



Development viability

Delivering the right tenures in the right markets

Highbury Group Discussion

Richard Donnell – 10 January 2013

rdonnell@hometrack.co.uk; 07725 822567

Confidential information

The information and material contained in and relating to this document, and any related presentation and/or discussion, is confidential ("Protected Material"). You agree to use Protected Material solely for the purpose of internal evaluation of its subject matter ("Purpose"). You agree not to use any Protected Material for any purpose other than the Purpose and not to disclose any Protected Material to any third party other than to an employee or professional adviser who requires the Protected Material in connection with the Purpose and is subject to an obligation of confidentiality no less strict than set out in this notice. The foregoing obligations do not apply where it can be satisfactorily demonstrated that Protected Material has become public knowledge other than through breach of this notice, or was already known to you prior to disclosure by us, or has been received by you from a third party who did not acquire it in confidence from us or from someone owing a duty of confidence to us. You agree to return to us all documents and other records (whether or not provided by us) of the Protected Material promptly upon request.

Copyright (c) Hometrack Data Systems Limited. The reproduction or transmission of all or part of this work, whether by photocopying or storing in any medium by electronic means or otherwise, without the written permission of Hometrack Data Systems Limited, is prohibited.

Outline

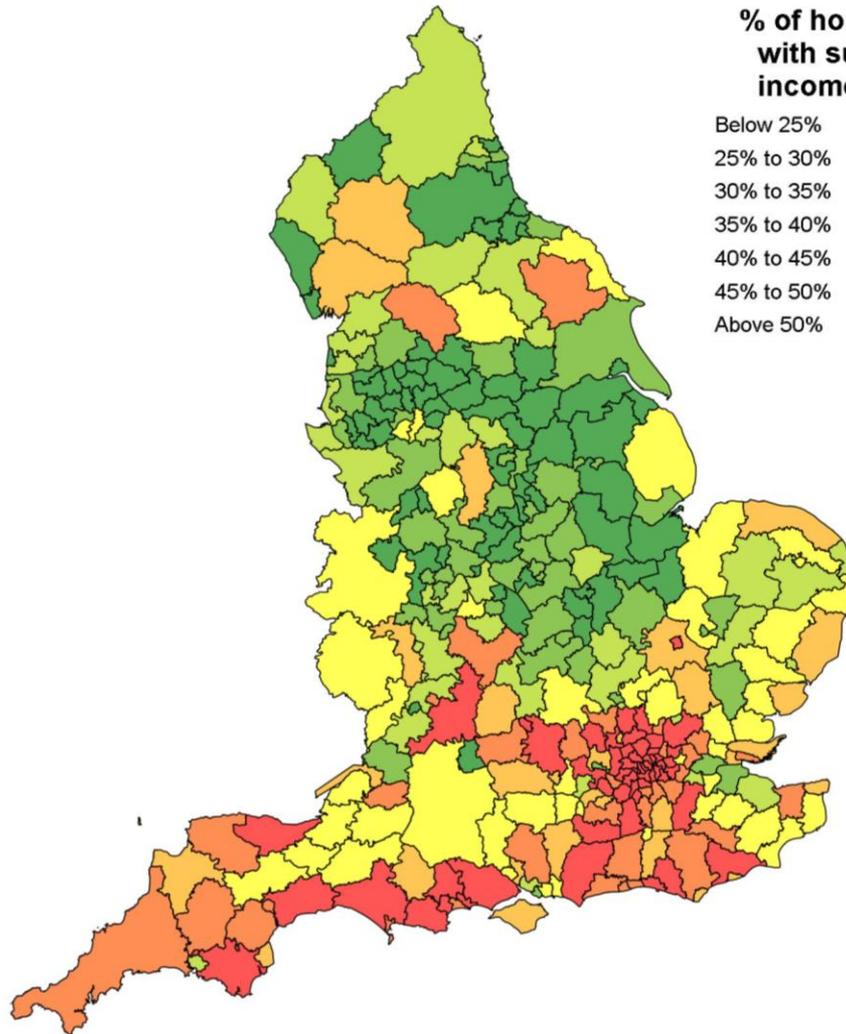
- > **Hometrack – independent property analytics business**
 - > Clients include majority of major house builders and RPs plus 100 LAs (housing strategy)
 - > Provide a range of site specific and local market intelligence in online systems and reports
 - > Pricing analysis for land acquisition, rental 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

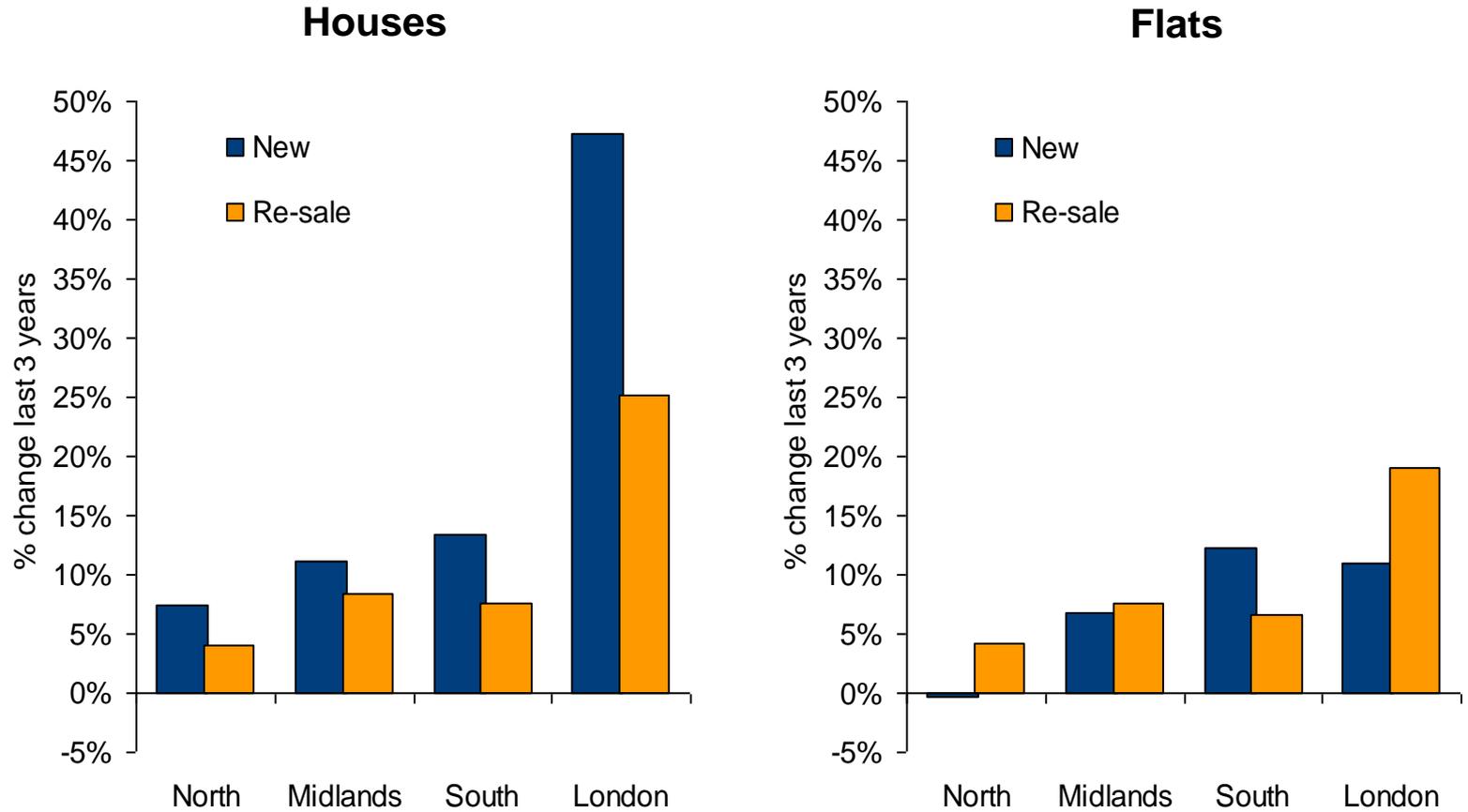
- > **How to ensure suitable focus on delivering**
 - > Tenures that are viable in the local market i.e. is there a private rented sector locally
 - > Where affordable housing is changed – how affordable is the revised mix of housing to occupiers?
 - > What is minimum level that product can be changed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

Affordability and impact on demand for new housing



- Access to private housing market remains constrained – high prices, deposit, credit scores
- Private new development has shifted south and into to 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

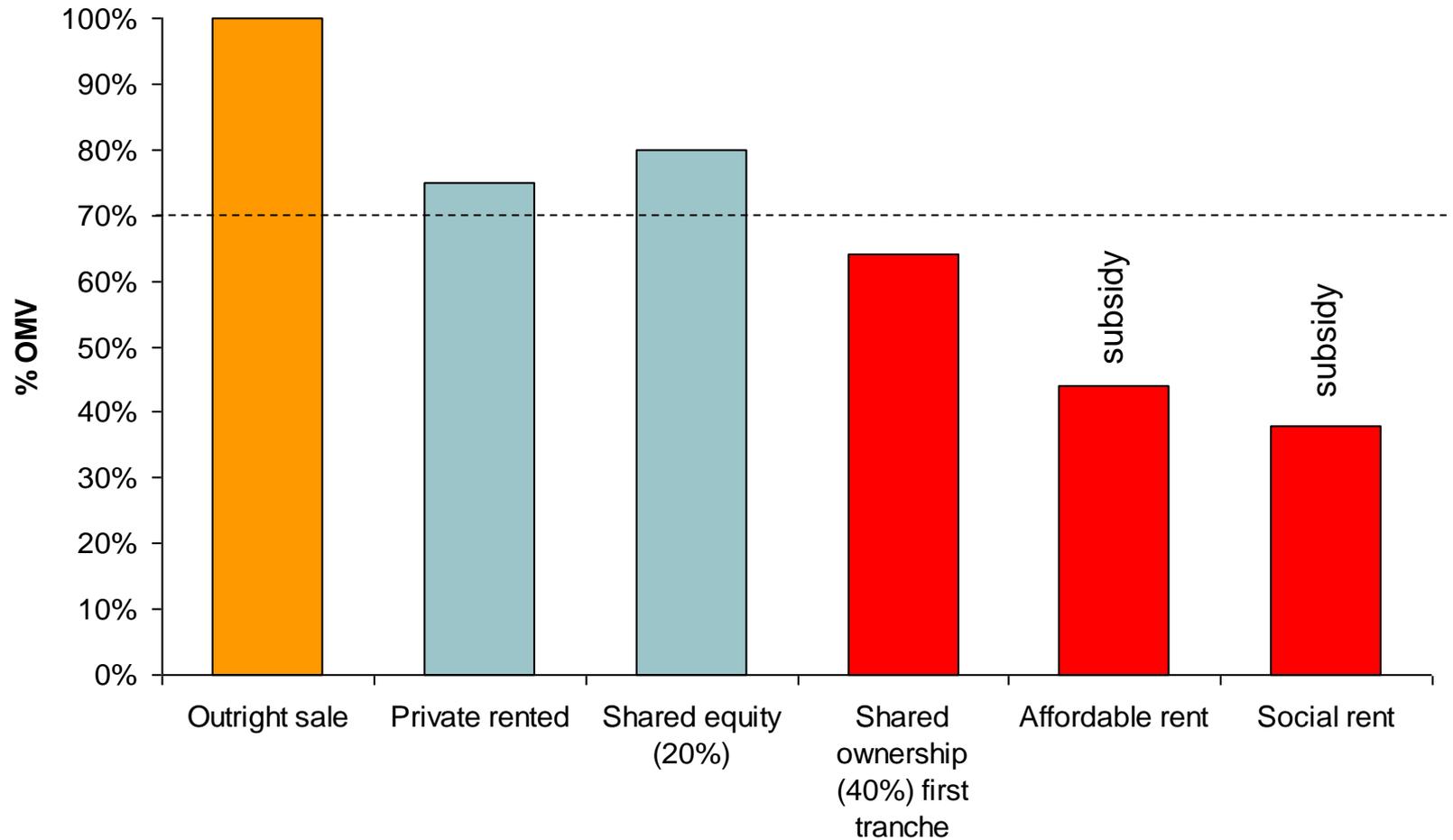


We need to widen pool of demand for housing



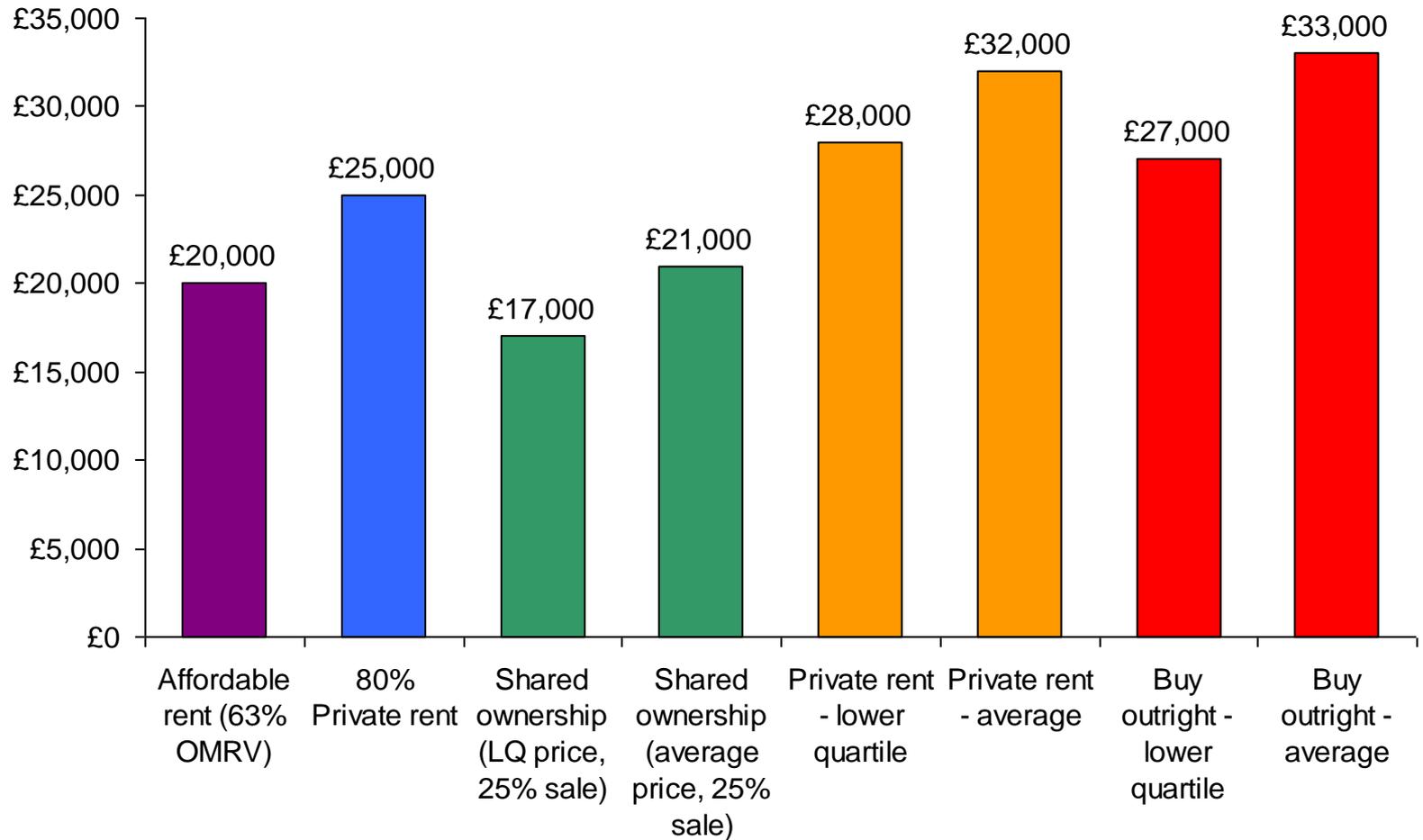
Changing tenures impact on GDV and viability

Indicative value of tenures as % OMV



Source: Hometrack calculations

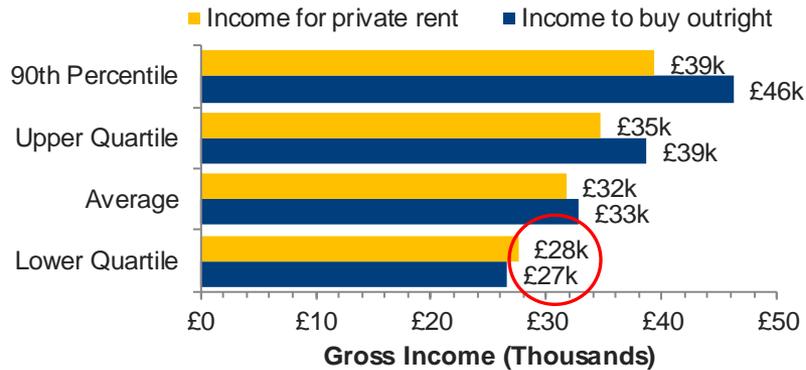
Income required to access housing – Solihull (2 bed)



Source: Hometrack calculations

Which products are viable/affordable ? - Solihull

Gross income required for private rent or to buy outright



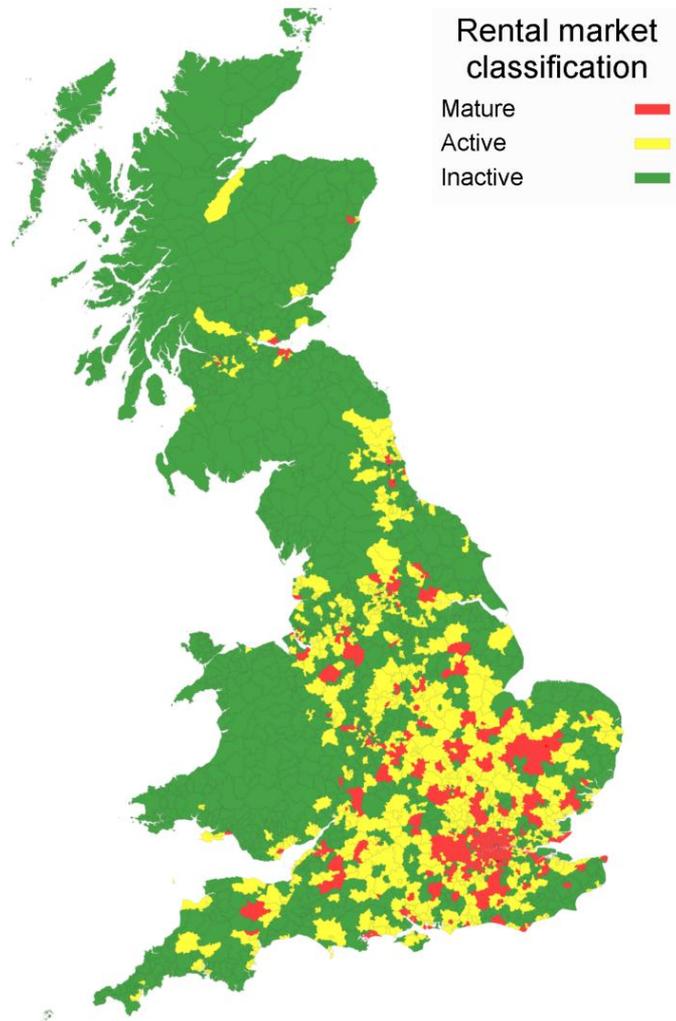
Gross income required to afford different levels of private rent by price point

Rent	Rental Value	AR Value	AR Income	Proportion of Private Rent					
				50%	60%	70%	80%	90%	100%
Lower Quartile	£137	£87	£17k	£14k	£17k	£19k	£22k	£25k	£28k
Average	£158	£100	£20k	£16k	£19k	£22k	£25k	£29k	£32k
Upper Quartile	£173	£109	£22k	£17k	£21k	£24k	£28k	£31k	£35k

Gross income required for shared ownership by initial sale %

S/O	Capital Value	Initial purchase share					
		25%	35%	45%	55%	65%	75%
Lower Quartile	£123,000	£17k	£19k	£21k	£22k	£24k	£26k
Average	£151,490	£21k	£23k	£25k	£28k	£30k	£32k
Upper Quartile	£178,750	£25k	£28k	£30k	£33k	£35k	£37k

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

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



Hometrack
6th Floor, The Chambers
Chelsea Harbour
London
SW10 0XF

enquiries@hometrack.co.uk

www.hometrack.co.uk
