

English Partnerships

PROJECT NAME:

# ANALYSIS OF THE HOUSING LAND TRUST MODEL

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ikon

## 1 The Brief

ikon have been commissioned by English Partnerships to investigate the potential of the Housing Land Trust (HLT) delivery model to provide affordable homes for sale. EP particularly wish to explore whether the HLT concept is viable and deliverable and wish to focus on the following 2 questions:

- Does the concept work and if so, in what circumstances?
- Are HLT's deliverable in practical terms (ie are the homes saleable and mortgageable)?

ikons report to EP of 16<sup>th</sup> April covers the background on Housing Land Trusts by outlining what an HLT is and the various mechanisms used to provide for affordability in perpetuity. The starting point of this report is to examine a model where property trades at a value linked to earnings inflation, rather than house price inflation, as outlined in Robin Howells paper of 6<sup>th</sup> December 2006.

## 2 HLT Viability

The key issue here is to ascertain whether HLT homes can be produced at a cost which is affordable to low cost home ownership purchasers. The fundamental underlying principle of the HLT model is that land is free (or heavily discounted) and that this subsidy is passed on to the purchaser. The price of the home therefore specifically reflects the cost of production of the property with no land value added. It has been assumed, in consultation with EP and Robin Howell, that homes should be affordable to those on household incomes of up to £35,000 and that an income multiplier of 3 should be used to calculate mortgage affordability. In this analysis therefore, homes need to be produced for £105,000 or less.

### 2.1 Build Costs

Base build costs have been taken from Watts & Partners UK Build Cost Card 2007, which provides indicative base construction costs by property type, tenure and UK region. For the purposes of this analysis we have taken data for the South West region, which provides for an indicative base build cost of £618-£817 per square metre for 2 and 3 bed houses in the region. Various other costs need to be added to this figure to arrive at the total unit cost, including: external works and drainage, s106 costs, interest, inflation and professional fees. These are all detailed in Appendix 1 (Key Assumptions). The cost build-up shown in Appendix 1 assumes a 3 bed house of 90 square metres at a total cost of £94,474.

This figure assumes a very straightforward site with no abnormal costs. Examples of abnormal costs are included in Appendix 1 and include such costs as demolition, site clearance, remediation, service diversion etc. Abnormal costs are very site specific and therefore it is extremely difficult to apply an 'across the board' addition to base build cost. For the purposes of this exercise, as a working assumption, we have assumed abnormal costs of between 5% and 25%, but this is extremely theoretical and should be used with the above caution.

In the 3 bed unit example in Appendix 1, taking a mid range abnormal cost, the total cost of production of the property increases to £104,942. This falls just within the affordability level of £105k which is the maximum purchase price being assumed for HLT property in this exercise.

We can interpret from this example that housing can be delivered within the stipulated affordability levels given the right situation. In this example, we have used build costs for houses, as the costs per sqm are lower than flats. We have also used build cost data for the South West, which is lower than the national average. Average build cost data from the Watts UK Build Cost Card 2007 (£650-£860 per sq m base), pushes the production costs above the £105k mark. The other regions displaying below average base build costs are Yorkshire & Humberside, East & West Midlands and East Anglia, so in theory the conclusions from this analysis could also apply to these areas.

## 2.2 HLT Overheads

Another factor which needs to be taken into account in the production cost of an HLT unit are the HLT's overheads. The HLT will need to manage the development process from the land agreement through design development, planning, tender, construction and sales and marketing. This could be done in-house, or via a Consultant Project Manager. Either way the cost needs to be accounted for and this has been detailed in Appendix 1 (Key Assumptions). The cost per unit of the overhead obviously depends on the scale of the HLT's development programme. In this example we have assumed a 40 unit scheme and a 4 year development programme from land agreement through to final sale of the units. This 4 year 'overhead' amounts to just over £10k a unit.

## 2.3 Cost Summary

The cost summary outlined in Appendix 1 (Key Assumptions) illustrates that in this 3 bed house example:

- A unit can be delivered for £104,942, assuming mid range abnormal costs and no HLT overhead costs. This may possibly be the case if the HLT is part of a larger organisation (eg an RSL) which provides development expertise, but even in this case there would likely be some charge for overheads against the scheme.
- A unit can be delivered for £104,866, assuming HLT overhead costs, but no abnormal costs. This would only be the case on a very straightforward site, where no additional costs were envisaged.

## 2.4 Values

The open market value of the unit is assumed to be approximately £196 per square foot, ie £190,000 for a 3 bed house. This is taken from comparables in Gloucestershire, particularly around the Stroud area. Obviously there are major regional and local variations in property value throughout the country, but most indices (eg Halifax, Nationwide, CLG) are putting the average national house price at around £173k-£228k, so this example falls within average levels.

At first sale, the HLT property will reflect the free land and will be sold at less than open market value making it affordable to households on around £35k income per annum. The £105k sales price represents about 55% of OMV. Under the HLT model, property re-sale value will not be determined by the housing market and by house price inflation, but by RPI, or earnings inflation, due to re-sale covenants running with the property. If HLT house prices start at an affordable level and track earnings inflation, then by definition the housing should remain affordable. The Property Value graph in Appendix 1 illustrates the increase in value of a 3 bed house over 20 years depending on tenure and the inflation index used. We will return to this graph in more detail later.

## 2.5 Economic Assumptions

In order to compare outright sale property performance over 20 years with HLT property and other affordable tenures, such as shared-ownership, various economic assumptions have been used. Average data for 2006 and 2007 has been used, except where this appears to be atypical. This is detailed in Appendix 1 and can be summarised as follows:

- An RPI of 3.75% has been assumed, reflecting an average of 2006 and 2007 rates (source ONS).
- A CPI (Consumer Price Index) of 2.4% has been used, reflecting the average figure for the past 4 years (source ONS)
- An Average Earnings Index (AEI) of 4% has been used, reflecting an average of 2006 and 2007 rates (source ONS)
- House Price Inflation (HPI) of 8% has been assumed to reflect the long term average (source Halifax)

A churn rate of 10% has also been assumed, meaning that 10% of the HLT properties will change hands every year and that all the properties will have been sold-on once in 10 years. Similarly for shared-ownership a 10% churn rate equates to all the properties becoming outright sale within 10 years, via staircasing or on-sale.

## 2.6 Comparison of Tenures and Models

The Property Value graph and the spreadsheet in Appendix 1 illustrate value growth for a 3 bed HLT property, a shared-ownership property and an outright sale property over 20 years.

A 20 year period has been assumed to reflect the potential for continual recycling of HLT property, as it continues to trade at RPI or AEI in perpetuity.

The initial sales price of an outright sale 3 bed house in our example is £190k, rising with average annualised HPI to £886k over 20 years. A similar shared-ownership property, where purchasers have bought a 55% share (£105k initial purchase), increases in line with HPI, so after 20 years the share is worth approximately £487k. Shared-owners can also, if they can afford, purchase further shares in their property, so at a 10% churn rate, can own outright within 10 years. HLT property trades at RPI/AEI, so after 20 years the property's value increases to £218k – £230k, depending on which index is used. Whilst this ensures the HLT property remains affordable, it also means that over time there is an increasing gulf between HLT property values and outright sale property, thus raising the issue of tenure mobility and whether a CLT occupier can ever move on to buy on the open market.

## 2.7 Affordability v's Mobility

There appears to be a trade-off between keeping a property affordable at each on-sale and giving the occupier sufficient return on their property investment to enable them to purchase elsewhere.

**Affordability** In terms of affordability, the Property Value graph illustrates that whilst HLT property remains affordable throughout the term, the 3 bed shared-ownership becomes increasingly unaffordable over time, as the gap between HPI and the AEI increases. This assumes that house price inflation remains above earnings and that the S/O property continues to trade at 55%.

**Mobility** In terms of mobility and the ability to purchase elsewhere, the gap between shared-ownership and outright sale is much smaller than HLT and outright sale, suggesting that shared-ownership should be an easier 'stepping stone' to full ownership than HLT property. The Salary Growth graph and spreadsheet in Appendix 1 illustrates how much a HLT home-owners salary has to grow by to purchase a similar outright sale property. In year 1, a salary of £63k is required to purchase the £190k market sale home (1.8 times the £35k salary level), After 10 years the HLT occupiers salary would need to have increased by nearly 4 times to purchase market sale and by over 8 times by year 20.

Whilst the above is not impossible, it assumes a certain type of HLT occupier with good earnings potential/career prospects which take their earnings way above normal earnings inflation. If this were not the situation, then the HLT occupier could be inclined to stay within the property over the long term.

## **2.8 Public Sector Land Subsidy**

The previous section raises the issue of EP/public sector land investment and value for money. The fundamental benefit of the HLT model is affordability in perpetuity, where a one-off land investment can house many consecutive individuals and families for 20, 30, or more years without the home ever being lost as affordable housing. This idea is obviously predicated on churn and a certain level of on-sale and property turn-around. We have illustrated above how churn may be more difficult within HLT's, depending on occupiers earning potential and propensity to move. We will look below at potential strategies to help mitigate this.

## **2.9 Strategies to Increase Mobility.**

One way to reduce the value leap between HLT and outright sale property, is to look at smaller units, with lower OMV's, or geographical regions with lower house prices. An analysis of smaller units is included below:

In Appendix 2, a 2 bed house has been modelled. The assumed OMV of this unit is £156k. A purchase price of £105k (based on £35k income) represents 67% of OMV, compared to 55% under the 3 bed example. The Property Value graph in Appendix 2 shows a smaller gap between HLT value and market sale property for a 2 bed unit. The Salary Graph shows just over a 2 x increase in salary required by year 5 to purchase market sale, 3 x by year 10 and just under 7 x by year 20.

Appendix 3 examines a 2 bed flat, with an OMV of £130k. A purchase price of £105k represents over 80% of OMV. The Salary Graph shows a 1.82 times increase in salary required by year 5 to purchase market sale, 2.67 x by year 10 and under 6 x by year 20.

This demonstrates, as expected, that the lower the gap between HLT housing value and market housing, the greater the likely incidence of HLT occupiers being able to move on to purchase on the open market. However, this will need to be considered alongside any potential impetus to invest in areas of greater need, ie where OMV's are higher and the affordability gap greater.

### 3 HLT Deliverability

The second main area for investigation is whether the HLT concept is deliverable in practical terms. In other words, will it be an attractive enough product for people to buy and will lenders be interested in offering mortgages against it?

#### 3.1 Saleability

There are various shared-ownership, shared-equity and discounted sale properties on the market for prospective low cost home ownership purchasers. Shared-ownership has been used in this analysis as a typical alternative to HLT property and a summary comparison is outlined below:

- Under an HLT, the purchaser owns their property outright, rather than just owning a share and potentially having to pay rent on the unsold equity. Outright ownership could be an attraction to purchasers.
- Whilst the occupier owns the property outright, it trades at below market value because of on-sales covenants linking future value to earnings inflation, RPI, or another 'cost of living' index.
- In this example, average earnings inflation is 4%, so purchasers of an HLT property could expect 4% pa growth in their property value. With current rates on savings accounts in excess of 4%, this would render an HLT property a less attractive investment.
- In this analysis, average annualised house price inflation is assumed to be 8%, so shared-ownership value growth is running at twice the rate of HLT property. In practical terms, this means a 3 bed unit with an initial purchase price of £105k increases to £155k after 10 years as an HLT property (trading at AEI), whilst a £105k shared-ownership share increases to £227k over the same period.
- In terms of investment and value growth, shared-ownership appears to be a much more attractive product than HLT property.

The above tends to indicate that if HLT property is looking to 'tap in' to the same market as shared-ownership, it might struggle. One suggestion may be to look at another market, perhaps those people who are currently 'priced out' of shared-ownership, as their incomes are lower than required and who's current option is to rent.

The 2 bed house and flat example in Appendix 2 and 3 can be used to illustrate this. The delivery costs of these 2 bed units range from £88k- £99k per unit, depending on site conditions and type of HLT set up. Using the 3 x income multiplier, these properties could be affordable for those earning between £29k and £33k. 1 bed flats would be more affordable still. These income levels, in certain locations, could be lower than the incomes targeted for shared-ownership and so this may be an area for further exploration.

#### 3.2 Mortgageability

Both Halifax and Nationwide have been approached, as the major lenders for low cost home ownership products to ascertain their views on HLT mortgageability.

The first point to mention is that the current timing is not ideal. The number of mortgage lenders offering mortgages to the intermediate market generally has declined in line with the wider 'credit crunch,' with a marked reduction in lenders and deals. The terms of deals have also hardened with tougher lending criteria requiring larger deposits, more risk averse lending, adjustments to credit scoring and above all rising interest rates. In addition of course there is a lack of confidence in the housing market particularly in terms of the potential for continued value reduction.

Current market conditions aside, there are a range of key criteria that lenders are likely to need to satisfy in any event:

### **3.3 Security**

The lender will obviously want to secure their lending against a tradeable asset. Typically in terms of intermediate market products this may include a shared ownership lease for at least 99 years based on a series of approved standard clauses. Other intermediate market products such as HomeBuy offer the lender the security of a freehold interest (in the case of a house) with the discount secured against the freehold title by way of a charge, which ranks behind that of the mortgage lender. In terms of developing the HLT based proposals, early thought needs to be given to the security offered by the product, for example:

- Is it a freehold /leasehold interest with the discount secured by way of a charge against the title as per HomeBuy?
- How does the value of the security appreciate/ depreciate
- How is the asset value of the security realised- for example in the event of default by the 'purchaser'

The guiding principle is that lenders want to be able in the event of default to step into a situation, take ownership and dispose of the asset unencumbered to mitigate against any loss. Shared ownership leases, for example, provide a mortgagee protection clause to enable a lender to recover the position, dispose of their interest and recover some of their losses. Even with this provision, lending for shared ownership is limited as many lenders are 'put off' by the rental element and or the low stake that a shared ownership may hold making, in their view, default more likely.

### **3.4 Scale**

Lenders will be concerned with the scale and replicability of the HLT product. Most significant mortgage lenders are nationally based and they will only want to develop new products, policies and criteria for a product which will produce scale and longer term profitability. The only exception to this may be a very regionally based building society who may be motivated by some form of local perspective or wish to support an HLT based approach for local PR based reasons. No indication at this stage is given regarding the scale of the potential for the product but it will be an important consideration.

### **3.5 Complexity**

Alongside scale, lenders will tend to steer clear of complexity. In developing HLT proposals the ability to base any product on tried and tested criteria and existing models will be important in terms of securing lending support. The lenders approached have tended to take the view that there is no current capacity for new 'one-off' schemes, so size and replicability will be key.

### 3.6 Perpetuity Models

Previous attempts to create perpetuity models in relation to home ownership have been problematic and will present a challenge for HLT based proposals. The challenge is simply how to reconcile the need to preserve the locked in discount with the requirement of the lender to be able to recover the value of the asset and mitigate against any losses. Typically in similar situations such as rural exception sites a mortgagee in possession clause will override any perpetuity clause though this may be more problematic with HLT approaches. One area worth exploring may be to enable the HLT Co to have a buy back pre-emption so that it can, in the event of any default, underwrite the lender against any losses by buying the share back.

### 3.7 Open Market Value

The lenders are not keen on linking future sales values into any indices other than natural market values. This would include wage inflation. Taking this to the extreme, they consider that negative growth could occur due to unforeseen movements in the chosen index, thus affecting their security. It is worth noting that this can also occur with market value linked products.

### 3.8 Market Potential

The market potential for low cost home ownership remains consistently high across the country not least due to the differential between income and house prices. Again however there are likely to be some fundamentals, which any product will need to offer:

- A clear 'discount to market' benefit
- The ability to remain affordable and sustainable in the longer term
- The ability for the product to facilitate and allow for outright ownership
- The ability of the product to offer capital growth in line with the wider market
- A lack of complexity and a market supported by lenders
- Good quality homes well managed in the longer term.

Any new home ownership product would need to be considered against each of these criteria to assess whether it would work in practice.



# Appendix 1

# Housing Land Trusts

## Key Assumptions (3 bed unit)

COST ASSUMPTIONS	UNIT	RATE	ASSUMPTIONS	SCHEME
<b>Build</b>				
Average unit size (sqm)	90			
Cost per sq m	64,620	718	£618 - £817	
Inflation to date	5,170	8%		
<b>Base Build Cost</b>	<b>69,790</b>			<b>2,791,584</b>
<b>Fees</b>				
Architect 3%	2094	3%		
Engineer 1%	698	1%		
Project Management 2%	1396	2%		
Planning Supervisor 0.45%	314	0.45%		
Site surveys	1,000	1,000	per unit	
Planning Fee	335	335	per unit	
NHBC	252	252	per unit	
Legal (land purchase)	500	500	per unit	
Legal (property sale)	1,200	1,200	per unit	
Marketing	250	250	per unit	
<b>Total fees 11.52%</b>	<b>8,038</b>			<b>321,537</b>
<b>Other Costs</b>				
External Works & Drainage	9,422	13.5%	12% - 15%	
Interest	2,724	7%		
§106 cost	4,500	4,500	3k-6k per dwelling	
<b>Total other cost</b>	<b>16,646</b>			<b>665,823</b>
<b>TOTAL COST</b>	<b>94,474</b>			<b>3,778,944</b>

<b>Abnormals</b> 5% on build cost	<b>97,963</b>	say 5% -25%	eg, demolition and site clearance, obstruction removal, topography, ground conditions, remediation service diversion, riverwall works, listed buildings, noise attenuation japanese knotweed etc.	<b>3,918,523</b>
15% on build cost	<b>104,942</b>			<b>4,197,682</b>
25% on build cost	<b>111,921</b>			<b>4,476,840</b>

<b>HLT overheads</b>	<b>10,392</b>	11%	Could be done in house by HLT, so staff salaries would need to be accounted for or via a secondment or consultant PM, so fee would need to be covered.	<b>415,684</b>
Management of land transfer and consultants to get scheme through design, planning, tender construction and sale.				

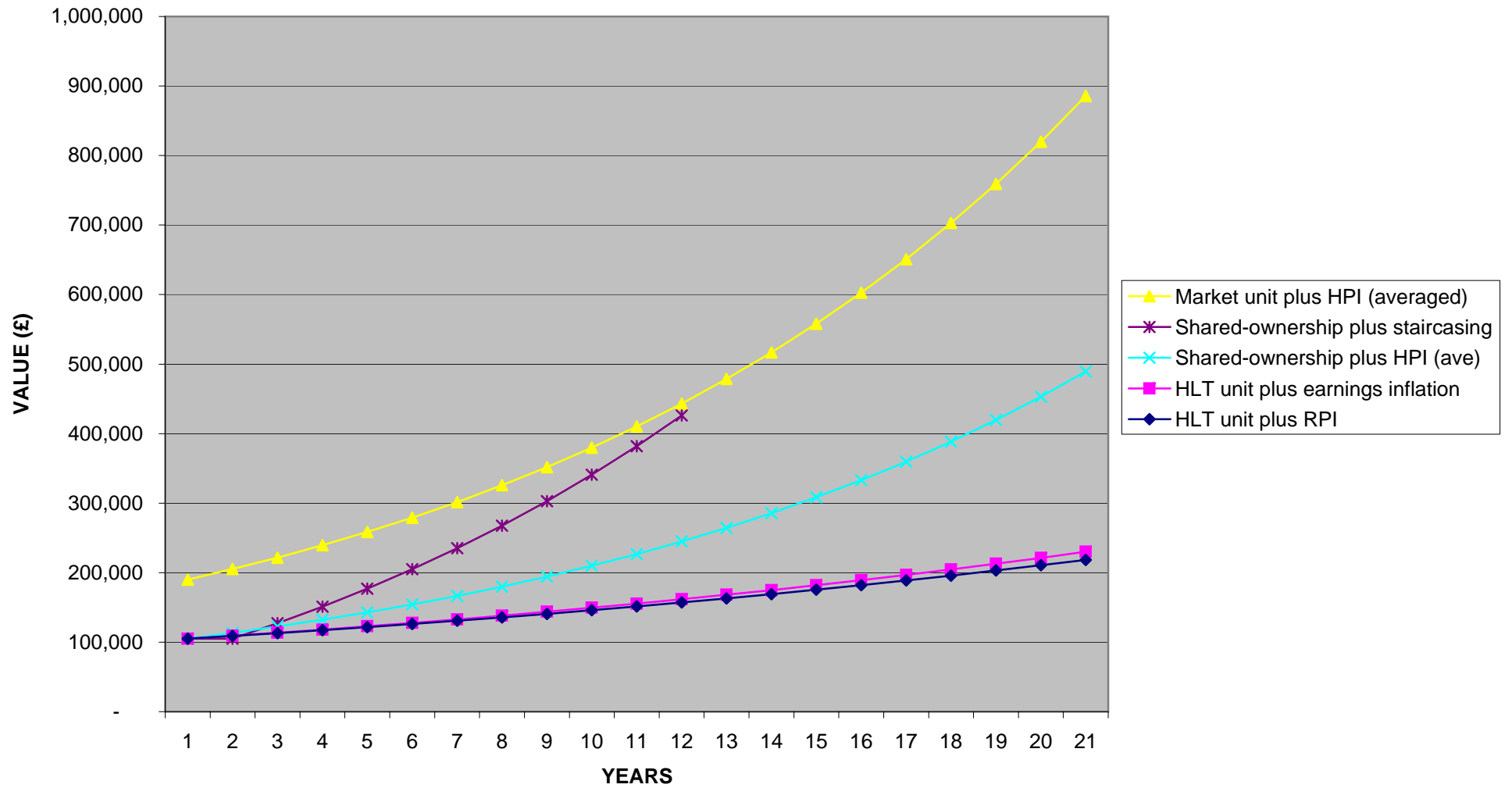
VALUE ASSUMPTIONS	SQ FT		TOTAL SCHEME
Average unit size	969	0.0929	
Value per sq ft	196		
Value per unit (omv)	190,000	63,333	7,600,011
Affordability 3	105,000	35,000	£35k household income x3
% of OMV	55.26%		
<b>Unit sale price</b>	<b>105,000</b>		<b>4,200,000</b>

ECONOMIC ASSUMPTIONS (2006/7 data)			TOTAL SCHEME
Retail Price Index (RPI)	3.73%		
Consumer Price Index (CPI)	2.40%		
House Price Inflation (HPI)	8.00%	using LT average	
Average Earnings Index (AEI)	4.00%		
Churn pa	10.00%		
Transaction cost per uni	250		4

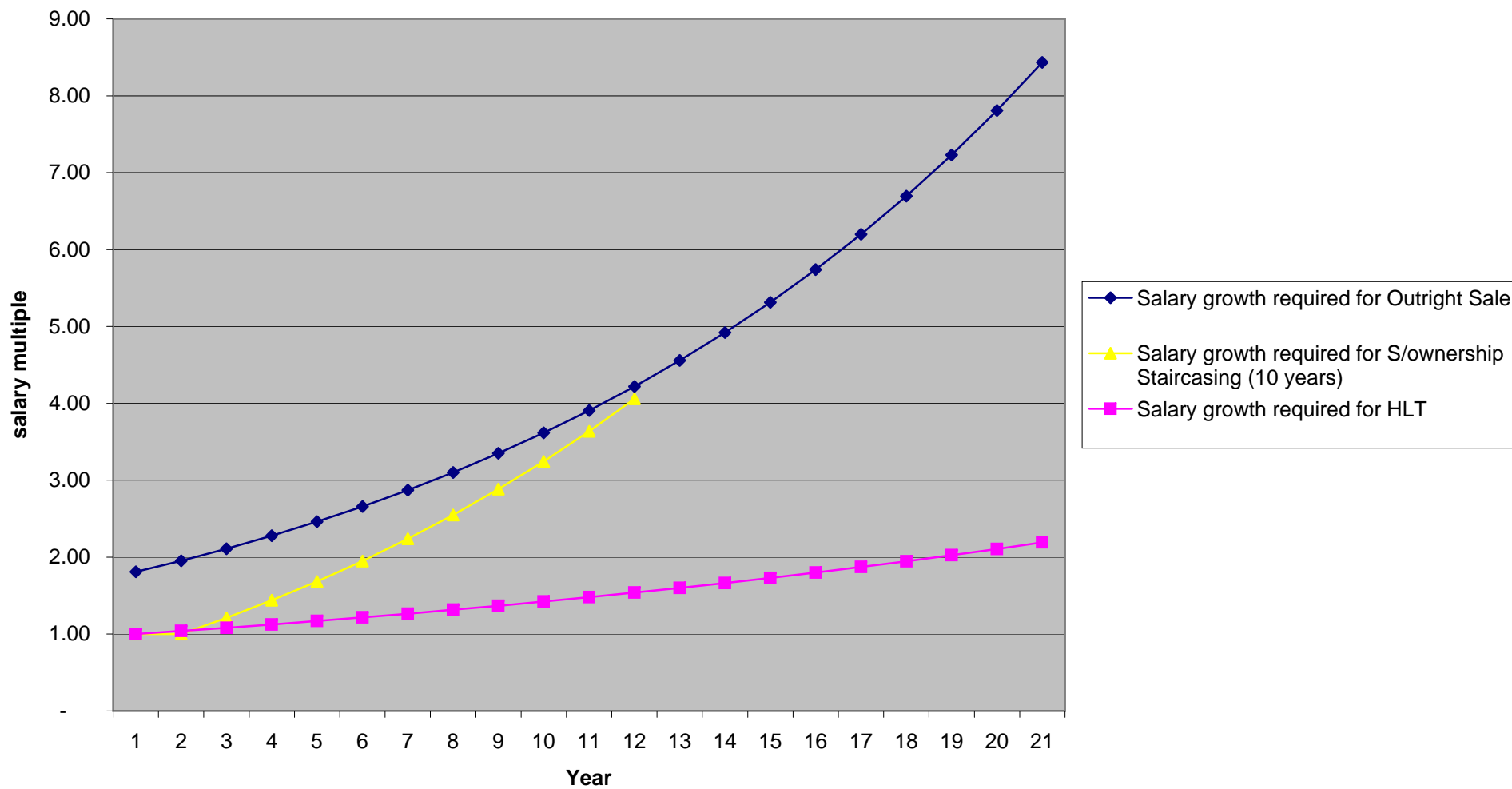
ASSUMED DEVELOPMENT SCHEME	
No units	40

SUMMARY - 3 bed unit		TOTAL SCHEME
Value (omv)	190,000	7,600,011
Affordable value	105,000	4,200,000
Total cost (no abnormals + HLT overheads)	104,866	4,194,628
Total cost (no HLT overheads + abnormals (15%))	104,942	4,197,682
		Assumes a straightforward site, with no additional costs.
		Assumes HLT part of larger organisation (eg an RSL) which provides development expertise

### PROPERTY VALUES (3 bed house)



**Salary Growth Required for various Home Ownership Tenures (assuming £35k starting salary)  
3 bed house**





## Appendix 2

# Housing Land Trusts Key Assumptions (2 bed unit)

COST ASSUMPTIONS	UNIT	RATE	ASSUMPTIONS	SCHEME
<b>Build</b>				
Average unit size (sqm)	74			
Cost per sq m	53,132	718	£618 - £817	
Inflation to date	4,251	8%		
<b>Base Build Cost</b>	<b>57,383</b>			<b>2,295,302</b>
<b>Fees</b>				
Architect 3%	1721	3%		
Engineer 1%	574	1%		
Project Management 2%	1148	2%		
Planning Supervisor 0.45%	258	0.45%		
Site surveys	1,000	1,000	per unit	
Planning Fee	335	335	per unit	
NHBC	252	252	per unit	
Legal (land purchase)	500	500	per unit	
Legal (property sale)	1,200	1,200	per unit	
Marketing	250	250	per unit	
<b>Total fees 12.61%</b>	<b>7,238</b>			<b>289,527</b>
<b>Other Costs</b>				
External Works & Drainage	7,747	13.5%	12% - 15%	
Interest	2,262	7%		
S106 cost	4,500	4,500	3k-6k per dwelling	
<b>Total other cost</b>	<b>14,508</b>			<b>580,335</b>
<b>TOTAL COST</b>	<b>79,129</b>			<b>3,165,164</b>

<b>Abnormals</b> 5% on build cost	<b>81,998</b>	say 5% -25%	eg, demolition and site clearance, obstruction removal, topography, ground conditions, remediation service diversion, riverwall works, listed buildings, noise attenuation japanese knotweed etc.	<b>3,279,929</b>
15% on build cost	<b>87,736</b>			<b>3,509,460</b>
25% on build cost	<b>93,475</b>			<b>3,738,990</b>

<b>HLT overheads</b>	<b>10,208</b>	13%	Could be done in house by HLT, so staff salaries would need to be accounted for or via a secondment or consultant PM, so fee would need to be covered.	<b>408,306</b>
Management of land transfer and consultants to get scheme through design, planning, tender construction and sale.				

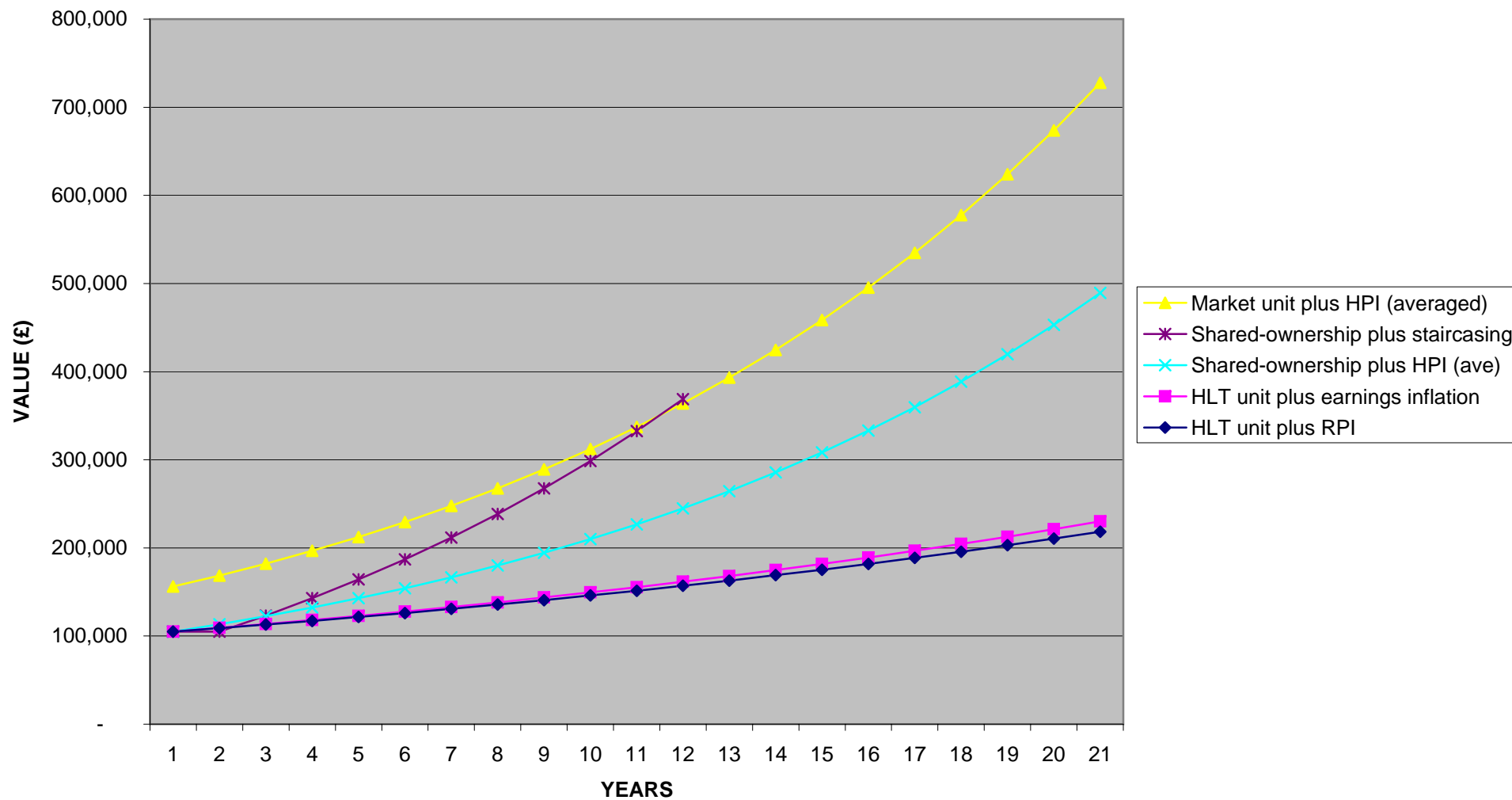
VALUE ASSUMPTIONS	SQ FT		TOTAL SCHEME
Average unit size	797	0.0929	
Value per sq ft	196		
Value per unit (omv)	156,125	52,042	6,244,995
Affordability 3	105,000	35,000	
% of OMV	67.25%		
<b>Unit sale price</b>	<b>105,000</b>		<b>4,200,000</b>

ECONOMIC ASSUMPTIONS (2006/7 data)			TOTAL SCHEME
Retail Price Index (RPI)	3.73%		
Consumer Price Index (CPI)	2.40%		
House Price Inflation (HPI)	8.00%	using LT average	
Average Earnings Index (AEI)	4.00%		
Churn pa	10.00%		
Transaction cost per unit	250		
		2006 = 3.2% , 2007 = 4.26%	
		2006 = 2.5% , 2007 = 2.4%	
		2004=15.1%, 2006=9.9% , 2007=5.2%	
		2006 = 4.11% , 2007 = 3.94%	
			<b>4</b>

ASSUMED DEVELOPMENT SCHEME	
No units	40

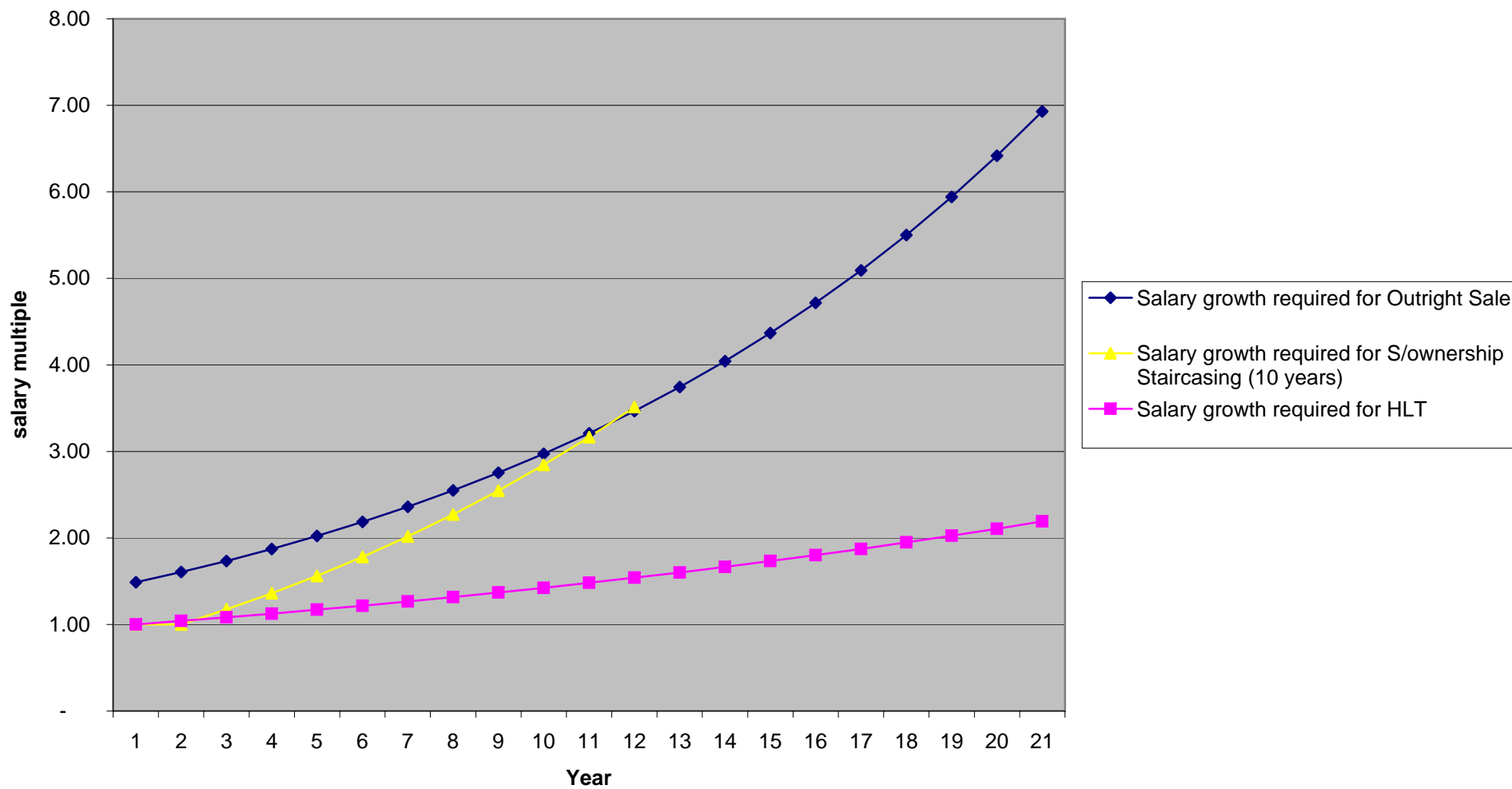
SUMMARY - 3 bed unit			TOTAL SCHEME
Value (omv)	156,125		6,244,995
Affordable value	105,000		4,200,000
Total cost (no abnormals + HLT overheads)	89,337	Assumes a straightforward site, with no additional costs.	3,573,470
Total cost (no HLT overheads + abnormals)	87,736	Assumes HLT part of larger organisation (eg an RSL) which provides development expertise	3,509,460
(15%)			
Total cost with abnormals + HLT overheads	97,944	Assumes 15% abnormals and HLT overheads	3,917,766
(15%)			

### PROPERTY VALUES (2 bed house)





**Salary Growth Required for various Home Ownership Tenures (assuming £35k starting salary)  
2 bed house**





# Appendix 3

## Housing Land Trusts Key Assumptions (2 bed flat)

COST ASSUMPTIONS	UNIT	RATE	ASSUMPTIONS	SCHEME
<b>Build</b>				
Average unit size (sqm)	61			
Cost per sq m	53,894	884	£722 - £1045	
Inflation to date	4,311	8%		
<b>Base Build Cost</b>	<b>58,205</b>			<b>2,328,199</b>
<b>Fees</b>				
Architect 3%	1746	3%		
Engineer 1%	582	1%		
Project Management 2%	1164	2%		
Planning Supervisor 0.45%	262	0.45%		
Site surveys	1,000	1,000	per unit	
Planning Fee	335	335	per unit	
NHBC	252	252	per unit	
Legal (land purchase)	500	500	per unit	
Legal (property sale)	1,200	1,200	per unit	
Marketing	250	250	per unit	
<b>Total fees 12.53%</b>	<b>7,291</b>			<b>291,649</b>
<b>Other Costs</b>				
External Works & Drainage	7,858	13.5%	12% - 15%	
Interest	2,292	7%		
S106 cost	4,500	4,500	3k-6k per dwelling	
<b>Total other cost</b>	<b>14,650</b>			<b>586,002</b>
<b>TOTAL COST</b>	<b>80,146</b>			<b>3,205,850</b>

<b>Abnormals</b> 5% on build cost	<b>83,056</b>	say 5% -25%	eg, demolition and site clearance, obstruction removal, topography, ground conditions, remediation	<b>3,322,260</b>
15% on build cost	<b>88,877</b>		service diversion, riverwall works,	<b>3,555,080</b>
25% on build cost	<b>94,697</b>		listed buildings, noise attenuation japanese knotweed etc.	<b>3,787,899</b>

<b>HLT overheads</b> Management of land transfer and consultants to get scheme through design, planning, tender construction and sale.	<b>10,259</b>	13%	Could be done in house by CLT, so staff salaries would need to be accounted for or via a secondment or consultant PM, so fee would need to be covered.	<b>410,349</b>
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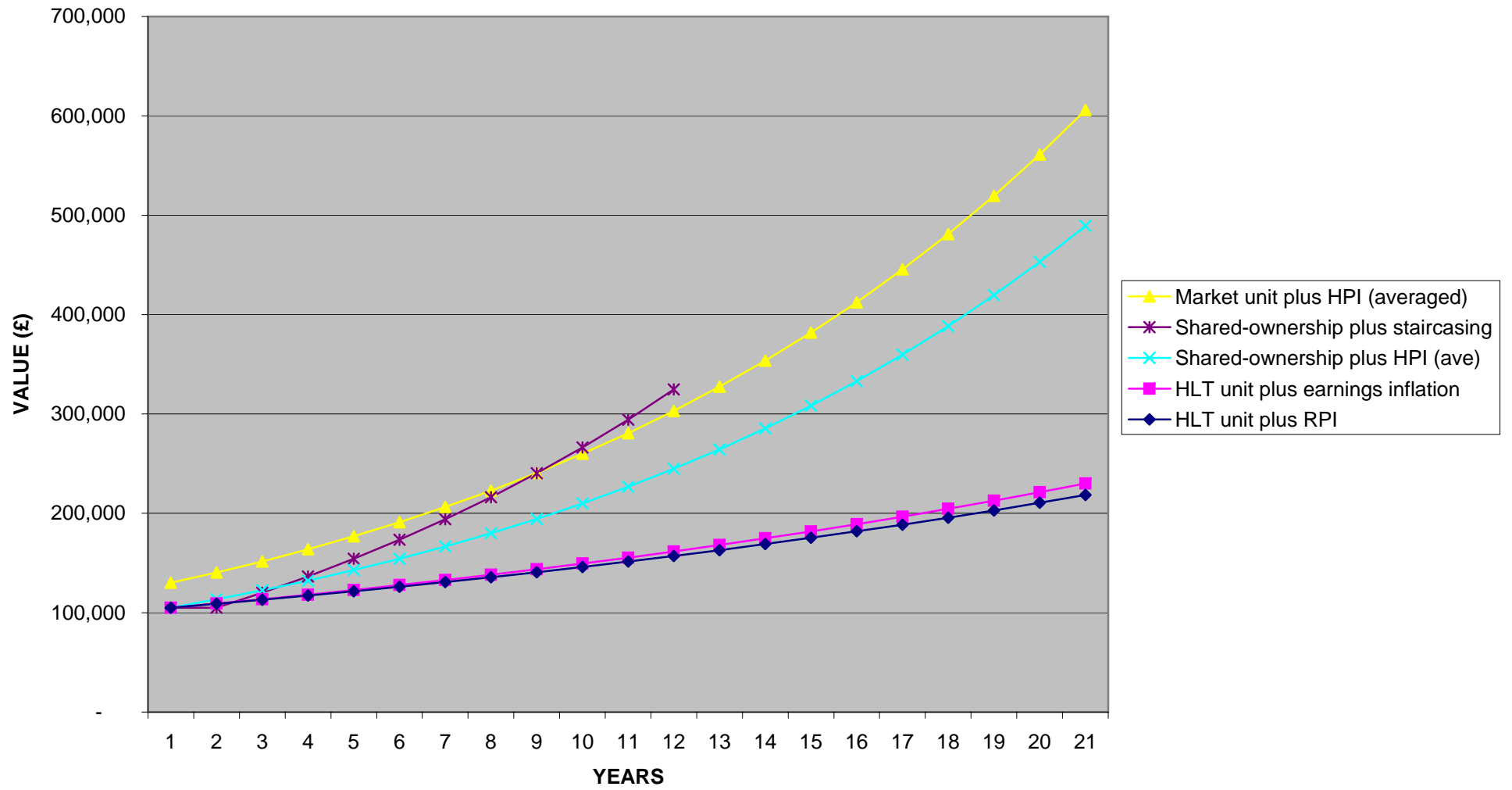
VALUE ASSUMPTIONS	SQ FT		TOTAL SCHEME
Average unit size	657	0.0929	
Value per sq ft	198		
Value per unit (omv)	130,011	43,337	5,200,431
Affordability 3	105,000	35,000	
% of OMV	80.76%		
<b>Unit sale price</b>	<b>105,000</b>		<b>4,200,000</b>

ECONOMIC ASSUMPTIONS (2006/7 data)			TOTAL SCHEME
Retail Price Index (RPI)	3.73%		
Consumer Price Index (CPI)	2.40%		
House Price Inflation (HPI)	8.00%	using LT average	
Average Earnings Index (AEI)	4.00%		
Churn pa	10.00%		
Transaction cost per unit	250		
		2006 = 3.2% , 2007 = 4.26% 2006 = 2.5% , 2007 = 2.4% 2004=15.1% , 2006=9.9% , 2007=5.2% 2006 = 4.11% , 2007 = 3.94%	4

ASSUMED DEVELOPMENT SCHEME	
No units	40

SUMMARY - 3 bed unit		TOTAL SCHEME
Value (omv)	130,011	5,200,431
Affordable value	105,000	4,200,000
Total cost (no abnormals + HLT overheads)	90,405	3,616,198
Total cost (no HLT overheads + abnormals) (15%)	88,877	3,555,080
Total cost with abnormals + HLT overheads (15%)	99,136	3,965,428
		Assumes a straightforward site, with no additional costs.
		Assumes HLT part of larger organisation (eg an RSL) which provides development expertise
		Assumes 15% abnormals and HLT overheads

### PROPERTY VALUES (2 bed flat)



**Salary Growth Required for various Home Ownership Tenures (assuming £35k starting salary)  
2 bed flat**

