Development viability
Delivering the right tenures in the right markets
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Outline

> Hometrack – independent property analytics business
  > Clients include majority of major house builders and RPs plus 100 LAs (housing strategy)
  > Provide a range of site specific and local market intelligence in online systems and reports
  > Pricing analysis for land acquisition, rental appraisals, affordability, tenures
  > Market rather than planning based approach

> Builders optimising private sales values to the maximum - £s v £psf arbitrage

> In context of viability and land acquisition a growing focus on
  > Re-working mix and tenures on schemes – affordable and non affordable
  > Pushing values on affordable housing and non private housing for sale tenures

> How to ensure suitable focus on delivering
  > Tenures that are viable in the local market i.e. is there a private rented sector locally
  > Where affordable housing is changed – how affordable is the revised mix of housing to occupiers?
  > What is minimum level that product can be changed while still meeting need/affordability levels?
Access to private housing market remains constrained – high prices, deposit, credit scores

Private new development has shifted south and into larger houses … but the market for private housing is thinner in southern England (see map)

Land write-downs, changed mix and rising house prices have boosted developer profits recently

… what is the base for future profits growth?

Public land, JVs, working the value of all tenures
Above average growth in new build prices since 2008

Houses

-5% 0% 5% 10% 15% 20% 25% 30% 35% 40% 45% 50%
North Midlands South London
% change last 3 years
New Re-sale

Flats

-5% 0% 5% 10% 15% 20% 25% 30% 35% 40% 45% 50%
North Midlands South London
% change last 3 years
New Re-sale

Source: Hometrack
We need to widen pool of demand for housing

Source: Hometrack
Changing tenures impact on GDV and viability
Indicative value of tenures as % OMV

Source: Hometrack calculations
Income required to access housing – Solihull (2 bed)

Source: Hometrack calculations
Which products are viable/affordable? - Solihull

**Gross income required for private rent or to buy outright**

- 90th Percentile: Income for private rent at £39k, Income to buy outright at £46k
- Upper Quartile: Income for private rent at £35k, Income to buy outright at £39k
- Average: Income for private rent at £32k, Income to buy outright at £33k
- Lower Quartile: Income for private rent at £28k, Income to buy outright at £27k

**Gross income required to afford different levels of private rent by price point**

<table>
<thead>
<tr>
<th>Rent</th>
<th>Rental Value</th>
<th>AR Value</th>
<th>AR Income</th>
<th>Proportion of Private Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>50%</td>
<td>60%</td>
<td>70%</td>
</tr>
<tr>
<td>Lower Quartile</td>
<td>£137</td>
<td>£87</td>
<td>£17k</td>
<td>£14k</td>
</tr>
<tr>
<td>Average</td>
<td>£158</td>
<td>£100</td>
<td>£20k</td>
<td>£16k</td>
</tr>
<tr>
<td>Upper Quartile</td>
<td>£173</td>
<td>£109</td>
<td>£22k</td>
<td>£17k</td>
</tr>
</tbody>
</table>

**Gross income required for shared ownership by initial sale %**

<table>
<thead>
<tr>
<th>S/O</th>
<th>Capital Value</th>
<th>Initial purchase share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>Lower Quartile</td>
<td>£123,000</td>
<td>£17k</td>
</tr>
<tr>
<td>Average</td>
<td>£151,490</td>
<td>£21k</td>
</tr>
<tr>
<td>Upper Quartile</td>
<td>£178,750</td>
<td>£25k</td>
</tr>
</tbody>
</table>

Source: Hometrack Tenure Viability Report – Solihull LA
Rental market segmentation - geographically

- **Mature** - Activity across all property sizes - lower risk on voids and accurate assessment of rents

- **Active** - Good liquidity for certain property sizes but higher risk over voids and rental levels for less liquid property sizes

- **Inactive** - Low liquidity across the market and risk of voids and challenge accurately setting rents

Source: Hometrack
Summary

> New supply growth needs to be supported by development of right products – development viability starts with the local market

> Easing in s106/affordable housing requirements – how to give LAs confidence on decisions?

> Taking a whole market view on affordability and feeding in local evidence from waiting list and other demand side intelligence

> Private rental has attracted a lot of interest but is not a panacea and certainly not a universal tenure solution