

# **Gwynedd Council and Ynys Môn County Council Affordable Housing Viability Study**

**Update Viability Report**

**October 2014**

**Dr Andrew Golland, BSc (Hons), PhD, MRICS**

**Andrew Golland Associates**

<b>Contents page</b>	<b>Page</b>
Chapter 1 Introduction	3
Chapter 2 Approach to Viability and Methodology	4
Chapter 3 Update of the High Level Testing	5
Chapter 4 Changes since 2012	8
Chapter 5 Conclusions and recommendations	11
Appendix 1 Key assumptions	16

# 1 INTRODUCTION

- 1.1 The Joint Planning Policy Unit (JPPU), on behalf of the Councils, commissioned Andrew Golland Associates (AGA) to carry out an update of the original Affordable Housing Viability Study which was completed in May 2013.
- 1.2 The analysis contained within the May 2013 Study related to November 2012 which is now some two years ago and with this in mind the JPPU asked AGA to update aspects of the study; in particular the High Level Testing element. This is the key stage of analysis which effectively sets the Affordable Housing policy.
- 1.3 In addition the JPPU is keen to ensure that some sub markets are 'tasked' with maximising Affordable Housing delivery. In particular, the Llangefni and Llŷn Peninsula sub market was to be scrutinised in terms of viability and its potential target.

## **Changes since 2012**

- 1.4 The baseline report was completed in May 2013, although the datum for the analysis was November 2012. This is almost two years previous and hence understanding changes in the housing market is important in having an up-to-date evidence base.
- 1.5 The Land Registry House Price Index (LRHPI) provides the most comprehensive database on market transactions. This shows that between November 2012 and August 2014 (the latest possible date for which data is available) prices in Ynys Môn rose by 0.08% (almost 1%). This is a very marginal increase, but nevertheless a positive one.
- 1.6 Prices however in Gwynedd over the same period fell by 2.3%. This is not a significant fall, although the direction of travel is opposite to many regions in the UK, particularly those in the South of England.
- 1.7 Costs however, according to the RICS BCIS Tender Prices have risen by around 14%. This is a significant rise and one which may affect the delivery of some housing schemes.

## **2 APPROACH TO VIABILITY and METHODOLOGY**

### **Overview**

- 2.1 In the baseline study of 2013 we set out the approach adopted to assessing viability see Chapter 2 of the May 2013 report for an explanation of this approach and methodology. This approach is applied within this update report.

### **3 UPDATE OF THE HIGH LEVEL TESTING**

#### **Introduction**

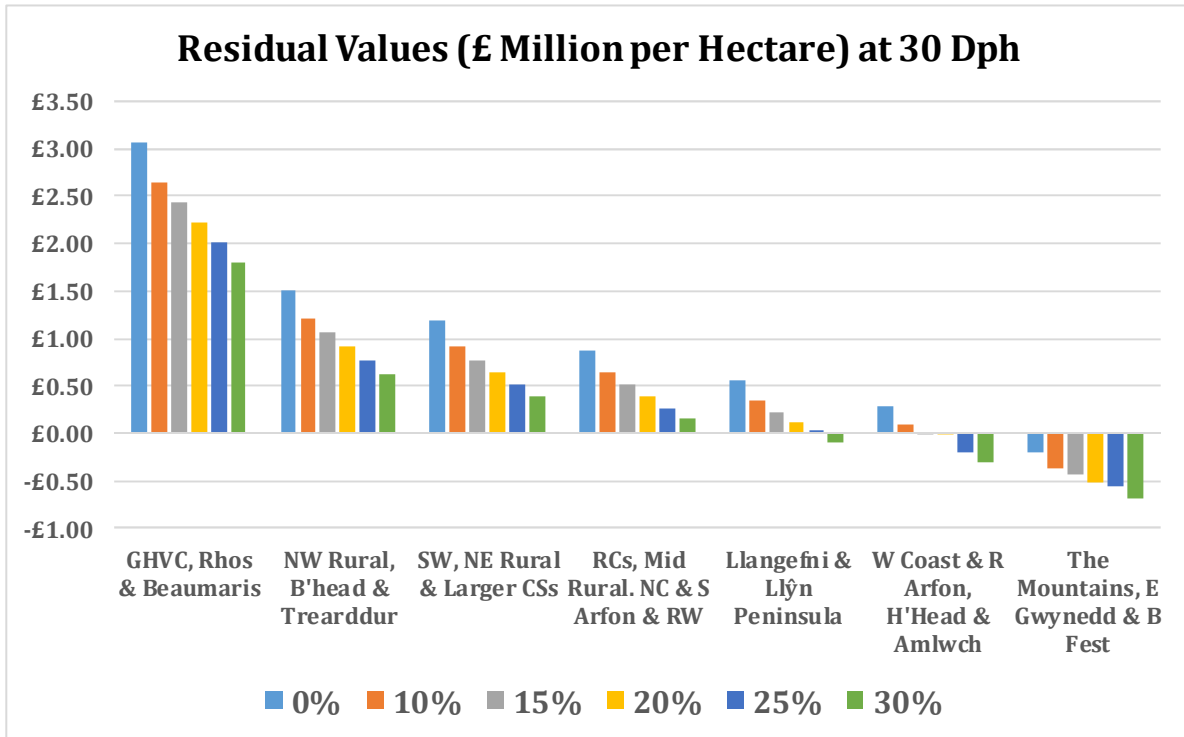
- 3.1 The baseline report of 2013 determined likely residual values on a per hectare basis assuming a notional one hectare site. This analysis was critical in helping to informing the local authorities on how an affordable housing policy might be targeted, taking into account variations in local housing market circumstances.
- 3.2 This report updates that analysis taking into account the changes in house prices and build costs outlined in Chapter 1.
- 3.3 As in the baseline report of 2013, a sub market approach is adopted to assessing likely residual values. It is confirmed that the same sub-markets and Groupings for Gwynedd and Ynys Môn are used in this update report, see Chapter 3 of May 2013 report for these areas

#### **Assumptions (notional one hectare site)**

- 3.4 The assumptions for the updated analysis are set out in Appendix 1. The key variables are house prices, build costs, profit margin (an equivalent of 20% on gross development value) and a £5,000 per unit allowance for Section 106 items other than Affordable Housing.
- 3.5 The Affordable Housing has been tested as previously, at a tenure split of 75%:25% Social Rent: Homebuy.

#### **Results: residual values for a notional one hectare site**

- 3.6 As previously, a range of densities has been tested. The chart below shows residual values per hectare for a 30 dwelling per hectare scheme.



3.8 The chart shows a similar pattern of residual values to that outlined in the 2013 baseline report. That is to say, there are significant differences between higher and lower value areas. Whereas development in the lowest value areas (Eastern Gwynedd, Blaenau Ffestiniog and the National Park) looks very marginal (even with nil Affordable Housing) residual values are above £1.5 million per hectare in the highest value locations of the Joint Planning Area even at 30% Affordable Housing.

3.9 To show the full range of results for both local authority areas, a table has been produced for all densities and Affordable Housing targets, which is shown below:

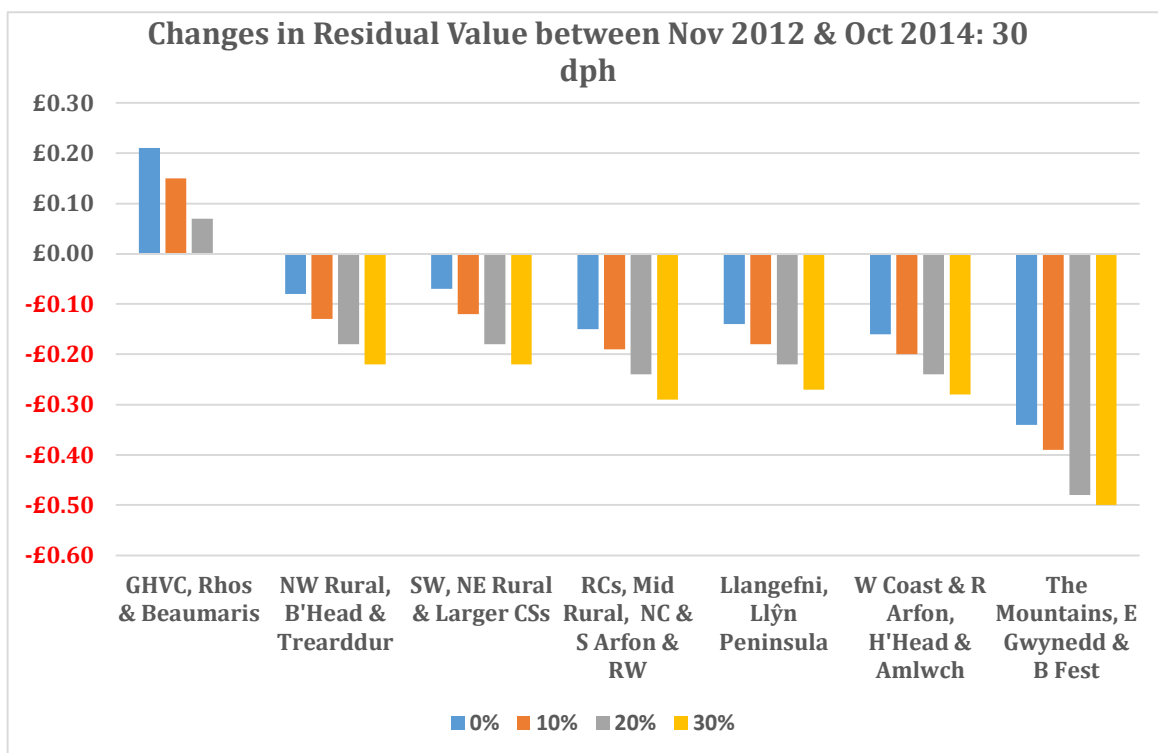
## Residual values (£ million per hectare) at all densities and Affordable Housing targets

20 DPH						
	0%	10%	15%	20%	25%	30%
GHVC, Rhos & Beaumaris	£2.23	£1.94	£1.79	£1.64	£1.49	£1.34
NW Rural, B'head & Trearddur	£1.11	£0.91	£0.80	£0.69	£0.59	£0.49
SW, NE Rural & Larger CSs	£0.88	£0.69	£0.60	£0.50	£0.41	£0.31
RCs, Mid Rural. NC & S Arfon & RW	£0.67	£0.50	£0.41	£0.33	£0.24	£0.15
Llangefni & Llŷn Peninsula	£0.44	£0.29	£0.21	£0.13	£0.06	£0.02
W Coast & R Arfon, H'Head & Amlwch	£0.24	£0.10	£0.03	-£0.03	-£0.10	-£0.17
The Mountains, E Gwynedd & B Fest	£0.02	-£0.02	-£0.26	-£0.31	-£0.37	-£0.42
30 DPH						
	0%	10%	15%	20%	25%	30%
GHVC, Rhos & Beaumaris	£3.07	£2.65	£2.44	£2.23	£2.01	£1.81
NW Rural, B'head & Trearddur	£1.51	£1.22	£1.07	£0.92	£0.77	£0.63
SW, NE Rural & Larger CSs	£1.19	£0.92	£0.78	£0.65	£0.51	£0.38
RCs, Mid Rural. NC & S Arfon & RW	£0.88	£0.64	£0.51	£0.39	£0.27	£0.15
Llangefni & Llŷn Peninsula	£0.56	£0.34	£0.23	£0.12	£0.01	-£0.09
W Coast & R Arfon, H'Head & Amlwch	£0.29	£0.09	-£0.01	-£0.01	-£0.20	-£0.30
The Mountains, E Gwynedd & B Fest	-£0.21	-£0.37	-£0.44	-£0.52	-£0.56	-£0.68
40 DPH						
	0%	10%	15%	20%	25%	30%
GHVC, Rhos & Beaumaris	£3.69	£3.19	£2.94	£2.68	£2.43	£2.17
NW Rural, B'head & Trearddur	£1.88	£1.53	£1.34	£1.16	£0.98	£0.80
SW, NE Rural & Larger CSs	£1.45	£1.15	£0.99	£0.83	£0.66	£0.49
RCs, Mid Rural. NC & S Arfon & RW	£1.08	£0.79	£0.64	£0.49	£0.34	£0.20
Llangefni & Llŷn Peninsula	£0.72	£0.45	£0.32	-£0.19	£0.05	-£0.08
W Coast & R Arfon, H'Head & Amlwch	£0.41	£0.17	£0.05	-£0.07	-£0.19	-£0.31
The Mountains, E Gwynedd & B Fest	-£0.24	-£0.43	-£0.52	-£0.61	-£0.71	-£0.80
50 DPH						
	0%	10%	15%	20%	25%	30%
GHVC, Rhos & Beaumaris	£4.23	£3.65	£3.36	£3.06	£2.77	£2.48
NW Rural, B'head & Trearddur	£2.28	£1.85	£1.64	£1.43	£1.21	£1.00
SW, NE Rural & Larger CSs	£1.67	£1.32	£1.13	£0.94	£0.75	£0.56
RCs, Mid Rural. NC & S Arfon & RW	£1.19	£0.85	£0.68	£0.51	£0.34	£0.18
Llangefni & Llŷn Peninsula	£0.77	£0.47	£0.32	£0.17	£0.01	-£0.14
W Coast & R Arfon, H'Head & Amlwch	£0.47	£0.20	£0.06	-£0.08	-£0.22	-£0.36
The Mountains, E Gwynedd & B Fest	-£0.42	-£0.63	-£0.73	-£0.83	-£0.94	-£1.04

3.10 Cells in the table have been coloured coded by bands. Cells in green relate to residual values that are at or more than £250,000 per hectare. Those in orange are positive but less than £250,000 per hectare. Cells in red currently show negative residual values.

## 4 CHANGES SINCE 2012

- 4.1 The chart below tracks changes in residual value between the datum for the 2013 report (November 2012) and this updated report. The impacts of a relatively static housing market and increasing build costs has been to generally decrease residual value, although appears not to have happened in the higher value sub markets where small increases in house prices in an already high value area appears to be offsetting the impacts of cost increases.
- 4.2 Generally in the mid sub markets, the impact has been to reduce residual value by around £100,000 to £200,000 per hectare, although in the weakest areas the combination of static and falling house prices and increased build costs has been to reduce residual values more dramatically.



- 4.3 The significance of the change should be seen in the light of the wider housing market trends across the Joint Planning Unit Area.

### Longer term trends

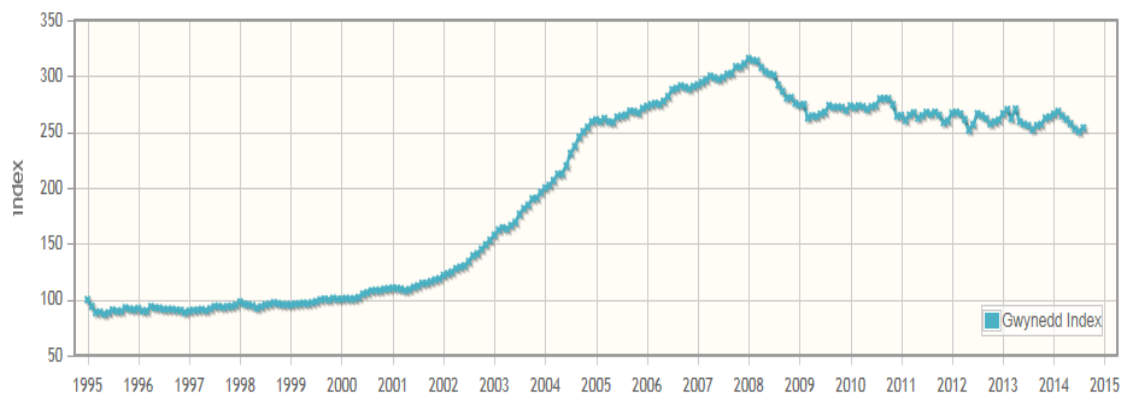
- 4.4 It is helpful in thinking about how to take policy forward to consider the longer term trends in Gwynedd and Ynys Môn. The two charts



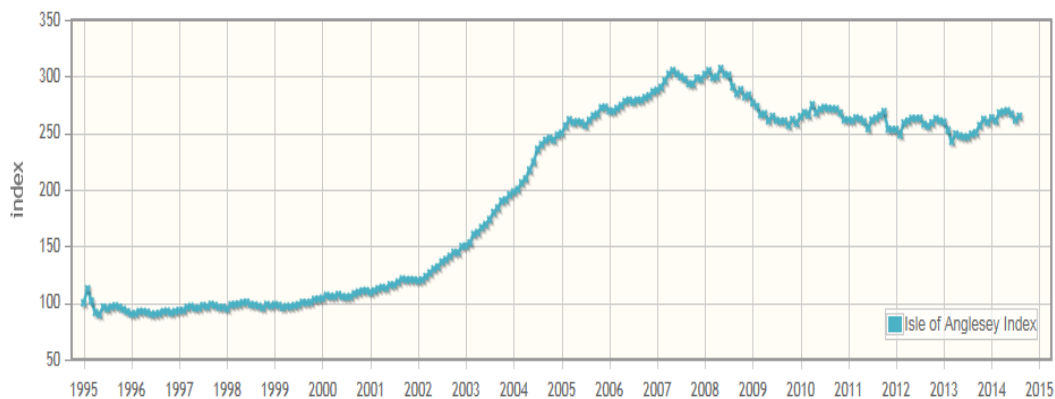
below show the development of long term house prices in the two local authority areas.

4.5 The chart below relates to Gwynedd. It shows a steady long term increase in house prices for the County since 1995 (the data is taken from the Land Registry House Price Index with first record at that date).

4.6 The chart shows that despite a very significant increase in prices between 1997 and 2008, prices since that time have remained virtually static.



4.7 The chart below plots house prices over the same time period for Anglesey.



4.8 This suggests a similar flat lining trend since 2008, although seems to indicate a more optimistic direction since 2012.

### House price and build cost trends

4.9 Clearly residual value is a function not only of house prices but also build costs. In this respect, build costs in recent (please see screenshot below) have proven volatile, ranging between 1% and 9% on a year by year basis.

BCIS All-in TPI #101

Base date: 1985 mean = 100 | Updated: 19-Sep-2014 | #101

Date	Index	Sample	Percentage change		
			On year	On quarter	On month
4Q 2012	224	35	0.4%	1.4%	
1Q 2013	234	35	8.8%	4.5%	
2Q 2013	236	30	2.8%	0.9%	
3Q 2013	233	26	5.4%	-1.3%	
4Q 2013	240	28	7.1%	3.0%	
1Q 2014	248	20	6.0%	3.3%	
2Q 2014	248	Forecast 7	5.1%	0.0%	
3Q 2014	251	Forecast	7.7%	1.2%	
4Q 2014	255	Forecast	6.3%	1.6%	
1Q 2015	258	Forecast	4.0%	1.2%	
2Q 2015	262	Forecast	5.8%	1.6%	
3Q 2015	265	Forecast	5.8%	1.1%	
4Q 2015	267	Forecast	4.7%	0.8%	
1Q 2016	270	Forecast	4.7%	1.1%	
2Q 2016	274	Forecast	4.8%	1.5%	
3Q 2016	277	Forecast	4.5%	1.1%	
4Q 2016	280	Forecast	4.9%	1.1%	
1Q 2017	284	Forecast	5.2%	1.4%	
2Q 2017	289	Forecast	5.5%	1.8%	
3Q 2017	293	Forecast	5.8%	1.4%	
4Q 2017	295	Forecast	5.4%	0.7%	
1Q 2018	299	Forecast	5.3%	1.4%	
2Q 2018	304	Forecast	5.2%	1.7%	
3Q 2018	309	Forecast	5.5%	1.6%	
4Q 2018	311	Forecast	5.4%	0.6%	
1Q 2019	315	Forecast	5.4%	1.3%	
2Q 2019	320	Forecast	5.3%	1.6%	

4.10 Going forward, the RICS, BCIS source assumes around a 5% year by year increase.

4.11 On the further assumption that build costs constitute around 60% of house prices, this would mean that increases of around 3% in house prices will need to be achieved in order for viability to be maintained.

## **5 CONCLUSIONS AND RECOMMENDATIONS**

### **Overview of changes**

- 5.1 The analysis shows that residual values in most locations across the Joint Planning Unit Area are generally not as strong as was the case in the baseline (2013) report. This is due to a combination of factors including static to falling house prices in Gwynedd, marginally increased house prices in Ynys Môn and significant increases in build costs.
- 5.2 The reasons for these trends are not investigated here. Generally the UK housing market outside the South East of England has remained flat. Recent years have proved an exception to the 'rule' that prices tend to 'ripple out' from the South East to the English, Welsh and Scottish regions. There is no obvious sign that this is going to happen.
- 5.3 Build costs have risen. This is perhaps odd given that prices have remained subdued. Recent workshops held across Wales have all highlighted the costs of materials as being a key price pressure factor. There is apparently a large shortage of bricks for development.
- 5.4 The house building industry appears to have taken a very risk averse approach to development and would seem to be focusing on attacking Local Development Plans with a view to forcing local authorities into allowing greater and greater 'buffers' when planning for housing land. It will then be possible, it is assumed, for developers to pick and choose the better opportunities.

### **Policy options previously**

- 5.5 The 2013 report provided three main policy options for setting Affordable Housing targets. These were:
  - First, a single target of 20% across the JLDP area recognising that this [would] miss some potential contributions at the top end of the market, whilst being too challenging in lower value locations.
  - A two way split target. This would involve a 25% affordable housing target for:

Gwynedd High Value Coastal, Rhosneigr, Beaumaris, Rural North West, Bridgehead, Trearddur and Rhoscolyn, South West (Ynys Môn), North East Rural (Ynys Môn), Larger Coastal settlements (Gwynedd), Rural Centres (Gwynedd), Mid Rural (Ynys Môn), Northern Coast and South Arfon (Gwynedd) and Rural West Ynys Môn),

And a 15% affordable housing target for:

Llangefni, Llŷn Peninsula, West Coast and Rural Arfon (Gwynedd), Holyhead, Amlwch & Hinterland, The Mountains, Eastern Gwynedd and National Park and Blaenau Ffestiniog.

- A third option [would be] a three way target along the lines set out in the table below:

Housing Price Area	3 Bed Terrace	Suggested Target
<b>Gwynedd High Value Coastal</b>	£230,000	30%
<b>Rhosneigr</b>	£230,000	30%
<b>Beaumaris</b>	£220,000	30%
<b>Rural North West</b>	£180,000	30%
<b>Bridgehead</b>	£175,000	30%
<b>Trearddur &amp; Rhoscolyn</b>	£175,000	30%
<b>South West</b>	£165,000	20%
<b>North East Rural</b>	£165,000	20%
<b>Larger Coastal Settlements</b>	£160,000	20%
<b>Rural Centres</b>	£155,000	20%
<b>Mid Rural</b>	£155,000	20%
<b>Northern Coast and South Arfon</b>	£150,000	20%
<b>Rural West</b>	£150,000	20%
<b>Llangefni</b>	£145,000	20%
<b>Llŷn Peninsula</b>	£140,000	20%
<b>Western Coastal &amp; Rural Arfon</b>	£135,000	10%
<b>Holyhead</b>	£135,000	10%
<b>Amlwch &amp; Hinterland</b>	£135,000	10%
<b>The Mountains</b>	£130,000	10%
<b>Eastern Gwynedd &amp; National Park</b>	£125,000	10%
<b>Blaenau Ffestiniog</b>	£85,000	10%
<b>Gwynedd</b>		
<b>Ynys Môn</b>		

5.6 Whilst this approach and analysis is high level (and hence does not factor in site specific ‘hot’ or indeed ‘cold’ spots) the overall conclusion is that the Councils should proceed with care, particularly

when setting targets in the lower value areas. The changes in the market suggest that whereas two years ago modest amounts of Affordable Housing (typically 10%) would be achievable in the lower value areas, higher than average house prices, different type of housing units or housing that is affordable by design will be needed in sites in lower value sub markets to make this happen in current circumstances.

- 5.7 At the top of the market residual values are holding up well. This suggests that a very focused approach to setting Affordable Housing targets is likely to be the most appropriate way ahead. Following the 2013 report, this would mean the 30%:20% and 10% split target approach although an even more focused approach might now be warranted (please see below)

### **Mid market locations and Affordable Housing Targets**

- 5.8 The mid sub markets have held up reasonably well in terms of a reduction in residual value (typically between £100,000 and £200,000 per hectare). Some 'recouping' of this will occur where other (than Affordable Housing) Section 106 contributions come in at less than £5,000 (in the case of Conwy further research showed the figure to be closer to £3,000 per unit). However, a 20% target in a lower middle market location such as Llangefni now looks quite challenging particularly if costs continue to rise relative to house prices.
- 5.9 In the case of Llangefni (the Council have asked for a specific response here) the 2013 report was suggesting a 20% target if the 3 way approach was adopted. Under the current figures this would be challenging. Certainly 25% Affordable Housing looks very challenging unless the site happens to be in a hot spot. Currently a 15% target looks appropriate for this type of sub market, which also includes the Llŷn Peninsula.

### **Other policy issues**

#### **Sprinklers**

- 5.10 The analysis here has not factored in the potential costs of sprinklers which are due to be fitted to all new homes in Wales as of January

2016. This date is still some way off and it may be that the housing market picks up significantly before then. However, if it does not, this policy might well see additional costs of around £150,000 added to a development of 30 homes on a one hectare site. These additional costs would be relatively easily accommodated in the higher value sub markets but would have a significant impact in the middle and lower value areas. The Plan's annual monitoring report will allow consideration to be given towards the impact of this requirement together with the opportunity to review the policy upon a full review of the Plan.

### **The Community Infrastructure Levy (CIL)**

- 5.11 The authorities in North Wales (and several in South Wales) are currently undertaking viability studies to establish what CIL charges may be set. In some instances (notably Conwy and Denbighshire) the CIL is likely to be set residually from their Affordable Housing policies. This not the case for Wrexham and Flintshire (where a composite study has been undertaken) but is likely to be the case for Gwynedd and Ynys Môn where the Affordable Housing Viability Study has been completed (and now updated).
- 5.12 The CIL presents an opportunity to look at planning obligations afresh. However, both authorities will need to need to consider that the Affordable Housing policies will have a potentially limiting effect on how CIL is set and charged. A single Affordable Housing target will allow greater scope to vary CIL. On the converse side, if the Affordable Housing target is varied by location, this may make it easier to set a uniform CIL.
- 5.13 The Affordable Housing also impacts on CIL through an additional route – via thresholds. The most recent guidance allows CIL to be varied by Use Class, by location and by scale of development. Where the (Affordable Housing) threshold is drawn is critical to CIL. Sites which fall under the threshold are, all other things equal, more viable than those which are above it; commensurately CIL might be set at a higher level on smaller sites than on larger ones.
- 5.14 Therefore the issues require some forward thinking around the key relationship between Affordable Housing policy and CIL.

## **Recommendations**

- 5.15 As the housing market in the Plan area remains varied, and the picture of overall viability shows only limited improvement (and a weaker situation in several locations) it is recommended that a split policy target approach is pursued.
- 5.16 On the face of the evidence, a split target approach rather than a Plan area wide target would seem to be the correct approach as this would reflect the varying house price areas identified in the Study. The evidence also suggests that some of the middle sub markets may more appropriately targeted at 15%, not 20%.
- 5.17 My view is that residual values are so robust in the highest value locations that a higher than 30% Affordable Housing target should prove viable. The 2013 work tested at 40% and this target generated very high residuals, likely to be significantly in advance of competitive land value benchmarks.

## Appendix 1 Key assumptions:

House prices:

Sub Markets	Detached			Semis			Terraces			Flats			Bungalows	
	5 Bed	4 Bed	3 Bed	4 Bed	3 Bed	2 Bed	4 Bed	3 Bed	2 Bed	2 Bed	1 Bed	Studio	3 Bed	2 Bed
GHVC, Rhos & Beaumaris	£404,000	£358,000	£309,000	£256,000	£233,000	£209,000	£258,000	£226,000	£201,000	£215,000	£175,000	£117,000	£279,000	£251,000
NW Rural, B'head & Trearddur	£313,000	£273,000	£232,000	£202,000	£183,000	£167,000	£209,000	£178,000	£158,000	£178,000	£148,000	£103,000	£224,000	£199,000
SW, NE Rural & Larger CSs	£290,000	£260,000	£225,000	£185,000	£170,000	£150,000	£185,000	£163,000	£146,000	£157,000	£127,000	£87,000	£199,000	£180,000
RCs, Mid Rural. NC & S Arfon & RW	£273,000	£247,000	£213,000	£174,000	£156,000	£142,000	£169,000	£152,000	£135,000	£142,000	£112,000	£73,000	£189,000	£169,000
Llangefni & Llŷn Peninsula	£256,000	£228,000	£198,000	£162,000	£147,000	£132,000	£161,000	£141,000	£128,000	£131,000	£104,000	£67,000	£174,000	£156,000
W Coast & R Arfon, H'Head & Amlwch	£240,000	£211,000	£183,000	£152,000	£140,000	£125,000	£153,000	£135,000	£118,000	£130,000	£103,000	£67,000	£164,000	£150,000
The Mountains, E Gwynedd & B Fest	£212,000	£190,000	£173,000	£125,000	£116,000	£104,000	£120,000	£110,000	£101,000	£100,000	£75,000	£43,000	£137,000	£124,000



## Development mix

	Density (DpH)			
	20	30	40	50
1 Bed Flat				10
2 Bed Flat			5	15
2 Bed Terrace		5	15	20
3 Bed Terrace	5	10	25	20
3 Bed Semi	25	30	25	20
3 Bed Detached	25	25	20	10
4 Bed Detached	20	15	10	5
5 Bed Detached	15	5		
3 Bed Bungalow	10	10		
	100	100	100	100

## Affordable housing targets

Tested at:

Affordable housing targets – 10%; 15%; 20%; 25% and 30%;

Based on 75% SR and 25% Homebuy split;

## Affordable housing revenue

### Social Rent:

	Social Rent
1 Bed Flat	£69
2 Bed Flat	£74
2 Bed Terrace	£74
3 Bed Terrace	£76
4 Bed Terrace	£81
3 Bed Semi	£76
4 Bed Semi	£82
3 Bed Detached	£78
4 Bed Detached	£83
5 Bed Detached	£90

Less:

£950 per annum Management;  
 3% Voids and bad debts;  
 £700 per annum repairs reserve

Capitalisation rate at 4.75%

Homebuy

Set HomeBuy – at 60% of open market value.

### Other Section 106 contributions

These have been assumed at £5,000 per unit across schemes.

### Build costs

**11 - DEVELOPMENT COSTS**

Depress this button to clear these tables

**Build Costs per sq m**

If you wish to use your own values then you can enter them in the white cells below. If you leave any blank the Toolkit Value for that row will be

	Toolkit Values	User Values
Bungalows	£1,084	£1,127
Flats (16+ storeys)	£1,846	
Flats (6-15 storeys)	£1,385	
Flats (5 & less storeys)	£1,010	£1,162
Houses <= 75m2	£915	£1,006
Houses > 75m2	£813	£1,006

**Other Development Costs**

If you wish to use your own values then you can enter them in the white cells below. If you leave any blank the Toolkit Value for that row will be used

	Toolkit Values	User Values	
Professional Fees %	12%		of build costs
Internal Overheads	5%		of build costs (Market and ES)
Finance (Market)	6%		of build costs (Market and ES)
Finance (Affordable Housing)	6%		of build costs (SR, NH and IR units)
Marketing Fees	3%		of market value (Market and ES)
Developers Return	17%		of market value (Market and ES)
Contractors Return	5%		of development costs (excl finance) applies to SR, NH and IR
Land Finance			<i>Please see guidance notes</i>

**Wheelchair Costs**

	Toolkit Value	User Values
Unit size increase	25%	
Build cost increase	15%	

**Exceptional Development Costs**

Costs for Code SH	
<Enter cost description>	
<Enter cost description>	
<b>Scheme Total</b>	£0

## Unit sizes

	Affordable	Market
	Square Metres	
1 Bed Flats	46	45
2 Bed Flats	66	64
2 Bed Terr	68	66
3 Bed Terr	78	76
4 Bed Terr	100	100
3 Bed Semis	80	78
3 Bed Detached	90	100
4 Bed Detached	100	120
5 Bed Detached	110	130
3 Bed Bungalow	90	100

## GLOSSARY OF TERMS

**See May 2013 report for the Glossary of Terms**