East Northants – Variance Analysis

1. Introduction

This note is in response to the request by HM Inspectorate of Planning in relation to the application of the Affordable Housing Policy of East Northamptonshire Council.

We have only modelled two of the nine sites due to both time constraints and the usefulness of the data relating to the sites. The two areas used are

1. Thrapston
2. Ashton Road

We have selected these two as Thrapston provides a scheme where our original figures demonstrated a 19% profit to the developer and thus it was on the limit for the respondent's preferred margin. Ashton Road provided a much higher profit and thus is a good comparison in terms of scheme type. We have also only reviewed the schemes at 20% Affordable Housing Levels as we know that they do not work at the higher rates.

The summary table attached to this note illustrates the position which was presented to the Inspector on Day 1 of the hearing on 29th April 2009, and then addresses the following variables as discussed.

- Reduced Sales values
- Code For Sustainable Homes
- Increased Discount Rate
- Combined Position

The variance in profit level is illustrated in the table.

NB. We would highlight that the cost inflation rate is 4% year on year (not 6% as previously identified) but we feel is reasonable when compared to the house price inflation levels.

We have also included some further narrative on the application of the infrastructure costs, to address the points highlighted by William Davis at the session on 29Th April 2009.

2. Variable Analysis

Sales Values

In our original information which we submitted we advised that the sales values which we had put forward had been informed by analysis of the local market place but were not based upon actual transactions. Thus we had used the marketing or asking price levels for the area. The region as with the rest of the UK has suffered a depression of house prices in the past 12 months. The impact of reducing the sales rates is to depress the level of profits which may be achieved on the development at Thrapston to 12% which is reduced from the original level of 19%.

The position on the in relation to Ashton Road is that the margin is reduced to around 24%. The prices which Oundle attracts are higher than those in Thrapston with an average value of £288,000. Thus the gross revenues which can be achieved are higher.

In both cases we have used current data which is available on housing completions in the area. These assessments are being undertaken in a severely restricted market but we accept the point made by William Davis that in most cases asking prices are being reduced in order to make sales.

We would however note that in our cashflow model we have kept prices flat until 2012 and thus would query how beneficial reducing the starting sales values is, we have also discounted the affordable to a level at which the developer is making a loss on each sale again we would therefore say that the original figures do compensate for the current market malaise.

In reference to William Davis' quoted example of Woodford, we have looked at the prices which they are quoting which start at £179,000 for 2 bed units. We would accept that in the current climate they maybe accepting less in order to complete sales however we would ask if these transacted values have fallen below the 20% profit threshold as previously identified.

We have therefore undertaken this exercise for completeness but suggest that given the market conditions, low transaction volumes and restricted availability of credit that our initial position was not wholly unreasonable. Settlements conducted in the current climate are being required to take account of losses which the developer may incur as a result of plummeting values.

Code for Sustainable Homes

The costs put forward take account of the CSH requirements to level 4. We have assumed that there will be no units required to meet Code Level 6 as all works are completed in the model by 2015. We note that this is purely a phasing issue but it is likely that developers will seek to complete as many units as possible prior to the higher standards being applied. The requirement to apply these levels whilst having to maintain standard prices for houses with no specific 'Eco Uplift' will render a great number of schemes uneconomic.

We have applied therefore, Code Level 5 to the units that are constructed in 2015 only and have assumed that in all years prior to that they will remain at the Code 4 standard. By doing so this has reduced the margin available to the developer. Obviously if they are required to adopt the standard earlier this will apply further downward pressure to the margin.

Discount Rate

It has been highlighted during the hearing that the discount rate was felt to be too low, and that the standard used by William Davis was 7%. We have therefore shown escalation in the discount rate across the time period, retaining our 4% initially to reflect the low base rate but then inflating it to 5% in 2011 and then 6% up to 2015 when it peaks at 7% for the last two years. This again causes a reduction in margin to 16.88% for Thapston and 28.05% for Ashton Road.

Combined

We have finally undertaken a combination of these elements to demonstrate for each are what the overall effect is. As you will see the return once all of the variables have been included is 10% at the policy level of 20% Affordable Housing. We should note that it only provides the 23% profit at a level of zero affordable housing thus we may query whether the site can achieve any suitable level of affordable whilst maintaining the developer's profit.

The scheme at Ashton Road can still support the 20% policy due to the higher values being achieved.

3. Infrastructure

The costs which we have proposed for infrastructure as previously advised are based upon work which have undertaken relating to the urban extensions. WE note below what our costs have included on a pro rata basis

- Internal Roads
- Utilities mains and connections
- Drainage
- Site preparation
- Minor junction works
- Boundary Treatments

We have adopted this approach as we have no details of the schemes. Contributions to highways etc are levied via the section 106.

4. Conclusion

As identified during the hearing the position can be very subjective in relation to costs. We feel that we have demonstrated in these variations that the developments are affected in the main by the state of the market rather than the other factors. What this does tend to illustrate is that particularly during this turbulent period that schemes will have to be appraised individually.