,571	£3,143	Bellway
Average:		£344,995	118	£2,917	£2,771	£2,625	£3,208	
Kirby Hill								
Houses								
Mary Lane	4 Bed Detached	£650,000	253	£2,569	£2,441	£2,312	£2,826	Verity Frearson
Average:		£650,000	253	£2,569	£2,441	£2,312	£2,826	

2.7.2 Looking at house price trends, current property values and new build asking prices, it is apparent that in general terms (noting that specific sites and areas would vary) that house prices are at a similar but slightly higher level than at the point of carrying out the research for the AHEVA.

2.7.3 In running the sample appraisals as part of this update we have taken the values indicated in the AHEVA at Value Point 4 as being typical of new build values in Harrogate Borough (£2,750/m²).

2.8 Affordable Housing Revenue

2.8.1 The 2009 AHEVA carried out sensitivity testing on the affordable housing revenue by assuming both with grant and without grant scenarios. The payment a developer can receive from a Registered Provider for completed affordable housing units (transfer price) is fixed by Harrogate Borough Council at a set level. In 2009 and assuming grant availability this was £53,061, £65,871 and £79,230 for 1, 2 and 3-bed properties respectively, regardless of the tenure. Assuming no grant is available, the payments fell to £40,000, £50,000 and £60,000 for 1, 2 and 3-bed properties respectively – again regardless of tenure – i.e. the payments were tenure neutral.

2.8.2 The current approach used by HBC mirrors that assumed within the 2009 AHEVA but the actual figures have been updated and are now expressed on a £ per sq. m basis. The current transfer prices as set out in the Council's Draft Homes for Local People SPD are £1,100/m² and £1,050/m² for houses and flats respectively assuming no grant. We have compared the transfer prices used in the 2009 AHEVA with those

relevant currently. Using the AHEVA dwelling sizes, the current transfer price would generate a value of £52,500 for a 1-bed flat; £70,350 for a 2-bed flat; £82,500 for a 2-bed house and £93,500 for a 3-bed house. This indicates that the current transfer price is significantly more than assumed within the 2009 AHEVA (without grant basis) and more in all cases except 1-bed flats (which are nearly identical) compared to the “with grant” assumptions in the 2009 AHEVA.

- 2.8.3 The increase in transfer value assumption within the development appraisals has the impact of increasing the overall gross development value of the scheme and therefore contributes to increasing overall scheme viability.

3 Development Costs

3.1

3.1.1 In carrying out an affordable housing viability study and running the associated development appraisals, assumptions have to be made with regard to the costs of development. A number of these may affect development viability (not including house prices discussed above) and we have set out below the key areas showing where those have altered in the since September 2009. We have also carried out a small number of development appraisals taken from the 2009 AHEVA and applied the updated assumptions.

3.2 Base Build and Associated Costs

3.2.1 The 2009 AHEVA assumed build costs of £1,000/m² for houses; £1,150/m² for flats. Current research using the RICS BCIS database indicates that median build costs within Harrogate Borough are £841/m² for houses (generally) and £997/m² for flats (generally) - re-based to Q2 2013 (latest non-forecast data) and Harrogate location factor.

3.2.2 Added to the base build cost there are typically allowances for external works (10%). This indicates a current build cost of approximately £925/m² for houses; £1,096/m² for flats. Both of these are below the costs indicated within the 2009 AHEVA and utilising the updated BCIS costs would lead to a corresponding improvement in scheme viability.

3.2.3 In addition to the build costs an allowance is made for both contingencies and fees. Within the 2009 AHEVA these were set at 5.5% and 10.5% of build costs. Typically, an allowance of 5% and 10% would be regarded as the norm for a strategic study of this nature. A small reduction in the level of assumed fees again has the effect of improving the appraisal results.

3.2.4 Marketing, legal, finance fees, stamp duty land tax and planning fee were included within the 2009 AHEVA and these assumptions have not altered significantly. Although legal fees may be assumed to be slightly higher currently, it is also probable that the interest rate assumption was slightly on the cautious side.

3.3 Planning Obligations / Community Infrastructure Levy

- 3.3.1 The 2009 AHEVA carried out sensitivity testing on planning obligations, including a rate of both £2,500 and £5,000 per unit to cover both the existing, expected level of non-affordable housing s106 costs and potential future CIL costs (at the time of the AHEVA, the CIL had not formally been introduced). The planning obligations costs were applied to all dwellings.
- 3.3.2 Harrogate BC has recently consulted on their CIL Draft Charging Schedule with rates of £85/m² and £45/m² proposed for residential development in Harrogate District and Ripon City respectively. The CIL is applied to private market dwellings only (not affordable housing so in comparison to the planning obligations assumed for the AHEVA, the costs are not dissimilar across a development scheme and in fact, the proposed CIL rates would in generate a lower scheme cost than the equivalent £5,000 per unit planning obligation assumed within the AHEVA). Taking the 10 unit housing scheme appraised in the AHEVA as an example, assuming 40% affordable housing on a cleared PDL site with no ability to net off any CIL, the total CIL liability would be £45,050 (or £4,505 per dwelling across all dwellings). The planning obligations assumed within the AHEVA would equate to a scheme cost of £50,000.
- 3.3.3 It is likely that there would still be a small s106 / s278 cost for site specific mitigation but overall the costs are broadly equivalent to those tested within the 2009 AHEVA. In re-running a sample of the development appraisals from the 2009 AHEVA, we have included CIL at £85/m² and made an additional allowance of £1,000 per unit for site specific s106 / s278 mitigation.

3.4 Sustainable Design & Construction Costs

- 3.4.1 The Harrogate District Core Strategy requires all new residential development to attain Code for Sustainable Homes (CfSH) Level 3 standards to 2011; CfSH Level 4 standards to 2015 and CfSH Level 6 from 2016 onwards. In addition, the Core Strategy requires that 10% of the energy requirements should be secured from decentralised and renewable or low carbon sources.
- 3.4.2 The 2009 AHEVA made allowances for both on-site renewable energy and Code for Sustainable Homes compliance, with sensitivity testing carried out at CfSH Level 3, 4 and 6. The costs of compliance with the CfSH have fallen dramatically since the AH

EVA was carried out and are set to fall further as we approach the 2016 deadline for zero carbon compliance across all residential developments. In addition, via the Housing Standards Review, the Government has consulted and now decided to simplify the system for setting standards in the design and construction of new homes by the end of the current Parliament. This will see CfSH requirements removed and compliance consolidated within the Building Regulations and associated Approved Documents. Requirements for water and energy efficiency and zero carbon compliance will all be dealt with via the Building Regulations.

- 3.4.3 As part of the Housing Standards Review, a number of technical papers were published including data from EC Harris¹ on the cost of CfSH compliance within the Housing Standards Review Impact Assessment². This indicates that the cost of achieving CfSH Level 4 compliance (current Harrogate District Core Strategy requirements) is between £1,437 and £2,432 per unit depending on unit type. On average this equates to approximately £1,932 per unit. For a 3-bed house of 85m² this is equivalent to a cost of £23/m².
- 3.4.4 Separately from the Housing Standards Review, the Zero Carbon Hub has recently published a document³ indicating that the potential cost of zero carbon compliance by 2016 has fallen dramatically from previous estimates. This suggests that zero carbon compliance at today's prices would be £2,200 - £2,400 per unit for flats; £3,700 - £4,700 per unit for semi-detached and terraced houses and; £6,700 - £7,500 for detached properties. This is equivalent to between £43 and £60/m² above 2013 Part L baseline. The study also expects further reductions to 2020 so that the costs of meeting the zero carbon requirement would fall to between £35/m² and £51/m² depending on unit type (flats lower; detached houses higher).
- 3.4.5 The costs highlighted above are significantly lower than those assumed within the AH EVA where CfSH L3 compliance was assumed to cost an additional £50/m²; CfSH L4 - £100/m² and CfSH L6 - £350/m².
- 3.4.6 Renewable energy costs (£3,500 per unit) were also included within the AHEVA and again, the cost associated with compliance has reduced over time with the same DCLG / EC Harris report indicating the cost of on-site renewables (to achieve 10% of

¹ EC Harris – DCLG Housing Standards Review Potential Cost Impacts – Summary (June 2013)

² DCLG – Housing Standards Review Consultation – Impact Assessment (August 2013)

³ Zero Carbon Hub / Sweett Group – Cost Analysis: Meeting the Zero Carbon Standard (February 2014)

energy use) as £1,850 per unit. This has been applied to the sample appraisals except where zero carbon compliance is achieved where it is expected that on-site renewables would form part of the compliance solution.

3.4.7 In running the sample appraisals as part of this brief update, we have assumed £1,932 per unit (average) to attain CfSH L4 (to 2016) and £60/m² to attain zero carbon compliance (from 2016 onwards). We are aware that the Housing Standards Review is likely to supersede the CfSH requirement but at this stage the cost need to be included based on available information to date. Again, the reduction in cost assumption has a significant positive affect on the appraisal result.

3.5 Developer's Profit / Margin

3.5.1 The 2009 AHEVA carried out the base modelling on the basis of a developer's profit of 17.5% on the market dwellings; 6% on the affordable housing (both as a percentage of development value rather than cost). Profit should be reflective of the market at the time of a development and should reflect the risks attached to the specific scheme. In addition there is generally a lower profit associated with developing affordable housing on market sites as it carries a lower risk. The often quoted "Shinfield"⁴ decision has been superseded by other appeal decisions that validate this approach and also reiterate the range of developer profit requirements that exist⁵. In a strategic viability study that covers a long time frame the risk profile of individual sites is not possible to accurately predict. We are therefore satisfied that an approach that applies 17.5% on the market housing and 6% on the affordable housing is still appropriate given the increased confidence in the housing market and the very positive predictions moving forward.

⁴ APP/X0360/A/12/2179141

⁵ APP/W1145/Q/13/2204429 & APP/G2713/A/12/2179922

4 Sample Appraisals – Summary of Results

4.1.1 Sample appraisals have been carried out at the equivalent of Value Point 4 of the 2009 AHEVA representing typical current new build values in our opinion. A 25 and 100 unit scheme has been modelled using the Homes and Communities Agency Development Appraisal Tool (HCA DAT). The input assumptions are in line with those used within the original 2009 AHEVA except where stated above.

4.1.2 A summary of the sample appraisal results are shown below:

Appraisal Results Summary

No. of Units	Appraisal Test	Residual Land Value (£)		Residual Land Value (£/ha) - Net			
				25dph		40dph	
		40% AH	50% AH	40% AH	50% AH	40% AH	50% AH
25	CfSH L4 - 17.5% Developer's Profit	£857,749	£713,685	£857,749	£713,685	£1,372,398	£1,141,896
	CfSH L4 - 20% Developer's Profit	£783,712	£648,691	£783,712	£648,691	£1,253,940	£1,037,906
	Zero Carbon - 17.5% Developer's Profit	£829,024	£684,960	£829,024	£684,960	£1,326,438	£1,095,935
	Zero Carbon - 20% Developer's Profit	£754,987	£619,965	£754,987	£619,965	£1,207,978	£991,945
100	CfSH L4 - 17.5% Developer's Profit	£3,054,652	£2,385,247	£763,663	£596,312	£1,221,861	£954,099
	CfSH L4 - 20% Developer's Profit	£2,767,745	£2,139,498	£691,936	£534,875	£1,107,098	£855,799
	Zero Carbon - 17.5% Developer's Profit	£2,961,393	£2,291,989	£740,348	£572,997	£1,184,557	£916,795
	Zero Carbon - 20% Developer's Profit	£2,674,486	£2,046,240	£668,622	£511,560	£1,069,795	£818,496

4.1.3 It is not possible to directly compare the results of the original AHEVA with the sample appraisals carried out in this brief update due to changes in key assumptions as discussed above. However the current appraisals return residual land values of between approximately £510,000 to £1.3m/ha (depending on scheme type and density assumption) - see table above. With 50% affordable housing applied, we see residual land values generated in excess of £500,000/ha even at the lowest densities tested (25dph). On greenfield land (the point at which a 50% requirement for affordable housing is required), land values of this order are in excess of what may typically be required to secure the release of land for development (again remembering that the RLV produced is based on a particularly low end density assumption – at 40dph, the RLV per ha increases to between £800,000 and £950,000 per ha). With 40% affordable housing and assuming a higher land value benchmark than for greenfield is required (the AHEVA and the Council’s more recent CIL Viability study suggest land value benchmarks of up to say £750,000 per ha), again the results indicate residual land values in excess of those benchmarks, significantly so where we assume a higher density as would be appropriate for brownfield development. Appraisal summaries are appended to the rear of this document.

5 Conclusions

- 5.1.1 Taking into account the discussion on costs and values as outlined above DSP would certainly not expect to see any deterioration in viability outcomes relative to those within the AHEVA. In fact, the latest assumptions and sample appraisals indicate a significant improvement in results, largely based on significant cost reductions through updated assumptions on the cost of achieving the various sustainable design and construction standards (Code for Sustainable Homes and Zero Carbon). It is anticipated that the property market is likely to continue to improve with continued house price growth for at least the next 5 years⁶.
- 5.1.2 In addition, the Council have also recently carried out a CIL Viability Study which recommends rates of £85/m² and £40/m² (Harrogate district and Ripon city respectively). Although yet to be Examined, this indicates that the authors of the viability study expect development to largely remain viable with both the recommended CIL rates applied and the emerging affordable housing policies (as those would have needed to be included in any modelling for the purposes of setting CIL).
- 5.1.3 Finally, the Council's track record in securing affordable housing from market schemes indicates that the affordable housing policy as proposed and if applied with flexibility is capable of ensuring that residential development continues to come forward and deals with the inevitably variable nature of specific sites.

**Note ends.
April 2014.**

⁶ Savills Residential Property Focus Q1 2014