

**Hyndburn Affordable Housing Viability:  
Model Assumptions  
Hyndburn Borough Council**

**Document control sheet**

Client	Hyndburn Borough Council
Document Title	Hyndburn Affordable Housing Viability: Model Assumptions
Status	Final
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Date	21 <sup>st</sup> July 2009
Further copies from	<b>email: <a href="mailto:documents@tribalgroup.co.uk">documents@tribalgroup.co.uk</a> quoting reference and author</b>

Quality assurance by:	Patrick Ross
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<b>Document history</b>			
Version	Date	Author	Comments
Draft	13 March 2009	Andy Wilson	
Final Draft	3 <sup>rd</sup> June 2009	Andy Wilson	
Final	21 <sup>st</sup> July 2009	Andy Wilson	

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# 1 Phasing and Inflation

## 1.1 Phasing

1.1.1 We have assumed that the development period on each site will be dependant upon the size of the site.

Site Size	Time from start on site to completion
Small (0-39 unit)	12 months
Large (40+ units)	24 months

1.1.2 We have assumed that all units will be marketed and sold 6 months after completion. For all schemes we have assumed a January 2010 start date

## 1.2 Inflation

1.2.1 The inflation assumptions by costs are set out below.

	Year 1	Year 2	Year 3	Year 4	Year 5 +
RPI	1.5%	2.5%	2.5%	2.5%	2.5%
HPI / Sales Prices	-5.0%	0.0%	0.0%	0.0%	0.0%
Construction costs	0.0%	1.0%	1.0%	0.5%	0.5%
Other Cost Inflation	0.0%	0.0%	0.0%	0.0%	0.0%
Public sector funding	0.5%	0.5%	0.5%	0.5%	0.5%
Social Rent Inflation	0.5%	0.5%	0.5%	0.5%	0.5%
Other	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Tribal Housing Treasury Finance

## 1.3 Interest

1.3.1 Interest rates assumed are as follows – based on current market data (Source: Tribal Treasury Finance Team).

- Debt interest annually: 7.5%
- Credit interest annually: 3.5%

## 2 Residential Mix

### 2.1 Unit Types

2.1.1 The unit types and sizes listed below are suggested averages which comply with the HCA required Housing Quality Indicator scores, but which are not at the minimum level.

Unit Type	Unit Size	Number of People
1 Bed Flat - 2 people	47	2
2 Bed Flat - 3 People	62	3
2 Bed Flat - 4 people	68	4
3 Bed Flat - 5 people	80	5
2 Bed House - 4 people	75	4
3 bed house - 5 people	85	5
3 bed house - 6 people	100	6
4 bed house - 6 people	105	6
4 bed house - 7people	115	7
5 bed house – 8 people	125	8
2 bed bungalow - 4 people	71	4
3 bed bungalow - 5 people	82	5

Source: HCA - Housing Quality Indicator

### 2.2 Unit Mix

2.2.1 Assumptions on mix are based on the data on the Hyndburn housing market contained in the Strategic Housing Market Assessment (SHMA) for Blackburn with Darwen and Hyndburn 2008 and the Housing Needs Assessment 2008(HNA). We have also taken account of new schemes currently being marketed by developers and views from agents on demand.

2.2.2 We have developed two sets of assumptions to reflect the difference in demand / need for open market housing and affordable housing.

#### Open Market Housing Mix Assumptions

##### Net market housing demand by type of dwelling

Type of dwelling	Housing Needs Assessment	Target
Detached house	25.6%	26%
Semi-detached house	63.1	49%

Terraced house	8.5%	5%
Bungalow	0.0%	8%
Flat/maisonette	2.8%	12%

Source: HNA 2008 & the figures in the 'Target' column represent policy interpretation of what figures should be based on HNA findings, labour market research, and demand information from local estate agents (Hyndburn Housing Market Summary Spring 2009).

**Net market housing demand by size of dwelling**

Size of dwelling	Percentage
Smaller (1 or 2 bedroom)	21.3%
Larger (3 or 4+ bedrooms)	78.7%

Source: HNA 2008

2.2.3 The SHMA targets show high levels of demand for detached and semi-detached property, (26% and 49% respectively). It is therefore unlikely that sites will be developed to high densities. This corresponds with a widely held view that, in the future, developers will not be willing to develop high density schemes. In producing our assumptions we conclude that the demand flats are very limited. However the SHMA does identify a future requirement for flats. To account for the figures in the SHMA we have assumed that a maximum of 5% of all units developed are flats.

2.2.4 For urban low density locations we have assumed a wider spread of unit types with more of the larger 3 and 4 bed plus units. In the suburban high density locations, we have assumed that a small proportion of larger 2 bed flats will be built with a mix of house sizes which would be likely to be grouped into terraces to achieve density.

2.2.5 For suburban low density locations, we have assumed a range of larger houses with some bungalows. Although we could not find evidence of new bungalow development currently, there is a shortage of bungalow property in the area and the SHMA identifies a future demand of 8% with a particular need for affordable bungalows for affordable housing.

2.2.6 For rural Greenfield areas, we have assumed that, where high density is permitted, for example in village centres, a proportion of smaller 2 bed flats and houses are appropriate, with some 3 and 4 bed terrace units. For urban low density, we have assumed most houses will be larger 3 bedrooms plus, with a proportion of bungalows, reflecting the desirability of these areas to older people.

**Unit Mix – Open Market Housing**

Location	Urban Brownfield		Suburban Brownfield		Greenfield	
	High	Low	High	Low	High	Low
1 Bed Flat - 2 people	2%					
2 Bed Flat - 3 People	3%					

2 Bed Flat - 4 people			5%			
3 Bed Flat - 5 people						
2 Bed House - 4 people	25%	10%	20%		20%	
3 bed house - 5 people	40%	25%	40%	20%	40%	
3 bed house - 6 people		20%	20%	30%	15%	40%
4 bed house - 6 people	20%	20%	15%	25%	20%	20%
4 bed house - 7 people	10%	10%		10%	5%	20%
5 bed house – 7 people		10%		5%		10%
2 bed bungalow - 4 people		5%		5%		10%
3 bed bungalow - 5 people				5%		

Source: Tribal

**Affordable Housing Mix Assumptions**

**Net affordable housing demand by type of dwelling**

Type of dwelling	Percentage
Detached house	37.1%
Semi-detached house	6.5%
Terraced house	19.6%
Bungalow	33.7%
Flat/maisonette	3.0%

Source: HNA 2008

**Net affordable housing demand by size of dwelling**

Size of dwelling	Percentage
Smaller (1 or 2 bedroom)	66.1%
Larger (3 or 4+ bedrooms)	33.9%

Source: HNA 2008

2.2.7 The housing needs assessment 2008 found that affordable housing demand is for 66.1% smaller units (1 or 2 bedroom) and 33.9% larger units (3 or 4+ bedrooms). The demand in terms of unit types is for 37.15% detached houses and 33.7% bungalows (the latter

being radically more than the target of 8% overall). These are less likely to be developed for affordable housing due to cost and land required, with terraced and semidetached property considered to be sufficient to meet need, and in the case of older persons accommodation, some of the need may be met by flats or houses rather than bungalows.

2.2.8 The housing needs survey identifies a need for 17% of all affordable housing to be of intermediate tenure. Intermediate housing caters for those who cannot afford full market rents, or to purchase a home outright. However, demand for shared ownership has been affected by the market downturn – both in demand for those units and increase in affordability of market housing.

2.2.9 The mix for affordable housing needs to reflect the future demand pattern for affordable housing identified in the HNA 2008. The data from the survey is complex – for example it identifies a requirement for 66.1% of affordable housing to be made up of 1 and 2 bed units and yet 70.8% of the demand is for detached houses and bungalows. In order to get a clearer picture we have considered further data from the HNA on future household size generated by those considered to be in housing need. Table 8.4 on page 66 of the HNA may be summarised as follows and we have added assumptions on likely occupancy levels per household.

Hyndburn Affordable housing future demand (Household Type)	Percentage	Occupancy	Likely occupancy
<i>Single pensioners</i>	12.5%	1	1 bed
<i>2 or more pensioners</i>	3.7%	2	1/2 bed
<i>Single non pensioners</i>	25.4%	1	1 bed
<i>2 or more adults</i>	15.5%	2	1 /2 bed
<i>Lone parent</i>	22.1%	2/3	2/3 bed
<i>2 + adults 1 child</i>	9.5%	3	2 bed
<i>2 + adults 2+ children</i>	11.2%	4/5+	3bed plus

Source: HNA 2008

2.2.10 Single person households make up 37.9% of those in need, and will only require 1 bed accommodation. Childless couples generally only require 1 bed accommodation, however some of these, and in particular the older couples, may need 2 bed accommodation for health reasons. To establish an affordable housing target mix, we have also taken account of the following:

- Single people and childless couples may not be accepted by the Council as a priority for housing, even though they can demonstrate housing need.
- The need/aspiration is strong for detached properties and bungalows, and flats are not popular.

2.2.11 Our suggested mix is that, broadly, in high density locations 15% of affordable housing consists of 1 and 2 bed flats, 45 % 2 bed houses, and 40% 3 bed houses giving a 60%/40% split between smaller and larger units.

2.2.12 In lower density locations there is the opportunity to provide some bungalow accommodation (10%) and we suggest 10%, 1 and 2 bed flats, 30% 2 bed houses, 40% 3

bed houses and 10% 4 bed houses. This produces a 50% proportion of smaller units which reflects the change in density. Whilst this is an adjustment on HNS figures, it is one we feel is justified in the light of the points above.

Location	Urban Brownfield		Suburban Brownfield		Greenfield	
Density	High	Low	High	Low	High	Low
1 Bed Flat - 2 people	10%	5%	10%	5%	10%	5%
2 Bed Flat - 3 People						
2 Bed Flat - 4 people	5%	5%	5%	5%	5%	5%
3 Bed Flat - 5 people						
2 Bed House - 4 people	45%	30%	45%	30%	45%	30%
3 bed house - 5 people	40%	40%	40%	40%	40%	40%
3 bed house - 6 people						
4 bed house - 6 people		10%		10%		10%
4 bed house - 7people						
5 bed house – 7 people						
2 bed bungalow - 4 people		10%		10%		10%
3 bed bungalow - 5 people						

Source: Tribal

### 3 Cost Assumptions

#### 3.1 S106

3.1.1 For each scheme we have assumed S106 contributions on a per unit basis. These are as follows.

Cost	Cost per Unit (£)
Infrastructure / Public Transport	500
Community Facilities	0
Public Realm / Environment	1,200
Waste Management	480
Others	0

Source: Hyndburn Borough Council, 2009

#### 3.2 Site Preparation & Infrastructure Standard Costs

3.2.1 We have included a number of costs under the category of site preparation and infrastructure. These costs cover the site preparation costs associated with each site. We have produced three sets of assumptions as such costs are likely to be significantly different depending on the former use of the site.

3.2.2 The assumptions are based on the HCAs Best Practice note 28 from Feb 2008 and our experience of financial appraising similar housing based developments

Cost	Urban Brownfield	Suburban Brownfield	Greenfield
Infrastructure & Services (Cost per unit)	£7,000	£7,000	£7,000
Site Preparation (Cost per hectare)	£70,000	£50,000	£10,000

Source HCA Best Practice Note 2008 (Contamination, dereliction and remediation costs) & Tribal

#### 3.3 Site Abnormals

3.3.1 The above assumptions do not take into account any of the site specific assumptions likely to be encountered when developing derelict Brownfield sites. Such costs will vary significantly depending on the specifics of each individual site. We have conducted some research into the likely costs of such site specific site abnormals.

3.3.2 It is difficult to identify assumptions to account for any site abnormals, as each site will have different technical issues to be resolved. For example, a green field site may require expensive infrastructure works to gain access and provide services, whereas a Brownfield site may have additional issues in relation to contamination.

3.3.3 It is apparent that the site abnormal costs are likely to be greater on sites in inner urban areas than the more rural sites. The HCAs Best Practice note 28 from Feb 2008 gives us the best indication of such site abnormal costs.

Cost	Urban Brownfield	Suburban Brownfield	Greenfield
Remediation (Cost per hectare)	£137,000	£80,000	£0
Contingency (% of build costs)	3%	2%	1%

Source HCA Best Practice Note 2008 (Contamination, dereliction and remediation costs) & Tribal

### 3.4 Build Costs

#### Build Cost per sq m

3.4.1 Build costs are based on BCIS data and provide costs as the rate per sq m gross internal floor area for the building excluding external works and contingencies and with preliminaries apportioned by cost. The build costs have been adjusted to location index for Hyndburn.

3.4.2 We have assumed that all units developed on the sites will be built to a minimum of Sustainable Homes Code 3 standard. In order to meet this standard we have assumed an increase of 10% to the gross build costs provided by BCIS.

Dwelling type	BCIS Build Costs (£ per sq m)	Code 3 Build Costs (£ per sq m)
1 Bed Flat – 2 people	758	833.8
2 Bed Flat – 3 People	758	833.8
2 Bed Flat – 4 people	758	833.8
3 Bed Flat – 5 people	758	833.8
2 Bed House - 4 people	669	735.9
3 bed house - 5 people	669	735.9
3 bed house - 6 people	669	735.9
4 bed house - 6 people	669	735.9
4 bed house - 7people	669	735.9
5 bed house – 8 people	669	735.9
2 bed bungalow - 4 people	737	810.7
3 bed bungalow - 5 people	737	810.7

Source: BCIS 2009, Tribal

**Build Fees**

3.4.3 The model assumes build fees covering architects, QS costs and any other additional fees associated with the build programme. Build contingencies are typically around 5%. We have assumed that the build contingencies will be 5% on Brownfield schemes to cover likely additional costs.

Cost - % of build costs	Urban Brownfield	Suburban Brownfield	Greenfield
Build Fees	5%	5%	5%
Build Contingencies	3%	2%	1%

Source: HCA economic appraisal toolkit

**Building Cost Percentage increase**

3.4.4 Our build costs for the affordable units assume they are built to the Code for Sustainable Homes Level 3. The model has the capability to allow for additional costs to be included and applied as either a cost per unit or as a % of build costs.

3.4.5 Our research based on the guidance produce by the CLG suggests that the median cost costs of achieving the Sustainable Code 4 per unit are given £11,700 for a detached house, £9,500 for an end terrace and £6,000 for a flat. There is of course more detail behind the analysis and exact cost will depend on the units being developed. However using this research as a base we have assumed that on average it will cost an additional £10,000 per unit to bring the affordable homes up to Code 4 standard.

Cost	Cost per unit (£)	% of build costs
<b>Costs Applied to all units</b>		
Site Specific Sustainability Initiatives	N/A	0%
Wheelchair provision	N/A	0%
Lifetimes Homes Standard <sup>1</sup>	£1,000	0%
Other	N/A	0%
<b>Costs Applied to Affordable units only</b>		
Code for Sustainable Homes 4	10,000	N/A
Lifetimes Homes Standard	1,000	N/A

Source: Tribal and CLG cost analysis of the Code for Sustainable Homes, July 2008

<sup>1</sup> All affordable units are developed to the Lifetimes Homes standard. In practice a only a proportion of the Open Market units will be built to the same standard. We are assuming that 20% of the Open market Units are built to this standard.

### 3.5 Fees and Margins

#### Affordable Housing Marketing Costs

3.5.1 There are a number of costs that associated with the sale of the affordable units to an RSL that need to be incorporated into our model (these costs are applied to all affordable units).

- **Developer cost of sale to RSL** - There will be a cost paid by the developer in selling the affordable units to an RSL. This cost relates to the legal and admin fees borne by the developer in selling the units to an RSL. We have built in a assumption of 1 % of build costs.
- **RSL costs** - The RSL will have certain costs that need to be included in the model.
  - **RSL on-costs** - Typically these include employers' agent fee, RSL development administration fee, a fee for an RSL cost consultant and legal fees relating to the social rented units. An overall allowance of 6% is reasonable in our experience (these costs are applied to all affordable units).
  - **Intermediate Housing Sales and Marketing** - Our model identifies the legal fees, marketing costs and associated interest costs for the Intermediate units separately from the social rented costs. An overall allowance of around 1% is a reasonable assumption in our experience (These costs are applied to Intermediate units only).

Cost	Cost per unit (£)	% of build costs
Developer cost of sale to RSL (£)	N/A	1%
RSL on-costs (£)	N/A	6%
Intermediate Housing Sales and Marketing (£)	N/A	1%

Source: Tribal

#### Open Market Housing Marketing Costs

3.5.2 In our experience the sales and marketing costs for the sale of new build units are usually between 3% and 4%. In the model we have assumed fees of 3% broken down as follows.

Cost	% of sales value
Sales Fees	2%
Legal Fees	1%
<b>Total</b>	<b>3%</b>

Source: Tribal

#### Developer's 'Profit' (before taxation)

3.5.3 A recent review of the GLA Affordable Housing Toolkit identified default values for Developer's profit. It concluded that a 15% profit level is generally accepted by most developers using the Toolkit. Levels of developer profit on affordable units are more difficult to estimate. However in our experience between 5%-7% is an acceptable assumption.

Cost	% of sales value
Open Market Housing	15%
Affordable Housing	5%

### 3.6 Site Acquisition Costs

#### Urban and Suburban Residential Land Values in Blackburn with Darwen

3.6.1 A key issue for this type of appraisal is establishing what residual value the landowner will require to release the land for housing development. There is no single or simple answer to this question as the value of the land will depend on factors such as the former use, potential to provide housing and the owners willingness to sell.

3.6.2 However, in the recent past, residential land values have dropped significantly. Residential land values have in fact dropped further than House Prices. According to the Valuation Office Agencies Property Market Report 2009 the average residential land acquisition cost per hectare at the 1<sup>st</sup> January in neighbouring Blackburn is £1,350,000. Unfortunately the Valuations Office Agency cannot provide us with a residential land value for Hyndburn.

3.6.3 However we can assume Land Values in Hyndburn can be expected to be lower than the level given for Blackburn. Our research has shown us that average sales values in Hyndburn are between 15% and 20% lower than those in Blackburn. To arrive at a reasonable approximation for residential land values Hyndburn then we could assume that current residential land values are £1,080,000 per hectare.

3.6.4 This residential land value is only an estimation based on values in Blackburn according to the Valuations Office Agency. This value is based on the urban area of Blackburn and does not take into account any drop in land value since January 2009.

3.6.5 We have consulted with the District Valuation office to arrive at a more accurate land value. In March 2009 the District Valuer estimated the land values in Hyndburn had fallen between 40%-50% from their peak in the summer of 2007. This gives a current land value for residential schemes of £350,000 per acre (equating to approx £865,000 per hectare) based on current market conditions.

3.6.6 The District valuation office has informed us that land values in suburban areas are likely to be slightly higher. This is based upon the assumption that property sales values will be slightly higher than in inner urban areas and on average there will be less cost associated with remediation and contamination issues in suburban areas. We have therefore assumed that the following current land values for residential schemes on urban Brownfield and Suburban Brownfield sites.

- Urban Brownfield - £325,000 per acre (equating to £803,000 per hectare).
- Suburban Brownfield - £350,000 per acre (equating to £850,000 per hectare).

#### Greenfield Land Values

3.6.7 Agricultural land values are generally low. However not all Greenfield sites are agricultural. Some Greenfield sites will be previously undeveloped land in urban, suburban and rural areas. Each landowner will have a different expectation, with the size and former use of the site an influence on that. A comfortable margin over existing use value is always expected before a landowner will make the once and for all decision to give up land. Generally, our experience has shown that agricultural landowners will

expect values in excess of £250k per hectare. Given the assumption that some of the Greenfield sites will not be agricultural we can assume that Landowners expectations will be significantly higher than this. In addition our conversations with the District Valuation office indicate that property sales values are generally higher in the more rural parts of the borough. Based on all of these factors we have arrived at an assumption on land values for residential schemes on Greenfield sites that takes into account lower land owner expectations, different types of Greenfield sites and potential higher sales values in the more affluent rural areas.

- Greenfield - £202,429 per acre (equating to 500,000 per hectare).

**Benchmark Land Value**

3.6.8 One of the purposes of the study is to compare the residual land value (RLV) of providing a level of affordable housing on a number of different sites. We have sought to identify a ‘benchmark’ land value to compare the RLV against. The ‘benchmark’ is a value at which a land owner would still be expected to sell a site.

3.6.9 The values below show assumed current land value for residential land assuming no affordable housing policy has been applied. It is sensible to assume that implementing an affordable housing policy will drive residential land values down. Therefore to arrive at a suitable benchmark to test the sites again we have applied a 15% reduction from the current residential land value.

Valuation type	Open Market Site Value (£ per hectare)	Benchmark Value (£ per hectare)
<b>Urban Brownfield</b>		
Per hectare	£803,000	£682,550
<b>Suburban Brownfield</b>		
Per hectare	£865,000	£735,250
<b>Greenfield</b>		
Per hectare	£500,000	£425,000

Source: Valuation Office Agency and Tribal

**Land Acquisition Costs / Fees**

3.6.10 In order to arrive at an accurate RLV for comparison against the benchmark value it is necessary to include a number of fees and costs that would be associated with site acquisition. These fees / costs are in effect netted off the overall return / deficit to produce the RLV.

Fees	% of Site Value
Agents Fees	1%
Legal Fees	1%
Stamp Duty	

Site Value up to £175,000	0%
Site Value £175,000 - £250,000	1%
Site Value £250,000 - £500,000	3%
Site Value £500,000 plus	4%
Other Acquisition Costs	0

Source: HMRC

### 3.7 Commuted Sum Calculation

3.7.1 The model retains the capacity for providing a commuted sum. The commuted sum would be calculated on the following basis.

- The difference in revenue between providing the affordable units and providing the same number and mix of private sale units.
- The number and tenure of affordable units in the commuted sum calculation is based on the assumption that 20% of the total units developed on the site would have been affordable units.
- The split of affordable units used to calculate the commuted sum is 80% Social Rented and 20% Shared Ownership.

## 4 Income and Values

### 4.1 Open Market Values

4.1.1 Open market values for new build property in Hyndburn are hard to establish due to changing market conditions and a big difference between second hand sales prices and asking prices for new developments. We have reviewed data on sales from the Council and from Land Registry, looked at details of new developments in the area, and spoken to local agents about pricing and demand.

4.1.2 Our desk based research from homes.co.uk shows the following results by post code sector across the borough.<sup>2</sup>

#### Average property selling prices in BB5

	Feb 2008 (£)	Feb 2009 (£)	Change
<b>Detached</b>	230,833	200,000	-13%
<b>Semi</b>	124,750	131,175	+5%
<b>Terraced</b>	81,275	67,557	-17%
<b>Flat</b>	-	-	-
<b>All</b>	94,328	91,739	-3%

Source: homes.co.uk

#### Average property selling prices BB6

	Feb 2008 (£)	Feb 2009 (£)	Change
<b>Detached</b>	350,500	-	-
<b>Semi</b>	191,279	-	-
<b>Terraced</b>	87,045	100,000	+15%
<b>Flat</b>	75,500	-	-
<b>All</b>	149,295	100,000	-33%

Source: homes.co.uk

#### Average property selling prices BB1

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<sup>2</sup> 15/20 shortlisted sites fall within BB5 – mostly Accrington area; 3/20 fall within BB6; 3 within BB1 – See map below. Details of selling prices for BB5 and BB6 and BB1 included below. NB. BB1 includes a significant part of Blackburn.

	Feb 2008 (£)	Feb 2009 (£)	Change
<b>Detached</b>	237,500	225,000	-5%
<b>Semi</b>	123,000	84,500	-31%
<b>Terraced</b>	83,000	63,500	-23%
<b>Flat</b>	-	-	-

Source: homes.co.uk

### Hyndburn property market

- 4.1.3 The Hyndburn housing market newsletter provides a very useful analysis of the market and in particular the impact of the market downturn. Prices in Hyndburn have been fluctuating and on average have fallen 10-15% over the last year. The average property price in Hyndburn as at December 2008 was £99,009.

### The second hand market

- 4.1.4 54% of the housing stock is made up of terraced housing and there is therefore a great deal of 2 and 3 bedroom Victorian terraced housing on the market. In lowest demand areas asking prices are very low at £25-30,000 for 2 bed terraced house, with values affected by uncertainty over re-development plans in housing market renewal areas. In these areas there is no demand for flats as houses are so cheap. In medium demand areas, prices for a 2 or 3 bedroom terraced property are around £70,000 and in higher demand areas £90,000 to £100,000 plus.

### New housing market

- 4.1.5 Generally a significant premium is expected on new property values and this has been the case for developments in Hyndburn. There has also been an expectation of a demand for flats which has not materialised. New property prices, because they had a higher starting point have possibly been more badly affected by the decline in the market than second hand prices and this has been confirmed in the examples we have considered.
- 4.1.6 There are only a few newbuild developments being marketed in Hyndburn and values have suffered dramatically from the decline in the housing market with the result that in some cases (in particular new flatted developments) developers are choosing to privately rent flats rather than sell. In particular we have looked at:
- Waterside Accrington - 2 bed flats are on the market for £127,500 however this is not being achieved and they are now being marketed for rent at £98 per week for a 1 bed flat and £121 per week for a 2 bed flat.
  - Gladstone Heights, Eagle Street, Accrington - 34 1,2 and 3 bed flats in regeneration area. Agents tell us that 1 bed flats have been down-valued from £90,000 to £60,000 and 2 beds from £150,000 to £100,000. The developer has therefore decided to rent these flats privately at rents of £80 per week for a 1 bed flat and £127 per week for a 2 bed (check)
  - New Lane and Cricketers Close Oswaldtwistle – 15, 3 bed terraced and semi-detached houses in high demand area. These have been marketed for the last 18 months and 4 are remaining. Asking prices have been dramatically reduced: from

£170,000 to £149,950 for the semi- detached units and from £135,000 down to £107,000 for the mews houses.

4.1.7 The market is very fragile with values fluctuating and difficult to establish, and few transactions progressing. The new housing market has stalled and in the current climate, developers are unlikely to be planning new development. However, we have assumed a degree of market stabilisation for modelling purposes. Our schedule of new build values is based on market information and has some consistency in recognising the price differentials according to size and location of development.

4.1.8 We have assumed that flats and 2 bed houses would not be built in low demand areas as this would not be profitable. We have also assumed that 3 bed flats are unlikely to be built as purchasers would prefer a house.

Unit Type	High Demand	Medium Demand	Low Demand
1 Bed Flat - 2 people	85,000	75,000	
2 Bed Flat - 3 People	100,000	85,000	
2 Bed Flat - 4 people	105,000	90,000	
3 Bed Flat - 5 people			
2 Bed House - 4 people	120,000	100,000	
3 bed house - 5 people	135,000	110,000	70,000
3 bed house - 6 people	150,000	120,000	80,000
4 bed house - 6 people	165,000	130,000	90,000
4 bed house - 7people	170,000	140,000	95,000
5 bed house – 8 people	180,000	150,000	105,000
2 bed bungalow - 4 people	150,000	120,000	80,000
3 bed bungalow - 5 people	170,000	130,000	90,000

**4.2 Affordable Housing Value Assumptions**

**Social Rented**

4.2.1 We have assumed rent levels based on published CORE Data for new lettings in 2007/08 adjusted for inflation. The CORE data has no records for 4 and 5 bed units. We have therefore used an approximation based on the data available.

Unit	Core Data Rent 2007/2008 (£)	Inflation since 2007/08 <sup>3</sup>	Rent 2009/10 (£)
1 bed unit	49.11	9.4%	£53.7
2 bed unit	54.81	9.4%	£60.0
3 bed unit	60.78	9.4%	£66.5
4 bed unit	N/A	N/A	£73.0
5 bed units	N/A	N/A	£79.5

4.2.2 We have also spoken to the Councils partner RSLs to update these assumptions. Based on these discussions we have made the following assumptions.

Unit	Rent Per Week (£)
1 bed unit	£55
2 bed unit	£65
3 bed unit	£70
4 bed unit	£75
5 bed units	£80

4.2.3 The model uses a similar approach to the HCA Economic Appraisal Toolkit to value the social rented units. The approach values social rented units by capitalising the net rental value of a unit. The gross rental levels are listed above. We have assumed the following costs per annum to generate a net rental value (all are calculated as a % of gross rent per annum and based on the guidance in the HCA Economic Appraisal Tool).

- Management Costs -15.00%
- Voids / bad debts - 4.00%
- Repairs Fund - 1.00%

4.2.4 The yield rate we have assumed is 6% based on the HCA recommended levels and our experience of recent similar housing projects.

### 4.3 Intermediate Tenure Values

4.3.1 The Housing Needs Survey shows that 17% of affordable housing should be intermediate in Hyndburn. There appears to be a gap in supply of Intermediate Market properties. For the purposes of modelling the viability of the sites selected we have assumed that 20% of all affordable housing will be of Intermediate Tenure.

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<sup>3</sup> Rent will have increased at RPI plus 0.5% per annum. Based on the RPI 09/2007 – 09/2008 of 3.9% and 9/2008 – 9/2009 of 5%

- 4.3.2 Our conversations with the Councils' partner RSLs on intermediate housing show little evidence of demand. There is little appetite or demand for shared ownership and the RSLs are only doing intermediate rent to homebuy as a solution to unsold shared ownership. Our research shows that they do not see it as a useful tenure moving forward.
- 4.3.3 Our research and understanding on the subject of intermediate tenure suggests that it is sensible to assume units are developed as Shared Ownership. It is likely that when the housing market picks up again Shared Ownership will once again become a viable product. In the meantime Intermediate Rent tenures may be developed as an interim measure. However our conversations with RSLs have shown that as open market rents are low in Hyndburn there is no demand for such a product. We will assume that in the base case that any intermediate tenure developed will be Shared Ownership units.
- 4.3.4 However this model has the capacity to model a number of intermediate tenure types including the traditional shared ownership product. As part of the final report we will test the impact of developing other intermediate tenure types as part of our sensitivity analysis.
- 4.3.5 The types tested are
- Shared Ownership
  - Shared Equity
  - Intermediate Rent to Buy.
- 4.3.6 The assumptions relating to each are set out below.
- Shared Ownership**
- 4.3.7 As with Social Rented units the valuation of Shared Ownership units is based upon the approach used in the economic appraisal toolkit. The Value of the shared ownership unit (i.e. the value at which it is sold to the RSL) is as follows.
- Value = Predicted equity stake sold to buyer + Capitalised value of rental income on retained equity.
- 4.3.8 The shared ownership sales model is based on the standard assumption of is an initial tranche sale of 50% with a rent of 2.75% of unsold equity. There are a series of costs associated with the rental value – again calculated as a % of gross rent.
- Management Costs - £150 per unit per annum
  - Voids / bad debts - 4.00%
  - Repairs Fund – 0%
- 4.3.9 The yield rate we have assumed is 6% based on the HCA recommended levels and our experience of recent similar housing projects.
- 4.3.10 The model has been built so that it can also model the provision of other forms of intermediate housing. These include discounted market rent and discounted market sales. If this is required then we would conduct further research into these tenure types with the Partner RSLs and the HCA.

**Equity Loan**

- 4.3.11 There are a number of types of Shared Equity products we could model for this study. However our conversations with RSLs active in the locality and understanding of the market in Hyndburn suggest that the most suitable approach to model is a zero rent Shared Equity Product.
- 4.3.12 It is assumed the buyer acquires an equity stake of 80% in the property. This is a relatively high first tranche sale, reflecting the low property prices in Hyndburn.
- 4.3.13 There is no rent charged on the unowned equity. The high first tranche sale % combined with any grant available produces a high enough value to make the product viable from the RSLs point of view. (The RSL cannot get a long term loan as there is no rental stream). We have assumed that there will be management costs of £150 per unit per annum.
- 4.3.14 Therefore we have assumed that the value of a shared equity unit is calculated using.  
  
Value = 1<sup>st</sup> tranche sale value – capitalised annual management costs

**Intermediate Rent to Buy**

- 4.3.15 We have assumed that the buyer rents the unit at a discounted market rent. Our research shows that typically it can be assumed that the occupier will rent at 80% of open market rents.
- 4.3.16 We looked at open market rents in the Borough using market information from agents and internet sources such as [www.rightmove.co.uk](http://www.rightmove.co.uk).
- 4.3.17 The rented market is dominated by 2 bed terraced Victorian houses. In cheaper areas these have been bought and let by investors. We were unable to find examples of rents for certain unit types, so have not included data for these. Rents for flats are high in relation to houses, as these are generally new build where a developer has failed to sell and has switched to renting, so is hoping for a reasonable return. There is a strong demand for bungalows, both from older and younger people.
- 4.3.18 Rents given are £ per week (inclusive of service charges for flats)

Unit	Open Market Rent (£ per week)	Discounted Market Rent (£ per week)
1 Bed Flat - 2 people	81.3	65.0
2 Bed Flat - 3 People	87.5	70.0
2 Bed Flat - 4 people	91.3	73.0
3 Bed Flat - 5 people	100.0	80.0
2 Bed House - 4 people	106.3	85.0
3 bed house - 5 people	112.5	90.0
3 bed house - 6 people	121.3	97.0
4 bed house - 6 people	125.0	100.0

4 bed house - 7people	No data	No data
5 bed house – 8 people	No data	No data
2 bed bungalow - 4 people	118.8	95.0
3 bed bungalow - 5 people	125.0	100.0

4.3.19 For the 5 years rental period we have assumed the following costs.

- Management Costs -15.00%
- Voids / bad debts - 4.00%
- Repairs Fund - 1.00%

4.3.20 After 5 years of rent the unit is sold to the buyer on a shared ownership basis. However foregoing a sales receipt for say 5 years in lieu of rent must cost an RSL more in cash flow terms than sales income on completion. Therefore we have assumed that the value an RSL could pay for an intermediate rented unit must be net of these cashflow costs.

4.3.21 We have assumed that the cashflow costs will be equal to the interest costs on the 1<sup>st</sup> tranche sales receipts over the rental period. We have assumed an annual interest rate of 6% (based on our experience of RSL finance). Therefore if the rent to buy period is 5 years we assume that the RSL will pay total interest costs of 30% of the deferred first tranche sale value.

4.3.22 Therefore we have assumed that the value of the intermediate rent to buy unit is calculated using.

Value = NPV of 5 years rental income + Value of the unit as a shared ownership unit – RSL cost of finance.

## 4.4 Funding and Subsidies

### Social Housing Grant and Other Funding

4.4.1 We were advised by the HCA that their approach is only to fund affordable housing delivered via S106 agreements where additionality can be demonstrated. In our view, if the burden on the developer of providing the affordable housing on a scheme without grant threatens the viability of the scheme overall, then we can demonstrate that the grant will assist in delivering units which would not otherwise have been built. We recommend that a case is made to the HCA that grant be provided for these schemes and that additional modelling is carried out to illustrate indicative grant rates needed to support a scheme.

4.4.2 We have calculated average grant rates in Hyndburn from allocations to RSLs made in April 2008 under the 2008-11 NAHP programme: For new build rented developments the following table summarises the grant allocation.

Tenure	Total SHG	Units	No. People	Grant Per Unit	Grant Per Person
Social Rented	£1,827,000	25	107	£73,080	£17,075
Shared Owners	£178,000	6	18	£29,667	£9,889

4.4.3 We have checked the validity of these assumptions with the Councils partner RSLs. Where Grant is available we have therefore assumed that the level is as follows.

- Social Rented Units - £73,080 per unit / £17,075 per person
- Shared Ownership - £29,667 per unit / £9,889 per person.