

Margaret Handovsky
Principal Planning Officer
Department of Planning and City Development
Westminster City Council
11th Floor, City Hall
64 Victoria Street
London, SW1E 6QP

4th March 2011

Dear Margaret

House price inflation

This letter follows on from the advice we provided at a similar stage for the past four years and essentially constitutes an update of those letters. As such, below I outline an update on our advice relating to house price inflation.

Project overview

The City of Westminster UDP was adopted on the 24th January 2007. The matter of payments in lieu of on-site affordable housing is addressed in UDP policy H4, in particular paragraphs 3.34 and 3.51 to 3.53.

Under the terms of the City Council's adopted Unitary Development Plan, payments in lieu of on-site affordable housing were formerly calculated using the Total Cost Indicator (TCI), published annually by the Housing Corporation. This quoted the cost of land in inner London per 75-80 sq m unit. The TCI for Westminster for 2005/6 was **£125,000** for Westminster. The Housing Corporation ceased publishing the TCI in 2005. Since then these figure has been updated a number of times;

- First, the City Council updated the per unit sum for 2006/7 to **£134,000** by using the 2005/6 TCI as a baseline and increasing it by 7%, based on advice from consultants.
- The figure was further increased by 10% with effect from 1 April 2007 to reflect the rising values in the previous 12 months, equating to a new figure of **£147,000** per unit.
- This figure was adjusted again from 1st April 2008 based on advice from Knight Frank using Land Registry statistics, equating to a new figure of **£179,000**.
- In 2009, Knight Frank advised, using Land Registry statistics, a revision downwards from 1st April 2009, to a figure of £171,500. However, it was felt that this reduction would have a detrimental effect on the Affordable Housing Fund, which was unjustified given that values did not truly reflect the land cost to developers providing affordable housing, and therefore the figure remained unchanged at **£179,000**.
- This figure was further adjusted from 1st April 2010 based on advice from Knight Frank, again using Land Registry statistics, to a new figure of **£185,000** (the actual figure was £184,800 but was rounded to the nearest £1,000).

Land values and house prices

The preferred route for the Council would be to update the TCI base figure by having reference to changes in development land values in the City of Westminster. The problem has been in devising a simple and timely method of tracking land value price changes over time. For this reason reference to house price inflation has been the adopted methodology employed by the Council and its consultants. For the avoidance of doubt we have been asked to provide an assessment of **house** price inflation in the Borough, not **land** value inflation.

Timescale

You are looking to establish price growth in the year to 31st March in each instance. The problem you have is that you need to calculate this change well in advance of 31st March and therefore well before house price inflation statistics are known for this period.

For this reason we would suggest that you rely on known price change for the most recently available period. As you will see below, at the current time the most recently available data is for price change up to December 2010 – for this reason we have calculated price inflation to this date.

Your requirements

Knight Frank has been instructed to update the following figures:

- (i) The average percentage rise in house values in the City of Westminster over the 12 months to December 2010
- (ii) The average percentage rise in house values in the City of Westminster over the 72 months to December 2010

Findings

There are various sources available to refer to for house price inflation. Unfortunately for our purposes they mainly refer to wide geographic regions, and are less helpful for us when we are looking to assess trends in a relatively small location such as a single Borough. In the following table we set out various alternatives which gives you an idea of the options open to you.

| Source | Geographical extent | Period | Starting value (£) | End value (£) | % growth |
|------------------|---------------------|----------------------------|--------------------|---------------|----------|
| HM Land Registry | Greater London | 12 months to December 2010 | 322,240 | 336,438 | 4.4% |
| HM Land Registry | City of Westminster | 12 months to December 2010 | 591,653 | 623,270 | 5.3% |
| Nationwide | Greater London | 12 months to December 2010 | 276,088 | 283,511 | 2.7% |
| HBOS | Greater London | 12 months to December 2010 | 257,999 | 250,721 | -2.8% |

| Source | Geographical extent | Period | Starting value (£) | End value (£) | % growth |
|------------------|---------------------|----------------------------|--------------------|---------------|----------|
| HM Land Registry | Greater London | 72 months to December 2010 | 274,174 | 336,438 | 22.7% |
| HM Land Registry | City of Westminster | 72 months to December 2010 | 403,274 | 623,270 | 54.6% |
| Nationwide | Greater London | 72 months to December 2010 | 236,268 | 283,511 | 20.0% |
| HBOS | Greater London | 72 months to December 2010 | 241,115 | 250,721 | 4.0% |

Recommendation

As with last year, we have assessed several indices provided by the major national and regional residential market analysts. Whilst HBOS and Nationwide provide timely and widely accepted indices, Land Registry are able to provide a robust market movement indicator at a sub-regional level. The Land Registry dataset:

“...captures changes in the value of residential properties. The HPI is published by Land Registry using sales data collected on all residential housing transactions, whether for cash or with a mortgage, in England and Wales since April 2000. You can search indices at a national level as well as for the various regions, counties and London boroughs.

“Our new HPI uses a sample size that is larger than all other statistical measures available. The Land Registry data set is the only complete record of residential property transactions in England and Wales

“The HPI is calculated by using Land Registry's own 'Price Paid Dataset'. This is a record of all residential property transactions made in England and Wales since April 2000. At present it contains details on over seven million sales. Of these, 1.5 million are identifiable matched pairs, providing the basis for the repeat-sales regression analysis used to compile the index. This technique of quality adjustment ensures an 'apples to apples' comparison between properties.”
(Source: <http://www.landregistry.gov.uk/houseprices/housepriceindex/>)

In conclusion therefore we would recommend that you adopt the following inflation rates:

| Source | Geographical extent | Period | Starting value (£) | End value (£) | % growth |
|------------------|---------------------|----------------------------|--------------------|---------------|----------|
| HM Land Registry | City of Westminster | 12 months to December 2010 | 591,653 | 623,270 | 5.3% |
| HM Land Registry | City of Westminster | 72 months to December 2010 | 403,274 | 623,270 | 54.6% |

These figures result in the following TCI uplifts:

| Period | Base figure (£) | Inflation figure | Imputed figure for 2010/11 (£) |
|--|-----------------|------------------|--------------------------------|
| 2005/06 TCI figure increased by 72 months price inflation covering the period December 2004 to December 2010 | 125,000 | 54.6% | 193,200 |
| 2009/10 TCI figure increased by 12 months price inflation covering the period December 2009 to December 2010 | 185,000 | 5.3% | 194,900 |

If you have any queries relating to the above recommendation – please feel free to contact me at any time.

Yours sincerely

James Kennard
Residential Research
Knight Frank LLP