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15th April 2016

Sandra Rogers
Principal Planning Officer,
Planning Policy Team,
City Planning,
Brighton & Hove City Council,
Room 201, Kings House,
Grand Avenue,
Hove,
BN23 2LS

By e-mail

Dear Sandra,

Client Name: Brighton & Hove City Council
Exercise Name: Guidance for Commuted Sums re. Affordable Housing

We refer to your instructions dated 15th March 2016 and our terms of engagement dated 16th March 2016. We have undertaken the requested exercise and we are pleased to report to you as follows.

Identification of Client

The client is Brighton & Hove City Council.

Purpose of valuation

We understand that BHCC have recently adopted City Plan Part 1 with Policy CP20 Affordable Housing. As such, BHCC require a schedule of commuted sum payments for use in relation to smaller schemes of 5-14 units in size. We understand the values we advise will be published in BHCC's Interim Guidance Note for Commuted Payments.

Instruction

The Council have asked us to provide:

- A schedule of average Market Values for 1,2,3 bedroom flats and 2,3,4 bedroom houses across Brighton and Hove;
- An analysis of different value areas in BHCC (ie. low, medium, high);
- A schedule of average Affordable Housing values for the above unit types;
- A schedule of Commuted Sum Payments.

In order to provide you with the above, we have undertaken research and analysis of new-build comparable residential evidence across the City. We have included in the report, details of the methodology and working information that we have had regard to in order to arrive at the figures above.

Date of valuation

The date of valuation is 15th April 2016.

Confirmation of standards

The valuations have not been prepared in full accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards 2014 UK Edition, commonly known as the Red Book. This report to you does not constitute a formal Red Book report and valuation.

Conflict of Interest

Checks have been undertaken in accordance with the requirements of the RICS standards and have revealed no conflict of interest. DVS has had no previous material involvement with this exercise.

Nature and Source of Information Relied Upon

We have assumed that all information provided by, or on behalf of you, in connection with this instruction is correct without further verification.

You have provided us with a copy of a previous area wide viability study undertaken by BNP Paribas in 2013 and updated in September 2014.

We have undertaken a search for market transactions using property websites, our internal database, SDLT returns, and we have also referred to economic summaries published by RICS.

Valuation Methodology

We have undertaken an analysis of residential values in the area of BHCC administration. This has included Portslade and Hove to the West, Ovingdean, Rottingdean and Woodingdean to the East, as well as the central districts of Brighton and the more rural areas to the north of the A27.

We have had regard to comparable evidence in the City and in particular:

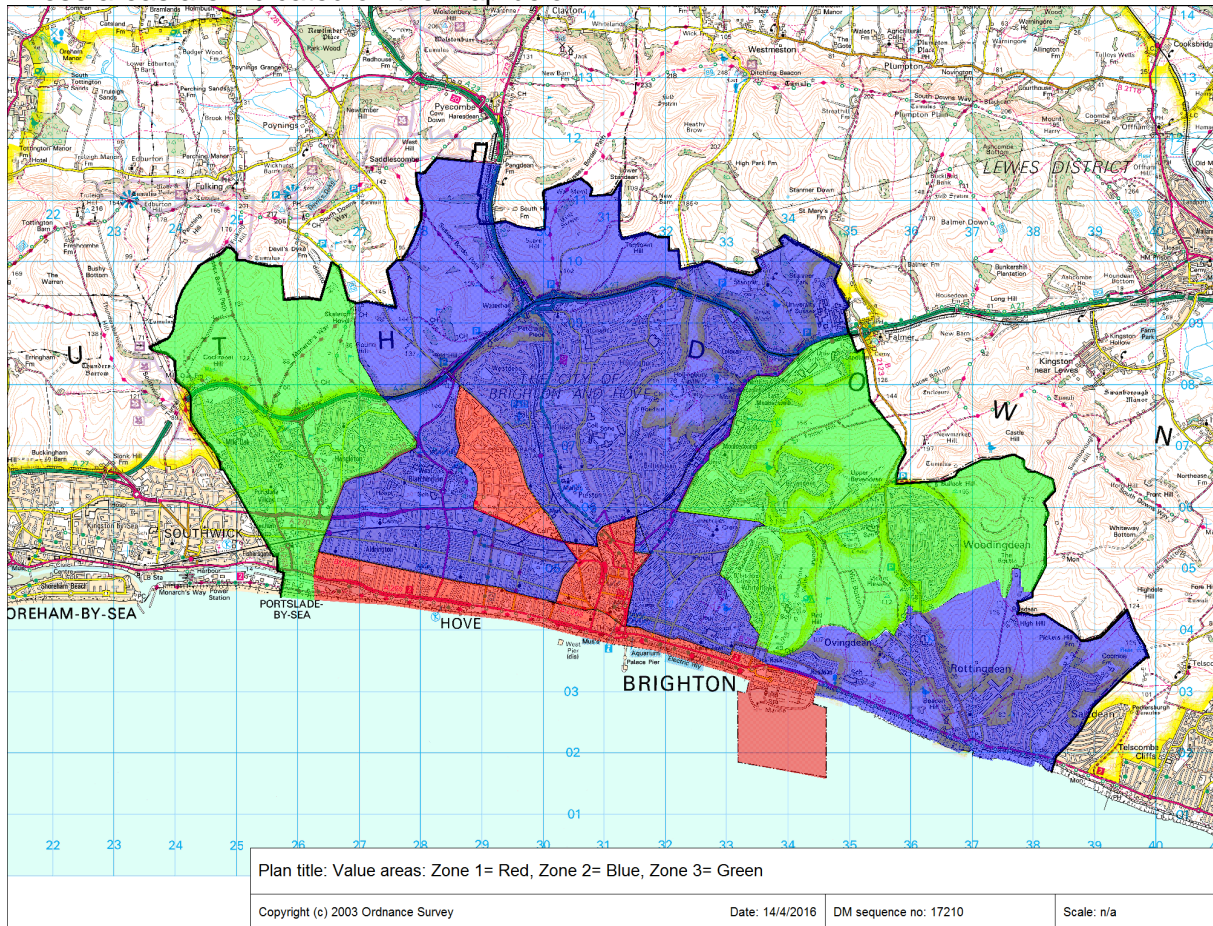
- new-build sales across BHCC area from April 2014 to current day, adjusted to current day values;
- new-build properties currently being advertised;
- all sales completions, including second-hand properties, in 2016.

We have also applied some weight to previous work DVS has undertaken for BHCC, and the levels of value in these cases. We have also made reference to Land Registry House Price Indices and average values. We have referred to the 'Brighton and Hove Combined Policy Viability Study Update' document, which was completed by BNP Paribas in September 2014, although note given the passage of time since this report was completed and house price growth of around 12% since this time, that these values will be too low.

For our review, we have sorted the comparables into a low, medium and high areas - which we consider is a simpler, clearer approach to take. The value areas have been identified following analysis of comparable evidence. We have identified the differing value areas on a map to ensure there is clarity of which areas fall into which. The area boundaries are usually split by road or other geographical feature, as well as at times following the boundary of a postcode or political ward region. These all have value significance to residential values, to a certain extent. The three areas we have adopted are as follows, overleaf:

| | | |
|--------|------------|-------|
| Zone 1 | High Value | Red |
| Zone 2 | Mid Value | Blue |
| Zone 3 | Low Value | Green |

These areas are indicated on the map below:



In order to establish a unit price, we have had regard to average units sizes as seen from our comparable evidence. This is to ensure the average is not skewed by any particular large or small achieved sales. Adopting an average unit value, as opposed to an average price per square metre also prevents an addition element of calculation on a development by development basis. The areas we adopted for the purposes of the exercise are:

| | | | | | | |
|------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| | 1BF | 2BF | 3BF | 2BH | 3BH | 4BH |
| Area | 50m ² | 65m ² | 80m ² | 75m ² | 108m ² | 120m ² |

The above areas are calculated as Gross Internal Area (GIA) in accordance with the RICS Code of Measuring Practice, 6th edition, as incorporated in the new RICS document 'RICS Property Measurement 1st Edition' which is effective from 1st January 2016.

Comparable evidence

Having compiled a schedule containing the above information, we have sorted the comparable evidence by bedroom number and type, ie. house/flat. We have then analysed the comparables based on unit size, political ward and postcode in order to establish trends. We note that in BNP Paribas' earlier area wide viability study, the area of BHCC was divided into seven value areas as part of their review. For our review, we have adopted three value areas.

Based on the evidence we have found, the comparables show that the highest values are achieved in the sea-front locations, south of the B2066. The high value area also extends up towards London Road station and includes a section to the west of Dyke Road within the Hove Park Ward.

Evidence suggests that the western areas, around Portslade and the eastern areas such as Woodingdean, Moulsecomb, Whitehawk are the lowest value areas in the borough, although there is more evidence of development within the Portslade area.

The remainder of BHCC falls within an average value area. Within this 'average' area, there are higher and lower value areas which fall within the range, and therefore with any exercise of establishing an average, there will be perceived to be some 'winners' and 'losers'.

Private Valuations

Our opinion of the average Market Value of Private units, as at 15th April 2016 is as follows:

| | Flats | | | Houses | | |
|---------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 1BF | 2BF | 3BF | 2BH | 3BH | 4BH |
| Zone 1 | £ 360,000 | £ 465,000 | £ 550,000 | £ 480,000 | £ 600,000 | £ 750,000 |
| Zone 2 | £ 250,000 | £ 340,000 | £ 475,000 | £ 350,000 | £ 450,000 | £ 600,000 |
| Zone 3 | £ 180,000 | £ 235,000 | £ 325,000 | £ 290,000 | £ 380,000 | £ 450,000 |

Affordable Rent Valuations

Our opinion of the Market Value of Affordable Rent, as at 15th April 2016 is as follows:

| | Flats | | | Houses | | |
|---------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 1BF | 2BF | 3BF | 2BH | 3BH | 4BH |
| Zone 1 | £ 145,000 | £ 185,000 | £ 220,000 | £ 190,000 | £ 240,000 | £ 300,000 |
| Zone 2 | £ 100,000 | £ 135,000 | £ 190,000 | £ 140,000 | £ 180,000 | £ 240,000 |
| Zone 3 | £ 70,000 | £ 94,000 | £ 130,000 | £ 115,000 | £ 150,000 | £ 180,000 |

We have considered the valuation for the Affordable Rent units in a number of ways. We have undertaken our valuation with regard to the Local Housing Allowance for Brighton. To the gross rent, we have deducted an allowance for management, maintenance, voids and a sinking fund and capitalised the net rent of the units. Values ranged from 12% to 45% of Market Value of the Private units. This approach does not show any value differentiation on an area basis and therefore produces a value that is the same regardless of the areas of the city. This is more of an approach seen for Social Rent units.

For Affordable Rent units, the rent is capped at a maximum of 80% of Market Rent for those eligible. A range of around 40-50% of Market Value is typically adopted for this tenure of housing, and as such, we have adopted an average of 40% of Market Housing. We have 'benchmarked' this approach and the percentage deducted with development viability assessments we have undertaken on behalf of BHCC, as well as some other neighbouring boroughs. The approach of calculating a percentage of Private Market Values has been adopted by a number of different agents and we therefore consider it is appropriate. We tend to see the percentage of Private values being lower in the higher value areas, to seek to maintain the overall affordability where there are high house values. We consider for consistency and fairness, as well as to maintain a simple approach, applying 40% to all three value areas is appropriate.

Shared Ownership Valuations

Our opinion of the Market Value of Shared Ownership, as at 15th April 2016 is as follows:

| | Flats | | | Houses | | |
|---------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 1BF | 2BF | 3BF | 2BH | 3BH | 4BH |
| Zone 1 | £ 240,000 | £ 310,000 | £ 370,000 | £ 320,000 | £ 400,000 | £ 500,000 |
| Zone 2 | £ 165,000 | £ 225,000 | £ 320,000 | £ 235,000 | £ 300,000 | £ 405,000 |
| Zone 3 | £ 120,000 | £ 155,000 | £ 215,000 | £ 195,000 | £ 255,000 | £ 300,000 |

To arrive at our opinion of value for Shared Ownership, we have assumed 35% of the property would be bought outright (typically with a mortgage), and a gross rent of 2.75% would be paid on the remainder of the outstanding value. After an adjustment for management costs, we have capitalised using a yield of 5.5%, a yield which is based on our market experience. These values equate to around 60% of the full Market Value of the units, which is within a reasonable range based on experience of other schemes we have assessed.

Average Affordable Housing values

With reference to the adopted values of Affordable Rent and Shared Ownership units above, we have calculated an overall average for the Affordable Housing. This is a weighted average based on the BHCC guidance stating a desired tenure split of 55% Affordable Rent and 45% Shared Ownership. This results in an overall average as follows:

| | Flats | | | Houses | | |
|---------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 1BF | 2BF | 3BF | 2BH | 3BH | 4BH |
| Zone 1 | £ 187,750 | £ 241,250 | £ 287,500 | £ 248,500 | £ 312,000 | £ 390,000 |
| Zone 2 | £ 129,250 | £ 175,500 | £ 248,500 | £ 182,750 | £ 234,000 | £ 314,250 |
| Zone 3 | £ 92,500 | £ 121,450 | £ 168,250 | £ 151,000 | £ 197,250 | £ 234,000 |

Analysis of approach

In undertaking the above exercise, we have endeavoured to strike a balance between seeking a reasonable payment in lieu for BHCC, without discouraging wider development. We have considered the impact if the adopted values are too onerous, which could create time delays in the planning application process if applicants seek to challenge the above values, as well as additional time spent by planning officers. We therefore have not sought to adopt the highest values in the range of comparable evidence, but have adopted what we consider is an average value within the range.

We also highlight that if an appraisal was undertaken on a policy compliant scheme versus an all Private scheme, we would expect a profit level of 17.5% profit on GDV for the Private units, whereas we would expect a lower value of 6% profit on cost for the Affordable units. Therefore, comparing the two appraisals would not equate to the exact same figure as the approach we have adopted for calculating the commuted sum. However, we consider the approach is simple, clear and consistent and should enable the planning process not to be subjected to delays. We also understand this is a similar approach to commuted sum payment calculations which has previously been used by BHCC, although this new guidance calculates a specific amount per unit type, and therefore should involve less resource into calculating the amount due.

Currency

All prices or values are stated in pounds sterling.

Market Commentary

Market reports are reporting a slight slowdown in sales of residential property caused by general economic uncertainty due to the oil price slump, the upcoming European referendum and changes to Stamp Duty Land Tax which particularly affects buy to let investors. This is impacting foreign investment and domestic buyers. Although this relates largely to the London residential market, this then has a ripple effect into areas further afield. Given the strong rail links between Brighton and London, we consider the above factors could also impact the residential market in Brighton and therefore the forthcoming year may be a period of change and uncertainty.

Status of Valuer

It is confirmed that the valuations have been carried out by Philippa Tranter, a RICS Registered Valuer, acting in the capacity of an external valuer, who has the appropriate knowledge and skills and understanding necessary to undertake the valuation competently, and is in a position to provide an objective and unbiased valuation.

Restrictions on Disclosure and Publication

The client will neither make available to any third party or reproduce the whole or any part of the report, nor make reference to it, in any publication without our prior written approval of the form and context in which such disclosure may be made.

You may wish to consider whether this report contains Exempt Information within the terms of paragraph 9 of Schedule 12A to the Local Government Act 1972 (section 1 and Part 1 of Schedule 1 to the Local Government (Access to Information Act 1985) as amended by the Local Government (access to Information) (Variation) Order 2006.

We are aware that the schedule of commuted sum payments will be published as part of BHCC's guidance on Commuted Sum Payments, as part of planning guidance CP20 - Affordable Housing. The detailed working and methodology may be available separately.

Limits or Exclusions of Liability

The report should only be used for the stated purpose and for the sole use of your organisation and your professional advisers. No responsibility whatsoever is accepted to any Third Party who may seek to rely on the content of the report unless previously agreed.

Validity

The reported values remain valid for 12 months (twelve months) from its date unless market circumstances change or further or better information comes to light, which would cause me to revise our opinion.

We are aware you seek to rely on these values in your policy documents for one year. Please be aware that values change over time, and as such, they are unlikely to remain reflective of market evidence beyond this period.

Conclusion

We have attached in our report a number of schedules which we have devised in order to arrive at the commuted sum payments. A schedule summarising the commuted sum payment per unit is as follows:

| | Flats | | | Houses | | |
|---------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 1BF | 2BF | 3BF | 2BH | 3BH | 4BH |
| Zone 1 | £ 172,250 | £ 223,750 | £ 262,500 | £ 231,500 | £ 288,000 | £ 360,000 |
| Zone 2 | £ 120,750 | £ 164,500 | £ 226,500 | £ 167,250 | £ 216,000 | £ 285,250 |
| Zone 3 | £ 87,500 | £ 113,550 | £ 156,750 | £ 139,000 | £ 182,750 | £ 216,000 |

This commuted sum payment is based on the difference between the Market Value of the Private units and the average value for the Affordable units.

We trust that the above report is satisfactory for your purposes. However, should you require clarification of any point do not hesitate to contact me further.

Philippa Tranter MRICS
RICS Registered Valuer
Principal Surveyor
DVS – Property Specialists for the Public Sector

Reviewed by:

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