

Manual: Updating Dynamic Viability

Targets

Royal Borough of Kensington and Chelsea July 2010

The Dynamic Viability procedure is designed to permit variations in the affordable target to ensure both that it remains broadly deliverable, and at the same time is adjusted to changing market conditions. It is based on three published indexes of house price, cost and alternative use value. It uses one of the sample sites as a representative Benchmark site which provides the base target. This is set within matrices of possible alternatives, triggered by index value changes.

The three stages set out at the bottom of this page, and explained via a worked example overleaf are what is involved in updating Dynamic Viability. The inputs are the tabulations in Appendix 5 of the report, which are derived from analysis of the benchmark site, and the three indexes listed in Table 5.1. Two of them are free online and the third, BCIS, is an RICS product available on subscription, though we can pass it on, as can most developers. This description begins by summarising the tabulations in Appendix 5.

The Coarse matrix shows the full range of possible change over the plan period. It uses quite broad (10% intervals) in the key indexes in order to show a big range of variation within a reasonable sized table. The price of this wide range is that the target changes are often quite large. The Coarse matrix is not used for updating.

The Fine matrix is a close up of part of the Coarse matrix, focussed on the currently deliverable affordable target level. The Fine matrix is based on 4% intervals in the indexes, and generates feasible target changes of around 5%.

Updating the affordable target

Step 1

The starting point is the Alternative Use Value Fine Matrix Table F1. Does the current value of the Alternative use index mean that another page rather than the base page should be used? If so this is the reference for the further steps.

Step 2

Using the appropriate Fine matrix table, decided by Step 1, check the changes in the HPI and the BCIS. If either or both of these has changed by more than half the interval to the next step, then the target cell will change. This may or may not involve a target change, since some of the targets will be the same in several cells.

Step 3

Publish the change in some suitable format such as the Annual Monitoring report.

Worked example: RB Kensington and Chelsea

This is designed to illustrate the (annual) updating process. The base indexes are shown in the identical Tables 8.1/A3.1. The process is described below. It solely uses the Fine matrix outputs.

Step 1: Checking the alternative use value. Turn to Table F1 in Appendix 3, it is headed 'Base Alternative Use Value: 0% change in Land Value index'. In the Alternative Use value Table 4.8, the benchmark site is shown as having an Alternative Use value of £8 million per acre/£19.8 million per ha. This value is used in Appendix 3 of the report showing 20% bands around that base. Given that the VOA has just (July 2010) published its January 2010 figures, it will be a year before the first check is possible. But the principle can be illustrated. The gap between the base value of £19.8 million and the next step of £23.78 million (a 20% upwards step) is £3.96 million. If the January 2011 figure published in July 2011 is more than half of that gap higher for the reference point of Hammersmith (i.e. more than £1.98 million) then Table F5 should be used instead of Table F1.

Step 2: Check the HPI and BCIS to see if a target change is implied. This uses Table F1 for now, but if the alternative use value implies a shift from Table F1, then exactly the same process is used for it. We used the Regional HPI for the baseline value. This has the advantage of reflecting prices in Greater London, which may in future follow a different path from those in other regions. The disadvantage, when compared with the monthly national HPI is that it comes out some 3 months in arrears. However stakeholders generally prefer the regional figures and so we have used them. The regional HPI for London was 622.0 at Q3 2009. The Greater London figure of Q1 2010 is 687.3. Reference to Table F1 shows that this lies between the 8% and 12% increase columns. The band is 24.8 points wide, and the midpoint is 12.4 (or 684.2). The Q1 index value of 687.3 lies above that midpoint, and so the 12% column should be used. The latest BCIS figure (national April 2010 (provisional) is 291.5. The gap between the 0% and 4% increase in BCIS is 11.4 and the midpoint 5.7. This translates to 289.8. Since the new index is 291.3 this means a move of one row down in Table F1. The

combined effect of increases of 12% on HPI and 4% on BCIS indicates an affordable target of 46%. This is an odd figure for an affordable target, but is the product of using floorspace not dwelling units. In turn this reflects the most unusual housing market of RBKC.

This illustration is not a formal review point, but if it were, then the target would move from 40% at the time of the survey to 46% now.

Step 3: Once a formal review point is reached, the target (whether changed or unchanged) should be put into a formal Council document.