

Development in Jersey

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Purpose: To summarise the initial phase of the affordability and development delivery challenges research undertaken by Altair.

- Consider whether policy interventions on alternative delivery mechanisms (e.g. Modern Methods of Construction) is a priority given construction costs
- Note that currently labour and skills supply are not a barrier to construction at present, but that depending on scale of delivery against targets in the future and overlapping delivery this may be a future barrier
- Consider whether it would be valuable to explore making changes in the planning system to address anecdotal concerns about the residential development process
- Application of policies such as CIL or affordable housing through planning gain need to be carefully considered to ensure they don't restrict development of housing more generally. They could be a significant tool in the delivery of affordable housing as evidence by the 'The Potential Impact of a Jersey Infrastructure Levy: a Review' report.

Summary

The Housing Policy Development Board has identified that difficulties in developing properties may be a contributing factor in the cost of property for sale on the island, and/or may limit supply.

To better understand the extent to which development barriers were impacting on property values, we assessed a number of key elements of development including:

- Viability and land costs
- Construction market and workforce
- Land supply and planning
- Finance and funding

Overall, we found that at present the most significant barrier to housing delivery is land supply. In other areas there are not significant barriers to delivering housing, although some stakeholders felt the planning process could be improved. However, were future delivery to match delivery targets, for example as the result of mobilisation of large-scale projects such as the new hospital, new offices (e.g. GoJ headquarters) and Andium's housing pipeline, materials and workforce supply may become more challenging.

This research was carried out using desktop data and by carrying out qualitative interviews with key stakeholders including developers and agents on the Island, listed in Appendix 1. Where research was unavailable, we have based our approach on general themes relating to housing delivery in other jurisdictions of a similar context to Jersey (i.e. areas of high demand and limited supply).

1 Background

- 1.1 Jersey has high residential property prices and rental levels. The mix-adjusted average house price for Jersey is £499k, with 3 bed properties at a mean price of £605k. The average price is around 13 times the average (mean) Full Time Equivalent (FTE) wage of £38,480 and 16 times the median FTE wage of £30,680. Even allowing for an uplift for combined households, lower quartile properties are inaccessible to those on median incomes (and lower). The requirements of mortgage providers typically allow for earning multiples of up to 4.5 times combined household income.
- 1.2 Over the last 5 years, property prices have increased at a higher rate (28%) than the 5 years previous (-11%) based on the Jersey House Price Index. The average property price is higher than all regions of the UK including London.
- 1.3 The impact of this is that either people are pushed into the rental market, leave Jersey or stay in unsuitable accommodation (e.g. at home with parents or overcrowded in what can be poor quality housing in the private rental sector).
- 1.4 The rental market in Jersey also suffers from affordability challenges. In 2015, when data was last collected 73% of low-income households in the qualified private rental sector were in rental stress, defined by GoJ as the proportion of lower-income households (in the lowest 40% of the income distribution) which are paying more than 30% of their gross income on rental costs.¹
- 1.5 As discussed as part of the key worker study, lack of affordable housing has adverse impacts for business and the public sector in attracting and retaining employees on median or lower incomes who are carrying out core jobs on the Island. It has also been shown to have an impact on the health and welfare and future aspirations of a population. Access to social housing is only open to those who have been resident on the island for ten years, have a household income below a set level and who meet the qualification criteria of either:
 - having a dependent child,
 - having medical, physical or mental disability and be in need of a special type of housing
 - being over 50
- 1.6 Challenges in housing affordability (which will be considered in full in a separate research paper to the board in July 2019) are often linked to demand outstripping supply. Island Plan housing targets have not addressed issues of affordability, albeit, this was not the intent of

¹ States of Jersey (2015) Future Jersey

the targets. The forthcoming Island Plan will potentially have increased housing supply targets that could assist in addressing affordability issues.

- 1.7 As a result of these pressures, the Housing Policy Development Board wishes to explore what barriers there are to the development of housing (e.g. increasing supply) and any unnecessary development costs (e.g. which raise the cost of building new homes), so that future policy interventions mitigate these to increase supply and reduce build cost, so as to move towards a more sustainable housing market.

2 Potential issues and barriers

- 2.1 To research the affordability issues and barriers to development, desktop research has been carried out using online sources such as the current Island Plan, viability assessments, and statistics produced by Statistics Jersey. In addition, meetings have been held with some of the key stakeholders in the development sector and from the Government of Jersey (GoJ) planning department and Andium Homes.
- 2.2 Before considering the potential issues and barriers, clarity is required on the factors affecting both property prices and supply of new homes. Whilst there are certain overlaps between price of property and supply of new homes, there are certain factors distinct to each. These are outlined in the diagram below.



Figure 1: factors affecting property prices and new housing supply

- 2.3 The supply of new homes is one of several factors that influence the price of property and therefore should be considered alongside the other factors highlighted in Figure 1. Many of the factors influencing property prices can be impacted by government intervention to varying degrees. In the UK national and regional governments have typically directed their efforts to increase the supply of new homes by using both demand and supply side initiatives (e.g. 'help to buy' assistance for first time buyers, better use of public sector land, grant funding programmes for affordable housing).

- 2.4 However, figure 2, below, highlights that the link between increases in the supply of new homes and increased affordability is complex, and that increasing supply alone will not necessarily result in a drop-in prices. This is particularly where demand increases at a greater rate than the rate of increase in supply. In the UK reasons for increased demand may be increased access to mortgages (this was notable following the recovery from the financial crash in 2008), increased speculative investment in residential property, and wider improvements in the economy such as low unemployment and increased household earnings. However, this demand will drive supply as it in turn gives developers and housing providers confidence to deliver new homes.
- 2.5 In figure 2 we have focussed on London as it is a contained area which faces similar issues of land availability to Jersey, has a similar price point in relation to median incomes against property price, has net inward migration, and has the lowest housing affordability in England (although housing in Jersey is still more expensive).
- 2.6 There is general consensus where private sale is the primary tenure being delivered unless there is material and significant increase in supply then affordability is unlikely to improve without other interventions to support affordability.

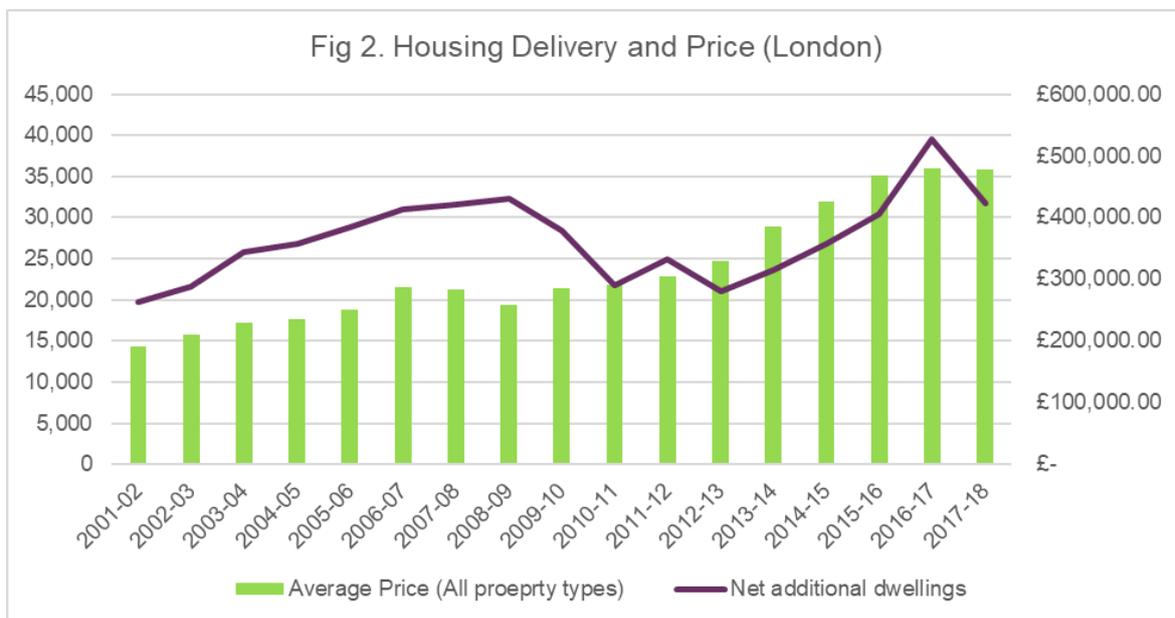


Figure 2. supply of new homes and property prices ²

² UK House Price Index (2018), MCHLG Housing Supply Delivery - Net additional dwellings - New build completions (2019)

3 Viability and Land Costs

- 3.1 Increased activity in the residential development market can bring about viability challenges in supplying new homes. One factor highlighted for Jersey is the perceived high cost of development both in relation to land cost and build costs. As a broad comparison we compared Jersey to the highest value location in the UK, London³:

		Jersey	London
Average property price		£499,000	£467,000
Average build cost (£/m ² BCIS data)			
Estate housing	2-storey	£ 1,360	£ 1,457
	3-storey	£ 1,399	£ 1,499
Estate housing semi detached	2-storey	£ 1,363	£ 1,459
	3-storey	£ 1,289	£ 1,380
	Single storey	£ 1,536	£ 1,644
Estate housing terraced	2-storey	£ 1,383	£ 1,481
	3-storey	£ 1,397	£ 1,496
Flats (apartments)	1-2 storey	£ 1,552	£ 1,662
	3-5 storey	£ 1,608	£ 1,722
	6+ storey	£ 1,997	£ 2,138

Table 1. Value / cost comparison Jersey / London

- 3.2 Table 1 shows that despite higher average property prices in Jersey, the cost of building in Jersey⁴ is marginally lower than in London. Appendix 2 contains a more detailed Technical Annex for Jersey build costs using upper and lower indices for Jersey compared to a number of jurisdictions in the UK. It includes direct a price comparator, Southwark, and overall reveals that while build costs are anecdotally considered high in Jersey, data suggests they are generally in line with or marginally lower than build costs in London.
- 3.3 While there will be a range of specific market factors in each location that impact on both property prices and build cost, responses from our stakeholder interviews indicated that build cost is not seen as a significant concern for developers operating in Jersey. A Technical Annex of build cost in Jersey accompanies this report. Despite general anecdotal belief across housing related stakeholders in Jersey, some of the main developers on the island do not see build cost as a significant barrier to their own delivery particularly if delivering large sites for private sale where they employ direct labour.
- 3.4 Moderate build costs, as described above, against a backdrop of high property prices may be a contributing factor to high land prices in Jersey. This is as land prices are typically the residual output of the property value less costs, therefore where costs reduce the proportion of the property value that can be apportioned to land is higher, as shown in fig. 3.

³ The Building Cost Information Service (BCIS) of the Royal Institution of Chartered Surveyors (RICS) accessed May 2019

⁴ According to Index 113 from BCIS Data for the Channel Islands

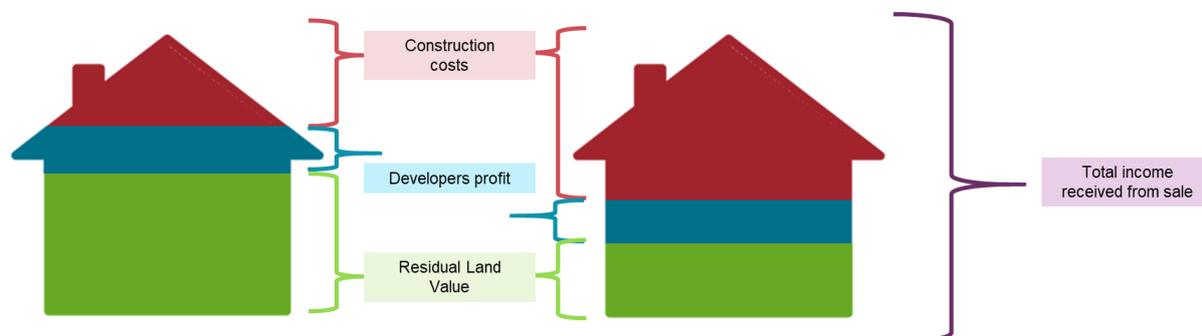


Figure 3. Residual land value, as the remaining share of property income after construction costs and developers profit

- 3.5 Whilst high land cost for residential development could be a barrier to development and potential affordability issues, it also needs to be considered in the context of alternative, competing uses for land, however this is dependent on zoning through planning, as this will determine whether there is competition for land for non-residential uses.
- 3.6 There are different views on the effect a developer's contribution levy will have on supply delivery. The 'Viability Assessment for Review of Developer Contributions' (May 2016)⁵ highlighted the relatively high value of alternative land uses such as offices or retail that mean implementation of financial or other contributions through the planning system to only residential development (such as schemes equivalent to the Community Infrastructure Levy used in England) could threaten delivery of residential accommodation outlined in the Island Plan. This effectively means reduction of residential land values could fetter residential sites coming forward as value of existing / alternative uses will be more attractive to developers and investors. This sentiment was echoed in discussions with stakeholders. However, the 'The Potential Impact of a Jersey Infrastructure Levy: a Review'⁶ which focussed on introducing a Jersey Infrastructure Levy (JIL) across all types of development is that:
- "given the levels of taxation under discussion, the impact on supply is likely to be very small and landowners will keep most of the gain. There should therefore be very little direct effect on supply"
- 3.7 Andium Homes, an arm's length affordable housing provider and developer wholly owned by the GoJ, has experienced challenges relating to scheme viability when purchasing land as a result of acquiring sites on the open market. Government policy has not historically focussed on the strategic provision of free or low-cost government land to Andium, although on a scheme-by-scheme basis, land has been transferred at low / nil cost to Andium. The site transfer of land from the GoJ for the development of 247 homes in 2021 is contained in Andium's delivery pipeline.
- 3.8 In the main, however, Andium acquires land from the open market in competition with private developers. The challenge Andium faces regarding viability is not unexpected given sites available on the open market will, in the main, be more viable (i.e. a higher land price) where

⁵ HDH Planning & Development Ltd (sub-contracted by ARUP)

⁶ Whitehead, C. (2019) 'The Potential Impact of a Jersey Infrastructure Levy: a Review'

private sale or private rent is delivered than for all affordable housing where rents or property prices are discounted by c. 10% (against open market rents). Elsewhere, such as, in the UK, this 'gap' is plugged by grant subsidy or innovative uses of public land (e.g. creation of long-term revenue streams through affordable housing rather than capital receipts). Given Andium's plans to deliver 3,000 new homes by 2030⁷ of which over half will be delivered through land acquired from the open market, land supply / development opportunities will be key to delivering this requirement.

4 Construction Market and Workforce

- 4.1 The construction market in Jersey was seen by stakeholders as being relatively self-sustaining with opportunities to access local labour, as well as train local labour such as through partnerships created by the Jersey Construction Council (JeCC) Construction Council with Highlands College, and also the ability to access both UK and French supply chains, for example the use of a French contractor, Groupe Legendre for the Horizon Jersey Development Company scheme at St Helier Waterfront.
- 4.2 Research suggests labour and skills shortages are not currently a significant barrier to housing delivery on the island at current delivery levels (with the exception of some less-frequent, large scale projects such as the St Helier Waterfront project). However, there are some large projects planned by the GoJ in the future which if delivered, would create significant growth in the amount and concentration of construction activity on the Island, and increase labour and skills demand.
- 4.3 This could cause labour and skills shortages in instances where large-scale construction projects are delivered simultaneously, placing a strain on the supply of labour inconsistently over time. We understand, however, that some large projects currently planned, such as the new hospital, are currently delayed⁸. As a result, in considering skills and labour the timing of delivery of housing and other projects should be considered.
- 4.4 Unknowns, including the new migration policy and outcomes of Brexit, will also influence growth in the construction skills and labour supply chain. These should be anticipated against delivery whenever possible.
- 4.5 In addition, if delivery in the future is anticipated to occur at a significantly larger scale and simultaneously, introducing diversity to the construction sector may protect the sector in the medium to long term from some labour and materials shortages. For example, the use of alternative construction methods such as Modern Methods of Construction (MMC) and off-site construction (such as those used on the Radisson Hotel) could help alleviate pressures on the traditional housing supply chain⁹ and still help deliver to the Island Plan housing target.

⁷ From "Presentation to the Housing Policy Development Board" by Andium Homes, Delivered 20 May 2019

⁸ From "Changing hospital site 'could delay project by a decade'" by Jersey Evening Post (February 2019)

⁹ Benefits of off-site construction and other modern methods of construction detailed in the House of Lords' Science and Technology Select Committee report "Off-site manufacture for construction: Building for change" (2018)

5 Land Supply and Planning

- 5.1 Land supply was perceived as constrained on the island. With most of the land supply through windfall sites and limited in the main to brownfield sites, there is concern that should the next Island Plan include a high delivery target (e.g. 7,000 homes depending on migration thresholds), it may be unachievable without a conjunction of land, housing and other policy measures. Lack of supply delivery may further compound affordability issues on the Island.
- 5.2 Combined with this, size of sites coming forward can also be a challenge. As a general rule of thumb, developers delivering at scale will need to develop sites of over 50-100 homes to benefit from resource efficiencies, and so some smaller sites may be unattractive, or more expensive to develop, for these developers. There was concern that there will be limited market sites delivering these kind of housing numbers moving forward and the bulk of sites that could deliver these numbers are in public ownership with unknown plans for use or disposal. Whilst there is a market for small developers on the Island, this could be developed further to support housing numbers being delivered such as relaxed planning policies for delivery of residential schemes on smaller sites, but this needs to be considered in the round alongside other wider housing market interventions and is unlikely alone to deliver a significant quantum of housing. Again, competing uses for land was cited as possible constraint for smaller developers on small sites. The table below highlights the benefits and drawbacks of small and large developers.

	Small Developers	Large Developers
Benefits	<ul style="list-style-type: none"> ▪ Social and economic benefits to local economy ▪ Able to make profits on smaller schemes 	<ul style="list-style-type: none"> ▪ Some cost efficiencies on larger projects ▪ Likely to be on large procurement frameworks (track record)
Drawbacks	<ul style="list-style-type: none"> ▪ Not often on large procurement frameworks ▪ Not resourced to deliver large schemes 	<ul style="list-style-type: none"> ▪ Rarely interested in smaller schemes (sub-50 homes) ▪ Some profits may be realised off-island

Table 2. Small Vs Large developers

- 5.3 As evidenced above, supply of new homes in isolation won't necessarily address affordability constraints but combined with other factors low supply could intensify the affordability challenge. Recent iterations of the Island Plan have been focused on supply targets, including zoning for 100% affordable sites.
- 5.4 The ability of the planning process to quickly and efficiently deliver planning consents underpins developer and investor confidence in developing new homes. There were mixed views on whether consents were being delivered quickly enough. Whilst statistics are not available on the proportion of planning applications that receive consent, reported protracted timescales for planning suggest some barriers within the planning process, either caused by structural delays or delays caused by public challenge in the planning process. For example, Andium Homes reported a delay of over a year in one of its schemes (delivering over c. 150

affordable homes) due to a local dispute by a member of the public about a technical element of the scheme.

6 Finance and Funding

- 6.1 Given the relatively high property values, and a median loan to value ratio of 77% in Q1 2019 in Jersey, a sizeable deposit is required to enter the property market (either c. £26k to purchase an average [mean] priced 1-bedroom flat at £255k at a 10% deposit and c. £59k to purchase the same property with a 23% deposit)¹⁰. Combined with high rental values, this means it is difficult for lower and median earners to save for a deposit, secure a mortgage and buy a home. The issue of deposits will be explored more fully in the housing affordability paper presented to the board in July 2019.
- 6.2 Speculative investors play a role in driving demand on schemes and potentially pushing prices upwards. This includes those purchasing properties to let, rather than for occupation by the owner, and can lead to multiple bidders for each new home pushing up prices and outbidding each other for homes.
- 6.3 The paradox here is developers need to be confident there is an end purchaser to keep on developing and funding homes. Removal of speculative investors from the market could dampen this confidence to develop, however this may in some way be mitigated by interventions targeted at increasing the ability and opportunity for lower to median income earners to access the market.
- 6.4 For example, Andium homes have a lower cost ownership product that they are delivering on sites where this is possible or for example, in England, the Help to Buy scheme has enabled many first time buyers (who are typically at the lower end of the earning scale) to access the market through recoverable government loans that act as deposits. However, Help-to-Buy has also been criticised by bankers such as Societe General's global strategist Albert Edwards for inflating prices and creating a bubble in the market, and by firms such as Morgan Stanley for helping drive huge profits among large housebuilders due to price inflation for new builds. Concerns have been raised about the impact on the housing market when this initiative is phased out between 2021 and 2023.

¹⁰ Data on average deposit sizes is unavailable. A 10% deposit figure is used by Statics Jersey to calculate mortgage affordability via Jersey Housing Affordability Report 2017 and a 23% deposit figure is expressed as a residual of the median loan-to-value ratio in Jersey and is published in the Jersey House Price Index, First Quarter 2019

Appendix 1: Stakeholder Interviewees

Position(s)	Organisation
Head of Operations	Andium Homes
Managing Director & Technical Director	Dandara Jersey
Vice Chair	Jersey Construction Council
CEO	Garenne Channel Islands
Partner	Gaudin & Co
Principal Planner & Director Planning Policy, Planning and Building, Government of Jersey Planning	Government of Jersey Policy, Planning and Building

Appendix 2: Build Cost in Jersey: Technical Annex

Summary

One development barrier highlighted for Jersey is the perceived high cost of development both in relation to land cost and build costs. This technical annex presents Jersey build costs against a number of jurisdictions.

Build Cost Comparisons

For comparability, we used BCIS data to estimate build costs in Jersey. BCIS data reports on combined Channel Island figures. Further research by Islands Insurance¹¹ on rebuild costs in Guernsey and Jersey indicates that prices are generally comparable between Jersey and Guernsey. Rebuild costs for several types of property in Jersey and Guernsey are expressed in Table 1 below. Please note, these figures reflect one-off construction costs, and are used to compare the jurisdictions only.

Table 1: Build Costs in Jersey and Guernsey

Rendered Block/Brick or Timber Frame (20 th Century or later)	Jersey	Guernsey
Detached House	£2,691 / m ²	£2,718 / m ²
Semi-Detached House	£2,596 / m ²	£2,622 / m ²
Terraced House	£2,498 / m ²	£2,523 / m ²

As detailed in Table 2, BCIS Jersey/Channel Islands build costs are generally in line with build costs in London when comparing “Estate Housing – Generally” and “Flats – Generally”. It has been expressed in research and by stakeholders that BCIS data can be unreliable and may underestimate costs in Jersey. According to the HDH Planning & Development Ltd (ARUP) ‘Viability Assessment for Review of Developer Contributions’ (May 2016) report, the BCIS Build Cost index for Jersey of 1.12 (1.13 in 2019) should be increased in equivalent with London at 1.20, in line with stakeholder views on build costs in Jersey. As a result, we have included a second estimate for Jersey in line with the London Index of 1.20.

¹¹ Islands Insurance – Rebuilding Cost Guide for the Bailiwick of Guernsey and Island of Jersey

Table 2: BCIS Build Costs by Jurisdiction

Build Costs Comparison (2019)			
Median Build Costs By Region	Average House Price (March 2019)	Estate Housing (Generally)	Flats (Generally)
Jersey			
Jersey (Channel Islands, Index 113)	£499,000	£1,399 / m ²	£1,627 / m ²
Jersey Upper (Index 120)	£499,000	£1,486 / m ²	£1,728 / m ²
UK			
London Price Comparator (Southwark)	£499,000	£1,548 / m ²	£1,800 / m ²
Greater London	£467,000	£1,486 / m ²	£1,728 / m ²
South East (Excluding London)	£320,000	£1,375 / m ²	£1,598 / m ²
West Midlands	£197,000	£1,176 / m ²	£1,368 / m ²
Northern Region (NE,NW, Yorkshire & The Humber)	£149,000	£1,164 / m ²	£1,353 / m ²
East Midlands	£191,000	£1,325 / m ²	£1,541 / m ²
Wales	£159,000	£1,040 / m ²	£1,210 / m ²