

Affordable
Housing
Viability
Study

Royal Borough of
Kensington & Chelsea

Final Draft Report
September 2009

*f*ordham
RESEARCH

Executive summary

Introduction

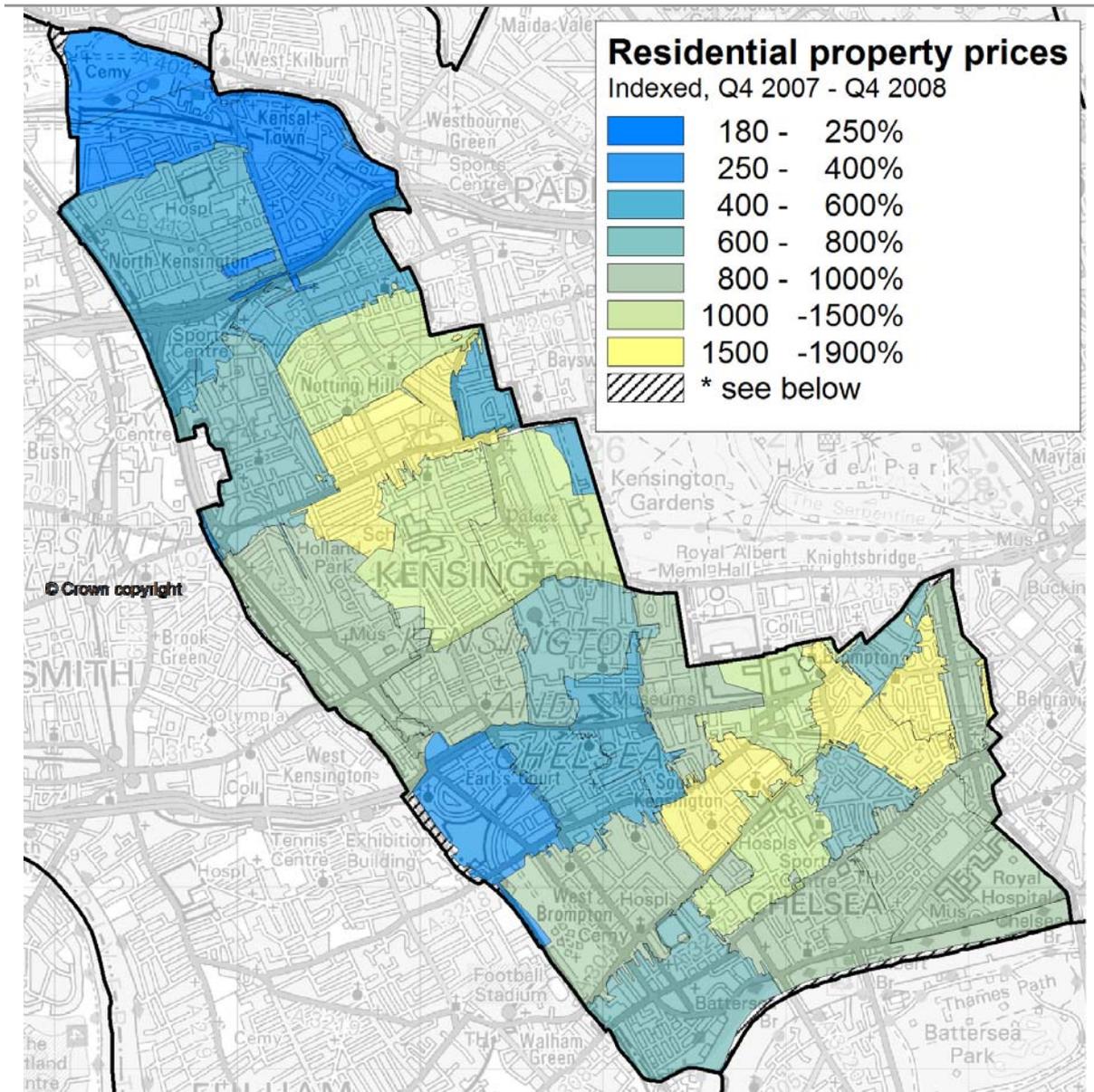
- S1 Fordham Research was commissioned by The Royal Borough of Kensington & Chelsea to carry out a study of affordable housing viability in the Royal Borough. The viability study is intended to inform ongoing work on the preparation of Local Development Frameworks (LDF).
- S2 Government Guidance in PPS3 (2006 para 29) requires councils to set a '*plan wide*' affordable housing target, and to test this for '*deliverability*' by means of the '*economic viability of land for housing within the area*'.
- S3 The HCA has issued the first official guidance to reflect the downturn (Good Practice Note on Investment and Planning Obligations: responding to the downturn). This says that affordable housing targets should not be set for the plan period based on the present poor market conditions. It suggests the possibility of targets set for a future 'normal market', but there is no evidence as to what a 'normal market' may be in future years. It is most unlikely to see a repeat of the 15 year rising market that ended in 2007.
- S4 As a result Fordham Research's Dynamic Viability approach is proposed, as that is designed to take account of a range of possible future housing market outcomes through the use of a matrix approach. Such an approach is already used in the London Plan for density issues.

The approach to valuation

- S5 The study involved preparing financial appraisals for a representative range of sites to give a picture of the Royal Borough wide ability of such sites to afford given targets for affordable housing. The approach was to '*model*' viability using a range of variables and our bespoke spreadsheet software. The key features were:
- i) A set of 10 actual sites was selected, in discussion with the Council, from a longer list of possible sites. All were considered to be representative. These were then supplemented with four notional sites.
 - ii) The sites covered a wide range of site size (4 dwellings to 255), were all 'brownfield' and in urban areas
 - iii) The sites were at various stages in the development process

S6 A wide range of data was collected about housing in the Royal Borough; this included prices (secondhand, and newbuild, of which there is a reasonable supply locally), rents and RSL information about affordable housing costs. The map below illustrates house price variations across the Royal Borough.

Figure S1 Postcode price indices



Indices compare prices to value for median postcode sector in England & Wales

Testing the sites

S7 In order to provide reliable evidence on deliverability, the sites were examined under a range of assumptions about the key factors affecting viability:

- i) Affordable housing target levels of 30%, 40% and 50% of floor area, rather than the conventional target measure based on dwelling numbers
- ii) Affordable housing split 75% social rented and 25% intermediate
- iii) Land values for alternative uses for the sites: clearly the site viability cannot plausibly fall below the level of alternative use, and so this must be established
- iv) Affordable housing income has been fixed at 80% TCI (in accordance with Council policy)
- v) The calculations consider planning gain
- vi) Level 4 of the Code for Sustainable Homes was assumed as well as the RSS requirement for 10% renewable energy.
- vii) Abnormal costs were taken into account where the sites indicated they were likely

S8 Clearly this range of elements generated a large range of possible outcomes. These were assessed through our bespoke valuation methodology to indicate 'residual land values'. This is the standard approach, and assumes that all costs and returns are measured, except for the land value outcome. The latter is the key variable. It can then be compared with other scenarios, and with alternative use values. The latter are typically agricultural in rural areas and industrial in urban ones.

Appraisal outcomes

S9 To assess viability, the value of the land for the particular residential scheme adopted needs to be compared to the alternative use value, to determine if there is another use which would derive more revenue for the landowner. If the assessed value does not exceed the alternative use value, then the development is not viable.

S10 For the purpose of a strategic study like the present one, it is necessary to take a comparatively simplistic approach to determining the alternative use value. In practice a wide range of considerations could influence the precise value that should apply in each case, and at the end of extensive analysis the outcome might still be contentious.

S11 Our 'model' approach is outlined below.

- i) Where the development is on former industrial, warehousing or similar land, then the alternative use value is considered to be industrial, and an average value of industrial land for the area is adopted as the alternative use value
- ii) Where an existing building remained capable of beneficial use we took its estimated value.

S12 Applying this approach, the results for the 14 sites are shown in the Figure below):



Table S1 Appraisal outcomes: grant to 80% TCI						
No	Site	Value £m per acre				
		Alt use value	No aff	30%	40%	50%
1A	TA Centre	7.5	10.6	-1.2	-5.3	-9.5
		8.5	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
2A	Princess Louise Hospital	5.6	8.1	4.4	3.1	1.9
		6.6	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
3A	Kensington Park Hotel	62.3	51.5	22.5	12.4	2.1
		63.3	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
4A	St Thomas C of E School	1.0	-0.5	-2.7	-3.4	-4.1
		0.0	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
5A	The Power House	11.5	53.4	33.0	25.9	18.8
		12.5	VIABLE	VIABLE	VIABLE	VIABLE
6A	Sorting Office	8.0	83.0	55.8	46.1	36.2
		9.0	VIABLE	VIABLE	VIABLE	VIABLE
7A	225 Earls Court Road	8.0	29.7	17.0	12.8	8.7
		9.0	VIABLE	VIABLE	VIABLE	MARGINAL
7N	Notional 1	6.0	30.7	18.1	13.9	9.7
		7.0	VIABLE	VIABLE	VIABLE	VIABLE
7M	Notional 2	6.0	12.8	5.6	3.3	1.0
		7.0	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
8A	158-166 Brompton Road	52.2	126.6	86.1	72.5	58.8
		53.2	VIABLE	VIABLE	VIABLE	VIABLE
8N	Notional 3	23.1	2.2	-3.8	-5.8	-7.9
		24.1	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
9A	50 Hogarth Road	51.6	28.2	17.7	14.3	10.8
		52.6	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
10A	239 Kensington High St	29.2	27.9	18.3	15.1	11.9
		30.2	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
10N	Notional 4	22.7	19.2	12.2	9.9	7.6
		23.7	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB

Source: Table 6.3

- S13 The results for the 14 sites can be summarised as follows:
- i) At 100% market housing 8 sites were fully viable (plus 3 were marginal)
 - ii) At a 30% target 5 were viable
 - iii) At a 40% target the 5 sites remained viable
 - iv) At 50% 4 sites remained viable and one became marginal
- S14 Sensitivity testing suggests that at the peak viability level during November 2007 (when prices were perhaps 25% higher than those assumed in our study, whilst costs may have been 15% lower), then 11 schemes would have been viable at the 40% level. Conversely, sensitivity testing suggests that should prices fall by a further 15% whilst costs increase by 5% then only 4 schemes would be viable at the 40% level
- S15 The evidence suggests in our view that a 40% target, based on floorspace, would be the highest that would be reasonable to put forward in present circumstances. In terms of the split between social and intermediate housing, the emerging SHMA document suggested proportions of 75%/25% and we undertook to test this option. The SHMA tenure split proposals were subsequently revised to 85%/25%. However, because the Council has fixed the value at which affordable units are conveyed to partner RSLs, changing the tenure split will not influence the financial outcome for the developer.
- S16 We considered what the appraisal results implied about the scope for varying the size threshold from the national minimum of 15 dwellings, or alternatively from the London Plan proposed 10 dwellings. The Borough envisaged a threshold based on minimum total gross floorspace which then matched the use of floorspace as a target measure. The proposed 800 sq m threshold (8,600 sq ft) corresponds to the London Plan proposed minimum of 10. Of the four sites with less than 15 dwellings but more than 800 sq m gross floorspace, three were viable at 40%, a slightly better proportion than for sites of 15 dwellings plus. We concluded that the proposed threshold was acceptable.
- S17 To take account of the downturn we propose use of the Dynamic Viability approach. This has been recommended in a Barrister's Opinion as the best solution in the present situation of both housing markets and Government Guidance. It consists of developing an array of possible outcomes as a matrix, from which particular outcomes can be read out depending on how the price and cost indices change.
- S18 This can all be put in the Core Strategy affordable housing policy. As a result it will all have been consulted upon, and be capable of straightforward implementation. At each annual review it is simply a matter of inputting the changes in the various indices and observing the outcomes. These may or may not alter the affordable target.



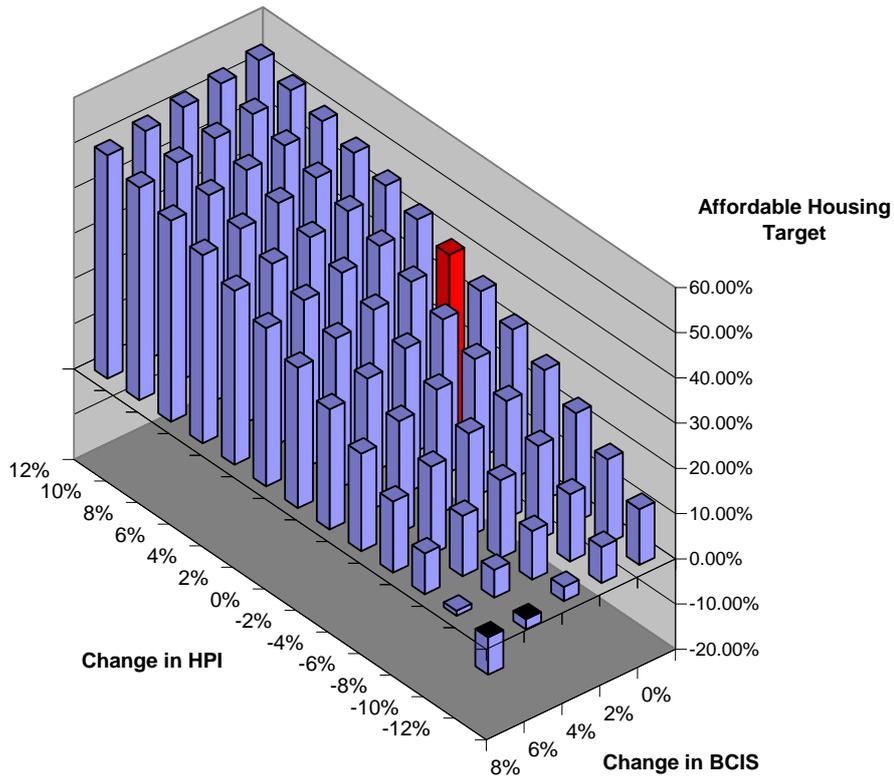


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List of abbreviations

£ k	thousand pounds
£ m	million pounds
dw	dwelling
dwgs	dwellings
ft	foot
ha	hectare
m	metre
sq	square
Q1	Quarter 1



1. Introduction

Introduction

- 1.1 Fordham Research was commissioned by The Royal Borough of Kensington & Chelsea to produce guidance on the financial viability implications of alternative targets and size thresholds for affordable housing provision within the Royal Borough area.
- 1.2 The study forms part of a wider study, a Strategic Housing Market Assessment (SHMA) for the Borough being carried out in parallel. That study is intended to develop an understanding of the local housing market area, build a picture of housing needs and requirements, and to suggest appropriate targets for housing provision based on this analysis. The SHMA will provide input into the ongoing work on preparation of Local Development Documents for the Royal Borough.

Context

- 1.3 The context for this study consists of the Guidance which government has provided for doing such work, and the broad principles of viability analysis which has of course existed in some form ever since settled civilisation meant that land was bought and sold.

Guidance

- 1.4 National guidance (PPS3: Housing 2006) requires Councils to set a target for the proportion of affordable housing to be delivered through new developments. The recently completed SHMA was intended to provide guidance on the levels of affordable housing target that would be justified by the analysis of the area's housing requirements.
- 1.5 This SHMA advice was, essentially, based on an assessment of the balance between the need for market housing and the need for affordable housing. In doing so, it did not take into account the commercial factor – i.e. what is viable, and what it is realistic to ask developers to provide in this area at this time. Whilst a target of, say, 50% may be the appropriate figure to balance the overall housing market over time, it may not be the appropriate target now.
- 1.6 The purpose of the present study is to address that issue, enabling the Council to set a robust target in the light of current commercial circumstances in Kensington & Chelsea. That latter target is just that – a target. The actual amount of affordable housing required on any particular site must be assessed for that actual site, and take into account the peculiar factors of developing that site at that point of the economic cycle.



- 1.7 The Guidance position has been supplemented by the Homes and Communities Agency (HCA) in a recent Good Practice Note: *Investment and Planning Obligations: responding to the downturn* (July 2009). The range of guidance is reviewed below.
- 1.8 This study is designed to set the current target in an informed way. Given the pattern of housing market conditions since late 2007, and more particularly a general expectation that house prices may continue to fall in for some time to come, it may be necessary for any proposed target to be reviewed regularly, so to reflect the resulting changes in the profitability of development.

The land market

- 1.9 The availability and cost of land are matters at the core of the viability for any development of new houses. The format of the typical valuation has been standard for centuries and looks like this:

$$\begin{array}{c} \textbf{Gross Development Value} \\ \text{(The combined value of the complete development)} \\ \\ \text{LESS} \\ \\ \textbf{Cost of creating the asset, including a profit margin} \\ \text{(Construction + fess + finance Charges)} \\ \\ = \\ \\ \textbf{RESIDUAL VALUE} \end{array}$$

- 1.10 The result of the calculation indicates a land value, which acts as the top limit of what a bidder could offer for that site. In this study we use the procedure in reverse:

given the likely land values will a development including X% target for affordable housing be viable?

- 1.11 The calculation involves the same basic information but is designed for a different purpose. The 'likely land value' is a difficult topic, since clearly a landowner will never be entirely frank about the price that would be acceptable: always seeking a higher one. This is one of the areas where an informed assumption has to be made about the 'cushion': the margin above the 'existing use value' which would make the landowner sell. Landowners and land buyers are surrounded by agents who argue in their clients' interest, so the process of selling and buying development land is not usually simple or quick.
- 1.12 This study does not attempt to assess the specific price that could or should be paid for each site (please see Figure 1 below). The appraisal works out what land on a site may be worth if a range of scenarios were to occur, and then compares that amount with its value in some other use to which it could be put. Nor does this study does not attempt to predict when a landowner may sell the land, or even if he will sell, since that is a very site specific matter.

Reasons for this study

1.13 Studies of the kind done here are specifically needed to address the detailed wording of para 29 of PPS3: Housing. From 2000 onwards the earlier guidance in PPG3 recognised the broad need to take into account the economics of development when setting affordable housing targets and negotiating contributions from developers.

1.14 PPS3 is much more specific. It suggests that Local Development Documents (LDDs) should **set an overall target** for the amount of affordable housing to be provided, which should:

'reflect an assessment of the likely economic viability of land for housing within the area, taking account of the risks to delivery and drawing on informed assessments of the likely levels of finance available for affordable housing, including public subsidy and the level of developer contribution that can reasonably be secured.' (S29)

1.15 LDDs should also **set out the range of circumstances** in which affordable housing will be required. The national indicative minimum size threshold is to be 15 dwellings. However, Local Planning Authorities (LPAs) may:

...'set lower minimum thresholds, where viable and practicable, including in rural areas. This could include setting different proportions of affordable housing to be sought for a series of site-size thresholds over the plan area. LPAs will need to undertake an informed assessment of the economic viability of any thresholds and proportions of affordable housing proposed....' (S29)

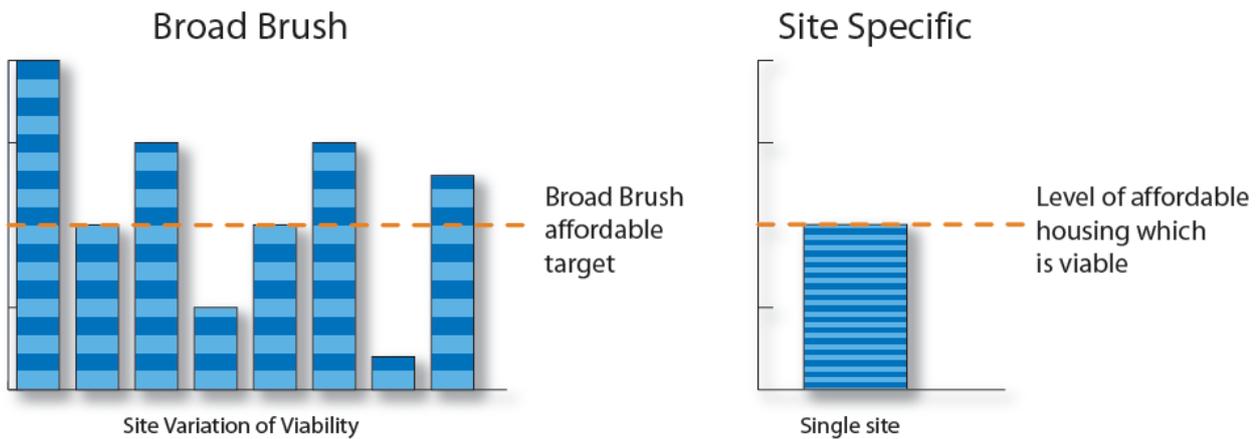
1.16 The analysis in the present study is designed to be consistent with the above requirements. The detailed implications of this part of PPS3 were made much more vivid by the Blyth Valley Court of Appeal decision on the Inspector's report of the LDF Core Strategy (Appeal decision of August 2008). In effect the judgement means that:

There is now a duty on every local authority to ensure that any affordable housing target is broadly deliverable within the area.

1.17 This does not mean that every single development site must be able to bear whatever target is set, but sites generally should. The following illustration demonstrates the difference between the new 'broad brush' viability study and the longstanding and still flourishing site specific evaluation required for instance when a developer is seeking financial backing for a development.



Figure 1.1 Two viability approaches

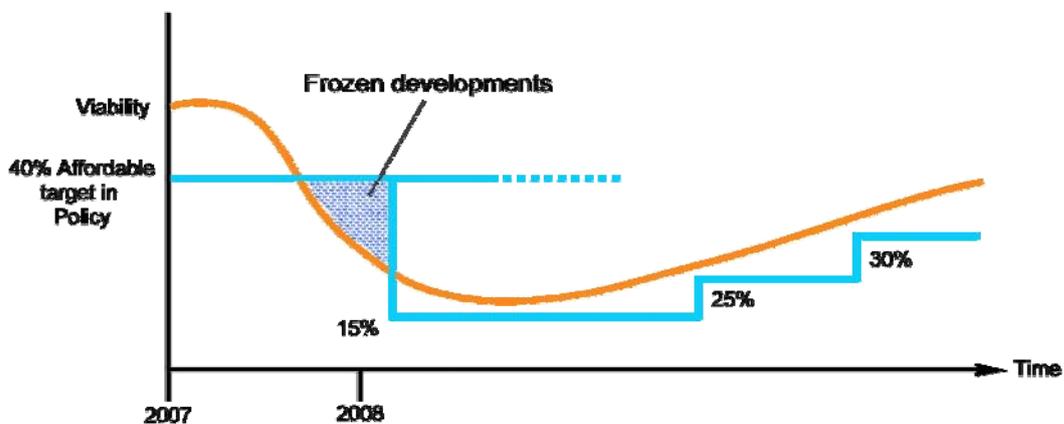


1.18 The combination of PPS3 paragraph 29 and the Blyth Valley Court of Appeal decision made it clear that local authorities have a duty to show that their chosen affordable housing target is broadly deliverable across the area.

Coping with the downturn: Dynamic Viability

1.19 PPS3 was written in 2006 and did not make any provision for a downturn. There had been some 15 years of a rising market, and nobody had thought of its being reversed. The following diagram illustrates what has now happened in England generally. The brown line indicates the nosedive of viability (less acute in RBKC than elsewhere, but still present). The blue lines indicate targets that were deliverable before the downturn, and others which are deliverable after it.

Figure 1.2 Fordham Research Dynamic Viability



Source Fordham Research 2009

- 1.20 In the illustration, the housing needs situation would, for example, justify a 40% target, using the traditional approach which derives indeed from Fordham Research's work in the 1990s relating need to target levels. Thus a Target A (needs based) level of 40% is indicated.
- 1.21 But, in the hypothetical example, viability means at present that only 15% is actually deliverable. Hence the only justifiable target, if one were in an LDF, would be 15%. But if, as most people assume, there is a recovery in house prices within the next five years, the scope for higher targets might re-emerge, and indeed up to 40% targets might again be achievable within the Plan period.
- 1.22 Thus if a single 15% target were set for years or longer, it would be very damaging for the Council and for those in need of affordable housing, since a good deal of quite deliverable affordable housing would not be obtained. Fordham Research has developed its Dynamic Viability model to address this problem. It is summarised in Chapter 7 below.
- 1.23 The HCA has recently published (July 2009) the first post-downturn official guidance, and it contains some important points, Its Good Practice Note on Investment and Planning obligations: responding to the downturn' is mainly concerned with existing S106 agreements which have been frozen by the downturn. But much of its advice applies as much to the pre-permission phase as to the post-permission one.
- 1.24 In particular paragraph 19 says:

A robust affordable housing policy for delivering affordable housing in line with PPS12 deliverability criteria and with PPS3 paragraph 29 financial viability criteria will:

- *Ensure that good evidence is put forward to support the policy, and that in particular, financial viability based upon empirical evidence of local market conditions forms part of the case supporting affordable housing targets. It is not sufficient to rely on statements promising flexibility.*
- *Ensure that any viability study carried out in today's market can not only inform the economics of development today, but also for the whole plan period. The Planning Inspectorate have advised LPAs that it would not be reasonable to base a Core Strategy on a short term view of the housing market, and that a reasoned assumption on what might be a normal market is needed. Any targets would need to have been tested and justified, and provision for flexibility will also need to deal with abnormal market conditions. LPAs are expected to monitor and review policies and adapt them should abnormal conditions become the norm.*
- *Incorporate separate targets for social rented and intermediate tenures and consider providing for flexibility, by using target ranges for affordable housing tenures, making the targets less open to challenge.*
- *Recognise in the policy itself, or in supporting text, that scheme specific financial viability will be considered when applying the policy to individual schemes.*

- *Recognise in its implementation the policy test requirements of Circular 05/2005, and together with other public sector agencies including the HCA, consider the appropriate balance between private and public sector investment on individual developments.*

What this means for the study

- 1.25 This advice carries some strong messages for setting affordable housing targets in the downturn:
- A robust policy should not simply rely on '*statements promising flexibility*'
 - The LPA should ensure that the policy endures for the whole plan period
 - The Planning Inspectorate has advised LPAs not to rely on a short term view of the housing market but to make reasonable assumptions on what may be a 'normal market'
 - The LPA should incorporate separate targets for social rented and intermediate tenures and include ranges for them
 - The situation allows for a further layer, of scheme specific viability to be discussed at the planning applications stage
- 1.26 The fourth point is straightforward and the fifth point is widely accepted and illustrated in Figure 1.1 above. The first two points, however, have implications which make most current affordable housing target setting redundant. The implications are:
- Do not set a target that works now (for example 20%), as it is likely to minimise affordable housing over the plan period
 - The council may set an aspirational target for a 'normal market'. But nobody knows what a normal market is: the happy situation of August 2007 may never recur. The long term rising market of most of the 1990's to 2007 may not be repeated. In any case, if a target of say 40% were set on the basis that it might one day apply, appeals could well succeed if the LPA tries to apply it now. It will not be clear when such a target does apply, as endless disputes over valuations are likely to be generated.
- 1.27 For this kind of reason Fordham Research has developed its Dynamic Viability approach. This involves setting out the range of possible market outcomes and consequent affordable target levels at the Core Strategy stage. After the adoption of the Core Strategy the only updating work is to input three indeed value annually to see whether the target level has changed. If this process is supervised by a Stakeholder group it will ensure that all those centrally concerned understand what the affordable target level is. Dynamic Viability is discussed further in Chapter 7.

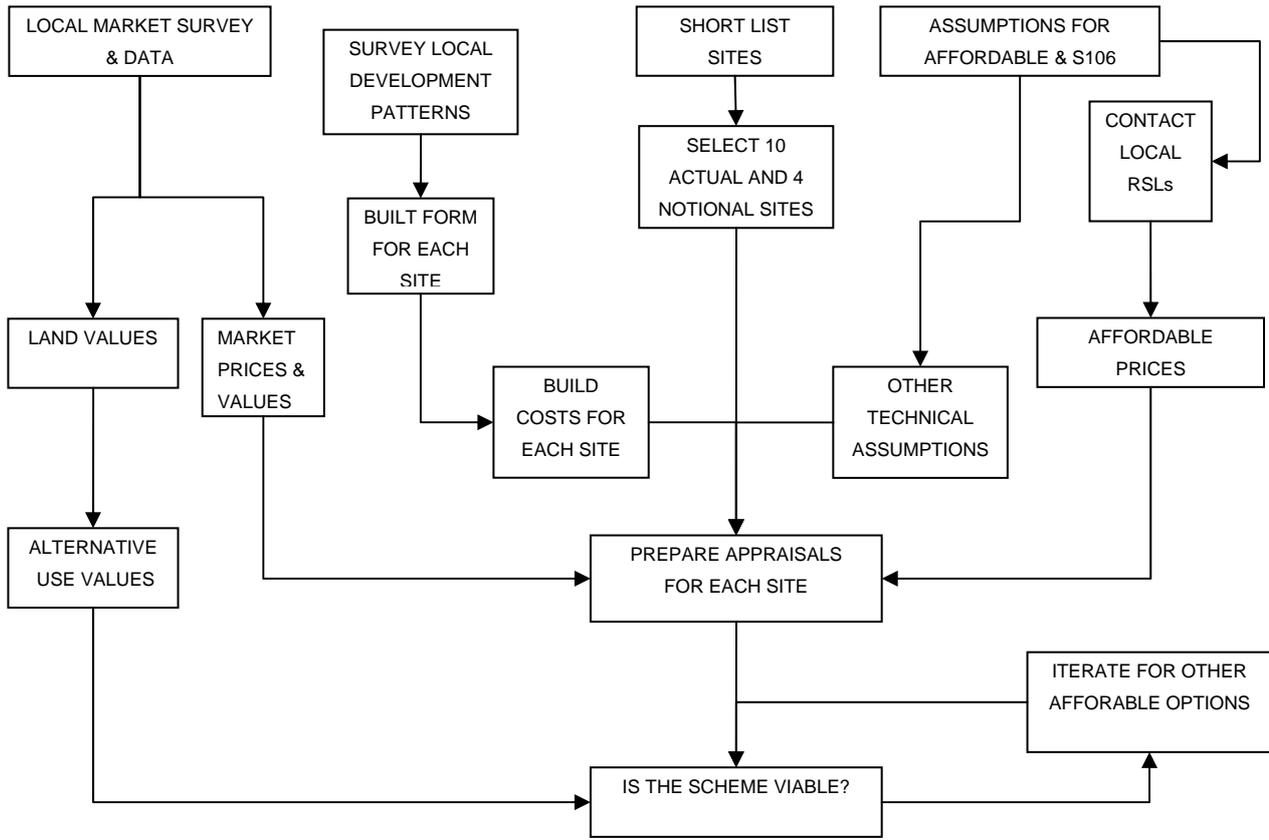
Fordham Research

- 1.28 Fordham Research has been providing advice to Councils in respect of planning gain and development viability since the late 1980s. The firm's approach throughout this time has involved the preparation of financial appraisals. Over the last few years in particular, Councils have increasingly commissioned the firm to evaluate financial appraisals which have been prepared by developers in order to support a case for a reduced affordable housing contribution, for enabling development, and so on.
- 1.29 Since 1993 Fordham Research has become a leading consultancy in carrying out Housing Needs Surveys (and more recently the more wide ranging Strategic Housing Market Assessments that have largely replaced them) and advising Councils on affordable housing policy issues.
- 1.30 Since that time the firm has assisted Councils on very many occasions by providing expert witness services at Local Plan and S78 Inquiries, successfully supporting housing need and affordable housing policies. Particularly in recent years, this has regularly included evidence in respect of viability issues.

Study methodology

- 1.31 The study methodology is summarised in Figure 1.1 below. Fundamentally, it involves preparing financial appraisals for a representative range of sites across the study area. In this case a selection of sites was chosen from a shortlist.
- 1.32 The appraisals tested alternative levels of affordable housing provision, in each case a combination of social rented and intermediate housing. RSLs were asked to provide guidance on the likely purchase prices they would pay for units in each category. Assumptions were also required for the developer contributions that would be sought under other headings like education and open space.
- 1.33 We surveyed the local housing market, in order to obtain a picture of sales values for the market housing, and also of land values - for residential development, to calibrate the appraisals; and for other uses, to assess alternative use values. Alongside this we considered local development patterns, in order to arrive at appropriate built form assumptions for those sites where information from a current planning permission or application was not available. These in turn informed the appropriate build cost figures.

Figure 1.1 Study methodology



Source: Fordham Research 2009

- 1.34 A number of other technical assumptions were required before appraisals could be produced. The appraisal results were in the form of £ per acre/ha 'residual' land values, showing the maximum value a developer could pay for the site and still return a target profit level.
- 1.35 Finally, the residual value was compared to the benchmark alternative use value for each site. Only if the residual value exceeded the benchmark figure, and by what is explained in due course to be a satisfactory margin, could the scheme be judged to be viable.

Structure of this report

1.36 The remainder of the report covers the following topics:

Chapter 2 - The individual development sites

Chapter 3 - Affordable housing and developer contributions assumptions

Chapter 4 - Local market conditions

Chapter 5 - Assumptions for viability analysis

Chapter 6 - Results of viability analysis

Chapter 7 - Implications of viability results

2. Individual development sites

Introduction

- 2.1 This chapter deals with the sites identified for study, first outlining the key characteristics of each site, and then considering the assumptions made about proposed development upon each site for the purpose of producing a financial appraisal. The individual sites chosen were visited at an early stage in the work.

A Royal Borough

- 2.2 The Royal Borough of Kensington & Chelsea is located in the western part of Inner London and covers an area of just under five square miles. It is the most densely populated Borough in the country, as well as being home to a range of internationally recognised arts, cultural and retail facilities and a number of park and open spaces.
- 2.3 Kensington and Chelsea grew throughout the nineteenth century to provide homes for the newly wealthy middle and upper classes. More recently it has been the centre of fashionable London and at the forefront of the restoration of the Victorian terraces of Inner London.
- 2.4 The Royal Borough's housing market, while sharing many of the characteristics of other inner city areas, poses particular challenges. Kensington and Chelsea has the highest property prices and private sector rents in the country, the highest residential density in London, the highest proportion of people renting privately in the United Kingdom and a lower than average proportion of owner occupiers.
- 2.5 Recent trends and developments in the local housing market, and throughout London, heighten the challenges faced by the Royal Borough and exacerbate social exclusion and the creation of polarised communities.

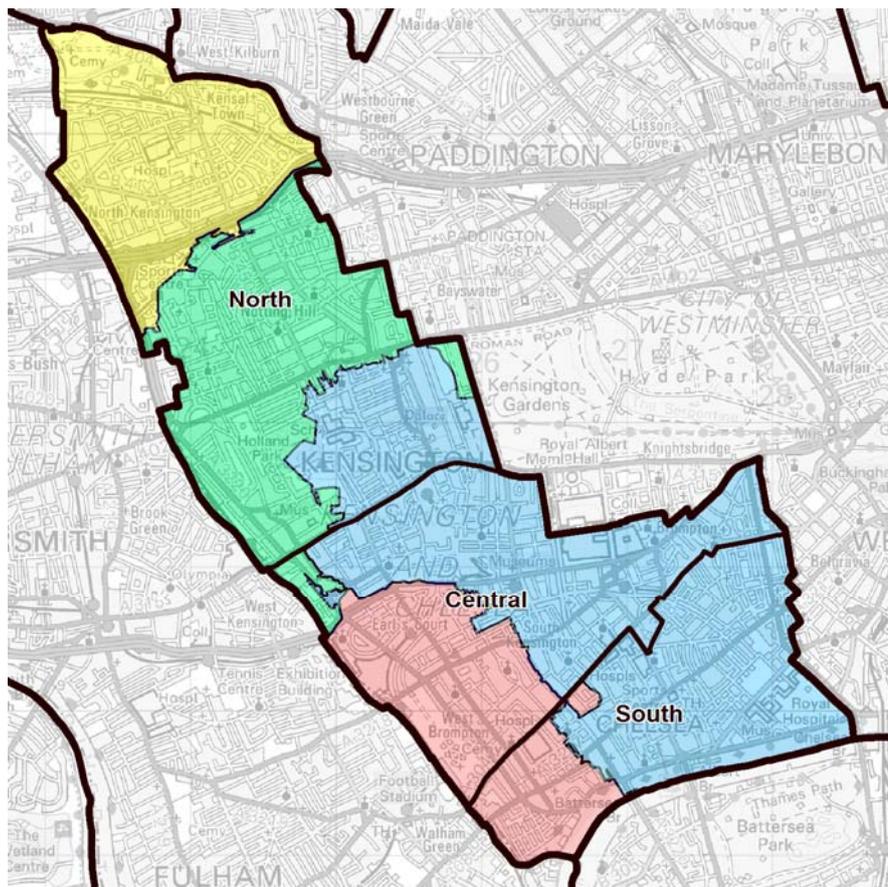
Identifying a range of sites

- 2.6 It was decided that in order to provide the most useful guidance for Kensington & Chelsea the study should consider a combination of actual and notional sites, to reflect the significant variations in price levels across the Borough area. In discussion with the Council, it was decided that a total of fourteen sites should be assessed, comprising ten actual and four notional sites, the latter being developments each identical to one of the actual sites, but theoretically transported to an alternative location.



- 2.7 The final list of 10 actual sites was established in discussion. It was chosen to give a range of typical development situations; an appropriate balance between previous uses; a range of site sizes; and crucially, coverage across geographical sub-areas of the Borough.
- 2.8 The parallel SHMA study in fact identified four market sub areas within the Borough: North, NW of Centre, These are shown in Figure 2.1 below, and compared with the three administrative areas into which the Royal Borough is commonly divided.

Figure 2.1 Kensington & Chelsea Housing Market Sub Areas



- 2.9 The ten actual sites are identified in the Table below.

Table 2.1 Actual site details

No	Site & location	No of dwgs	SHMA market area	RBKC Admin area
1A	TA Centre Warwick Rd, Earls Court	255	NW	Central
2A	Princess Louise Hospital, Pangbourne Ave, N Kensington	120	N	North
3A	Kensington Park Hotel, De Vere Gardens, Kensington	97	CSE	Central
4A	St Thomas C of E School, Appleford Rd, Kensal Town	69	N	North
5A	The Power House, Alpha Place, Chelsea	38	CSE	South
6A	Sorting Office, Chelsea Manor St, Chelsea	26	CSE	South
7A	225 Earls Court Road, Earls Court	13	SW	Central
8A	158-166 Brompton Road, Knightsbridge	12	CSE	Central
9A	50 Hogarth Road, Earls Court	6	SW	Central
10A	239 Kensington High Street, Kensington	4	CSE	Central

Source: Fordham Research

- 2.10 In fact there is some concentration of sites in the Central admin area and CSE market area. The locations for the four notional sites were accordingly designed to address this and to achieve a more even balance between the market and administrative areas.

The actual sites

- 2.11 Summary details of the sites identified by the Council are set out in the table below. The sites ranged in size from four to 255 dwellings. All of the sites were on previously developed land.
- 2.12 The sites were at various stages in the planning process. However nine of the ten were subject to a planning application; six of these had been approved with one pending, one refused and one granted on appeal. Two of the permitted sites were complete, but none was currently under construction. Presumably this reflected the market downturn, although the possibility that one or two planning applications were designed primarily to enhance the site's value cannot be ignored.
- 2.13 Information available from the various planning applications was taken into account in considering the appropriate development forms to use in our appraisals.
- 2.14 The sites total 641 dwellings on an area of 2.97 ha, at an average density of 216 dwellings per ha net. Three sites (1A, 6A, 8A) include an element of non residential use at ground floor level, understating the true density slightly. On a fourth, site 10A, the majority of floorspace within the site area will be commercial, so that the stated density is effectively meaningless.



Table 2.1 Actual site details

No.	Site Name	Area ha	No dwgs	Net (dwgs ha)	Planning Status
1A	TA Centre	0.800	256	320	Permission
2A	Princess Louise Hospital	0.395	120	304	Allocation
3A	Kensington Park Hotel,	0.650	97	149.	Permission
4A	St Thomas C of E School	0.375	69	130	Permission
5A	The Power House	0.320	38	119	Permission
6A	Sorting Office	0.164	26	158	Refused
7A	225 Earls Court Road	0.049	13	265	Permission
8A	158-166 Brompton Road, SW	0.085	12	141	Application
9A	50 Hogarth Road	0.042	6	143	Permission
10A	239 Kensington High Street	0.090	4	(44)	Granted on appeal
Total		2.970	641	216	

Source: Fordham Research

Notes 1. Site area is net, but equals gross on all sites except St Thomas School, where gross area is 0.50 ha.

2. Calculated density for site 10A excludes a large amount of non residential space and is meaningless.

The notional sites

- 2.15 The notional sites are based on sites 7 (two sites), 8 & 10. They add a further 42 dwellings, bringing the total in the two categories to 683.

Table 2.2 Notional site details

Ref	Basis	SHMA market area	RBKC Admin area	No dwgs
7N	As 7	NW of C	North	13
7M	As 7	N	North	13
8N	As 8	N	North	12
10N	As 10	SW	South	4
Total				42

Source: Fordham Research

- 2.16 When the actual and notional sites are combined it produces the geographical coverage as set out in the Table below.

<i>SHMA area</i>	<i>No of sites</i>	<i>RKBC admin area</i>	<i>No of sites</i>
N	4	North	41
NW of C	2	Central	7
CSE	5	South	3
SW	3		

Source: Fordham Research

- 2.17 Whilst there remains a strong emphasis on the CSE market area, this area is physically the largest and there is otherwise a reasonable spread between the sub areas.

Development assumptions

- 2.18 In arriving at appropriate assumptions for residential development on each site, the development form in an approved planning application must always be an important consideration. Conceivably the application could now be so historic, that it represents something that would either not now be proposed, or not be permitted. After consideration we took the view that the built form in the current application remains the best basis for carrying out appraisals.
- 2.19 Most Council areas in which we have carried out studies like the present one display a range of development situations and corresponding variety of densities. We have developed a typology which responds to that variety, which is used to inform development assumptions for sites (actual, or potential allocations) where no guidance is available from a submitted or permitted application. That typology enables us to form a view about floorspace density – the amount of development, measured in net floorspace per acre/hectare, to be accommodated upon the site, and which will vary with the intensity of the built form. This is a key variable because the volume of floorspace which can be accommodated on a site has a crucial key impact on its profitability, and is an amount which developers will normally seek to maximise (within the constraints set by the market).
- 2.20 The Royal Borough of Kensington and Chelsea contains an unusual and exceptional development market. The nature and location of the area, its housing stock, and the people who occupy it mean that house prices are exceptionally high across almost the entire Borough. In many areas the values achieved from other commercial land uses are correspondingly, very high.
- 2.21 As a result development land is very valuable and the nature of development proposals reflects this. Almost all development proposals comprise apartment schemes on four storeys upwards. Additionally in the highest priced parts of the Borough there is a high market demand for significantly larger properties than would now be built new elsewhere, and accordingly this demand is reflected in proposals for new build developments.

2.22 Fortunately it is only necessary to form a view about the nature of development on one site, as for all the others development proposals provide a reasonable guide (although the data available to us on one of these sites, the Power House, was somewhat limited and an element of estimation was necessary).

2.23 The resulting assumptions for residential development for each of the ten actual sites are set out in the Table below.

Table 2.4 Site development assumptions				
Site ref	Site	Net floorspace density (rounded)		Ave dwelling net sq ft (sq m)
		Sq ft/acre	Sq m/ha	
1A	TA Centre	129,300	29,700	1,002 (93)
2A	Princess Louise Hospital	52,500	12,100	513 (48)
3A	Kensington Park Hotel	169,750	39,000	2,811 (261)
4A	St Thomas C of E School	42,350	9,750	569 (53)
5A	The Power House	101,750	23,250	2,105 (196)
6A	Sorting Office	143,850	33,100	2,242 (209)
7A	225 Earls Court Road	90,300	20,750	841 (78)
8A	158-166 Brompton Road, SW	107,000	24,600	1,873 (174)
9A	50 Hogarth Road	90,550	20,800	559 (52)
10A	239 Kensington High Street	(44,150)	10,150	2,455 (228)

Source: Fordham Research

Note Figure shown in brackets (44,150) for sites where a very substantial non residential floorspace is not included, reducing the floorspace density figure artificially.

2.24 Ignoring the wholly artificial figure for site 10A, which involves a penthouse style residential development above four storeys of commercial space, floorspace density is mostly in the range 90,000-140,000 sq ft per acre (20,500-32,000 sq m/ha). There is one site above this range and two sites in the less pressured, less dense North sub area somewhat below.

2.25 Outside London, only a few exceptional sites would expect to achieve floorspace densities within this range.

3. Affordable housing and other developer contributions

Introduction

- 3.1 This chapter considers the assumptions used to test a range of affordable housing scenarios for the individual sites, and similarly the developer contributions assumed for each site.

Affordable housing assumptions

- 3.2 We undertook appraisals for a number of development scenarios which involved varying proportions of affordable housing, and tenure split. The assumptions in respect of proportions, and the financial terms on which they are to be provided, are considered below.

(i) Affordable proportion

- 3.3 Following discussions with the Council we agreed to test the following options:

- **NO** affordable housing
- 30% affordable
- 40% affordable
- 50% affordable

- 3.4 Although the former UDP policy provided for a target proportion of 40%, the current London Plan envisages this increasing to 50%. New targets may of course be proposed in emerging Local Development Framework Documents. Any such targets would of course be informed by the recent Strategic Housing Market Assessment, as well as by the present study.

- 3.5 These proportions are commonly applied to dwellings. However in this instance we have been asked that they should apply as proportions of floorspace.

(ii) Tenure split

- 3.6 The Council currently seeks a mixture of social rented and intermediate housing, though with the majority provided as social rented. The emerging SHMA document has suggested a proportion of 75% and we would wish to test this option. However, because (see below) the Council has fixed the value at which affordable units are conveyed to partner RSLs, tenure split will not greatly influence the financial outcome for the developer.



3.7 This means that we do not have to consider carefully as we normally do, the specification of the intermediate category - what sort of housing it is, or what affordability targets it is required to achieve. Even so the SHMA does provide guidance on this matter.

(iii) Size mix profile

3.8 As the detailed development proposals for the sites show, it is not sensible to make the convenient assumption that the mix of affordable housing on each site should broadly follow the market housing. In the most expensive parts of the Borough, market housing often consists of very large units which are much larger than those required for affordable housing. Conversely, in the least expensive parts the opposite applies, with the market units – 1 & 2 bed flats – not large enough to meet the spatial needs of families.

3.9 After careful analysis of the development proposals we were able to determine an appropriate mix (bedrooms) and size (floor area) profile for market and for affordable units, on each site. These were then applied in preparing development appraisals. However, where the average sizes of market and affordable homes are quite different, as here, it would not be appropriate to apply the various affordable proportions from (i) above without question, to the number of dwellings in the scheme. This would have the effect of varying, in some cases quite considerably, the floorspace density of the development. As the affordable proportion in a scheme with extremely large market units rose, large market units would be replaced with much smaller affordable units and floorspace density would fall. In the cheap areas the reverse would apply.

3.10 Such a situation would not provide for consistent or realistic scenarios to be assessed alongside each other. Instead, we allowed the number of dwellings to vary, whilst holding the total net floorspace constant. This ensured a consistent ‘built form’ as the affordable proportion varied. This is felt to be a reasonable approach in a strategic study such as the present one. It was simply not practical within the resources available, to consider detailed variations in design, as could be the case when an individual site application came forward in practice.

3.11 The average sizes for each site are set out in the table overleaf. Below we set out the overall bedroom size profile resulting from our assumptions.

Table 3.1 Overall bedroom size mix					
Tenure	1 bed	2 bed	3 bed	4+ beds	Total
Market	48%	34%	13%	6%	100%
Affordable	21%	25%	37%	17%	100%
All	37%	30%	23%	10%	100%

Source: Fordham Research

- 3.12 There is a much greater emphasis on family sized (3 & 4 bed) dwellings in the affordable units by comparison with the market sector.

Table 2.5 Site development assumptions					
Site ref	Site	Market units ave sq ft		Affordable ave sq ft	
		Gross	Net	Gross	Net
1A	TA Centre	1,384	1,093	1,021	806
2A	Princess Louise Hospital	548	466	861	732
3A	Kensington Park Hotel	4,127	2,911	1,251	883
4A	St Thomas C of E School	610	518	903	708
5A	The Power House	3,327	2,611	988	775
6A	Sorting Office	3,673	3,122	983	835
7A	225 Earls Court Road	911	809	1,070	950
8A	158-166 Brompton Road, SW	2,181	1,854	1,124	955
9A	50 Hogarth Road	585	498	877	746
10A	239 Kensington High Street	2,672	2,348	1,089	926

Source: Fordham Research

- 3.13 It should be noted that because of the disparity in dwelling sizes, the combination of our preferred approach and an affordable requirement expressed in terms of floorspace rather than dwellings, sometimes leads to significant variations in dwelling numbers. Furthermore, at high affordable proportions of 40% and 50%, affordable dwellings will in some cases constitute a considerable majority of total dwellings.

(iv) Financial terms

- 3.14 To be consistent with national guidance the viability assessment must take into account the availability of public subsidy i.e. Social Housing Grant. The future availability of grant – both the total quantum of grant, and the amounts forthcoming for different sizes of dwelling and tenure – is typically subject to some uncertainty, as increasingly the available funding has been directed to achieving specific regional or strategic priorities.
- 3.15 However in such an expensive location of the Royal Borough, access to some grant assistance is a not unreasonable requirement if significant affordable contributions are to be forthcoming. The Council's current approach is to require affordable units built by the developer to be conveyed to an RSL at 80% of the last published TCI rate. Since TCI is now historic such a requirement is gradually becoming more onerous over time.

- 3.16 As already indicated, under the above terms the RSL purchase price would be the same whether social rented or intermediate tenure was involved. Careful consideration of the TCI tables suggested some variation in the average £ per sq ft value implied, with the smallest units exceeding £200 per sq ft and the very largest around £180. Using weighting to reflect the size profile set out in Table 3.1, we concluded that an overall average purchase value of £191 per sq ft (£2,055 per sq m) could be used throughout the appraisals.

Other developer contributions

- 3.17 Aside from affordable housing, developer contributions could potentially be sought by the Royal Borough under a number of headings. They might be either made in kind, or as financial payments. In either case, it is necessary to allow for the additional financial cost of such contributions in preparing appraisals for each site.
- 3.18 When the study was commissioned the Council was in the process of preparing a Draft Supplementary Planning Document (SPD) providing guidance in respect of Developer Contributions. Whilst this document is not yet approved it provides a basis for the current assessments. Preliminary analysis indicated that the policies proposed would generate a typical total contribution amounting to approximately £10,000 per dwelling at April 2009 prices. However this figure did not include contributions in respect of transport, which the Draft document proposed would continue to be assessed on a site by site basis; this was not practical within the timetable or resources available for the study. In discussion with Council officers it was agreed to carry out base appraisals using a figure of £15k per dwelling, and to provide guidance on the impact of an increase or decrease in this figure.
- 3.19 Clearly in practice if each site came forward under the Draft SPD when adopted, it would be subject to a more detailed assessment of both transport and other contributions taking into account the individual characteristics of the site, development proposals and local situation. However the approach proposed is felt to be sufficient to provide reasonable guidance at this stage.

4. Local market conditions

Introduction

- 4.1 This chapter sets out an assessment of the local housing market in Kensington & Chelsea, providing a basis for the assumptions on house prices and costs to be used in financial appraisals for the 14 sites tested in the study.
- 4.2 As well as house prices, however, land values are also considered. They are required in order to form a view of likely alternative use values for all of the sites, and it is such values which will represent a minimum viability threshold when appraisals are prepared for the range of affordable housing scenarios.
- 4.3 Before looking at the results from the market assessments, there are some general points arising from the nature of the exercise.

Issues to consider

- 4.4 It is necessary to assess property market conditions in the study area in order to provide a reasonable guide as to likely values to use in evaluating different development proposals.
- 4.5 Although development schemes do have similarities, every scheme is unique to some degree, even schemes on neighbouring sites. While market conditions in general will broadly reflect a combination of national economic circumstances and local supply and demand factors, even within a town there will be particular localities, and ultimately site specific factors, that generate different values and costs. There are indeed quite significant value variations in different parts of the study area.
- 4.6 Property market forces are in a constant state of flux and assessments of viability can change over relatively short periods of time, in response to broader economic fluctuations such as the impact of changes in interest rates on the costs of borrowing, the actual availability of funding, and the outlook in the employment market. Equally significant, sub-area market conditions are often changed by local factors.
- 4.7 For example, high value areas encourage demand in lower value neighbouring areas, where new developments encourage changes in value growth in what perhaps were previously less popular areas.



The residential market

4.8 The housing market in the Royal Borough will, to some extent, reflect national trends but there are local factors that underpin the market including:

- attractive landscape, riverside, green and open space opportunities within and adjoining the Borough, including Hyde Park and Kensington Gardens
- a range of attractive retail cultural and leisure facilities, some of national significance
- a mix of attractive residential areas, many highly desirable locations, providing housing close to Central London, and priced accordingly
- a range of employment opportunities
- whilst Kensington & Chelsea is the least deprived of the London Boroughs, there are some pockets of deprivation e.g. in Earls Court

4.9 We analysed various sources of market information but the most relevant are the prices of units on new developments. A list setting out details of relevant new developments in the area, as at July 2009, is provided in Appendix 1. As there are very few at present the Appendix also provides details of recently developed and completed schemes directly relevant to the sample sites. Historic prices have been adjusted to current date levels by reference to the Halifax House Price Index.

4.10 Analysis of these, and other schemes in the study area, shows that prices for newbuild and second hand homes vary very widely across the area, from around £400 per sq ft or less, up to figures approaching £3,000 per sq ft.

4.11 Table 4.1 shows average prices for Kensington & Chelsea for the latest quarter available from Land Registry, Q1 2009. Although the Land Registry data covers both second-hand and newbuild prices, the former will predominate. The average prices in the Table are compared to a corresponding England & Wales figure and expressed as indices.

Table 4.1 Average house prices Q1 2009: comparison with England & Wales average

Area	Ave price (£k & % index)			
	Detached	Semi	Terrace	Flat
Q1 09				
ave £k	0	0	£1,958.68	£635.31
no of sales	0	0	49	237
index	0%	0%	1,082%	161%

Source: Land Registry data.

Index compares LA's ave £k price figure to the median LA value across England & Wales for house type.

- 4.12 Prices in the Kensington & Chelsea Council are much higher than the average (median LA area) for all types of sales. The average price for all types of properties within the Borough is 15 times higher than the national average. However, the sale of very few but highly priced detached and semi-detached does skew the average price somewhat.
- 4.13 As in the country generally, prices have fallen back over the last 18 months. Because Land Registry data reports sales after completion there is some lag and the figures for terraced properties and flats show the decline to only a limited extent, although the decline in sales numbers does show up quite clearly (note that sales are seasonally low in the first quarter of the year).

Table 4.2 Average house prices in previous quarters					
Area		Ave price (£k & % index)			
		Detached	Semi	Terrace	Flat
Q4 07	ave £k	£13,075.0	£3,183.3	£2,872.6	£748.1
	no of sales	3	3	82	502
Q1 08	ave £k	£59,625.5	£3,268.6	£2,777.3	£835.0
	no of sales	4	7	64	387
Q2 08	ave £k	£0.0	£4,496.8	£2,798.5	£949.6
	no of sales	0	10	71	397
Q3 08	ave £k	£0.0	£4,354.3	£2,425.9	£784.2
	no of sales	0	7	90	335
Q4 08	ave £k	£0.0	£5,770.6	£2,232.5	£651.6
	no of sales	0	9	53	232

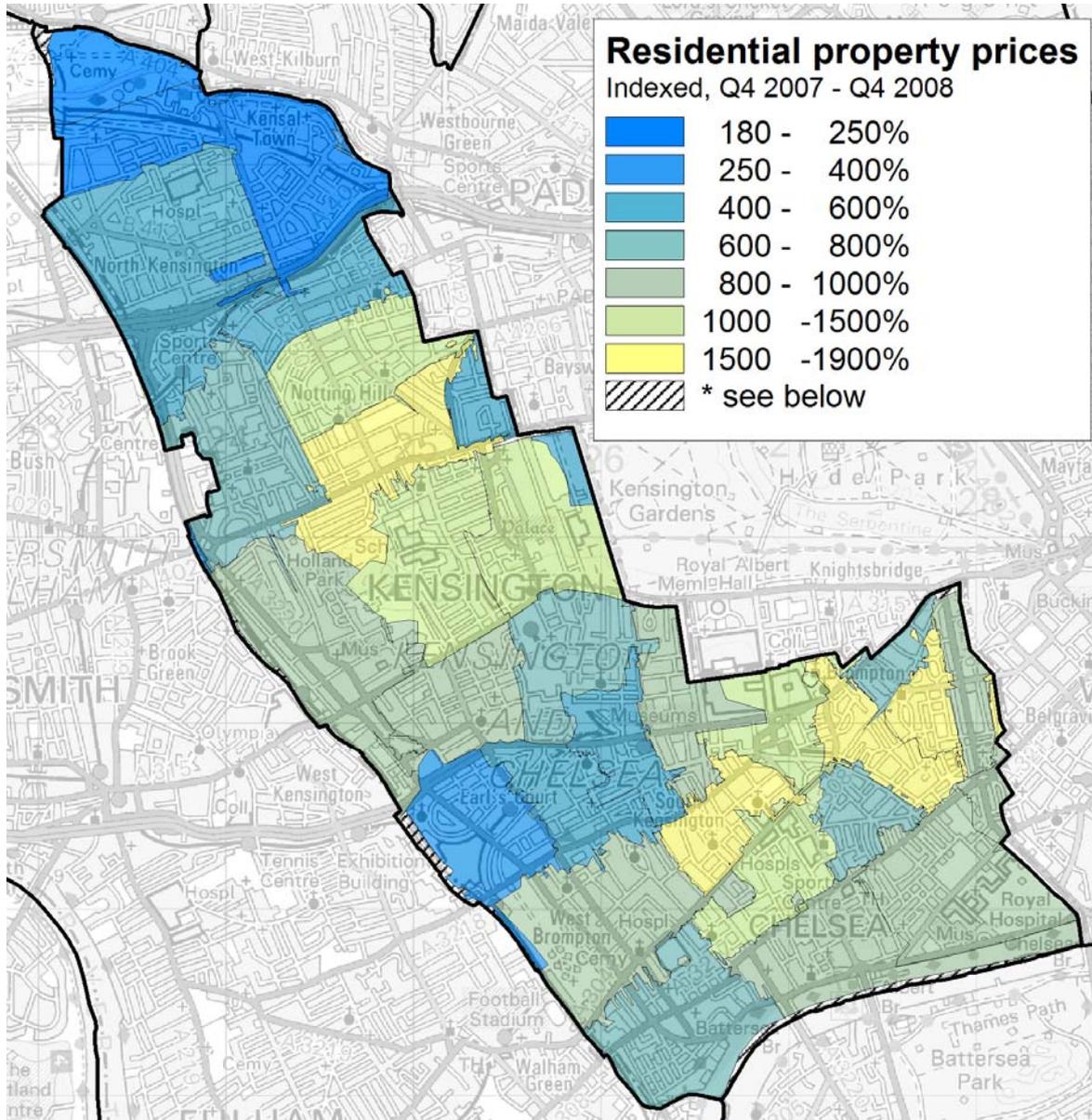
Source: Land Registry data.

- 4.14 Within a Council area there can be considerable variations in price, and Land Registry house price data at postcode sector level also helps to illuminate these variations. Because the number of sales in individual postcode areas in a single quarter can be quite small, we looked at information for three separate quarters (Q4 2007, Q2 2008, and Q4 2008). The data has been expressed as an index – as a percentage of the nationwide average price level – and standardised, to allow for variations in type mix. (Appendix 2 provides a worked example of the index calculation, and sets out the resulting price index figures for the three quarters examined).
- 4.15 It can be seen from the indices in Appendix 2 that variations between the three quarters' indices are, in most cases, relatively slight. Variations tend to be greater for rural and town centre areas, which are mostly numerically smaller and/or more diverse, than for urban areas generally, where postcode sectors are larger numerically and can often be more uniform.
- 4.16 The average figures for the three quarters are mapped in Figure 4.1 below.



4.17 This shows that prices vary considerably throughout the Borough. Prices range between a low of 188% of the national average in Kendal Town, and a high of 1,843% in Walton Street. Prices are also extremely high in South Kensington and around Easton Square.

Figure 4.1 Postcode price indices



Indices compare prices to value for median postcode sector in England & Wales

Source: Land Registry

Note Areas shown hatched are postcode sectors straddling the Borough boundary and where most of the sector lies in a neighbouring Borough area.

Price assumptions for financial appraisals

- 4.18 It is necessary to form a view about the appropriate prices for the 14 individual schemes to be appraised in the study. The preceding analysis suggests that prices are going to vary quite considerably across the area.
- 4.19 We considered what sale prices should be for apartments on each of the fourteen sites.
- 4.20 The evidence of sales prices across the area, as summarised in Appendix 1, indicates that a wide range of prices would apply to the individual sites. Whilst about half of the site locations suggest prices in the range £600-900 per sq ft (£6,450-£9,685 per sq m), sites in the North would fall below this range and many locations in the CSE market area would have prices well above this range.
- 4.21 Generally, the study of the market focused on the apartment market. As there are very few current new build schemes which could inform the market assessment, the study has focused on a range of second hand properties. Where modern comparables were available, for example a property known as Warren House, which was developed approximately 2 years ago these usefully informed site 1A. All other sites have used comparables within a quarter mile radius of the study sites. The exception to this is site 4A, which is a recently completed scheme containing a number of properties remaining on the market.
- 4.22 The site figures resulting from our type-specific assumptions are set out in the table below.

	Site/location	Price £ per		Site/location	Price £ per		
		Sq ft	Sq m		Sq ft	Sq m	
1A	TA Centre	700	7,530	7N	North, NW	900	9,680
2A	Princess Louise Hospital	600	6,460	7M	North, N	600	6,460
3A	Kensington Park Hotel	1,200	12,910	8A	158-166 Brompton Road	2,600	27,980
4A	St Thomas C of E School	450	4,840	8N	North, N	500	5,380
5A	The Power House	1,300	13,990	9A	50 Hogarth Road	850	9,150
6A	Sorting Office	1,300	13,990	10A	239 Kensington High St	1,200	9,680
7A	225 Earls Court Road	900	9,680	10N	South, SW	900	12,910

Source: Fordham Research

- 4.23 The figures cover a range from the cheapest £450 per sq ft (£1,768 per sq m) at St Thomas School to £2,600 per sq ft (£2,959 per sq m) at Brompton Rd. This is a wide spread but of course not so great as the spread of prices we saw in the Land Registry data for second-hand sales in individual postcode sectors.



4.24 It is necessary to consider whether the presence of affordable housing would have a discernible impact on sales prices. In fact affordable housing will be present on most of the new build sites whose selling prices have informed our analysis. Our view is that in any case any impact can and should be minimised through an appropriate quality design solution.

Car parking

4.25 The incomes from residential development benefit significantly in the more expensive parts of the Borough from the receipts from disposal of car parking spaces. We have limited information on current availability, but it appears possible for spaces to be worth as much as £100,000 per space: secure parking spaces in Kensington Church St were recently being offered by Knight Frank at asking prices of £122-£127k per space.

4.26 Our assumptions for the appraisals are set out in the Table below.

Ref	Site/location	Price £ per space	Max no	Ref	Site/location	Price £ per space	Max no
1A	TA Centre	£75k	227	7N	North, NW	£80k	12
2A	Princess Louise Hospital	n/app	0	7M	North, N	£25k	12
3A	Kensington Park Hotel	£100k	125	8A	158-166 Brompton Road	£100k	12
4A	St Thomas C of E School	n/app	0	8N	North, N	£25k	12
5A	The Power House	£100k	47	9A	50 Hogarth Road	n/app	0
6A	Sorting Office	£100k	10	10A	239 Kensington High St	£90k	6
7A	225 Earls Court Road	£80k	12	10N	South, SW	£75k	6

Source: Fordham Research

4.27 Affordable spaces would be conveyed to the RSL free of charge and it is therefore necessary to consider how spaces would be allocated. Whilst the Council has suggested that affordable units receive 0.5 spaces per unit, this is felt to be unachievable on quite a number of the sites, where at the highest levels of affordable provision most or indeed all of the spaces would go to the large numbers of affordable units. We therefore restricted the allocation to the percentage target, i.e. with 50% of spaces allocated as affordable at 50% affordable target.

Commercial uses on mixed use sites

- 4.28 We also have to consider the likely rental levels for commercial space; retail use on the four mixed use sites, and existing office uses in order to shape our view about alternative use values on four sites.
- 4.29 A trawl through on line information on current office and retail space was quite helpful. Office rents vary across the area, with the same sort of broad geographical pattern as residential values. Retail rents are higher along the main retail corridors.
- 4.30 After consideration we concluded that rent levels should be assumed as set out below.

Table 4.6 Alternative Use Value bases				
	Site	Basis	£m per sq ft	£m per sq m
1A	TA Centre	Retail	27.50	296
6A	Sorting Office	Retail	37.50	405
		Existing retail use	35.00	375
8A	158-166 Brompton Road, SW	Retail	47.50	510
		Existing office & retail uses combined	60.00	645
8N	Notional 3	Retail	25.00	270
		Existing office & retail uses combined	25.00	270
10A	239 Kensington High Street	Existing office space	45.00	485
10N	Notional 4	Existing office space	35.00	375

Source: Fordham Research

Land values

- 4.31 We have considered general figures from the Valuation Office Agency (VOA) relating to residential land values. Land values vary dramatically depending upon the development characteristics (size and nature of the site, density permitted etc.) and any affordable or other development contribution.
- 4.32 The VOA publishes figures for residential land in the Property Market Report. These cover areas which generate sufficient activity to discern a market pattern. That means locally we have figures for Outer London as a whole, and major locations within Outer London or in the South East outside London – but no information for individual locations.
- 4.33 These values can, in any case, only provide broad guidance because it is likely that the figures will, to some degree, be net of allowances for developer contributions and/or affordable housing requirements. They can therefore be only indicative, and it may be that values for ‘oven ready’ land with no affordable provision or other contribution, or servicing requirement, are in fact higher.



Table 4.4 Residential Land Values half yr to Jan 2009

Area	Land Value £m per acre (hectare)		
	Small sites (< 5 dwgs)	Bulk sites (> 2 ha)	Land for apartments
Inner London	£8.8m (£21.7m)	£7.7m (£18.9m)	£9.2m (£22.7m)
Tower Hamlets	£6.5m (£16.1m)	£6.0m (£14.8m)	£6.5m (£16.1m)
Camden	£14.0m (£34.6m)	£10.1m (£24.9m)	£15.7m 38.8
Hackney	£6.9m (£17.0m)	£6.0m (£14.8m)	£6.8m (£16.8m)
Lewisham	£6.9m (£17.0m)	£6.3m (£15.6m)	£6.6m (£16.3m)
Southwark	£9.6m (£23.7m)	£9.9m (£24.5m)	£10.4m (£25.7m)

Source: VOA Property Market Report Jan 2009

- 4.34 It should be noted that the Inner London index excludes the central area i.e. Westminster, Kensington & Chelsea, and Camden, because of the very specific nature of the market resulting in high land values in these local locations, which has a distorting effect on the regional average. We have limited information therefore, including individual figures for Camden, and for lower priced areas such as Southwark south of the river, or Hackney. Even so it is clear that values for residential land in Kensington & Chelsea are going to be at least as high as the £10-16m per acre level in Camden.
- 4.35 With the decline in the market and general economic conditions such values are now in any case going to be rather historic; values will be falling faster than prices. We therefore sought information about values from residential land currently on sale in the Royal Borough.
- 4.36 There are a small number of sites for residential development currently available with the Borough. The limited availability is potentially a reflection of the current economic state of the wider market. The plots that were identified were generally centred on the Earls Court Area. A summary of these is set out in Appendix 3

Current and Alternative Use Values

- 4.37 In order to assess development viability it is necessary to analyse current and alternative use values. Current use values refer to the value of the land in its current use. For example, a greenfield site may well be used as agricultural land. Alternative use values refer to any potential use for the site. For example, a brownfield site may have an alternative use as industrial land.

- 4.38 To assess viability, the value of the land for the particular residential scheme adopted needs to be compared to the alternative use value, to determine if there is another use which would derive more revenue for the landowner. If the assessed value does not exceed the alternative use value, then the development is not viable.
- 4.39 For the purpose of a strategic study like the present one, it is necessary to take a comparatively simplistic approach to determining the alternative use value. In practice a wide range of considerations could influence the precise value that should apply in each case, and at the end of extensive analysis the outcome might still be contentious.
- 4.40 Our 'model' approach is outlined below.
- vi) Where the development is on former industrial, warehousing or similar land, then the alternative use value is considered to be industrial, and an average value of industrial land for the area is adopted as the alternative use value
 - vii) Where an existing building remained capable of beneficial use we took its estimated value.
 - viii) The School site is not required to generate a land value over and above the cost of building the school and fitting out, which are treated as build costs (with no corresponding receipts) in the appraisal.
 - ix) Three sites whilst consistent with the approaches outlined in (i) & (ii), are slightly more complicated. Site 5A (Sorting Office) was a combination of the two - industrial site and existing retail building. Site 8A (Brompton Rd) was an office building but is felt to require refurbishment before it could again be used as office space. For 10A (Kensington High St) we took the value of the office space foregone in constructing residential floorspace on the top two storeys.
- 4.41 The VOA's typical industrial land values for the region and nearby towns for the second half of 2008 are set out in the table below.



Table 4.5 Industrial land values (£m)

Area	Land Value per acre (hectare)		
	Low	High	Typical
London	£2.9m (£7.1m)	£3.5m (£8.7m)	£3.0m (£7.4m)
Islington/Hackney	£1.5m (£3.7m)	£2.3m (£5.7m)	£2.1m (£5.2m)
Greenwich	£1.4m (£3.5m)	£2.9m (£7.2m)	£2.1m (£5.2m)
Southwark	£1.4m (£3.5m)	£2.5m (£6.2m)	£2.2m (£5.4m)
Barking & Dagenham	£0.7m (£1.7m)	£2.7m (£6.7m)	£2.0m (£4.9m)
Walthamstow	£6.0m (£14.8m)	£2.5m (£6.2m)	£1.5m (£3.7m)
Enfield and Haringey	£1.9m (£4.7m)	£2.7m (£6.7m)	£2.2m (£5.4m)
Park Royal	£3.8m (£9.4m)	£4.3m (£10.6m)	£4.0m (£9.9m)
Hayes	£1.6m (£4.0m)	£2.2m (£5.4m)	£1.9m (£4.7m)
Croydon	£9.6m (£23.7m)	£9.9m (£24.5m)	£10.4m (£25.7m)
Merton/Mitcham	£0.8m (£2.0m)	£3.1m (£7.7m)	£1.6m (£4.0m)

Source: VOA Property Market Report Jan 2009

- 4.42 Although across London as a whole there is a spread of values. The figures for individual locations within a reasonable distance of Kensington & Chelsea are mostly quite similar. We note Park Royal within reasonable distance achieving values around £4m per acre. However we would expect average values for Kensington & Chelsea to be higher than the London average. Even so these figures are now a little out of date, as values have been dropping with the general downturn, since mid-2008.
- 4.43 We have little current evidence for industrial/warehousing values, in part reflecting the current market situation, although one site in South Kensington was advertised with an asking price of just over £8million per acre.

- 4.44 After consideration we concluded that a starting point for values in Kensington & Chelsea should be £6m per acre, with prices rising to some extent moving towards the more desirable and expensive southern and eastern locations.
- 4.45 Careful consideration has also been given to determining appropriate capital values for the individual buildings at sites 3A; the retail element of 6A; 8A & 8N; 9A, and the space lost at 10A & 10N.
- 4.46 Site 3A has a current/previous use as two Hotel buildings, with a combined number of around 600 bedrooms. Market evidence would suggest the two could certainly be valued at something in the vicinity of £200k per bedroom. However it is likely some refurbishment work would now be needed to realise that value. We have concluded that a round sum of £100m would be appropriate for the purpose of appraisals. This equates to a per acre value of £62.26 m, or £153.8 m per ha.
- 4.47 At 6A we understand the existing retail space fronting Kings Rd has an area of 1,173 sq ft (109 sq m). It is assumed to achieve a rent of £35 per sq ft, (£377 per sq m). At a yield of 6.5% this would have an upfront value of £538 per sq ft (£5,790 per sq m) giving an upfront value of £600k.
- 4.48 Site 8A has existing gross floorspace of 20,000 sq ft (1,859 sq m) of which the ground floor element would be retail and upper floors office space. Of this 90% is assumed to be lettable. The combined space is assumed to achieve an average rent of £60 per sq ft (£645 per sq m). With 6.5% yield and 10% discount for upfront value the space would have a current value of £14.96m. However it is assumed £4.0m would be required in refurbishment costs (including fees, interest, and developer profit reducing the value to £10.96m i.e. £52.16 m per acre (£128.9m per ha).
- 4.49 Site 8N achieves a significantly lower average rent than 8A, of £32.50 per sq ft although refurb costs reduce to £3.25m, giving a final net value of £4.85 m or £23.10 m per acre (£57.1m per ha).
- 4.50 Site 9A previously comprised seven units one used as a office and the rest as residential properties, with a gross floorspace estimated at 4,293 sq ft (399 sq m). The current values of these properties are assumed to be at around £700 per sq ft; with around 85% net:gross the capital value is £2.55 m or £51.60 m per acre (£127.5m per ha).
- 4.51 We understand that 12,276 sq ft (£1,140.9 sq m) of gross floorspace are lost at site 10A. Of this 85% is assumed to be lettable, losing rent at £45 per sq ft (£484 per sq ft). Capitalised at 6.5% it has an upfront value of £6.502 m or, translated to a per acre basis, £29.24 m per acre (£72.2m per ha). The lower rent of £35 per sq ft (£377 per sq m) reduces the capital value to £5.057 m giving £22.74 m per acre/£56.2m per ha. (It is acknowledged that the per acre conversion is almost meaningless but this is necessary for consistency with the other sites).
- 4.52 The value basis for each individual site that results from the foregoing analysis is summarised in the table below.



Table 4.6 Alternative Use Value bases

	<i>Site</i>	<i>Basis</i>	<i>£m per acre</i>	<i>£m per ha</i>
1A	TA Centre	Industrial/warehouse	7.50	18.5
2A	Princess Louise Hospital	Industrial/warehouse	6.00	14.8
3A	Kensington Park Hotel,	Hotel buildings	62.26	153.8
4A	St Thomas C of E School	Zero – school build cost	0	0
5A	The Power House	Industrial/warehouse	10.00	24.7
6A	Sorting Office	Industrial/warehouse	11.48	28.4
7A	225 Earls Court Road	Industrial/warehouse	8.0	19.8
7N	Notional 1	Industrial/warehouse	8.0	19.8
7M	Notional 2	Industrial/warehouse	6.0	14.8
8A	158-166 Brompton Road, SW	Office/retail building	52.16	128.9
8N	Notional 3	Office/retail building	23.10	57.1
9A	50 Hogarth Road	Residential building	51.60	127.5
10A	239 Kensington High Street	Office space	29.24	72.2
10N	Notional 4	Office space	22.74	56.2

Source: Fordham Research 2009

- 4.53 It was noted earlier that brownfield sites might face ‘abnormal costs’ if they are to be redeveloped for residential use. Some of those costs, but not necessarily all, might also arise if the site were redeveloped for the alternative use. The alternative use value set out above would need to be reduced to allow for the costs that would still arise in that situation.
- 4.54 The costs arising from development or redevelopment of the 14 sites are considered in the next chapter, along with the other financial and technical assumptions required to prepare financial appraisals for each of the sites.

5. Assumptions for viability analysis

Introduction

- 5.1 This chapter considers the costs and other assumptions required to produce financial appraisals for the 14 sites.

Development costs

(i) Construction costs: baseline costs

- 5.2 Drawing upon our own experience, and taking into account published Building Cost Information Service (BCIS) data, we have developed a set of base £ per sq ft construction costs for different built forms of residential development. The costs are specific to different built forms (flats v houses; number of storeys). On the basis of these cost figures, it is possible to draw up appropriate cost levels for constructing newbuild market housing in Kensington & Chelsea at a base date of April 2009.
- 5.3 The question arises as to what extent the Code for Sustainable Development should impact on build costs in the study. Whilst from April 2008 the Code's Level 3 has been a requirement for all homes commissioned by RSLs that would not necessarily be the case for affordable homes built by developers for disposal to an RSL, unless grant is made available from the Homes and Communities Agency. However, the Government indicates that Level 3 will apply to all newbuild housing (i.e. will be incorporated in Building Regulations) from 2010, with higher levels (4 then 6) intended to be triggered from 2013 onwards. For the present study it would therefore be necessary to apply at least Level 3 in preparing our assessment.
- 5.4 In practice, the Council has indicated in draft policy that it would seek to implement Level 4. Accordingly we have assumed that Level 4 applies to both market and affordable housing, on the sites being appraised.
- 5.5 Guidance on the impact of Levels 3 & 4 is available from a Report commissioned by the Housing Corporation & English Partnerships (*A Code For Sustainable Development, 2007*) in respect of the impact of Level 3 on construction costs. This guide estimates (Table S2) the increase in costs arising from Level 3 for different house types, and under various scenarios; on average, current newbuild costs would need to increase by 4.2% to achieve Level 3. Similar information is available at Table 6.6 under Scenario 1. Level 4 increases costs over base Building Regs by 10.5% for low rise apartments and 13.6% for high rise. We took an average figure of 12.0%.



- 5.6 In addition to this national requirement, RSS policy SR3 also seeks a proportion of 10% of energy costs of new residential building to be from renewable sources. This requirement will add to baseline building costs, although it is possible that there would be some overlap with the Level 3 specification. For the purpose of the study we assumed a 3.5% increase in costs, representing a premium of about £13,200 on the build cost for the average market dwelling, and £6,300 for the average affordable home, across the fourteen sites.
- 5.7 After allowing for the above 'Level 4' and '10% renewable' premiums, we drew up appropriate cost levels for constructing market housing for the various built forms in the study, taking into account the mix of house types on each. These are set out in the table below. The figures have been reduced on Sites 9 & 10; Site 9 involves conversion which would be rather less expensive than the 6 storey equivalent new build cost, and a similar logic applies on Site 10.

Table 5.1 Construction costs: market housing					
<i>Build cost £ per sq ft/sq m</i>					
Site	sq ft	(sq m)	Site	sq ft	(sq m)
1A	249	2,680	6A	155	1,670
2A	155	1,670	7A	187	2,010
3A	249	2,680	8A	230	2,475
4A	155	1,670	9A	129	1,390
5A	180	1,940	10A	120	1,290

Source: Fordham Research derived from analysis of BCIS cost data

- 5.8 The build costs exclude basement car parking, which is allowed for separately as an abnormal cost (see below). This has the incidental advantage of treating the cost upfront in the cashflow, as it ought to be, rather than pro rata with the build programme.

(ii) Construction costs: site specific adjustments

- 5.9 It is necessary to consider whether any site specific factors would suggest adjustments to these baseline cost figures. Two factors need to be considered in particular; high specification and small sites.
- 5.10 We considered that in Kensington & Chelsea all of the sites would be built to a higher specification than allowed for in the base build costs, through higher standards of either external treatment, or internal spec, or both. Internal spec would be related to price level. The sites were divided into spec categories, A to E, with increasing standards of external and/or internal finish at each. The classification is shown below.

Table 5.2 Building spec classification

	<i>Site/location</i>	<i>Spec level</i>		<i>Site/location</i>	<i>Spec level</i>
1A	TA Centre	B	7N	North, NW	B
2A	Princess Louise Hospital	A	7M	North, N	A
3A	Kensington Park Hotel	D	8A	158-166 Brompton Road	E
4A	St Thomas C of E School	A	8N	North, N	A
5A	The Power House	D	9A	50 Hogarth Road	C
6A	Sorting Office	D	10A	239 Kensington High St	D
7A	225 Earls Court Road	C	10N	South, SW	C

- 5.11 The markup for market housing ranged from +4% for spec A through to +50% for spec E.
- 5.12 We now turn to the issues surrounding build costs on small sites. Since the mid 1990s, planning guidance on affordable housing has been based on a view that construction costs were appreciably higher for smaller sites, with the consequence that, as site size declined, an unchanging affordable percentage requirement would eventually render the development uneconomic. Hence the need for a 'site size threshold', below which the requirement would not be sought.
- 5.13 It is not clear to us that this view is justified. Whilst, other things held equal, build costs would increase for smaller sites, other things are not normally equal, and there are other factors which may offset the increase. The nature of the development may change. The nature of the developer will also change, as small local firms with lower central overheads replace the regional and national house builders. Furthermore, very small sites may be able to secure a 'non estate' price premium, which we have not allowed for.



5.14 In the present study, the smallest four sites, Site 7 onwards, are considered to fall into the ‘small site’ category – those with less than 15 dwellings. It is felt necessary to make some allowance for the economics of this site in preparing financial appraisals. A range of cost premiums has been estimated for each specific site size, ranging from 2% for the 13 dwellings at Earls Court Rd through to 12% for the smallest site Kensington High St with four dwellings. Any such premium must be based on judgement; as explained above, it is difficult to see how hard data could ever be obtained to show the effect of scale alone.

(iii) Construction costs: affordable dwellings and final figures

5.15 The procurement route for affordable housing is assumed to be through construction by the developer, and disposal to an RSL on completion. In the past, when considering the build cost of affordable housing provided through this route, we took the view that it should be possible to make a small saving on the market housing cost figure, on the basis that one might expect the affordable housing to be built to a slightly different internal specification than market housing. The pressures of increasingly demanding standards for RSL properties have however meant that for conventional schemes of houses at least, it is no longer appropriate to assume a reduced build cost.

5.16 Whilst we now normally assume that build costs are similar in most situations, it would nevertheless not be appropriate to assume that in the very special circumstances of the housing market in Kensington & Chelsea. The very substantial cost premium applied above to reflect exceptionally high internal specifications would not arise to nearly the same extent for the affordable housing. Depending on the detailed design, some savings on external spec would also be possible.

Table 5.3 Sites by sub area		
Spec level	Cost loading	
	Market	Affordable
A	4%	3%
B	15%	5%
C	20%	10%
D	30%	15%
E	50%	25%

Source: Fordham Research

5.17 Taking all of the above into account, we arrived at build costs for all (market and affordable) housing which after rounding were as in the Table below.

Table 5.2 Construction costs adjusted and rounded

Site	<i>Build cost £ per sq ft/sq m</i>			
	<i>Market</i>		<i>Affordable</i>	
	sq ft	(sq m)	sq ft	(sq m)
1A	286	3,081	261	2,813
2A	161	1,735	160	1,718
3A	324	3,483	286	3,081
4A	161	1,735	160	1,718
5A	234	2,518	207	2,227
6A	202	2,168	178	1,918
7A	229	2,463	210	2,258
7N	219	2,360	200	2,155
7M	198	2,134	196	2,114
8A	355	3,824	296	3,186
8N	246	2,651	244	2,626
9A	166	1,786	152	1,638
10A	175	1,880	155	1,663
10N	161	1,735	148	1,591

Source: Fordham Research derived from analysis of BCIS cost data

(iv) Other normal development costs

- 5.18 In addition to the per sq ft/m build cost figures described above, allowance needs to be made for a range of infrastructure costs – roads, drainage and services within the site, parking, footpaths, landscaping and other external costs; off site costs for drainage and other services, and so on. Many of these items will depend on individual site circumstances and can only properly be estimated following a detailed assessment of each site. This is not practical within the present study.
- 5.19 Nevertheless, it is possible to generalise. Drawing on experience it is possible to determine an allowance related to total build costs. This will be lower for higher density than for lower density schemes, since there is a smaller area of external works, and services can be used more efficiently. They will be even lower for what is in effect a single building occupying the whole site area. Brownfield sites are in any case much less likely to require substantial expenditure on bringing mains services to the site than larger greenfield sites would.
- 5.20 In the light of these considerations we have developed a scale of allowances ranging from 1.5% of build costs for the smaller, whole plot sites through to 3.0% for the Princess Louise Hospital site at Millbrook Drive. The Table below sets out the individual site assumptions.



Table 5.3 Development cost allowances

<i>Ref</i>	<i>Site/location</i>	<i>% of build costs</i>
1	TA Centre	1.5%
2	Princess Louise Hospital	3.0%
3	Kensington Park Hotel,	1.5%
4	St Thomas C of E School	2.0%
5	The Power House	2.5%
6	Sorting Office	1.5%
7	225 Earls Court Road	1.5%
8	158-166 Brompton Road, SW	1.5%
9	50 Hogarth Road	1.5%
10	239 Kensington High Street	1.5%

Source: Fordham Research 2009

(v) Abnormal development costs

- 5.21 In some cases where the site involves redevelopment of land which was previously developed, there is the potential for abnormal costs to be incurred. Abnormal development costs might include demolition of substantial existing structures, piling or flood prevention measures at waterside locations, remediation of any land contamination; remodelling of land levels and so on.
- 5.22 The majority of the sites are on previously developed land. On several sites, from the information made available to us and visits to the sites, it appears that exceptional or abnormal development costs would need to be taken into account in preparing appraisals for some of the sites. As pointed out in the previous chapter (4.53) some abnormal costs could also arise in the event of the site's redevelopment with an alternative use.
- 5.23 The schedule below sets out the abnormal costs considered to apply in each case where they arise.

Table 5.4 Abnormal development costs

Ref	Site	Item	Residential:		Alt use
			Total £k	£k per acre	value cost
1A	TA Centre	Basement CP, rec suite	9,450	4,780	n/app
2A	Princess Louise Hospital	Demol	350	359	359
3A	Kensington Park Hotel	Demol, basement CP, 3 rd party wall, façade, recn	6,225	3,876	n/app
4A	St Thomas C of E School	Demol, OS etc	400	432	n/app
5A	The Power House	Land remed, basement CP, recn suite	2,000	2,529	n/app
6A	Sorting Office	Demol, 3 rd party wall, basement CP, compensation	750	1,851	n/app
7A	225 Earls Court Road	Basement CP	240	1,982	n/app
8A	158-166 Brompton Road	Demol, basement CP, 3 rd party wall	900	4,285	n/app
9A	50 Hogarth Road	Demol	25	506	n/app
10A	239 Kensington High St	Craneage, 3 rd party wall, lift	225	1,012	n/app

Source: Fordham Research 2009

5.24 The table also shows in the one case that applies, the adjustment needed to ensure that an alternative land value reflects the costs incurred in developing an alternative use.

(vi) Fees

5.25 We have assumed professional fees amount to 10% of build costs, in each case.

(vii) Contingency

5.26 For previously undeveloped and otherwise straightforward sites, we would normally allow a contingency of 2.5%, with a higher figure of 5% on more risky types of development, previously developed land and central locations. The 5% figure was used throughout.

Financial and other appraisal assumptions

(i) VAT

5.27 For simplicity it has been assumed throughout, as with most financial appraisals, that either VAT does not arise, or its effect can be ignored.



(ii) Interest rate

- 5.28 Our appraisals assume 7.5% pa for both debits and credits. This may seem high given the very low current base rate figure (MLR 0.5% mid July 2009) but has to reflect banks' view of risk for housing developers in the present housing market situation. Credit would in practice only arise for a short period at the end of the scheme

(iii) Developers profit

- 5.29 We would typically argue that on a development of fully market housing the developer requires a return of 20% on total costs (or 16.7% of the Net Development Value) to reflect the risk of undertaking the development. That assumes that the costs are estimates of costs, as they are indeed here intended to be, rather than contract prices which would include a contractor's profit element.
- 5.30 However, where a guaranteed sale applies, the developer's profit margin ought to be reduced, in order to reflect the reduction in risk – the affordable units will be sold at an agreed price and programme. With a range of affordable provision being tested, we normally reflect the resulting variations in risk through corresponding variations in the developer's profit, a sliding scale of profit margins following the percentage of affordable units. The use of floorspace as the quantitative basis for the affordable target has made this more difficult. Consequently we have used a figure of 18.5%, which under the sliding scale would apply at 30% affordable dwellings, throughout. This will be conservative at higher targets than 30% where a lower figure than 18.5% would have been applied under the sliding scale.
- 5.31 It should be noted that residential developers commonly use a more conservative profit margin of 15% on income, which equates to about 17.5% on costs.

(iv) Void

- 5.32 On a scheme comprising mainly individual houses, one would normally assume only a nominal void period, as the housing would not be progressed if there was no demand. In the case of apartments in blocks, this flexibility is reduced. Whilst these may provide scope for early marketing, the ability to tailor construction pace to market demand is more limited.
- 5.33 For the purpose of the present study a three month void period is assumed for all sites.

(v) Phasing & timetable

- 5.34 The appraisals are assumed to have been prepared using prices and costs at a base date of April 2009, with an immediate start on site.
- 5.35 A pre-construction period of varying length (2-5 quarters) is assumed for all of the sites. Each dwelling is assumed to be built over a fifteen month period.

5.36 The phasing programme for an individual site will reflect market take-up, and would in practice be carefully estimated taking into account the site characteristics and, in particular, size and the expected level of market demand. We have developed a suite of modelled assumptions to reflect site size and development type, as set out in Table 5.5 below.

	Site	No of dwgs	no of qtrs pre constrn	ceiling compls per qtr
1A	TA Centre	255	4	25
2A	Princess Louise Hospital	90	3	15
3A	Kensington Park Hotel	97	4	15
4A	St Thomas C of E School	69	2	12
5A	The Power House	38	4	10
6A	Sorting Office	26	4	6
7A	225 Earls Court Road	13	4	4
8A	158-166 Brompton Road	12	6	3
9A	50 Hogarth Road	6	3	2
10A	239 Kensington High Street	4	5	2

Source: Fordham Research 2009

Site acquisition and disposal costs

(i) Site holding costs and receipts

5.37 Each site is assumed to proceed immediately and so, other than interest on the site cost during construction, there is no allowance for holding costs, or indeed income, arising from ownership of the site.

(ii) Acquisition costs

5.38 Acquisition costs include stamp duty at 4% on site values of £0.5 million and above (reduced below this level), together with an allowance of 1.5% for acquisition agents' and legal fees.

(iii) Disposal costs

5.39 For the market housing, sales and promotion and legal fees are assumed to amount to some 3.5% of receipts. For disposals of affordable housing these figures can be reduced significantly depending on the category, we have assumed total allowances of 0.5% for social rented housing and 1.5% for shared ownership.



Alternative use value comparison

5.40 In the previous chapter we identified alternative use values to be used as benchmarks in determining viability for each site. As we saw above, these values would need to be adjusted in many cases to allow for abnormal costs that would arise if the alternative use were implemented. The values from Chapter 4 are adjusted to net off these abnormals in the table below.

Table 5.6 Alternative use value figures				
No	Site	Alternative use value £k per acre		
		Gross	Abnormal cost adj	Net of abnormals
1A	TA Centre	7.50		7.50
2A	Princess Louise Hospital	6.00	0.359	5.64
3A	Kensington Park Hotel,	62.26		62.26
4A	St Thomas C of E School	0.00		0.00
5A	The Power House	11.48		11.48
6A	Sorting Office	8.0		8.0
7A	225 Earls Court Road	8.0		8.0
7N	Notional 4	8.0		8.0
7M	Notional 4	6.0		6.0
8A	158-166 Brompton Road, SW	52.16		52.16
8N	Notional 1	23.10		23.10
9A	50 Hogarth Road	51.60		51.60
10A	239 Kensington High Street	29.24		29.24
10N	Notional 3	22.74		22.74

Source: Fordham Research 2009

6. Results of viability analysis

Introduction

- 6.1 This chapter considers the results of financial appraisals carried out for the identified sites.

Financial appraisal approach and assumptions

- 6.2 On the basis of the assumptions set out in Chapter 5, we prepared financial appraisals for each of the identified sites, using a bespoke spreadsheet-based financial analysis package.
- 6.3 The appraisals use the residual valuation approach – that is, they are designed to assess the value of the site after taking into account the costs of development, the likely income from sales and/or rents and an appropriate amount of developer's profit. The resulting valuation is commonly expressed in £s per acre (or hectare). In order for the proposed development to be described as viable, it is necessary for this value to exceed the value from a valid alternative use. We have already seen that, for a greenfield site, where the only alternative use is likely to be agricultural, this figure may be very modest. However, most of the sites have been previously developed, and therefore may have a more substantial existing or competing alternative use value.
- 6.4 As outlined in Chapter 3, our appraisals considered three options for the amount of affordable housing provision, plus a zero affordable option.

Appraisal results

- 6.5 We produced financial appraisals based on the stated build, abnormal, and infrastructure costs, and financial assumptions for the four options (three affordable options, plus all-market).
- 6.6 Detailed appraisal printouts for all the sites are provided as Appendix 5 to this report. To keep to a manageable sized document, only one affordable option, 20%, has been provided.
- 6.7 The resulting residual land values for the four options are set out in Table 6.1.

Table 6.1 Appraisal results for five affordable options

No	Site	Grant to support 80% TCI purchase price			
		No aff	Residual value £m		
			per acre for affordable option:		
			30%	40%	50%
1A	TA Centre	10.61	-1.19	-5.33	-9.50
2A	Princess Louise Hospital	8.13	4.35	3.11	1.88
3A	Kensington Park Hotel,	51.51	22.55	12.38	2.07
4A	St Thomas C of E School	-0.53	-2.70	-3.42	-4.14
5A	The Power House	53.41	32.99	25.94	18.82
6A	Sorting Office	83.04	55.81	46.08	36.24
7A	225 Earls Court Road	29.65	17.02	12.81	8.70
7N	Notional 1	30.74	18.08	13.89	9.70
7M	Notional 2	12.85	5.59	3.27	1.03
8A	158-166 Brompton Road, SW	126.61	86.14	72.45	58.78
8N	Notional 3	2.23	-3.77	-5.82	-7.85
9A	50 Hogarth Road	28.17	17.75	14.28	10.82
10A	239 Kensington High Street	27.89	18.31	15.09	11.87
10N	Notional 4	19.20	12.22	9.89	7.55

Source: Fordham Research

- 6.8 Table 6.1 shows that with no requirement for affordable housing, all but one of the sites deliver a positive land value. Those values range from just over £2m per acre (£5m per ha) to over £125m per acre (£310m per ha). There is a wide spread of values, though with five sites broadly around £20m-£30m per acre.
- 6.9 Allowing for additional development costs and our planning gain assumptions, these values do not seem out of line with the limited information suggests might be open market values for ‘oven ready’ land in Kensington & Chelsea. This supports a view that our appraisal assumptions are, taken as a whole, unlikely to be unduly optimistic.
- 6.10 Table 6.1 confirms that, as increasing amounts of affordable housing are introduced, the land value reduces. In each case the impact is progressive, but at a broadly linear rate. At the maximum affordable contribution shown, 50%, all but three of our schemes still deliver a positive land value.
- 6.11 However, it is clear that land value falls away more quickly for some schemes, than for others. It is the most expensive and most densely developed sites – the Hotel, and Brompton Rd – where affordable housing has the greatest negative impact in absolute terms upon land value.

- 6.12 In order to draw out the implications of these results for the Council's proposed affordable housing policy, as has already been suggested, it will be necessary to consider values from alternative uses for each. This step follows below.

Alternative use benchmarks

- 6.13 The results from Table 6.1 would need to be compared with the alternative use values set out in Table 5.7 in order to form a view about the likely viability of the affordable options for each site. However it does not automatically follow that if the residual value produces a surplus over the alternative use value benchmark, the site is viable. The surplus needs to be sufficiently large to provide an incentive to the landowner to release the site, and any other appropriate cost required to bring the site forward for development. We therefore have to consider how large such a 'cushion' should be for our sites.
- 6.14 In practice the size of the element will vary from case to case, depending on how many landowners are involved, each landowner's attitude and his degree of involvement in the current property market, the location of the site and so on. After consideration we took the view that a broad average figure of £1.0 m per acre (£2.5 m per ha) should be used to provide an incentive to the landowner for all of the sites in the study. This figure would represent a mark-up of more than 15% on the base industrial benchmark land value of £6.0 m per acre. The figures are set out below and combined with the net alternative use values from Table 5.7 to show the resulting benchmark thresholds for viability.

Table 6.2 Viability cushion & threshold values				
Ref	Site	Assessed alt use value	£m per acre	
			Cushion	Viability threshold value
1A	TA Centre	7.50	1.0	8.50
2A	Princess Louise Hospital	5.64	1.0	6.64
3A	Kensington Park Hotel,	62.26	1.0	63.26
4A	St Thomas C of E School	0.00	1.0	1.00
5A	The Power House	11.48	1.0	12.48
6A	Sorting Office	8.0	1.0	9.0
7A	225 Earls Court Road	8.0	1.0	9.0
7N	Notional 1	8.0	1.0	9.0
7M	Notional 2	6.0	1.0	7.0
8A	158-166 Brompton Road	52.16	1.0	53.16
8N	Notional 3	23.10	1.0	24.10
9A	50 Hogarth Road	51.60	1.0	52.60
10A	239 Kensington High Street	29.24	1.0	30.24
10N	Notional 4	22.74	1.0	23.74

Source: Strategic Housing Viability Study



6.15 It must be emphasised that these figures are simply a view of what it is reasonable to assume, in a strategic study like the present one, should be the minimum residual value for the purposes of assessing viability. The figures do not represent what a landowner or promoter might actually receive. This will quite often be rather more, at any given affordable target some sites will be generate a higher value and it is not unreasonable to expect at least some of the surplus to benefit the landowner/promoter, rather than passing to the developer.

Table 6.3 Appraisal outcomes: grant to 80% TCI						
No	Site	Value £m per acre				
		Alt use value	Alt use value	No aff	30%	40%
1A	TA Centre	7.5	10.6	-1.2	-5.3	-9.5
		8.5	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
2A	Princess Louise Hospital	5.6	8.1	4.4	3.1	1.9
		6.6	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
3A	Kensington Park Hotel	62.3	51.5	22.5	12.4	2.1
		63.3	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
4A	St Thomas C of E School	1.0	-0.5	-2.7	-3.4	-4.1
		0.0	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
5A	The Power House	11.5	53.4	33.0	25.9	18.8
		12.5	VIABLE	VIABLE	VIABLE	VIABLE
6A	Sorting Office	8.0	83.0	55.8	46.1	36.2
		9.0	VIABLE	VIABLE	VIABLE	VIABLE
7A	225 Earls Court Road	8.0	29.7	17.0	12.8	8.7
		9.0	VIABLE	VIABLE	VIABLE	MARGINAL
7N	Notional 1	6.0	30.7	18.1	13.9	9.7
		7.0	VIABLE	VIABLE	VIABLE	VIABLE
7M	Notional 2	6.0	12.8	5.6	3.3	1.0
		7.0	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
8A	158-166 Brompton Road	52.2	126.6	86.1	72.5	58.8
		53.2	VIABLE	VIABLE	VIABLE	VIABLE
8N	Notional 3	23.1	2.2	-3.8	-5.8	-7.9
		24.1	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
9A	50 Hogarth Road	51.6	28.2	17.7	14.3	10.8
		52.6	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
10A	239 Kensington High St	29.2	27.9	18.3	15.1	11.9
		30.2	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
10N	Notional 4	22.7	19.2	12.2	9.9	7.6
		23.7	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB

Source: Strategic Housing Viability Study

Comparison results

- 6.16 With zero affordable housing, eight sites are viable. Residential development as 100% market housing is of course a relatively profitable development option and in stable market conditions the sites should not be proposed for development otherwise. However market conditions are not stable – house prices have fallen considerably over the last year, and so there are several sites which it appears could not proceed at present even as 100% market housing.
- 6.17 Turning to the various levels of affordable contribution, at 30% five sites are viable. At 40% these five sites remain viable. By 50%, one of the sites becomes marginal, with the other four still viable.
- 6.18 These results are summarised in tabular form, and broken down for the five SHMA sub-areas, below.

Table 6.4 Viability results summary				
	No of sites in category with affordable at:			
	No aff	30%	40%	50%
Viable	2	0	0	0
Marginal	0	0	0	0
Not viable	2	4	4	4
Total North	4	4	4	4
Viable	2	1	1	1
Marginal	0	0	0	0
Not viable	0	1	1	1
Total North West of Centre	2	2	2	2
Viable	3	3	3	3
Marginal	0	0	0	0
Not viable	2	2	2	2
Total Central South East	5	5	5	5
Viable	1	1	1	0
Marginal	0	0	0	1
Not viable	2	2	2	2
Total South West	3	3	3	3
Viable	8	5	5	4
Marginal	0	0	0	1
Not viable	6	9	9	10
Grand Total	14	14	14	14

Source: Strategic Housing Viability Study



6.19 We will consider the implications of these results for future policy in the final chapter of this document. However before we can do this we should consider how likely future movements in our appraisal assumptions might impact upon them. The sharp decline in the housing market from the beginning of 2008 underlines that the results represent a ‘snapshot’ of viability as at August 2009. It may be that viability will deteriorate further in the coming months. On the other hand, there is a reasonable prospect that at some stage within the Plan period, viability will recover to the level of October/November 2007.

Sensitivity: price and cost levels

6.20 Whilst variations in any of the appraisal assumptions will affect the results, the key elements which most dramatically affect the outcome are the price and build cost assumptions. In the present market situation however it is future movements in prices which are of greatest interest; what if prices continue to fall at the present rate? What if they recover?

6.21 We prepared a variant set of appraisals which assumed that prices would fall another 15% and that costs would rise by 5% – a plausible scenario for the situation in say 12-18 months or so. The results are set out below.

Table 6.5 Appraisal outcomes: short term scenario						
No	Site	Alt use value	Value £m per acre			
			No aff	30%	40%	50%
1A	TA Centre	7.5	1.2	-9.2	-12.5	-15.9
		8.5	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
2A	Princess Louise Hospital	5.6	4.7	1.9	0.9	-0.1
		6.6	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
3A	Kensington Park Hotel	62.3	29.6	5.7	-2.7	-11.5
		63.3	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
4A	St Thomas C of E School	1.0	-2.8	-4.4	-4.9	-5.5
		0.0	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
5A	The Power House	11.5	39.7	22.9	17.0	11.2
		12.5	VIABLE	VIABLE	VIABLE	NOT VIAB
6A	Sorting Office	8.0	63.6	41.2	33.3	25.2
		9.0	VIABLE	VIABLE	VIABLE	VIABLE
7A	225 Earls Court Road	8.0	21.1	10.6	7.2	3.9
		9.0	VIABLE	VIABLE	NOT VIAB	NOT VIAB
7N	Notional 1	6.0	22.1	11.7	8.3	4.9
		7.0	VIABLE	VIABLE	VIABLE	NOT VIAB
7M	Notional 2	6.0	6.8	1.1	-0.8	-2.6
		7.0	MARGINAL	NOT VIAB	NOT VIAB	NOT VIAB

Table 6.5 (continued) Appraisal outcomes: short term scenario						
No	Site	Alt use value	Value £m per acre			
			No aff	30%	40%	50%
8A	158-166 Brompton Road	52.2	102.4	67.0	55.1	43.2
		53.2	VIABLE	VIABLE	VIABLE	NOT VIAB
8N	Notional 3	23.1	-3.0	-7.7	-9.3	-10.9
		24.1	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
9A	50 Hogarth Road	51.6	20.2	11.9	9.3	6.5
		52.6	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
10A	239 Kensington High St	29.2	17.3	9.5	6.9	4.2
		30.2	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB
10N	Notional 4	22.7	10.3	4.7	2.9	1.0
		23.7	NOT VIAB	NOT VIAB	NOT VIAB	NOT VIAB

Source: Strategic Housing Viability Study

- 6.22 It can be seen that a price decrease of 15% combined with a 5% increase in has a substantial negative impact on viability. With zero affordable housing, only five sites are now viable and one marginal.
- 6.23 Turning to the various levels of affordable contribution, at 30% five sites are viable. At 40% four sites remain viable. By 50%, only one site is viable.
- 6.24 Unfortunately, this scenario is plausible in the short term.

Sensitivity: the market peak

- 6.25 The above approach, varying the price level, could also be applied retrospectively to assess viability at the peak viability level of November 2007.
- 6.26 At this time prices are believed to have been perhaps 25% higher than those assumed in our study. Costs would have been appreciably lower, and furthermore Level 4 might not have been assumed to apply (rather Level 3). Accordingly we reduced costs by 15%.
- 6.27 The results are set out below.

Table 6.6 Appraisal outcomes: market peak Level 3 only						
No	Site	Alt use value	Value £m per acre			
			No aff	30%	40%	50%
1A	TA Centre	7.5	30.4	14.8	9.5	4.1
		8.5	VIABLE	VIABLE	VIABLE	NOT VIAB
2A	Princess Louise Hospital	5.6	14.4	9.2	7.4	5.7
		6.6	VIABLE	VIABLE	VIABLE	MARGINAL
3A	Kensington Park Hotel	62.3	93.3	55.7	42.4	28.9
		63.3	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
4A	St Thomas C of E School	1.0	3.7	0.7	-0.3	-1.3
		0.0	VIABLE	MARGINAL	NOT VIAB	NOT VIAB
5A	The Power House	11.5	78.2	51.9	42.8	33.6
		12.5	VIABLE	VIABLE	VIABLE	VIABLE
6A	Sorting Office	8.0	116.4	81.1	68.4	55.6
		9.0	VIABLE	VIABLE	VIABLE	VIABLE
7A	225 Earls Court Road	8.0	45.7	29.2	23.7	18.3
		9.0	VIABLE	VIABLE	VIABLE	VIABLE
7N	Notional 1	6.0	46.7	30.1	24.7	19.2
		7.0	VIABLE	VIABLE	VIABLE	VIABLE
7M	Notional 2	6.0	24.3	14.5	11.3	8.2
		7.0	VIABLE	VIABLE	VIABLE	MARGINAL
8A	158-166 Brompton Road	52.2	173.3	118.9	100.6	82.0
		53.2	VIABLE	VIABLE	VIABLE	VIABLE
8N	Notional 3	23.1	15.0	7.0	4.2	1.6
		24.1	VIABLE	NOT VIAB	NOT VIAB	NOT VIAB
9A	50 Hogarth Road	51.6	42.8	28.7	24.0	19.3
		52.6	VIABLE	VIABLE	VIABLE	VIABLE
10A	239 Kensington High St	29.2	38.7	26.3	22.1	18.0
		30.2	VIABLE	VIABLE	VIABLE	VIABLE
10N	Notional 4	22.7	27.5	18.5	15.6	12.6
		23.7	VIABLE	VIABLE	VIABLE	VIABLE

Source: Strategic Housing Viability Study

6.28 The results improve the appraisal results quite markedly. Only three sites are now unviable at 50%, plus one site which is marginal. This suggests that a policy based on 50% floorspace would have been entirely feasible at the market peak in November 2007. There is a reasonable possibility that such a position will be regained within the emerging LDF Plan period.

Sensitivity: developer contributions

6.29 Sensitivity testing was also undertaken to assess the impact of varying the level of developer contributions. The assumed level of £15k per dwelling was halved to £7.5k per dwelling. The results for the 40% affordable option are shown below.

Table 6.7 Appraisal outcomes: reduced developer contributions					
No	Site	Alt use value	Value £m per acre		
			Alt use value	Base 40%	40% with reduced contribution
1A	TA Centre	7.5	-5.3		-4.5
		8.5	NOT VIAB		NOT VIAB
2A	Princess Louise Hospital	5.6	3.1		3.7
		6.6	NOT VIAB		NOT VIAB
3A	Kensington Park Hotel	62.3	12.4		13.1
		63.3	NOT VIAB		NOT VIAB
4A	St Thomas C of E School	1.0	-3.4		-2.9
		0.0	NOT VIAB		NOT VIAB
5A	The Power House	11.5	25.9		26.4
		12.5	VIABLE		VIABLE
6A	Sorting Office	8.0	46.1		46.3
		9.0	VIABLE		VIABLE
7A	225 Earls Court Road	8.0	12.8		13.5
		9.0	VIABLE		VIABLE
7N	Notional 1	6.0	13.9		14.5
		7.0	VIABLE		VIABLE
7M	Notional 2	6.0	3.3		3.9
		7.0	NOT VIAB		NOT VIAB
8A	158-166 Brompton Road	52.2	72.5		73.0
		53.2	VIABLE		VIABLE
8N	Notional 3	23.1	-5.8		-5.3
		24.1	NOT VIAB		NOT VIAB
9A	50 Hogarth Road	51.6	14.3		15.3
		52.6	NOT VIAB		NOT VIAB
10A	239 Kensington High St	29.2	15.1		15.3
		30.2	NOT VIAB		NOT VIAB
10N	Notional 4	22.7	9.9		10.1
		23.7	NOT VIAB		NOT VIAB

Source: Strategic Housing Viability Study



- 6.30 Reducing developer contributions has a significant effect on the residual value outcomes; typically it improves the residual value by around £0.5m per acre. Whilst elsewhere an increase of this scale would lead to considerable improvements in site viability, the very high values and costs which apply in Kensington & Chelsea mean that its impact is in fact quite small. None of the unviable sites becomes viable, or even marginal.
- 6.31 When individual proposals come forward, it is always an option for the Council to consider whether, the developer contributions burden should be eased, so as to secure an adequate affordable contribution from a scheme whose viability would otherwise be insufficiently good for it to proceed. It is right that the Council should be able to determine the relative priorities between affordable housing provision and other forms of contribution. Clearly, however, as the appraisal results confirm, the scope for tradeoffs is relatively limited in that the 'cost' to the developer of the assumed level of contribution is small in comparison to the 'cost' of the affordable contribution.

7. Implications of results

Points to bear in mind

- 7.1 The results of the detailed site assessments (Table 6.3) indicate that a significant proportion of sites are unviable at levels of affordable provision that the Council aspires to achieve, and indeed that have been achieved through negotiation, in the comparatively recent past. That might seem surprising, given the extremely high house prices in the Royal Borough. Some sites are shown to be unviable even without affordable housing.
- 7.2 This is partly due to the steady decline in house prices from Autumn 2007 up until now. It also reflects quite demanding assumptions on the quality of development (Level 4 of the Sustainability Code and 'Merton rule' requirements for renewable energy). However the price decline poses particular problems for formulating a policy which should endure over a full Plan period. Viability will improve in due course compared to now - possibly being better over a major part of the Plan period.
- 7.3 Setting a low target would not allow any improvement to be captured unless a new Development Plan Document were to be produced. On the other hand, in the immediate short term it could get worse, so that whatever target was viable at July 2009, might not be supportable in say twelve months' time. As we emphasised at the start of the report, such a situation suggests an approach that somehow allows future movements in viability, up or down, to be reflected in a modified target.
- 7.4 It is also worth noting that this study has been based on percentage targets based on floorspace. This is unusual as targets are commonly based on dwelling numbers. However in the unusual environment of RBKC it makes sense.
- 7.5 The floorspace measure has necessitated a strategic approach to the treatment of individual sites' dwelling characteristics as the affordable target has been varied, keeping the sizes of the market and affordable units constant and varying the total dwelling numbers in order to retain the same floorspace density across all of the affordable options. We believe this 'modelling' approach is a reasonable attempt to retain consistency between individual assessments.

Basis for the affordable housing target

- 7.6 The results from the appraisals indicate that at present, only five of the fourteen sites are viable with an affordable requirement set at 40% of floorspace; moving to 50% makes one of these marginally viable. Whilst normally this outcome would not be sufficient to sustain a 40% target (on floorspace) across the study area as a whole, it appears that in present market conditions only eight of the sites could produce 100% market housing, and remain viable.



- 7.7 That so few of the sites with permission have so far proceeded bears this out. However two of the unviable sites at zero are notional sites, where a development form viable in a more expensive area has hypothetically been 'transplanted' to a much lower priced part of the Borough; it is highly likely that this represents a situation that simply would not arise, in practice. Turning to the 'actual' sites, it does not necessarily follow that permissions once secured are always intended to be implemented immediately.
- 7.8 The fact is that at 40%, five of the eight sites which work with no affordable housing, remain viable. At 50% one becomes marginal. At 20% in our judgement, six sites would be viable.
- 7.9 This viability analysis has, in our view, confirmed that the current 40% affordable target is justified.
- 7.10 The concurrent SHMA suggested that the housing need level would justify a 50% target. It is important to emphasise that this is only a technical observation. All targets are policy matters to be determined by the Council itself and not by external consultants. The housing market in the Royal Borough may shortly begin to improve, and with it viability. It is also possible, however, that the market and hence viability, could worsen: this undesirable outcome must be considered as a possibility.
- 7.11 The approach of 'Dynamic Viability', considered below, is designed to address the future uncertainties, by providing a process for regularly adjusting the target as viability changes.

Affordable target suggestion

- 7.12 In the recent past Kensington & Chelsea has regularly negotiated 30% plus affordable housing requirements on privately developed sites, as the information from a number of the study sites confirms. The fall in house prices, combined with the additional cost of sustainable development (Level 4 plus 10% renewable), has made achieving this level more difficult in the current market circumstances.
- 7.13 The Central & SE area performs best reflecting the high price level there. Conversely the North, where prices are lowest, does worst. There may be scope for considering a differential requirement across the Borough. At this stage we have not set out detailed proposals for geographically based targets; however these could be provided if required.
- 7.14 In considering the implications for an individual Council's affordable housing policy of studies like the present one, we must recognise the complexity and diversity of the development process in reality. There will always be sites and development proposals which, because of exceptional circumstances cannot produce the level of affordable housing set by a generally reasonable target. Such factors include abnormal development costs associated with the site; particularly onerous development contribution requirements; an exceptionally high alternative user value; low market prices in a particular locality, and so on.

7.15 The evidence suggests in our view that a 40% target would be the highest that would be reasonable to put forward in present circumstances. As noted above, in terms of the split between social and intermediate housing, because the emerging SHMA document suggested proportions of 75%/25% we tested this option. However, the Council has fixed the value at which affordable units are conveyed to partner RSLs. Consequently varying the tenure split will not materially influence the financial outcome for the developer. If, as hoped, there is a recovery from the credit crunch, then the Dynamic Viability approach described below could permit the raising of the target in future.

The measure for the affordable target

7.16 Affordable targets are most commonly applied using dwelling numbers as the measure base. However there are other alternative bases. A number of London Boroughs apply targets to habitable rooms, and in Kensington & Chelsea the Council has found an approach based on floorspace, attractive.

7.17 Dwellings seems the most simple and straightforward basis for the target. However, where the sizes of the affordable and market homes provided by the developer, or sought by the Council, are significantly different, a measure reflecting more accurately the total quantum of housing being provided, would seem to be fairer on both sides. Whilst habitable rooms are a rather unfamiliar concept to many people, floorspace is a straightforward and easily understood measure.

7.18 In large parts of the Borough, as our Report has suggested, the quite exceptional housing market leads developers to produce unusually large market dwellings, very much larger than would be suitable for affordable homes. Conversely in much of the rest of the area the emphasis, as elsewhere in Inner London and beyond, is on developments containing the smaller market units – flats of 1 & 2 bedrooms - which do not provide enough family sized affordable dwellings to meet the needs generated within the Borough.

7.19 Both of these factors suggest that a measure such as floorspace would offer a better basis for the affordable target than would dwelling numbers. Floorspace would incidentally also address the problem that in Kensington & Chelsea a site easily capable elsewhere of producing dwelling numbers above a dwellings based threshold, comes forward with a smaller number of very large dwellings below the threshold; this issue is discussed further, below.

7.20 To reflect the Council's preferred measure, the study has produced assessments with the various percentage targets applied to floorspace, and the conclusions outlined above are on that basis. It is reasonable to ask how those conclusions would have changed if the target had been based on an alternative measure – dwelling numbers, or habitable rooms.

7.21 By comparison with our findings, a dwellings based target would have reduced the affordable burden on sites in the most expensive areas; they would have been required to provide less floorspace. On



the other hand, in the least expensive areas the burden would increase as they were required to provide more floorspace. Whilst overall viability against any one percentage might only have changed a little – we suspect 40% would still have looked feasible – the case for a target which varied geographically, would probably be rather stronger.

- 7.22 Measuring the target using habitable rooms would have a similar impact, though our feeling is that it would be diluted. The unusually large market dwellings tend to have fewer, larger rooms than their floorspace would suggest.

The threshold for affordable housing

- 7.23 Guidance requires consideration to be given to the threshold at which the affordable housing is to be applied, if that is not at the default minimum of 15 dwellings. The study considered four actual sites under this figure – sites 7 to 10 – and additionally two of those provided a base for all four notional sites, giving a total of eight sites. In doing so, however, we must recognise that the London Plan proposes (Policy 3A.11) that Boroughs should normally use a threshold of sites with ‘a capacity to provide 10 or more dwellings’. This requirement was underpinned by extensive viability analysis prior to the Plan’s publication. It appears to be left unaffected by the Mayor’s current (April 2009) proposals. It is therefore in practice a more meaningful ‘starting point’ than the national default guidance of 15 dwellings.
- 7.24 In fact, the Council is considering a threshold based upon floorspace rather than dwellings. This fits with the use of the floorspace measure as a basis for the affordable target. It also addresses the concern that development proposals with a total quantum of floorspace which elsewhere would fall above the size threshold, and hence generate an affordable requirement, might not do so in the Borough. Indeed, it could be seen as a specific response to the issue of ‘capacity to provide’ in the London Plan policy wording.
- 7.25 The Royal Borough proposes a lower affordable threshold of 800 sq (8,600 sq ft). Sites with gross floorspace above that figure would be required to provide affordable housing.
- 7.26 Up to 1,200 sq m (12,900 sq ft) under the proposals envisaged, the requirement could be taken as an off site commuted sum. Our study methodology does not provide the scope to comment on this latter proposal. In the absence of a specific funding formula, any commuted sum formula we devised would be financially neutral compared to on site provision, and show the same financial outcome. Accordingly we focus our attention primarily on the lower limit.
- 7.27 With the London Plan threshold of 10 dwellings (‘capacity to provide’) the 8,600 sq ft/800 sq m threshold the Council proposes would correspond to an average dwelling size of 860 sq ft gross, perhaps around 700 sq ft net depending on net:gross ratio. This seems a reasonable figure, which is not unduly small in the Inner London context; even with the sites (with large dwelling emphasis)

appraised in the study, there are three (2, 4, 9) which would fall below this figure. So irrespective of the specific results of the viability analysis the 800 sq m threshold could be said to be reasonable.

- 7.28 Turning to the viability analysis, four actual sites (eight with notionals) are below the national guidance threshold of 15 dwellings; six are above. The four below 15 have gross floorspace as set out in the Table below.

No	Site & location	No of dwgs	Total gross floor area (rounded)	
			sq ft	sq m
7A	225 Earls Court Road, Earls Court	13	12,700	1,180
8A	158-166 Brompton Road, Knightsbridge	12	21,100	1,960
9A	50 Hogarth Road, Earls Court	6	5,600	520
10A	239 Kensington High Street, Kensington	4	8,150	750

Source: Fordham Research

- 7.29 Of the five sites which are viable at 40% - and which therefore form the basis for our proposed 40% target - three (7A/7N/8A) are below 15 dwellings. This would support the principle of lowering the threshold from the national 15. It will be noted that the successful sites are of 13, 13 & 12 dwellings respectively, the smaller sites 9A, 10A & 10N all being unviable at 40%. However that would support a dwellings based reduction to 10 units, consistent with the London Plan.
- 7.30 More importantly in floorspace terms, sites 9 & 10 fall below Kensington & Chelsea's proposed threshold of 8,900 sq ft /800 sq m. It is therefore sites 7A, 7N, 7M & 8A which are crucial in supporting the threshold. Three of the four are held viable at the 40% affordable target. We conclude that the proposed threshold is supported by viability analysis.
- 7.31 As suggested above, the assessments in the study cannot be used directly to comment on the Council's proposal to allow commuted off site provision on sites up to 1,200 sq m/12,900 sq ft.; our assumption would be that the commuted sum was exactly financially equivalent. It is of course for the Council to propose a formula for the commuted sum, which might be otherwise. However this formula could not reasonably be more financially onerous than on site provision. If it were less onerous, then our view that the proposed lower threshold did not impact on viability, would be strengthened.

Dynamic viability

- 7.32 The housing market downturn has raised major questions for the setting of affordable housing targets. The recent HCA Good Practice guidance was discussed in Chapter 1. This makes the point that targets should not be set at the current short term market level. It further suggests (based on Planning Inspectorate comments) that targets might be set as aspirations to what might be possible in a 'normal



market'. As commented in Chapter 1, this does not seem very helpful. Nobody can know what will happen to the housing market and whether, if August 2007 is regarded as 'normal', it will ever return.

- 7.33 Fordham Research has proposed the Dynamic Viability approach summarised below. This concept and the other related guidance has been passed to a barrister (Richard Honey) who has written an Opinion on the topic. His conclusion after detailed examination concluded:

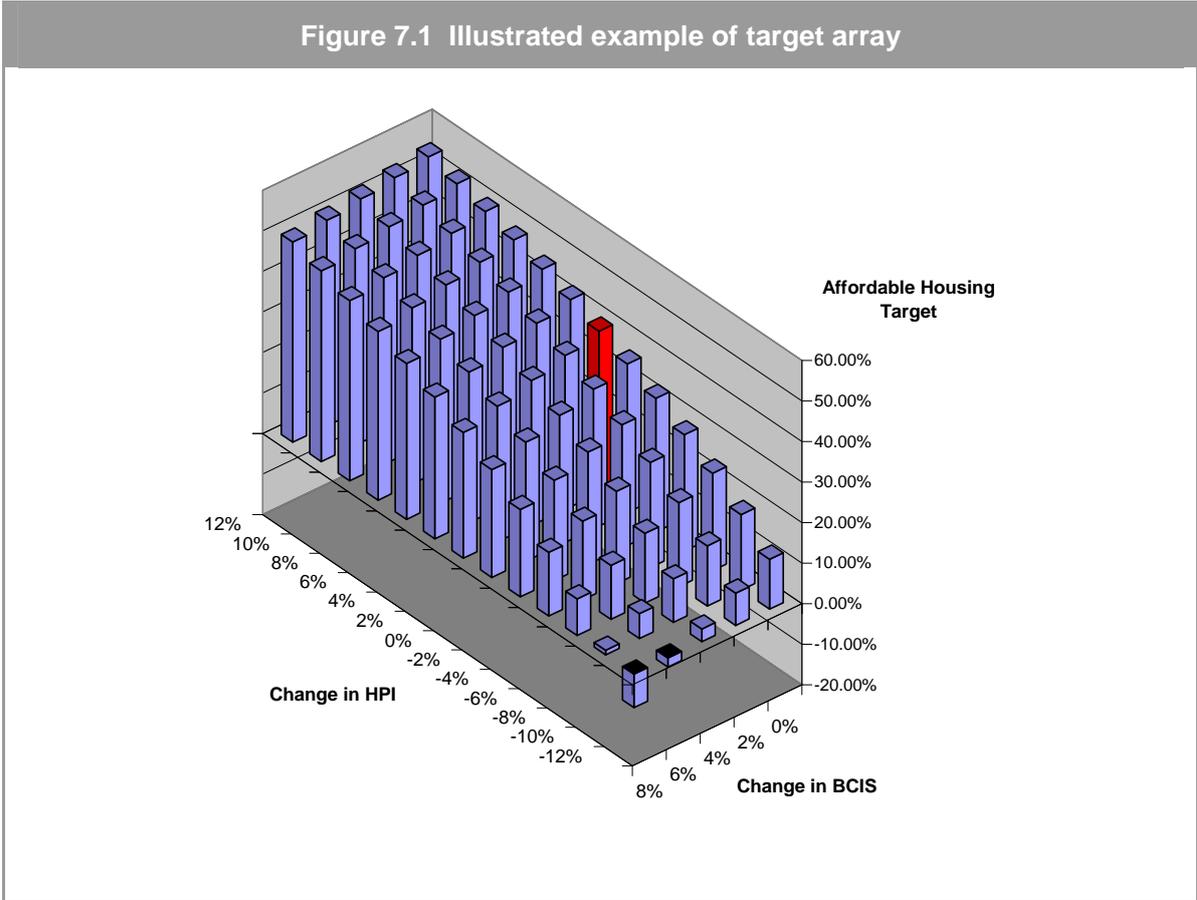
'it appears to me that the 'dynamic viability' approach is likely to represent the most appropriate policy when considered against the reasonable alternatives'.

- 7.34 We would therefore suggest that RBKC considers applying the Dynamic Viability approach. In summary this consists of writing the Core Strategy affordable housing policy to include a matrix covering all likely affordable target outcomes. These are then keyed to two indices:

1. House price (Halifax index) Building cost (BCIS)

- 7.35 Changes in these indices then produce changes to the target which are automatic, and therefore do not require a new development plan document.

- 7.36 The Dynamic Viability approach depends on setting up an array of possible target levels, in relation to the three indexes, for a bellwether site (actual, notional, or combination of sites) whose viability exactly mirrors the overall viability target – i.e. it is viable at 40%, in line with our recommended target, but not beyond that level. The array in the two dimensions of price and cost, is illustrated in Figure 7.1 below.



Source: Fordham Research

2.26 The Table below shows an indicative array of price and cost index numbers and the targets which follow from them, to illustrate what might appear as part of the Plan policy. The figures do not reflect what would be proposed in RBKC, but the operational version used with the policy will be.

Table 7.2 Illustrated example of target array					
Table shows proposed % target for each cost/price combination					
Change to price index	Change to cost index				
	+0%	+2%	+4%	+6%	+8%
-12%	12%	8%	3%	0%	0%
-10%	19%	15%	11%	6%	1%
-8%	24%	21%	17%	13%	9%
-6%	29%	26%	23%	19%	16%
-4%	33%	30%	28%	25%	22%
-2%	37%	34%	32%	29%	27%
0%	40%	38%	36%	34%	31%
+2%	43%	41%	39%	37%	35%
+4%	46%	44%	42%	40%	38%
+6%	48%	47%	45%	43%	42%
+8%	50%	49%	48%	46%	44%
+10%	52%	51%	50%	49%	47%
+12%	54%	53%	52%	51%	49%

Source: Fordham Research

- 7.37 Clearly there are policy decisions which must be taken in relating to the affordable target outcomes which are shown. Although all of them may follow from certain values of the indexes, not all of them have to be included in the policy. This does not apply downwards, but only upwards.
- 7.38 In other words if the housing market became much worse in RBKC, so that only a 20% target is viable, instead of 40%, then the Council has no choice but to lower its target because otherwise the target would not meet the deliverability criterion in para 29 of PPS3. But if the housing market improves so that 50% or 60% of affordable housing is viable, there is no obligation to raise the target if that target is omitted from the array above. There is therefore a requirement for policy consideration of targets above 40%: would RBKC want to see them if they were financially justifiable?
- 7.39 The Dynamic Viability approach is applied using a bellwether site which exactly reflects the agreed current target, so that in effect the future target exactly tracks movements in the bellwether's viability.
- 7.40 Going back to Table 6.3, there is of course no one site which is just viable at 40%. The closest site is site 7A, 225 Earls Court Rd, which by interpolation is just viable at 49%, becoming marginal at 50%. Accordingly we would recommend deriving the bellwether site from 7A; the existing 7A base appraisal would be adjusted by increasing costs (or reducing prices) until the base appraisal delivered 40% whilst remaining just viable.
- 7.41 In the final version of this Report, a detailed array table showing prospective targets at varying levels of change to price and cost, for this bellwether site appraisal, will be set out in Appendix 4.

The cost of sustainable homes policy

- 7.42 The appraisals assume that all dwellings, market and affordable, will be built to CSH Level 4. Given that Level 3 is to be a national requirement from 2010, and Level 4 from 2013 it is not an unreasonable assumption to be making at this point. However Level 4 imposes additional build costs which we have assumed cannot be recovered from charging higher prices for the dwellings. Furthermore, it is the Government's intention that Level 6 would apply from 2016, only 7 years away and well within the LDF Plan period. With what is currently known about technology, the additional costs of these further changes are going to be considerable. They may well push developers to focus rather more on premium and niche products where the additional costs can be, wholly or at least partially, recovered in enhanced prices, though with the present regulatory framework it is difficult to see how that could apply to the affordable elements. Whatever happens, the impact on viability following the CSH changes may be a matter for concern in the future.



Appendices



Appendix 1 Comparable properties

A1.1 The schedules below provide details of a number of current newbuild developments and other comparable housing in the Royal Borough.



Kensington and Chelsea House Price update

Property No	Address	Beds	Type	Price (£000s)	Sq Ft	£ per sq ft	Applicable Site
1	Manresa Road	3	flat/apartment	£13,750	4,140	£3,321	6A
3	Durham Place	6	house	£8,350	4,047	£2,063	
4	Glebe Place	4	terraced house	£6,950	3,505	£1,983	
5	Upper Cheyne Road	7	house	£5,900	5,300	£1,113	
6	Flood Street	7	terraced house	£5,495	4,222	£1,302	5A
7	Wellington Sq	4	terraced house	£5,250	3,089	£1,700	
8	Old Church Street	4	terraced house	£4,250	2,777	£1,530	
9	Manresa Road	6	semi-detached	£3,995	2,906	£1,375	6A
10	Justice Walk	5	terraced house	£3,950	2,700	£1,463	
11	Oakley Street	4	terraced house	£3,950	2,853	£1,385	5A
12	Charles II Place	4	mews house	£3,500	2,594	£1,349	6A 5A
13	Cheyne Walk	5	terraced house	£3,350	3,337	£1,004	5A
14	Burnsall Street	4	terraced house	£3,250	2,088	£1,557	6A 5A
15	Carlyle Mansions, Cheyne Walk	3	flat/apartment	£3,250	2,217	£1,466	
16	Old Chelsea Mews, Danvers Street	3	terraced house	£3,250	2,034	£1,598	
17	Redesdale Street	5	terraced house	£3,200	2,282	£1,402	5A
18	Shawfield Street	4	terraced house	£3,150	2,020	£1,559	6A 5A
19	Cheyne Row	3	house	£2,950	2,104	£1,402	
20	Oakley Street	4	house	£2,875	2,394	£1,201	
21	Shawfield Street	5	terraced house	£2,850	2,002	£1,424	6A 5A
22	Carlyle Mansions, Cheyne Walk	3	flat/apartment	£2,850	2,236	£1,275	5A
23	Dovehouse Street	3	house	£2,450	2,164	£1,132	6A
24	Phene Street	3	terraced house	£2,350	2,131	£1,103	5A
25	Branerton Street	3	house	£2,200	1,648	£1,335	
26	Glebe Place	3	terraced house	£2,200	1,267	£1,736	
27	Cheyne Gardens	3	flat/apartment	£2,100	1,688	£1,244	5A
28	Oakley Street	4	flat/apartment	£1,995	2,005	£995	5A
29	London SW3	3	flat/apartment	£1,595	1,491	£1,070	
30	Paradise Walk	3	terraced house	£1,595	1,104	£1,445	
31	Ormonde Gate	2	flat/apartment	£1,500	1,600	£938	
32	Redesdale Street	3	flat/apartment	£1,495	1,075	£1,391	5A
33	Conway House, Ormonde Gate	3	flat/apartment	£1,495	1,711	£874	
34	Rossetti Garden Mansions, Flood Street	3	flat/apartment	£1,399	1,106	£1,265	5A

Kensington and Chelsea House Price update							
Property No	Address	Beds	Type	Price (£000s)	Sq Ft	£ per sq ft	Applicable Site
35	Rossetti Garden Mansions, Flood Street	3	house	£1,350	1,092	£1,236	5A
36	Tite Street	2	flat/apartment	£1,150	1,130	£1,018	
37	Cheyne Walk	2	flat/apartment	£975	1,076	£906	
38	Lawrence Street	2	flat/apartment	£975	1,076	£906	
39	London SW3	2	flat/apartment	£850	754	£1,127	
40	Kings Road	2	flat/apartment	£760	663	£1,146	6A
41	Kings Road	2	flat/apartment	£745	662	£1,125	
42	Kings Road	2	flat/apartment	£740	613	£1,207	6A
43	Kings Court South, Manor Gardens	2	flat/apartment	£635	892	£712	6A
44	Kings Court South, Manor Gardens	2	flat/apartment	£635	646	£983	6A
45	Cheyne Place	1	flat/apartment	£625	458	£1,365	5A
46	London SW3	1	flat/apartment	£625	458	£1,365	5A
47	Cheyne Court	1	flat/apartment	£595	527	£1,129	
48	Ormonde Gate	1	flat/apartment	£595	621	£958	5A
49	Chesil Court, Chelsea Manor Street	2	flat/apartment	£595	646	£921	6A
50	Tite Street	1	flat/apartment	£585	678	£863	
51	Oakley Street	1	flat/apartment	£585	678	£863	5A
52	Kings Court North, Kings Road	2	flat/apartment	£550	662	£831	6A
53	Kings Road	1	flat/apartment	£500	449	£1,114	6A
54	Kings Court North, Kings Road	1	flat/apartment	£499	484	£1,031	6A
55							
56							
57							
58							
59							
60	Redcliffe Street	4	semi-detached	£3,450	3,046	£1,133	
61	Earls Court Square	5	flat/apartment	£3,350	2,713	£1,235	7A
62	Laverton Mews	3	mews house	£2,750	1,375	£2,000	7A
63	Earls Court Square	4	flat/apartment	£2,550	2,103	£1,213	7A
64	Seymour Walk	4	house	£2,485	1,967	£1,263	
65	Braham Gardens	3	flat/apartment	£2,250	1,899	£1,185	7A
66	Hesper Mews	3	mews house	£2,150	1,808	£1,189	7A
67	Wharedale Street	5	house	£1,950	2,570	£759	
68	Wetherby Mansions, Earls Court Sq	4	flat/apartment	£1,795	2,034	£882	7A
69	Spear Mews	2	mews house	£1,795	1,905	£942	
70	Wetherby Mansions, Earls Court Sq	4	flat/apartment	£1,795	2,011	£893	7A
71	Trebovir Road	3	flat/apartment	£1,550	1,800	£861	
72	Redcliffe Sq	2	flat/apartment	£1,495	1,044	£1,432	
73	Warwick Road	3	flat/apartment	£1,350	1,529	£883	



Kensington and Chelsea House Price update

Property No	Address	Beds	Type	Price (£000s)	Sq Ft	£ per sq ft	Applicable Site
74	Coleherne Court, Redcliffe Gardens	3	flat/apartment	£1,350	1,658	£814	
75	Barkston Gardens	2	flat/apartment	£1,300	1,489	£873	7A
76	Earls Court Square	2	flat/apartment	£1,295	1,232	£1,051	7A
77	Old Brompton Road	3	flat/apartment	£1,250	1,295	£965	
78	Courtfield Gardens, Earls Court	2	flat/apartment	£1,200	910	£1,319	7A
79	Redcliffe Sq	2	flat/apartment	£1,150	1,385	£830	
80	Nevern Sq	2	flat/apartment	£1,100	1,492	£737	
81	Redcliffe Sq	2	flat/apartment	£1,050	1,400	£750	
82	Old Brompton Road	2	flat/apartment	£1,040	1,217	£855	
83	Barkston Gardens	2	flat/apartment	£975	953	£1,023	7A
84	Earls Court Square	2	flat/apartment	£900	879	£1,024	7A
85	Warwick Road	2	flat/apartment	£895	1,225	£731	
86	Braham Gardens	2	flat/apartment	£850	1,044	£814	7A
87	Barkston Gardens	2	flat/apartment	£850	1,110	£766	7A
88	Braham Gardens	2	flat/apartment	£825	1,373	£601	7A
89	Bolton Gardens	2	flat/apartment	£815	807	£1,010	
90	Old Brompton Road	2	flat/apartment	£799	1,144	£698	
91	Richmond Mansions, Old Brompton Road	2	flat/apartment	£795	1,123	£708	
92	Braham Gardens	2	flat/apartment	£750	893	£840	7A
93	Trebovir Road	2	flat/apartment	£710	1,237	£574	
94	Nevern Sq, Earls Court	2	flat/apartment	£699	1,070	£653	7A
95	Wetherby Mansions, Earls Court Sq	2	flat/apartment	£695	1,088	£639	
96	Braham Gardens	2	flat/apartment	£650	686	£948	7A
97	Old Brompton Road	2	flat/apartment	£650	916	£710	
98	Finborough Road	2	flat/apartment	£599	1,111	£539	
99	Warwick Road	2	flat/apartment	£585	703	£832	
100	Penywern Road, Earls Court	2	flat/apartment	£565	651	£868	7A
101	Kramer Mews, Earls Court	2	flat/apartment	£525	732	£717	
102	Coleherne Court, Redcliffe Gardens	1	flat/apartment	£499	566	£882	
103	Longbrige Road	2	flat/apartment	£495	689	£718	
104	Barkston Gardens	1	flat/apartment	£495	704	£703	7A
105	Collingham Gardens	1	flat/apartment	£475	754	£630	7A
106	Kempsford Gardens, Earls Court	2	flat/apartment	£450	620	£726	
107	Longbrige Road	1	flat/apartment	£450	559	£805	
108	Earls Court Square	2	flat/apartment	£435	600	£725	7A
109	Finborough Road	2	flat/apartment	£335	640	£523	
110	Warwick Road	1	flat/apartment	£220	412	£534	8A
111	The Knightsbridge	5	flat/apartment	£19,000	4,074	£4,664	8A
112	Hastings House, Walton Street	3	house	£13,000	5,269	£2,467	8A
113	Ovington Sq	6	house	£12,500	4,755	£2,629	8A

Kensington and Chelsea House Price update							
Property No	Address	Beds	Type	Price (£000s)	Sq Ft	£ per sq ft	Applicable Site
114	Trevor Sq	3	flat/apartment	£12,500	3,063	£4,081	8A
115	The Knightsbridge Apartments	3	flat/apartment	£12,250	3,070	£3,990	8A
116	Montpelier Sq, Knightbridge	5	house	£9,500	4,024	£2,361	8A
117	Pont Street, Knightsbridge	3	flat/apartment	£7,500	2,814	£2,665	8A
118	Trevor Sq	3	flat/apartment	£5,950	2,164	£2,750	8A
119	Trevor Sq	3	flat/apartment	£5,850	2,099	£2,787	8A
120	Hans Road	3	flat/apartment	£5,500	2,820	£1,950	8A
121	Trevor Sq	2	flat/apartment	£5,500	1,970	£2,792	8A
122	Montpelier Walk, Knightbridge	3	flat/apartment	£5,350	2,629	£2,035	8A
123	Lancelot Place	3	flat/apartment	£4,750	2,099	£2,263	8A
124	Kingston House South	2	flat/apartment	£4,750	1,890	£2,513	8A
125	Lancelot Place	2	flat/apartment	£4,350	1,840	£2,364	8A
126	Cadogan Sq, Knightsbridge	3	flat/apartment	£3,850	1,951	£1,973	
127	Harrods Court	2	flat/apartment	£3,500	1,776	£1,971	8A
128	Kingston House North, Princes Gate	5	flat/apartment	£3,500	1,874	£1,868	
129	Lennox Gardens	3	flat/apartment	£3,500	1,568	£2,232	8A
130	Washington House, Basil Street	3	flat/apartment	£3,500	1755	£1,994	8A
131							
132							
133							
134							
135	Kensington Court Gardens	5	flat/apartment	£5,950	3518	£1,691	3A
136	Hyde Park Gate	3	flat/apartment	£4,500	2141	£2,102	3A
137	Kensington Court Gardens	4	flat/apartment	£4,250	2728	£1,558	3A
138	Hyde Park Gate	3	flat/apartment	£3,950	1975	£2,000	3A
139	Hyde Park Gate	3	flat/apartment	£3,450	2413	£1,430	3A
140	Queen's Gate Terrace	4	flat/apartment	£3,150	2310	£1,364	3A
141	Queen's Gate	2	flat/apartment	£3,150	2002	£1,573	3A
142							
143	De Vere Gardens	4	flat/apartment	£2,450	1864	£1,314	3A
144	Kensington Court	2	flat/apartment	£2,100	1292	£1,625	
145	De Vere Gardens	3	flat/apartment	£1,900	1550	£1,226	3A
146	Brasenose House, Kensington High St	3	flat/apartment	£1,395	1367	£1,020	
147	Cottesmore Court, Stanford Rd	3	flat/apartment	£1,295	1428	£907	
148	Queen's Gate Terrace	2	flat/apartment	£1,200	1255	£956	3A
149	Cottesmore Court, Stanford Rd	2	flat/apartment	£1,150	1073	£1,072	
150	Kensington Church Street, Kensington	3	flat/apartment	£1,100	1298	£847	3A
151	Queen's Gate Terrace	2	flat/apartment	£995	831	£1,197	3A
152	De Vere Gardens	3	flat/apartment	£899	1200	£749	3A
153	Queen's Gate Terrace	2	flat/apartment	£825	613	£1,346	3A

Kensington and Chelsea House Price update

Property No	Address	Beds	Type	Price (£000s)	Sq Ft	£ per sq ft	Applicable Site
154	De Vere Gardens	2	flat/apartment	£695	744	£934	3A
155	Cornwall Mansions, Kensington Court	1	flat/apartment	£650	659	£986	3A
156	Queen's Gate	2	flat/apartment	£495	638	£776	
157	Queen's Gate	1	flat/apartment	£399	474	£842	3A
158							
159							
160	Melbury Road	3	flat/apartment	£3,950	2712	£1,456	10A
161	Melbury Road	3	flat/apartment	£3,500	2506	£1,397	10A
162	Cope House	3	flat/apartment	£2,600	1868	£1,392	10A
163	Cope House	2	flat/apartment	£2,600	1937	£1,342	10A
164	Kensington High Street	3	flat/apartment	£2,390	2239	£1,067	10A
165	Phillimore Court, Kensington High Street	3	flat/apartment	£2,250	1550	£1,452	10A
166	Iverna Gardens	3	flat/apartment	£1,650	1812	£911	10A
167	Iverna Court	3	flat/apartment	£1,599	1364	£1,172	
168	Stratford Road, Kensington	3	flat/apartment	£1,550	1567	£989	
169	Lexham Gardens, Kensington	2	flat/apartment	£1,500	1518	£988	9A
170	Abingdon Gardens	3	flat/apartment	£1,395	1527	£914	10A
171	Sutherland House, Marloes Road	2	flat/apartment	£1,300	1378	£943	
172	Wynnstay Gardens	3	flat/apartment	£1,275	1858	£686	10A
173	Sutherland House, Marloes Road	2	flat/apartment	£1,175	1233	£953	
174	Logan Place, Kensington	2	flat/apartment	£1,125	1302	£864	9A
175	Ilchester Place, Holland Park	3	flat/apartment	£999	1109	£901	10A
176	Kensington High Street	2	flat/apartment	£999	893	£1,119	10A
177	Chatsworth Court, Pembroke Road	4	flat/apartment	£995	1305	£762	9A
178	Iverna Gardens	2	flat/apartment	£995	1233	£807	10A
179	Stafford Terrace, Kensington	1	flat/apartment	£995	732	£1,359	10A
180	Troy Court, Kensington High Street	2	flat/apartment	£975	1017	£959	10A
181	Kensington High Street	2	flat/apartment	£965	1200	£804	10A
182	Pembroke Square	2	flat/apartment	£950	989	£961	10A
183	Alexa Court	2	flat/apartment	£895	908	£986	9A
184	Ilchester Mansions, Abingdon Road	2	flat/apartment	£875	979	£894	10A
185	Lexham Gardens, Kensington	2	flat/apartment	£865	1029	£841	
186	Lexham Gardens, Kensington	2	flat/apartment	£775	773	£1,003	9A
187	Warwick Gardens	2	flat/apartment	£745	1210	£616	9A
188	Phillimore Court, Argyll Road	2	flat/apartment	£695	850	£818	10A
189	Cromwell Road, Earls Court	3	flat/apartment	£695	1153	£603	9A
190	Park Close, Ilchester Place	2	flat/apartment	£675	839	£805	
191	Cromwell Road, Earls Court	2	flat/apartment	£665	1005	£662	9A

new build
new build

10A

Kensington and Chelsea House Price update							
Property No	Address	Beds	Type	Price (£000s)	Sq Ft	£ per sq ft	Applicable Site
192	Sutherland House, Marloes Road	1	flat/apartment	£640	840	£762	
193	Abingdon Road	2	flat/apartment	£550	697	£789	10A
194	Knaresborough Place Earls Court	2	flat/apartment	£525	667	£787	9A
195	Abingdon Mansions	1	flat/apartment	£499	509	£980	10A
196	Kenway Road	2	flat/apartment	£499	620	£805	9A
197	Cromwell Crescent, Earls Court	2	flat/apartment	£495	629	£787	
198	Warwick Gardens	2	flat/apartment	£495	739	£670	
199	Lexham Gardens, Kensington	2	flat/apartment	£475	624	£761	9A
200	Stratford Road, Kensington	1	flat/apartment	£465	467	£996	
201	Pater Street	1	flat/apartment	£450	400	£1,125	10A
202	Chesterton Square	3	flat/apartment	£439	984	£446	9A
203	Hogarth Road, London	2	flat/apartment	£399	667	£598	10A
204	Phillimore Court, Argyll Road	1	flat/apartment	£395	421	£938	
205	Pembroke Road	1	flat/apartment	£375	530	£708	
206	Chatsworth Court, Pembroke Road	1	flat/apartment	£385	530	£726	
207							
208							
209							
210	Warren House, Beckford Close	3	flat/apartment	£1,250	1145	£1,092	1A
211	Longridge Road	4	flat/apartment	£995	1609	£618	
212	Fitzjames Avenue	4	flat/apartment	£989	1668	£593	
213	Warren House, Beckford Close	3	flat/apartment	£895	1021	£877	1A
214	Palace Mansions, Earsby Street	4	flat/apartment	£875	1561	£561	
215	St Mary Abbots Court	3	flat/apartment	£875	1227	£713	1A
216	Palace Mansions, Earsby Street	4	flat/apartment	£875	1604	£546	
217	Palace Mansions, Earsby Street	4	flat/apartment	£850	1625	£523	
218	Kensington Westside, Earls Court	3	flat/apartment	£760	1066	£713	1A
219	North End House, Fitzjames Avenue	3	flat/apartment	£750	1141	£657	
220	Warwick Gardens	2	flat/apartment	£720	946	£761	1A
221	Warren House, Beckford Close	2	flat/apartment	£690	745	£926	1A
222	Fitzjames Avenue	3	flat/apartment	£680	1051	£647	
223	Fitzjames Avenue	3	flat/apartment	£639	1057	£605	
224	Holland Road	2	flat/apartment	£599	1033	£580	1A
225							
226	Warwick Gardens	1	flat/apartment	£595	775	£768	1A
227	Longridge Road	2	flat/apartment	£595	1044	£570	
228	Addison Bridge Road, Olympia	3	flat/apartment	£595	907	£656	

Kensington and Chelsea House Price update

Property No	Address	Beds	Type	Price (£000s)	Sq Ft	£ per sq ft	Applicable Site
229	Warwick Gardens	1	flat/apartment	£585	745	£785	1A
230	Warren House, Beckford Close	2	flat/apartment	£550	817	£673	1A
231	Edith Road	2	flat/apartment	£550	948	£580	
232	Russell Road, Kensington	2	flat/apartment	£550	802	£686	1A
233	Tollard House, Russell Road	2	flat/apartment	£545	700	£779	1A
234	Warren House, Beckford Close	2	flat/apartment	£525	759	£692	1A
235	Longridge Road	2	flat/apartment	£499	584	£854	
236	Cromwell Crescent, Earls Court	2	flat/apartment	£495	629	£787	
237	Addison Bridge Road, Olympia	3	flat/apartment	£470	969	£485	
238	Holland Road	2	flat/apartment	£450	667	£675	1A
239							
240	Wallingford Ave	5	house	£1,750	2300	£761	2A
241	Highlever Road	4	flat/apartment	£1,500	1960	£765	2A
242	Wallingford Ave	4	house	£1,495	1900	£787	2A
243	Highlever Road	4	house	£1,450	1900	£763	
244		3	flat/apartment	£995	2000	£498	2A
245	Barlby Road	4	house	£875	1776	£493	2A
246	Barlby Gardens	3	house	£649	1141	£569	
247	Dalgarno Gardens	4	house	£695	1304	£533	
248	Bassett Road	2	flat/apartment	£595	845	£704	2A
249	St. Quintin Avenue	2	flat/apartment	£550	968	£568	2A
250	St. Quintin Avenue	3	house	£575	1443	£398	2A
251	Bassett Road	1	flat/apartment	£550	920	£598	2A
252	Brewster Gardens	3	house	£525	1342	£391	
253	Bassett Road	2	flat/apartment	£499	860	£580	2A
254	St. Helens Gardens	2	flat/apartment	£475	768	£618	2A
255	St. Quintin Avenue	2	flat/apartment	£450	780	£577	2A
256	St.Marks Road	2	flat/apartment	£375	671	£559	
257	Dalgarno Gardens	2	flat/apartment	£365	853	£428	
258	Bracewell Road	2	flat/apartment	£349	840	£415	
259	Eynham Road	3	flat/apartment	£330	700	£471	
260	Brewster Gardens	2	flat/apartment	£279	427	£653	
261	Eynham Road	1	flat/apartment	£279	699	£399	
262	St. Quintin Avenue	1	flat/apartment	£275	600	£458	2A
263	Blake Close	1	flat/apartment	£249	486	£512	
264	Shrewsbury Road	1	flat/apartment	£235	599	£392	
265							
266							
267	Appleford Road	1	flat/apartment	£220	480	£458	4A
268	Appleford Road	2	flat/apartment	£290	660	£439	4A

Appendix 2 House price variations

- A2.1 The indices in the table which follows compare prices in each postcode sector in the study area with an England and Wales 'average' figure – actually the median postcode value.
- A2.2 The indices are standardised, to eliminate the effect of variations in type mix; separate indices for each house type are combined with weightings based on the mix of overall sales.



Table A2.1 Price variations by postcode sector

<i>Postcode sector</i>	<i>Areas covered in sector</i>	<i>Q4 07</i>	<i>Q2 08</i>	<i>Q4 08</i>
W10 5	Kensal Town	184%	216%	164%
W10 4	West Kilburn	268%	180%	270%
W12 7	Shepherd's Bush	299%	311%	169%
W9 3	Fernhead Road	340%	221%	232%
SW5 9	Earls Court	357%	378%	371%
W9 2	Westbourne Green	293%	531%	297%
W12 8	Shepherd's Bush Common	397%	294%	453%
W9 1	Maida Vale	412%	427%	406%
W11 1	Westbourne Park Road	306%	744%	333%
W10 6	North Kensington	627%	303%	507%
SW7 4	Cromwell Road	516%	566%	471%
SW5 0	Branham Gardens	531%	628%	532%
W2 4	Bayswater	439%	952%	404%
SW10 0	Battersea Bridge	975%	686%	408%
W8 5	High Street Kensington	823%	633%	677%
W11 4	Avondale Park	1215%	747%	186%
SW3 3	Cale Street	983%	1045%	295%
SW3 1	Brompton Road	633%	939%	
W14 8	West Kensington	726%	1269%	433%
SW10 9	Redcliffe Gardens	369%	1271%	805%
SW7 5	Gloucester Road	1078%	590%	812%
SW3 4	Royal Hospital Road	792%	1392%	372%
SW1X 9	Sloane Square	424%	1282%	
SW3 5	Oakley Road	1568%	695%	432%
SW1W 8	Pimlico Road	1190%	1142%	523%
W8 6	Earls Court Road	1048%	1441%	403%
SW7 2	Imperial College	479%	326%	2280%
W8 7	Holland Park	932%	1495%	847%
W8 4	Kensington Palace	1999%	374%	1328%
SW7 1	Hyde Park	1074%	1454%	1258%
W11 2	Kensington Park Road	1125%	1266%	1397%
SW3 6	King's Road	1831%	1440%	632%
W11 3	Ladbroke Road	987%	888%	2657%
SW1X 8	Belgrave Square	1101%	2100%	1358%
SW1W 9	Easton Square	877%	1599%	2229%
SW7 3	South Kensington	584%	2986%	1408%
SW3 2	Walton Street	2055%	1659%	1816%
SW1X 0	Pont Street	815%	2894%	164%

Source: Analysis of Land Registry data

Notes

1. Data has been mix adjusted to remove differences in house type mix between postcode sectors; individual indices have been calculated for each house type, and combined using weights reflecting the nation-wide type mix. A worked example is provided below.

Table A2.2 Worked example for W5 1 at Q4 2008					
	Land Registry data Q4 2008				
	Detached	Semi	Terraced	Flat	Total
England & Wales - median price	£271,583	£161,250	£135,995	£142,688	
England & Wales - no of sales	22,381	28,916	31,005	19,775	102,077
W5 1– ave price	£466,666	£584,785	£456,083	£230,571	
W5 1 price as % E & W median value	155.17%	313.79%	286.72%	151.98%	
Weighted average index for W5 1=	$\frac{[(22,381 \times 155.17\%) + (28,916 \times 313.79\%) + (31,005 \times 286.72\%) + (19,775 \times 151.98\%)]}{102,077}$				
	= 239.4%				

Source: Analysis of Land Registry data



Appendix 3 Small plots for sale



Appendix 4 Proposed bellwether appraisal: proposed target matrix

- A4.1 It is proposed that the bellwether appraisal sequence should be based upon an amended version of site 7A. The amendment is necessary to ensure it is just viable at the proposed target level of 40%. The alternative use value for site 7A is industrial/warehousing.
- A4.2 The results from the sequence of appraisals are set out in the following Table(s).
- A4.3 Periodic reviews would provide for new values of the price/cost indices to be established. These would be rounded to 2% intervals. The Tables show what revised target would apply to the particular price/cost combination.

(Tables to be provided in due course)



Appendix 5 Financial appraisal summaries

- A5.1 The development viability **summaries** contained in the following pages set out the assumptions and outputs of the viability appraisals for a 20% affordable 'zero grant' scenario.



SITE 1: TA site Warwick Rd



SITE 1 CASH FLOW AFFORDABLE

	rate	Year 1				Year 2				Year 3				Year 4				Year 5				Year 6				TOTALS
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
INCOME																										
Housing sales		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Market housing		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Affordable soc rent		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Affordable sh oship retail		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Car parking		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales fees		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total income		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
COSTS																										
Land		-2,349	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Land acquisition		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stamp duty		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase fees		-65	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total		-2,414	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Build costs		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Market housing		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Affordable soc rent		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Affordable sh oship retail		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Car parking		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Build contingency	5.0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dev costs		179	179	179	179	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69
Upfront	0.8%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Build related	0.8%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Abnormals	10%	4,725	4,725	4,725	4,725	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825	1,825
Total		4,904	4,904	4,904	4,904	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953	1,953
Fees		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fees on build costs	10.0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fees on dev costs	8.0%	392	392	392	392	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156
Total		392	392	392	392	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156	156
PG		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Planning gain		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other		45	45	45	45	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Planning	£527	45	45	45	45	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Survey	£500	128	128	128	128	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Marketing	£0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total		173	173	173	173	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales fees	b/forward from above	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total costs		3,054	5,341	238	193	156	404	447	4,672	10,524	10,524	10,707	10,960	10,960	10,960	10,587	10,513	10,513	436	436	436	436	436	436	436	436
Net profit/loss from quarter		-3,054	-5,341	-238	-193	-156	-404	-447	-4,672	-10,524	-10,524	-4,515	3,807	3,807	3,807	4,179	4,254	4,254	14,331	14,331	14,331	14,331	14,331	14,331	14,331	30,838
Profit/loss bf from last quarter		0	-3,112	-8,611	-9,015	-9,381	-9,716	-10,309	-10,957	-15,922	-26,942	-38,168	-43,483	-40,420	-37,300	-34,121	-30,882	-27,204	-23,380	-19,485	-5,251	9,250	24,023	24,023	24,023	24,023
Cumulative profit/loss		-3,054	-8,452	-8,849	-9,208	-9,537	-10,119	-10,756	-15,629	-26,446	-37,466	-42,683	-39,677	-36,614	-33,493	-30,314	-26,703	-22,950	-19,127	-5,154	9,080	23,581	24,023	24,023	24,023	24,023
Interest	7.50%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Charged at	7.50%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total		-57	-158	-166	-173	-179	-190	-202	-293	-496	-702	-800	-744	-687	-628	-568	-501	-430	-359	-97	170	442	0	0	0	0
Cumulative developer profit carried forward to RV calc		-3,112	-8,611	-9,015	-9,381	-9,716	-10,309	-10,957	-15,922	-26,942	-38,168	-43,483	-40,420	-37,300	-34,121	-30,882	-27,204	-23,380	-19,485	-5,251	9,250	24,023	24,023	24,023	24,023	24,021

