

High Speed Rail (HS2)

Property Blight from HS2: Pilot Study

Empirical study conducted by HS2 Action Alliance
'Working for fair and just compensation'

June 2010



Contents

	Page
Executive Summary	04
1. Purpose	05
2. Background	05
3. Methodology of Pilot Study	08
4. Outcomes and Results	10
5. Conclusion	15
Annex A – Local Authority searches	18
Annex B – Estate Agent Survey Responses	19
Annex C – Other professionals' responses	23

Report compiled by Hilary Wharf

Acknowledgements:
HS2 Action Groups
Chiltern Society

Note

This report omits certain of the Annexes and Annex material that contain personal and confidential data collected as part of the Pilot Study. These are available to DfT/HS2 Ltd for inspection

Executive Summary

This Pilot Study establishes some important conclusions:

- Blight is extensive, with specific evidence of properties affected on routes 3 & 2.5
- The responses of some institutions (Councils, solicitors, surveyors and lenders) involved in the selling process, is re-enforcing and spreading the blight
- Most properties, including those suffering large losses in value (greater than 20%), would not be covered by the Exceptional Hardship Scheme as they are not in the immediate 'vicinity of the line'.
- It is practicable to do a larger-scale study on property blight that can overcome weaknesses (including bias) in the Pilot Study, and we have the support to proceed.

Extent and degree of blight

Properties in the *immediate* vicinity of route 3 are not selling, there is minimal interest from purchasers, and some sales that were in train on 11 March 2010 have fallen through. We are in the first phase of the typical cycle of property blight.

For properties in the *general* vicinity of routes 3 and 2.5 there is evidence of both reduced market interest and reduced prices for those few sales being achieved (the mode reduction is 15 to 20%). To date we have less evidence for properties on route 4.

Properties up to 1 to 1.5 miles from the various routes may have their values affected. Sales, advertised prices and estate agents professional judgement, suggest discounts of 15 - 30%.

Institutional response

There is a surprising lack of uniformity in Local Authority responses to search requests. Buckinghamshire councils now inform solicitors about proximity to any of the three routes and provide a link to the DfT web site, while others, for example Warwickshire and Camden do not regard any of the routes as qualifying as a 'proposed railway'. However, solicitors and surveyors are aware of HS2, and can normally be expected to remedy such non-provision.

Crucially mortgage lenders regard HS2 as a risk to property values, and some lenders have guidelines to prevent exposing themselves to the risk of negative equity. This can be in the form of instructing surveyors to take into account the potential adverse effect of HS2 on property prices within a mile of any proposed route. Broadly the distance relates to whether HS2, if built on that route, might be heard or seen. It also affects their own lending behaviour reflecting concern if the mortgage is to represent a high proportion of 'loan-to-value'.

Lenders, surveyors and solicitors typically subscribe to the view that routes commonly change at the margin, so a final route may differ from that initially planned. Consequently they caution purchasers that properties might become nearer a route, as it might move.

The behaviour of lenders and supporting professionals is itself spreading blight over very wide areas, through processes of searches, valuations and mortgage lending.

Feasibility of full Property Blight study

We have determined the basis of conducting a more comprehensive and statistically robust larger-scale study. This would employ GIS software in use by Councils (and for eg Chiltern Society), combined with post code, internet and land registry data and the assistance of estate agents. This would allow systematic analysis of sales activity, prices and HS2 impacts.

The Pilot demonstrates that if property blight is to be eliminated (and the present injustice corrected, which will worsen with impending delays) then there is a need to guarantee to protect property values on whatever route is finally chosen.

1. Purpose and scope

This report summarises the work completed to understand the impact on the property market of the High Speed 2 (HS2) announcement on 11 March 2010. The study has two main purposes:

- To support decisions about the appropriate form of compensation arrangements to relieve property blight
- To act as a pilot for a more extensive study.

The results of this Pilot Study form part of the HS2 Action Alliance final response to the consultation on the Exceptional Hardship Scheme for HS2 (dated 17 June 2010), and this study has been submitted to DfT/HS2 Ltd. It is intended to inform DfT on their decision as to what scheme to introduce to address the blight that has followed the HS2 announcement.

The study also explores the feasibility of obtaining sufficiently reliable information on which to assess the contribution of various factors to the geographical extent and degree of severity of property blight. While it is intended to produced findings, and does, it will also be used to determine the value of a more extensive study.

The Pilot Study has been conducted over the period March to June 2010.

2. Background

2.1 What is blight?

For the purpose of this study, property blight is where the market value of a property is depressed by the prospect, construction or operation of an infrastructure project (HS2). At this stage blight is generated entirely by the prospect of HS2.

Such blight is often termed 'generalised blight'. It is not recognised in statute but may be covered by discretionary schemes in both the public and private sector.

The specific indicators of blight are

- Sales indicators:
 - Offers withdrawn (an immediate effect only)
 - No offers
 - Reduced level of interest (enquiries and viewings)
 - Fewer actual sales being completed
 - Fewer properties coming onto the market (as only those who have a strong need to sell do so)
- Price indicators:
 - Sales prices reduced
 - Offers reduced (and to well below unblighted price)

2.2 History of research

While we are not aware of any large scale empirical investigations of property blight and its determinants, there have been a number of previous studies and case history referred to:

- A major building society with 25% of the market in Kent conducted a short pilot study that examined its own transaction patterns in relation to HS1/CTRL. In the event the sample that was near to the line was small and inconclusive in that the study was

unable to isolate the specific effect of the new railway (from other blighting factors and a general depression in the property market when HS1 was being built in 1988).

The consensus is that in a weak market good properties continue to sell whereas those with difficulties struggle without substantial discounting. The study notes that because 'many of the properties identified were in areas where other adverse environmental factors were having an impact', it was 'going to be difficult to apportion the falls in volumes and prices' between CTRL and other environmental factors.

This work was described in the Interdepartmental Working Group on Property Blight (IDWGPB) Final Report¹.

Other reports refer to the widespread blight created by HS1, and the Select Committee findings that expressed concern as to the available redress, but they did not attempt a new systematic study but relied upon the work of the IDWGPB to address the problem.²

- Various estimates of the effect on property values of infrastructure projects:
 - Settlements in the range of 5-10% by District Valuers for compensation cases for more intensive use of roads³
 - An estimate on the likely effect on average property values of a telecoms installation or high powered cable network installation of 20% to 25% (in a range of 20 to 30%)⁴
 - A court judgement of a 20% reduction for a remote property in Marton, Lake District due to a windfarm development causing noise, visual intrusion and flickering from the seven 40m high turbines 500m away. It was an 'incursion into the countryside' and 'ruins the peace'.⁵
- In correspondence (obtained under FOI⁶), BAA refers to evidence of generalised blight over an area wider than the 66leq contour (that was their chosen boundary) especially for the more expensive properties that would not then qualify.
- Analysis in support of offering an insurance policy. In 2006 a property blight insurance policy was introduced to the market⁷ that for £12 a month provided protection up to 25% of property price (to maximum of £100k). We are investigating the research on which the 25% was based, although we understand the scheme itself has now lapsed due to low take up.

The IDWGPB conducted an extensive review of the nature and causes of property blight, but reported little empirical work. One of its difficulties was capturing the relevant data many years after the event, as well as the difficulty of isolating factors. We are fortunate in being able to overcome these difficulties and two of the route options (route 3 and 2.5) do not materially suffer from other adverse environmental factors.

2.3 Applicability

Previous instances of infrastructure development causing blight will give useful insights into the likely extent of blight from HS2, to the extent that the projects are comparable in terms of:

¹ Interdepartmental Working Group on Blight, Final Report, December 1997, House Of Commons Library, page11

² DfT New Line Capacity Study, 2007, Section 8.3.2, Temple Report for DfT in conjunction with Booz Allen Hamilton

³ Depreciation in Property Value as a Result of Adverse or Inappropriately Sited Developments, Planning sanity, 2006

⁴ As above, at footnote 3

⁵ District Judge Michael Buckley concerning a windfarm development in Marton Lake District

⁶ FOI request of 30 March 2005 to DfT on matters related to the compensation arrangements introduced by BAA at Stansted Airport, that included an e-mail exchange of 24/08/04 between Director Stansted Generation 2 Project and DfT concerning final blight scheme

⁷ By Lucas, Fettes & Partners

- Disruption during construction
- Level of nuisance, loss of amenity and obtrusiveness of completed project
- The type of property and environment affected
- Extent to which it is a known and familiar effect.

HS2 at this stage is problematic in that little information has been provided about the likely environmental impacts. The fact that it is planned to operate at speeds substantially in excess of CTRL or European high speed rail means that the noise and vibration it is likely to cause are unfamiliar. The result is that the market is not knowledgeable about the impacts that HS2 would have.

HS2 will pass through a number of different environments, ranging from city centre to unspoilt countryside.

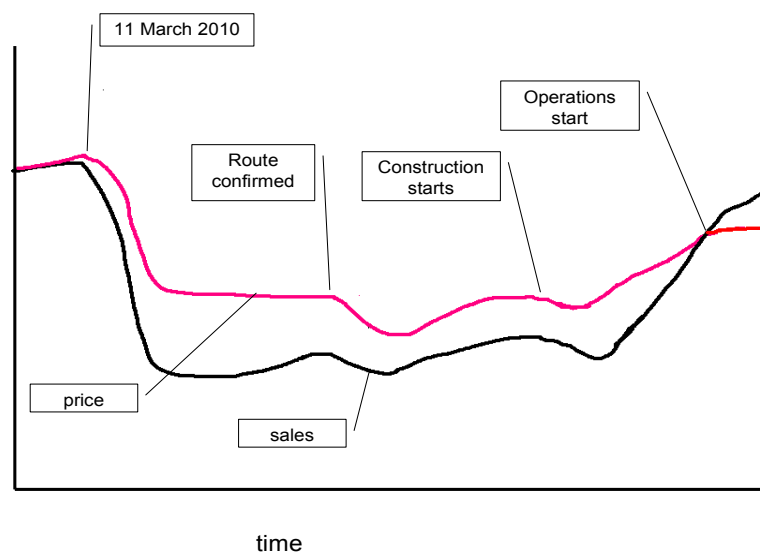
In terms of the physical impacts of HS2, it is probably most comparable in terms of construction activity of CTRL (with the exception of tunnel work). In terms of the final impacts it might reasonably be expected to be more extreme than CTRL.

2.4 Blight profile

Although a sound empirical basis has not been demonstrated, there is a clear orthodoxy as to how generalised property blight develops through the life-cycle of a project. We include a rough diagrammatic representation of this model, as it is plausible and puts the current position with HS2 in context.

This blight profile has been described to us by several estate agents and surveyors. It matches the pattern observed with CTRL. Frank Knight, Savills, Foreman King and Bretherton's (surveyors) have independently suggested this model, observing that it applies generally with infrastructure projects such as wind-farms, motorways/bypasses and services.

Diagrammatic Representation of Property Blight Profile



Stage 1: The first stage, immediately following the announcement of a scheme, is that the market goes dead. Sales volumes may be generally more affected than prices as owners are unprepared to crystallize losses. Prices are likely to be well below their final level due to purchasers demanding a sufficiently low price that the risk of further losses is remote. The initial price falls are from those in the process of selling the day an announcement is made (our HS2 evidence confirms this pattern).

This affects all potential routes and continues to do so until a specific route is settled. However in the case of HS2, we understand that this effect was more immediate in the case of the preferred route option, although sections of route 2.5 (the preferred alternative), notably around the Hughenden valley, were similarly affected.

The longer the period of uncertainty, the longer the blight remains on all routes as discussion focuses on the different options. Clearly the change of government in May 2010 created new uncertainty as there was less focus on the original 'preferred route option' and most recently new priorities emerged eg a link to Heathrow and to HS1.

Stage 2: When the route is selected, for routes other than the selected one, sales rates and prices will recover to unblighted levels.

For the selected route, both prices and sale volumes are depressed, worsening when construction happens (which will last for a period of years).

Stage 3: When the project is complete and operations start, sales volumes and prices will recover, but prices will only rise to a level that reflects how badly the railway affects the property and area. Currently, on the evidence available in the public domain, this is unknown.

On this model, we are currently in the first phase of the blight cycle, where the market has gone dead.

3 Methodology of Pilot Study

3.1 Approach

Our approach is to examine contemporaneously the end-to-end sales process:

- To identify how the behaviour of the different 'players' can and does ameliorate or contribute to blight
- To provide qualitative and quantitative evidence of those behaviours and their impact on property values near to the different HS2 routes.

This approach contrasts with the pilot study conducted for IDWGPB, which focused more narrowly on the transaction patterns of one 'player' and was done years after the event.

For the Pilot Study we have

- Examined the roles of the 'players' and obtained information about how they are behaving in the context of HS2, through face to face or telephone interviews. In some instances we have relied upon information provided by one class of player (eg surveyors) about the behaviour of others (lenders).
- Collected quantitative data on individual property outcomes. This has been partly done through a facility on our web site (www.hs2actionalliance.org), but most of the information was obtained by Action Group members making personal approaches to individuals trying to sell their property in the vicinity of one of the proposed routes.

The full study (see Section 4.3) will be able to take a more statistically robust view on quantification of outcomes (eg by working with the Chiltern Society who will be mapping GIS

data of properties along the route with sales activity/prices). The pilot study results are included here as illustrative of extent and degree of blight.

3.2 'Players' in the sales process

There are a large numbers of distinct and different players in the sales process. Our study has focused on the following 'players':

- Individuals (vendor and purchaser)
- Estate agents (but not property search agents)
- Local authorities
- Solicitors
- Surveyors
- Mortgage lenders (including brokers)

Some property purchases will take place without some of the players, particularly when the purchaser does not raise finance. Our study considers a sales process with all of the parties.

There are other players that we did not cover in the pilot eg property insurers.

3.3 Roles and orientation

The behaviours of the different 'players' in the context of blight will be substantially affected by their different roles and what they are seeking to achieve. This inevitably affects our findings on behaviours and it is important therefore to understand the orientation of each player ie where they are coming from in the sales process, and how in the light of HS2 this might be expected to influence behaviours.

The table below sets out their roles, who they are acting on behalf of, and their particular 'orientation' that will then impact on the behaviours they will exhibit.

'Players'	Role	Acting for:	Orientation	Expected effect
Individuals:				
Vendor	Sell their property	Themselves	Achieve mix of high price/low time to sale	Delay selling
Purchaser	Buy a property	Themselves	Achieve mix of low price/time to sale	Seek discounts
Estate agents	Maximise high transaction turnover	Vendor	Reconciling vendors desire for high realisations with keeping good sales turnover	Tendency to deny blight while advising vendor to discount
Local authority	Provide 'Search' data to allow an 'informed' choice	Purchaser (via solicitor)	To be neutral, but respond adequately to all questions raised	Even handed
Solicitor	Report on search Report on Title	Purchaser Lender	Protect client; avoid abortive work ('no sale no fee' policy)	Risk averse (caution purchaser)
Surveyor	Value property	Purchaser, &/or lender	Avoid exposure to negligence claims	Cautious (low) valuations
Mortgage broker	Identify suitable lender	Purchaser	Knowledge of lenders rules Fee driven to obtain mortgage for client	Client satisfaction
Mortgage lender	Provide finance	Themselves	Balance exposure to risk (eg negative equity) with business volume	Set rules to avoid risk on HS2 affected properties

The table shows that even before conducting the study, it is reasonable to expect very specific behaviours from the different players eg estate agents livelihood depends on sales turnover and the greater the blight the more the market stalls. It is not in their interest therefore to advertise the blight difficulties, but equally they do not want purchasers to pull out later.

3.4 Data collection

The table sets out what data and information we sought, how we obtained it, and how we have presented it. The Action Group's (AGs) covered the first two groups 'individuals' and estate agents.

Groups	Information sought	Method	Output for Report
Individuals (vendors only)	Specific details of blighted properties	Via property blight form on website* AGs door knocking, leafleting, visiting	Details summarized for each case (personal detail removed)
Estate Agents	General info on market response: nature of any blight corridor, interest, sales, mortgage problems etc Specific details on blighted properties	AGs conducted surveys by phone, e-mail, and visiting local agents Encouraged agents to use data form on website (but little used)	Agents contacted, summary of views
Local Authorities	Treatment of the different routes for Searches (standard enquiries & additional)	Telephone/e-mail enquiries to main Councils, with responses crosschecked by a second separate enquiry.	Position statement for each council contacted
Solicitors	Impact of HS2 in terms of knowledge of any guidelines from any party	Attendance at promotional seminars, and telephone enquiries	Solicitors contacted, summary of views
Surveyors	Any valuation guidelines	Telephone enquiries	Surveyors contacted, summary of views
Mortgage lenders	Any lending guidelines	Telephone enquiries	Lenders contacted, summary of views
*Internet sites eg Right Move etc were not used for the pilot study			

4. Outcomes and results

The results are examined separately for individual properties and for the institutions (all the other players).

4.1 Individual property results

Both vendors and purchasers see domestic property as the store of their personal wealth:

- Vendors are hence reluctant to sell in a depressed market, particularly while there is a prospect of HS2 being routed elsewhere or abandoned. This reluctance is evident from agents comments, and the collapse of market activity in some places
- Purchasers are naturally cautious about risking the equity that they might put into a property. This is demonstrated in this instance by the flush of withdrawals from purchases that were in train when HS2 was announced on March 11 (as the table below shows).

The data on the 39 individual cases has been grouped to distinguish the different outcomes:

Properties	No interest, no offer, no price cut	Purchaser withdrew	No interest, no offers, price cut		Being sold/ offers at reduced price ¹		Vendor withdrew
	Nos	Nos	Nos.	% cut	Nos.	% cut	Nos
Route 3 A413 corridor	11	3	13	6 - 37	5	10 - 31	5
Other routes					2	9 - 10	
<i>No interest:</i> is either no viewings, or viewings but cessation of interest on learning about HS2 <i>No price cut:</i> is no reduction in advertised price <i>Being sold:</i> is either sold or sale proceeding in the knowledge of potential proximity to HS2 ¹ includes re-mortgaging							

We have obtained very little actual sales information. This is consistent with being in the first stage of blight, when sales volume collapses, and few properties are sold. Of the 39 cases:

- Only three have or are proceeding to sale (and interestingly in one case with a sizeable discount that is removed should HS2 be cancelled before the sale completes).
- Three properties were in the process of sale when the announcement was made and the purchasers withdrew.
- Five vendors have withdrawn their property from the market. We know of other cases where potential vendors have deferred trying to sell. This is because they are hopeful that HS2 will either not happen, or the route will change. By waiting they hope to avoid crystallising the current loss in value.

The offer price reductions are driven by professional advice, with estate agents (and some cases surveyors) suggesting an appropriate level of discount broadly in the range of 6-37%. However, even with these price reductions, purchasers have not been attracted.

The range of reductions is shown below (for offers and sales). The mode is 15 to 20% reduction.

Range of offer/suggested price reduction for all cases with figures										
	0-5%	5 - 10%	10-15%	15-20%	20-25%	25-30%	30-35%	35-40%	40-45%	45-50%
		6	10	15	20	26	31	37	40*	Up to 50*
		6	11	15	20	26				
		7	11	15		28.5				
		9		15-20						
				17						
				19						
		4 cases	3 cases	6 cases	2 cases	3 cases	1 case	1 case	1 case	1 case
* 40% and 'up to 50%' reduction cases: they withdrew their property rather than crystallize the loss										

We have instances where surveyors R.I.C.S valuations were conducted before and after the announcement, with the latter showing a 28.5% reduction; and in a second case 26%.

However, the price reductions recorded are not market tested. Because the reduced prices have not attracted purchasers, a discount that actually is sufficient to overcome purchasers' perception of risk may be materially greater.

The 36 cases with proximity data can also be examined by distance from the line.

Approximate distance (metres) from the line for each case										
On line	100	150*	(V)	200*	300*	400	500*	600	800	3250
50	100 (V)	150*	(T)	200*	300*	400	500		800	
	(T)	150		250*(V)	300*	400	500		800	
	near	150		280*	300	440	500			
		(T)			300					
					300					
2 cases	4 cases	5 cases	2 cases	4 cases	6 cases	4 cases	4 cases	1 case	3 cases	1 case
(T) = tunnel view; (V) = viaduct view; 3 of the 39 cases distance unknown; *cases in red = price reduction over 20%										

Even though the distance has only been estimated it is clear that;

- Almost all the property blight cases lie beyond a 100m contour (ie well beyond the rules that based on past precedent apply to the Exceptional Hardship Scheme)
- All the larger price reductions (ie 20%+) were at a considerable distance from the line ie those asterisked cases shown in bold type in red (whose distance averages over 250m from the line).

The individual detailed cases are available for inspection.

4.2 Institutions results

Whereas the individual cases are mainly on route 3, the evidence from the professionals involved in the sales process covers all three routes (but route 2.5 more than route 4 for estate agents – the fuller study will address any imbalance).

Increasingly the professionals are part of large groups which is leading to a standardisation of approach. This is particularly true of lenders, but also surveyors – who organise themselves into panels and work for mortgage lenders. Our pilot included two of the largest in the country. Even estate agents are part of larger businesses, with few remaining independent.

The evidence we obtained:

- Demonstrates the existence of blight on all three routes
- Indicates that their behaviour re-enforces and actively promotes blight.

Details of the survey responses are at Annex A (Local Authority searches), Annex B (Estate Agents responses) with Annex C covering other Professionals' responses (where aspects of the details are available for inspection).

Estate Agents:

Views from over 50 Estate Agents were obtained from the Chilterns through to Staffordshire (see Annex B). The general overview from the participating agents was:

- Market activity/interest near the routes is very low, unless there is a price discount
- Most vendors are not yet considering price reductions unless they have to sell, or were in the process of selling on 11 March 2010, when 'immediate discounts' were secured
- Purchasers are not thinking about the impact of the construction works yet
- Properties are not coming onto the market in the worst affected areas due to the uncertainty
- Blight corridors vary (1 mile, 1.5 and 2 miles either side of line) but depend on topography, current tranquillity of area

- Alternate routes are affected too (especially the Hughenden Valley viaduct -route 2.5). In Buckinghamshire knowledge of alternate routes appeared greater possibly due to the Council policy of identifying all three routes for the 'search' enquiries (increasing blight awareness)
- Reductions in value are dependant on expected (and unknown) impact and line proximity (between 15% and 30% indicated, partly from professional judgement, partly current cases known to agents). Expensive properties may take a bigger proportional losses (as purchasers have more choice)
- Some evidence (in the Chilterns) that such market activity as there is, involves locals rather than people seeking to move into the area
- For more expensive properties, potential purchasers have currently been more concerned about potential HS2 impact (ie proximity effects) than discussion on price
- Uncertainty over the route has increased post-election, spreading the extent of blight

As expected, some estate agents deny the impact of HS2 on the market in public, wishing to avoid creating blight. However they still advise potential vendors of the unfavourable market conditions, (and the need to discount accordingly) and the 'no go' areas for potential purchasers.

Local Authorities

Local Authorities provide information in response to requests for searches about planned developments and hence proximity to the routes. Specifically they are required to say if a property is within 200m of a proposed railway, and to respond to any additional queries raised. The intention is that they provide sufficient information to let purchasers make an informed choice. Annex A lists our findings for each council.

Surprisingly, it was found that at the current time, Local Authorities respond very differently about HS2. Our investigations show a complete spectrum of responses by different Councils:

- Buckinghamshire (as from 14 June 2010) declare all routes (ie any property within 200m of any of the 3 routes) and also direct every enquirer to the DfT web site
- Warwickshire and Camden (that cover all the routes) declare none (on the basis HS2 'is only a proposal and not a certainty'); and Cherwell place a note on record if the property is anywhere on DfT/HS2 Ltd sectional map (ie for route 3 but not route 2.5)
- Northamptonshire report no policy yet (as had no cases)
- Hertfordshire (Dacorum) that covers route 4 only, would give the route information only under additional enquiries.

These practices, detailed in Annex A, will be influential should purchasers and solicitors be unaware that there is an HS2 route in the vicinity. The Bucks approach ensures that there is a high level of awareness of HS2 and the different routes.

The degree of variation in the behaviour of local authorities may be transitional, with a uniform approach emerging as a possible response to the expectations of solicitors and lenders.

Solicitors:

Solicitors obtain information from local authorities and produce the Report on Title for Lender. A small number of Solicitors were contacted. Key findings were:

- Solicitors use as a starting point whatever the 'search' information reveals for advising purchasers and lenders (in their report on title), but will also brief themselves on the routes where their catchment area particularly covers the routes

-
- Some caution purchasers and lenders that the routes may move at the margin (and affect currently distant properties more severely than is apparent)
 - Some caution purchasers and lenders that property values may be affected at up to 1.5 miles of any route, but depending upon local topology that affects for example how noise travels

The view was expressed that cut price conveyancing may mean that purchasers only receive basic information, but 'no sale no fee' conveyance gives solicitors an incentive to make clients fully aware of potential HS2 issues at an early stage, if they themselves are aware of them.

Surveyors:

Surveyors are both aware of some mortgage lenders approach to HS2, and recognise that the potential negative impacts need to be incorporated in valuations. They will wish to avoid exposure to claims of negligence through failure to give full consideration to the potential impact of HS2. A number of the largest surveying groups were approached for the Survey at Annex C. Findings were:

- Surveyors take proximity to HS2 routes into account when doing valuations. Lenders 'guidelines' mean that they need to take account of potential HS2 impact in terms of its physical impacts eg seen, heard or felt
- A typical guideline is properties within 1 mile of any of the proposed routes.
- Surveyors see uncertainty about HS2 – which ends only when plans are scrapped or confirmed – as making properties harder to sell and reducing values (including for re-mortgaging). The two re-mortgaging example both led to substantial (over 25%) reductions in value

Lenders:

Lenders are particularly concerned about the risk of purchasers falling into negative equity in the current economic climate. There is a discussion of the recent changes in the mortgage market in Annex C. Lenders are cautious (especially in a weak property market), seek to take account of all potential adverse effects such as HS2, and so wish to see valuations reflecting this risk. Four major lenders were surveyed. Specifically:

- Lenders have rules in place for valuations (followed by surveyors) that include consideration of all HS2 routes eg it is understood Santander use a mile, which is interpreted as from any of the routes
- Expect surveyor's valuation to reflect the effect of any route and wherever there is a possible impact
- Some lenders may decline to lend because of proximity to HS2, but there is currently no evidence of new specific guidelines on restrictions on loan to value. Some loans have however been refused.

It is not yet clear from the results exactly:

- How surveyors, and lenders, take into account these uncertainties in arriving at their valuation and decision on mortgage approval. For lenders the concern is negative equity
- Whether the surveyors and lenders processes take account of the likelihood of any specific route being adopted, or whether all three routes are treated equally. How local authorities respond to searches, is therefore probably influential.

These issues will be examined in more detail in the full larger-scale study.

4.3 Issues that emerge from feasibility study for full study

Bias

There will be bias in the range of cases, as inevitably the people who respond are those who have a problem. We also have not collected data on unaffected areas, so while there has clearly been a drop in sales going through the routes, we are not in a position to quantify the scale of the effect.

We will remove the bias using a GIS approach in the full study. The Chiltern Society have already developed a methodology for such a study (reported in their Supplementary Response to the EHS Consultations due to the extension of closing date) and we will work with them. It will cover all property sales using land registry data, use post code data to plot activity in terms of transactions and price within a corridor around the routes and compare this to other areas.

Discerning the real effect of HS2

A problem in surveys like this one is how to remove influence of other factors that cloud the effect of interest (from HS2), for example other potentially blighting factors (proximity to a busy road). This was an acute problem with the HS1 pilot study, as for much of the route CTRL runs in close proximity to a motorway.

It is important to capture the relevant factors at the time, ie what else influenced a reduction in price, and record that for each case. Estate agents could make a major contribution to this and it is encouraging that the National Association of Estate Agents is supportive of a further full study. We would need to get agents to contribute that data where reductions in price occur, eg an informed view of the extent to which a reduction is due to HS2. This is not practicable retrospectively, which was a problem with the HS1 study.

Support for a fuller study

We have approached several organisations concerning support for a fuller study. This will take a more statistically robust approach to quantification and explore the institutional aspects more comprehensively. The following organisations have already expressed an interest:

- National Association of Estate Agents
- Bucks County Council, and Chiltern District council
- Warwickshire County Council
- Country Land and Business Association
- Compulsory Purchase Association
- Chiltern Conservation Board

We will be working with the Chiltern Society to develop a remit

5. Conclusion

5.1 Causes of Blight

The mechanism of potential purchasers being concerned about the risk that property values may fall and so avoiding purchase or requiring a discount – thus making property prices fall – is well established elsewhere and in clear evidence with HS2.

What has not previously been identified is the role of institutions in re-enforcing and spreading blight. Institutional practices are encouraging property blight on each of the identified routes through:

- The provision of information by some *local authorities* (eg all four councils in Buckinghamshire give information about all three routes identified by HS2 Ltd, ie any one route is regarded as a 'proposed railway' for the purposes of the land search questions raised under 'standard enquiries' (Section 3.5 of Law Society Con 29 form). However this practice is far from universal, indeed some other councils take the view no route should be identified at all (eg Camden), because they are only proposals.
- The 'guidelines' set by *mortgage lenders* (building societies and banks) requiring specific consideration of the possible effect of any of the HS2 routes. These 'guidelines' (eg properties within a mile – flexed for topography – of any of the three identified routes) are used for both surveyor valuations and for lenders taking their own decision on whether to lend
- *Surveyors* (often operating as part of panels) identifying negative impacts on 'ease of sale' and 'expected price realisation' for properties near any of the three routes, reflecting the uncertainty about if, and where, HS2 will be routed
- *Solicitors* preparing Reports on Title (for lenders) as part of the conveyance process who provide the search information (obtained from local authorities), and some are providing their own information to purchasers cautioning them about the route options and that routes can change at the margin

Further, whereas it initially looked like the proposal was for the 'preferred route' (or one individual route), the current position is less determined, with the result that there is widespread uncertainty that spreads blight as to

- The route
- The degree of intrusiveness of a railway which is planned to be faster than any existing one in EU.

5.2 Extent of blight

Blight corridors (of between 1 and 2 miles either side of the line) exist to some extent on each of the three routes. The greater the proximity to any of the three routes identified by HS2 Ltd, the greater the effect on the above market position. However 'proximity' is caveated by

- Topography around the three routes, as this has an impact eg it affects how far noise travels, and whether HS2 would be seen from a property
- Disposition of HS2 in relation to the property eg whether it is in a cutting, viaduct, tunnel etc. This is popularly known in detail for the preferred route, but particular 'scars' are widely known for other routes eg for route 2.5 (the 'preferred alternative') where a proposed viaduct in the Hughenden Valley was much publicised at the time of the announcement (on 11 March 2010). The maps have also now become available detailing parts of the alternative routes

The professional wisdom of those involved in the sales process (estate agents, surveyors and solicitors in particular) is that routes commonly change at the margin, eg at the stage where detailed route design takes place. Naturally this adversely affects properties that would be little influenced by the current proposed routes.

It is particularly notable that probably only 4 out of the 39 individual cases would be within the geographical scope of the proposed EHS (based on past precedent of the number of metres from the line that would be regarded as 'in the vicinity'). This is consistent with the recognition for similar previous EHS schemes that only a small minority of cases of blight are addressed by such schemes (and this is before the other criteria – eg reasons for moving, apply).

5.3 Degree of blight

The market position is consistent with being in the first phase of the property blight profile, with uncertainty about HS2 sharply depressing market activity:

- Transaction volumes have fallen substantially
- Price reductions on properties offered for sale (and for re-mortgaging)
- Very reduced levels of interest/enquiries/viewings in properties. In the Chilterns potential purchasers are now predominantly existing residents of the area, with a drop off in interest from elsewhere.

In these circumstances pricing evidence is limited. However, price reductions in the range of 15-30% have been made without attracting interest from potential purchasers. The two re-mortgaging examples both exceed 25%. At this stage in the blight cycle, some property owners have been advised not to try to market their properties by estate agents.

Evidence of the market position (in the first two conclusions in this Pilot Study) is mainly based on Estate Agents and Surveyors comments in respect of the three identified routes, together with the specific data about individual properties that mainly (at this stage) near the 'preferred route option'. The full study will be extending this evidence.

This document is produced by HS2 Action Alliance and should not be relied upon legally

Annex A – Local Authority searches

In purchasing a property, a solicitor conducts searches to deal with enquiries relating to planning, highways & environmental services, which may affect the property. These are under

- CON29(R) Required Enquiries of the Local Authority ie ‘standard enquiries’
- CON29(O) Optional Enquiries of the Local Authority

Section 3.5 of Con29 (standard enquiries) asks

is the property within 200m of the centre line of a proposed or current railway, tramway, light railway or monorail.

The optional enquiries are charged extra and are used to seek further information.

What is important is how the Council regards the different route options in deciding whether to say the property is within 200m of the proposed railway.

Our investigations show a complete spectrum of responses by different Councils – from Bucks that declare all routes, to Warwickshire and Camden who declare none, with Northamptonshire who have no policy yet and Cherwell who place a note on record.

Local Authority	Routes within scope	Response to standard enquiries	Response to optional enquiries	Comment
Camden Council	All	‘No’ even if within 200m of <u>any</u> route	Referred to Network Rail	Council take the view it is only a proposal ie not certain
Buckinghamshire CC	All			BCC ruling up to 14 June: “Yes” only if within 200m of route 3; but refer to existence of alternate routes with link to DfT website BCC ruling after 14 June: “Yes” if within 200m of any route – preferred or others Also provide DfT website
▪ Chiltern District Council	3	‘Yes’ if within 200m of route 3	na	
▪ Aylesbury Vale District Council	All	‘Yes’ if within 200m of <u>any</u> route	na	
▪ Wycombe District	2.5	‘Yes’ if within 200m of route 2.5	na	
▪ South Bucks	3, 2.5	‘Yes’ if within 200m of route 3 or 2.5	na	
Oxfordshire CC				
▪ Cherwell District Council	3, 2.5	*Note on HS2 & route 3 (not 2.5), plus DfT website ref	Reveal route 2.5	*The note is given when any property is on (or only just off) an HS2 Ltd map
Hertfordshire CC				
▪ DACORUM	4	‘No’ even if within 200m of route 4	Reveal route 4	Chief Planning Officer refers solicitors to DfT website
Northamptonshire CC				
▪ South Northants District Council	All	No policy yet (as at 17 June 2010)	No policy yet	Apparently no enquiries yet that required a response
Warwickshire CC	All			Warwickshire CC HS2 is only regarded as a proposal and not a certainty (so no route qualifies as ‘proposed’ railway, or given out in optional enquiries)
▪ Stratford on Avon District Council	All	‘No’ even if within 200m of <u>any</u> route	No additional info	
▪ Warwickshire District Council	All	‘No’ even if within 200m of <u>any</u> route	No additional info	
Solihull Metropolitan Borough	3	‘Yes’ if within 200m of route 3	na	
Route 3: A413 corridor ‘preferred route option’; Route 2.5: Hughenden valley: ‘preferred alternative’; Route 4: WCML				

Annex B – Estate Agent Survey responses

The surveys reported on below were conducted by Action Groups mainly in May/June 2010. Not all parts of the route(s) were surveyed in the Pilot Study. They concentrated on the Chilterns moving north. The names of Agents have been removed for the table in this report.

In terms of the survey responses received:

- Universally agents did not wish to provide named property details, but many would state if they been affected eg lower activity/interest/sales, sales fallen through
- Many however were willing to provide their professional judgement on HS2 impact
- Some agents did not wish to comment (independent agents were more forthcoming than those in large groups); most preferred not to put anything in writing; some promised responses but they were not received by the survey deadlines (and it is unclear whether they intend to or not).
- Face-to-face surveys were much more productive than telephone surveys

The general overview from Estate Agents who were part of the surveys was that:

- Market activity/interest near the routes is very low, unless a price discount
- Most vendors not yet considering price reductions unless they have to sell, or were in process of selling on 11 March 2010 when 'immediate discounts' were secured
- Purchasers not thinking about the impact of the construction works yet
- Properties not coming onto the market in affected areas due to the uncertainty
- Blight corridors vary (1 mile, 1.5 and 2 miles either side of line) but depend on topography, current tranquillity of area
- Alternate routes affected too (especially area of Hughenden valley viaduct -route 2.5). In Bucks knowledge of alternate routes greater due to the local authority 'search' information that identifies all three routes (increasing blight perceptions)
- Reductions in value dependant on expected (and unknown) impact and line proximity (between 15% and 30% indicated, partly from professional judgement, partly current cases). Expensive properties may take bigger hit (as purchasers have more choice)
- Some evidence (in Chilterns) that activity is from locals rather than outside the area
- For more expensive properties potential purchasers have currently been more concerned about potential HS2 impact (ie proximity effects) than discussion on price
- Uncertainty has increased post-election with the route, spreading the blight

In addition to the reported responses below:

- Several agents noted increased requests for agent market valuations, and full R.I.C.S 'red book' detailed valuations (especially for more expensive properties), to establish their pre-HS2 values (see Surveyors responses)
- Almost all agents were familiar with where the routes went in their area (to advise purchasers who asked, but they did not particularly advertise the fact so as not to exacerbate blight). Some found information on alternative routes harder to find.

Ref	Agency	Area	Response to question about HS2 impact	R'te	Comment
Source: Speen Action Group Survey (and other contributors)					
1		Amersham	No response/comment to date	3	
2		Amersham	Example of large reduction in an offer	3	South Heath
3		Amersham	Example of sale falling through. Surveyor had advised to take 15% to 20% off price	3	Amersham
4		Princes	Example of sale falling through	2.5	Lacey Green

		Risborough			
5		Speen	No response/comment to date	2.5	
6		Grt missenden	Examples of 2 sales falling through and now under offer to new purchasers at lower prices	3	Grt Missenden
7		Grt Missenden	No response/comment to date	3	
8		Grt Missenden	No observed effect	3	
9		Beaconsfield	No response/comment to date	2.5	
10		Beaconsfield	No observed effect	2.5	Old Amersham
11		Beaconsfield	Example of 'very interested' buyer pulling out	2.5	Penn Bottom
11 a		Amersham	Examples of houses taking discounts to achieve sale		Case 19 and 20
12	General points	Above area	Drop in enquiries from those outside the area (especially between A41 and Princes Risb. to Aylesbury road ie area covering all 3 routes Nat West refused one mortgage on a property within 5 miles of route (proximity was a factor) Blight greater since the election as more options	all	
Source: independent agents					
13		Beaconsfield	Reduced activity due to HS2 concerns	2.5	
14		Chalfont St Peter	Reduced activity due to HS2 concerns	3	
15		Farnham common	Fall off in sales in area (agent is 7 miles from route) due to HS2 Less market interest, examples of mortgages withdrawn or not agreeing to lend Professional judgement: those within a mile can expect up to 50% reduction in value, those up to 0.5 mile unsaleable in some circumstances Post election more uncertainty with the route has extended the blight		
Source :Potter Row Group Survey					
16		Wendover	Some sales proceeding with HS2 price reduction Those very close to line unsalable Some totally unaffected and still selling	3	
17		Wendover	No observed effect	3	
18		Wendover	Examples of some sales proceeding on basis the scheme is unlikely to happen. Professional judgement: when route is announced and later when construction happens it will be catastrophic for Wendover Professional judgement: expect more expensive properties (those over £1m) to have to take a bigger price reduction (none on market with them yet)	3	
19		Thame, Pr. Risborough, Hazlemere, Beaconsfield	Examples of some sales fallen through on alternate route (in 3 places) Lower market activity in Seer Green	2.5	Ilmer (nr Thame); Nr Penn Bottom; Beaconsfield
Source: South Northants Action Group Survey					
20		Banbury	Examples of 13 cases from Banbury agents that have fallen through due to HS2 (one case due to a refusal to lend)	3	
21		Banbury		3	
22		Banbury	Other sales proceeded but with reductions between 6% and 23% (most, but not all of the 7 EAs, said mainly due to HS2).	3	
23		Banbury		3	
24		Banbury	The price reductions were in properties between 750 mts up to 8km from the line, but one was 12	3	
25		Banbury		3	

26		Banbury	km away General: Some evidence HSBC and Santander placed restrictions on lending in areas affected by HS2 (but difficult to substantiate from source)	3	
27		Leamington Spar	Mixed impact Examples of some sales (know of 8 specific cases) fallen through due to HS2. Suspect 'many more'	3	
28		Leamington Spar	The 8 are from Southam, Ladbroke, Wormleighton, and further north in Burton Green, Kenilworth.	3	
29		Leamington Spar	Examples of speculators approaching Estate Agents to seek purchases too.	3	
30		Leamington Spar		3	
31		Southam		3	
32		Daventry	Examples of 3 properties withdrawn due to no viewings. One property 350mts for HS2 the other two are within 3km.	3	
33		Daventry		3	
34		Daventry		3	
Source: Twyford Action Group survey (with other contributors)					
35		Buckingham	No properties in area affected by routes		
36		Buckingham area	Examples of many cancelled viewings and two cancelled offers when discovered HS2 proximity 'Search' info in Bucks shows all routes and this has extended blight perceptions Almost lost £1m house sale at Adstock (about 3 to 4 miles equidistant between route 3 and 4. In the end decided noise would not travel that far. Houses not coming onto market due to uncertainty over HS2 To date its more about absence of interest than price reductions	all	
37		Buckingham area	Professional judgement: expect between 10% to 30% impact depending on proximity to line Examples of two purchasers withdrawn (where a rumoured maintenance depot might go, but the DfT additional maps now withdrawn <i>NB Agent who lives in the depot blighted area has received a letter from Network Rail saying they would buy his property for staff working at the depot</i> Example of problem with properties in Calvert and Calvert Green (no viewings on any of the 3 properties) but also blighted by landfill and proposed incinerator. Organised an Open Day post HS2 announcement - no one came. Agents saying properties here are unsaleable Other specific feedback is below:	3 4	East Claydon, Steeple Claydon
38		Buckingham area	Examples of problems with market activity in Twyford	3	
39		Buckingham area	2 mile radius of line seriously affected: viewings greatly reduced; lost sales because of HS2; only sold the odd house. Prices not (yet) changed fro HS2 effect Houses not coming onto the market Calvert Green problems, see ref 37	3	Could not quantify number of sales lost
40		Buckingham area	Seriously blighted villages are Twyford, Calvert, Calvert Green and Chetwode (all 'no go' areas) Viewings almost zero, and no offers on property near the railway No price reductions yet Prospective purchasers say not near the railway	3	

			One withdrawal from sale on alternative route.		Whittlebury
41		Buckingham area	Policy not to divulge details to third party Commented no reductions in viewings/prices <i>NB one Twyford vendor however noted there had in fact been a reduction in their viewings</i>	3	
42		Buckingham area	Still awaiting response	3 4	
43		Buckingham	Calvert Green problems, see ref 37	3	
Source: Parrot & Coales Solicitors (with other action group contributors),					
44		Aylesbury	Examples of market activity problem – new build property very near to route.	3	Lwer Hartwell
45		Waddesden	Examples of lack of interest/problems with Waddesdon. For more expensive properties the concern amongst prospective purchasers is the potential HS2 impact (ie proximity to line) rather than negotiation/discussion on price.	3	Fleet Marston examples See also case nos 18
46		Waddesden	Examples of significant downturn in market in since HS2 announcement. Details to follow	3	
47		Wendover, Quainton, Cuddington	Example of sales falling through since March announcement (as result of 'search' information revealing HS2 route) Local searches revealing both HS2 preferred route and alternative routes, creating problems for those wishing to sell or purchase in the affected areas Example of clients reconsidering purchases when see the various HS2 route options. They choose to purchase elsewhere	3	Wendover, Quainton, Cuddington
Source: Ladbroke Action Group (Warwickshire)					
48	2 Agents	Southam	Problems with Ladbroke - market static with no interest/offers on properties that are for sale	3, 2.5	
49	Agent	Ladbroke	Ladbroke blighted. Surveyor also asked to do R.I.C.S valuation and estimated 15% reduction but little data on which to base the high speeds	3, 2.5	Case 109
Source : Hints and area (Tamworth) Action Group Survey					
50		Lichfield area	All refer to substantial problems in Streethay (just outside Lichfield, staffs)	3, 2.5	
51		Lichfield area			
52		Lichfield area			
53		Lichfield area			
54		Lichfield area			
55		Lichfield area	Example of property 'immediately blighted' (affecting value by about 25%)	3, 2.5	Middleton. See Case 108
56		Lichfield area	No adverse effect yet	3, 2.5	
57		Lichfield area	Are aware of some problems, will provide details later	3, 2.5	
58		Lichfield area		3, 2.5	
59		Lichfield area	Middleton village said not to be blighted but no interest in property after 5,6 weeks	3, 2.5	Case 108

Annex C – Other professionals' responses

Surveyors, solicitors and lenders were approached to ascertain how HS2 was being treated for the purposes of sales, valuations and mortgage lending.

In terms of Survey responses:

- For the Pilot Study it was difficult to get confirmation of rulings direct from the major lending players eg nothing obtained in writing
- Some local surveyors felt they could not comment due to their insurance but offered reports for a fee on whether and how much any specific properties might be affected because of their proximity to any of the HS2 routes.
- Most information was obtained via telephone discussions from one player about another eg broker on lender; surveyor on lender, confirming the arrangements. One set of documentation however was obtained for a before-and-after 11 March re-mortgage situation
- Several surveyors report increased activity in requests for R.I.C.S based full market valuations, to establish pre-HS2 valuations.

Economic impact

One factor that emerged in discussions was the impact of the economy on how blighted properties were affected eg in a strong market a blighted property might be 10% below average, whereas in difficult times 20% below average prices⁸.

There have also been some seismic shifts in the mortgage lending market following the financial problems of 2008, that are continuing in 2010 that lenders advise are relevant to their current attitudes to risk. These are summarised below. Since 2008:

- Mortgages no longer common at 95%/100% (especially for first time buyers), 75% loan-to-value now more common. For best mortgage rates 60% equity is required
- Tighter rules on income multipliers and income that can count
- Monthly mortgage lending has reduced substantially eg 117,000 loans in Q1 2010, compared with 170,000 in last Q 2009. By May 2010 lending back to £11.3bn and now expected to undershoot £120bn CML projection for 2010. But for first time buyers, still very low (17-year low in 2009) due to large deposits required. (Source: Chief Economist, Council of Mortgage Lenders, CML)

Further changes happening in 2010:

- Stamp duty holiday (up to £250k properties) had a small but positive impact
- Ending of HIPs (on 21 May) led to immediate increase in houses put on market (Rightmove say 34% increase in the week this was announced; Countrywide the biggest UK agent saw 35% increase). Some may be speculative, but this 'bounce' was not seen by agents surveyed in HS2 areas.
- Threat of increase in Capital Gains Tax (for buy-to-let investors) may also have lead to the above increases (in May and run up to budget decision on CGT on 22 June)
- New tighter rules as lenders review their approach to risk eg
 - Lloyds banking group (including Halifax the largest lender) announce in May 2010 new rules for interest-only mortgages (that represent 43% of total GB £11.3bn monthly mortgage market). New rules include £500k limit; 75% 'loan-

⁸ 'Is high speed rail boon or blight', Times, 2 April 2010

- to-value' max; extra 0.2% fee; and most importantly a new repayment vehicle no longer accepting – 'will sell property, use inheritance, use business'
- Nationwide also to review policy on 'interest-only' mortgages. Domino effect well known in mortgage sector eg the 'loan-to value' rules spread quickly

The general overview of the findings were:

Solicitors:

- Solicitors use as a starting point whatever the 'search' information reveals for advising purchasers and lenders (in their report on title), but will also brief themselves on the routes where their catchment area particularly covers the routes
- Some caution purchasers and lenders that even the routes may move at the margin (and affect currently distant properties more severely than is apparent)
- Some caution that property values may be affected at up to 1.5 miles of any route, but depending upon local topology that affects for example how noise travels

While the view was expressed that cut price conveyancing may mean that purchasers only receive basic information, the 'no sale no fee' conveyancing gives solicitors an incentive to make clients fully aware of potential HS2 issues at an early stage, if they themselves are aware of them.

Surveyors:

- Take HS2 into account when doing valuations, and a typical guideline might be a mile from any route
- See uncertainty about HS2 as making properties harder to sell and reducing values

Lenders:

- Rules for valuations (followed by surveyors) including consideration of HS2 for some lenders
- Expect surveyor's valuation to reflect effect of any route
- Some lenders may decline to lend because of proximity to HS2, but no evidence of new specific guidelines on restrictions on loan to value (at this point).

Detailed tables of results only available for inspection