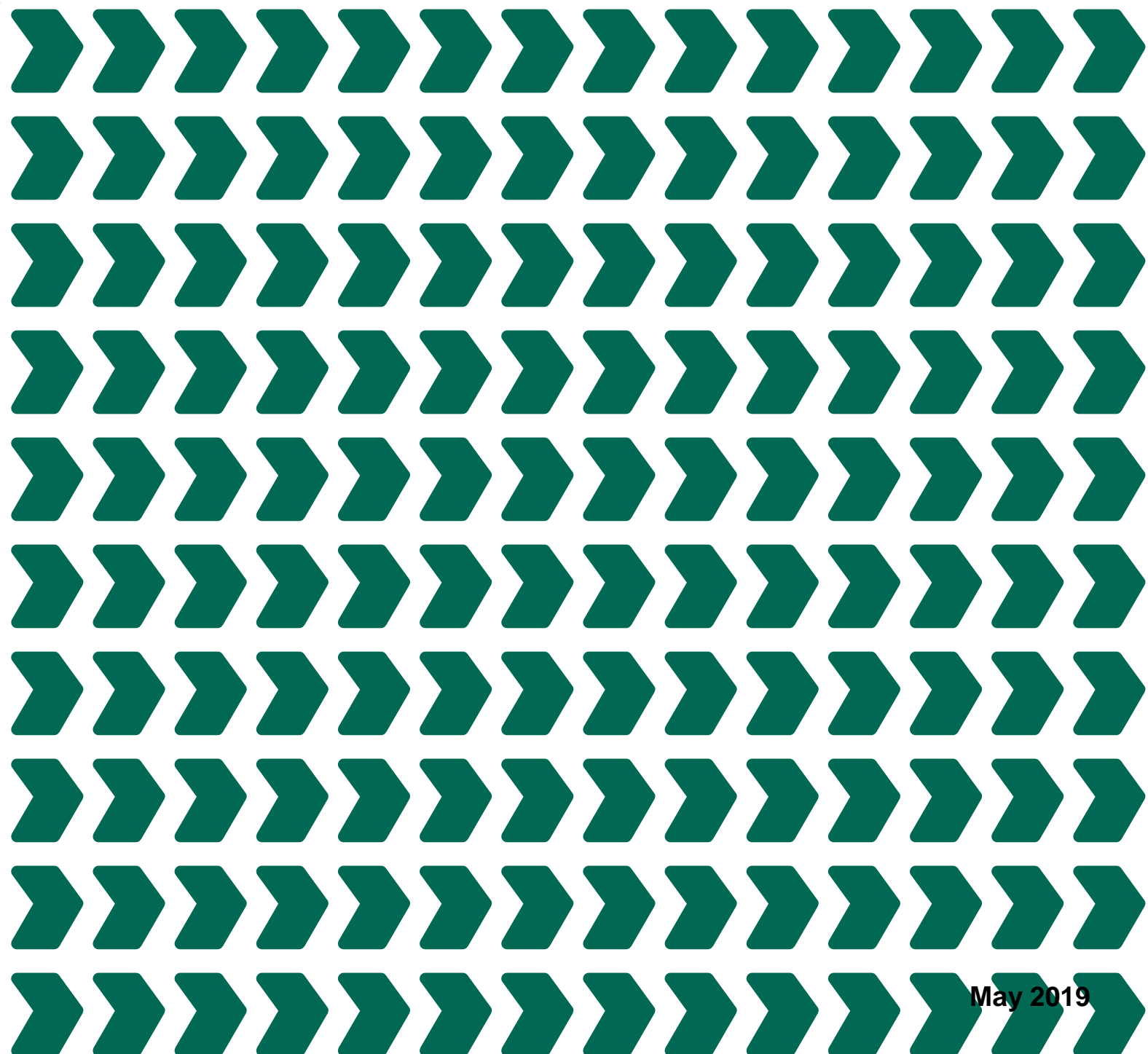




Department  
for Transport

# HS2 Land and Property: Property Price Support Scheme Review

Moving Britain Ahead



May 2019

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# Foreword - Parliamentary Under Secretary of State Nusrat Ghani MP



HS2 is an exceptional project. Those property owners that are impacted by it deserve an exceptional response. That is why we have always sought to put people along the route at the heart of our property compensation schemes.

In that spirit, we are committed to keeping the package of HS2 property compensation schemes under review, and alternatives to them.

The property bond concept - or to use a more meaningful term, the property price support scheme (PPSS) - has been advocated as a solution to generalised blight caused by the HS2 proposals.

Some see the absence of a PPSS from the existing range of compensation schemes as a missed opportunity. Some consider that it could yet transform the approach to compensating those whose properties are affected by HS2. Others see a risk of increased cost and complexity, and worry that the lack of a precedent for such a scheme on anything like the scale of HS2 makes it very hard to predict its effects.

The Government conducted a technical consultation on a PPSS in May-July 2018, for which 14 responses were received. To fill the evidence gap left by the limited number of responses we convened a panel of property market experts in December 2018 to explore in detail the questions originally raised in the technical consultation. This, together with interviews with those who could not attend the panel in person, provided an evidence base to supplement the consultation responses. We also revisited the 2014 PWC analysis of the potential cost of a property bond scheme.

We heard arguments for and against the introduction of a PPSS for HS2. The PPSS concept was deemed sound, and may well be suitable to apply to other infrastructure projects. But on balance, we concluded that the introduction of a PPSS alongside the range of well-established HS2 property compensation schemes was not appropriate.

This review document sets out the considerations of the consultation exercise and expert panel and the conclusions we have reached. I would like to thank again those who responded to the 2018 consultation, and thank especially those property industry professionals who gave freely of their time and expertise.

A handwritten signature in black ink, appearing to read 'N Ghani', written in a cursive style.

Nusrat Ghani MP

Parliamentary Under Secretary of State

# 1. Overview

## Introduction

- 1.1 This review summarises research conducted between December 2018 and January 2019 intended to fill the evidence gap in relation to the possible introduction of a property price support scheme (PPSS) for the HS2 project to complement the existing suite of HS2 property compensation schemes. A PPSS is a tool that provides eligible property owners with a mechanism that ensures that no financial loss is suffered as a result of generalised blight. The Department for Transport (DfT) conducted a technical consultation in May-July 2018<sup>1</sup>, intended to gather up-to-date evidence on the suitability, benefits and risks of introducing a PPSS for HS2. Although the responses to that consultation were welcome, they did not provide the expected breadth or depth of evidence on the issue. The government's response to the consultation<sup>2</sup> therefore made clear that further evidence would be sought from property market professionals. This review sets out the evidence obtained from that engagement.

## Purpose of the research

- 1.2 This research was undertaken to obtain insights from representatives of organisations with knowledge of the operation of the UK property market, particularly in relation to issues of generalised blight caused by major infrastructure schemes such as HS2. We were particularly interested in understanding more about how generalised blight can be mitigated and affected individuals compensated.

## Methodology

- 1.3 We approached organisations with specialist knowledge of the property market to participate in a panel discussion. The panel discussion format had the advantage of generating both answers to specific questions and general discussion about the possible value of a PPSS. To supplement the panel discussion, we held two interviews with representatives of organisations who were not able to attend. We also accepted a written submission from an organisation that was unable to attend the discussion. Participants are listed in Annex B.
- 1.4 We used the same questions in the panel discussion as featured in the May-July 2018 consultation. Mixed methods were used to gather and analyse the data. Qualitative data was collected in the form of the panel discussion and the two interviews. This data was coded to help identify possible benefits and disbenefits,

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<sup>1</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/706727/hs2-property-price-support-scheme-consultation-print.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/706727/hs2-property-price-support-scheme-consultation-print.pdf)

<sup>2</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/755344/hs2-ppss-consultation-response-web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/755344/hs2-ppss-consultation-response-web.pdf)

risks and opportunities of a PPSS. Analysis was undertaken of the 2014 PWC cost report prepared for DfT and has been included in this review.

## 2. The Property Price Support Scheme concept and HS2

- 2.1 The information set out in this section of the review has been taken from various pieces of research conducted or commissioned by DfT. Links to previously published research documents can be found at Annex A.
- 2.2 A PPSS is sometimes referred to as a 'property bond'. It is a mechanism that provides homeowners who are unable to sell their properties at or close to their unblighted value in a non-HS2 world with a guarantee that the Government will provide a 'top-up' to the value of their loss.
- 2.3 The idea that a property bond or compensation bond could be introduced along the HS2 route was among one of a number of non-statutory compensation schemes trialled by the then government in February 2011<sup>3</sup>. In January 2012, the then Government published a document called the 'Review of Property Issues', which explained that the choice had been made to offer schemes based on hardship rather than on a property bond basis.
- 2.4 That decision on preferred non-statutory compensation schemes (in particular, the decision to proceed with consultation on a hardship scheme rather than a property bond) was subject to legal challenge by HS2 Action Alliance, along with other matters. On 15 March 2013 the High Court quashed the 'Review of Property Issues' document. The Government considered that this decision compromised a separate consultation on other long-term non-statutory compensation measures, published in October 2012, even though it had not been directly criticised in the judgment. Therefore, the then Government launched a new consultation on property matters for HS2 in September 2013, 'Property Compensation Consultation 2013 for the London-West West Midlands HS2 route'. This included the property bond concept (section 5.2).
- 2.5 The property bond content of the (new) 2013 consultation was based on a proposal by Deloitte LLP, analysis and advisory work by PricewaterhouseCoopers LLP (PwC), and consultation responses. The then Government concluded in its formal response to this consultation that the property bond concept "has merit" but remained largely "untested and unproven in practice". This uncertainty left the then Government unwilling to accept the risks which it considered a property bond scheme would introduce. The predicted lengthy timescale for the introduction of a property bond scheme was also cited as a factor in preferring what became the Voluntary Purchase scheme.
- 2.6 Despite this outcome the property bond concept continued to find some public support. The 2015 consultation on property compensation schemes for HS2 Phase 2a, and November 2016 consultation on property schemes for Phase 2b, noted that some respondents felt the concept had not been given proper consideration. The

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<sup>3</sup> <https://webarchive.nationalarchives.gov.uk/20110405154200/http://highspeedrail.dft.gov.uk/sites/highspeedrail.dft.gov.uk/files/hsr-consultation.pdf>

Government maintained its previous position on the property bond concept after the 2015 consultation. However, following the 2016 consultation the Government acknowledged that the property bond had again been proposed by consultation respondents, and the Government committed to re-examining the case for a property bond.

- 2.7 The 2018 technical consultation was the means by which the Government exercised its commitment to re-examine the case for a PPSS, although this was not a statement of Government support for the concept. The results of this consultation were limited, with only 14 responses. Therefore, as part of the commitment to investigate the PPSS concept more fully, the Government convened a panel of industry specialists to try to develop a broader evidence base to discern the value of introducing a PPSS along the HS2 route. This review sets out the research conducted and the evidence obtained.



# 3. Summary of findings

## Findings

- 3.1 This section summarises the key findings of the interviews and the panel discussion. It supplements the findings of the technical consultation, which are separately summarised in the publication High Speed 2 (HS2) Property Price Support Scheme (PPSS) response analysis<sup>4</sup>. We use the word 'respondents' in this section to mean the experts whose view were provided during the panel discussion, in one-to-one interviews or in writing.

### **Question 1: What effects would you expect to see on the housing market along the HS2 route as a result of introducing a route-wide PPSS?**

- 3.2 Some respondents agreed that in principle a PPSS could offer more support to the normal functioning of the housing market than the current package of the non-statutory property compensation schemes. This is, they argued, because a PPSS would avoid properties being sold at a loss for a set time-period, after which most respondents expected that the housing market would have normalised.
- 3.3 Some respondents thought that a PPSS could distort the normal functioning of the housing market by driving up demand for PPSS-supported properties and lowering demand for nearby properties not supported by the scheme, causing a 'halo effect'. The risk that buyers might deliberately underbid for properties protected by a PPSS was also highlighted, meaning the Government could be liable to pay higher top-up amounts. Some respondents thought that more people selling their properties could risk undermining community cohesion even though the purpose of a PPSS was to encourage people not to sell at the first sign of risk. Others felt that selling properties would be preferable to having more people renting properties from the Government.

### **Question 2: What effects would you expect to see on generalised blight as a result of introducing a PPSS?**

- 3.4 Many respondents agreed that they expected the property market to function and that property prices to increase over time, even without introducing a PPSS. Some respondents noted that the introduction of a PPSS could lead to unintended consequences, resulting in generalised blight. Examples of unintended consequences included 're-blighting' areas where property prices were showing signs of recovery, extending generalised blight outside a PPSS boundary and crystallising existing generalised blight, thereby making it harder for markets to recover. Respondents agreed that there was a link between perceived uncertainty and generalised blight. They noted that while in some circumstances a PPSS could mitigate against uncertainty and subsequent generalised blight, in others it could worsen it, for example if a scheme were complex or delayed.

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<sup>4</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/755364/hs2-ppss-consultation-response-analysis.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/755364/hs2-ppss-consultation-response-analysis.pdf)

**Question 3: What PPSS model would you recommend – time or value based? Is there any other model you are aware of that you think might be appropriate?**

- 3.5 Most respondents preferred a value-based model, which offers to pay the difference between the unblighted price and the actual sale price of a property. They stated that this model would give more confidence to the buyer and take the differences of local property markets into account. One respondent said that it was becoming harder to determine the unblighted value of properties accurately, especially in locations where the route was announced several years ago, and that this trend could impact the effective delivery of a value-based model.
- 3.6 One suggestion was to include a ‘floor’ on a PPSS which would limit the Government to paying only up to a certain percentage of the value of a property. Respondents also noted that by setting the floor at 15%, for example, it would effectively reduce the property values across the scheme by that amount because buyers would bid 15% under the asking price knowing that the seller would receive a top-up. They also noted that mortgage companies would probably value the properties at the lower price and might adjust their offers accordingly.

**Question 4: When should a PPSS be introduced? Which of the following options would you recommend, and why:**

- After route announcement but before the environmental impact is known?
  - After the announcement of details of the environmental impact but before the start of construction?
  - From the start of construction until the start of operation of the railway?
- 3.7 Most respondents agreed that introducing a PPSS would realise the most benefits if implemented at the route announcement stage, and that introducing a scheme at a later stage would not result in the same level of benefits.
- 3.8 Some respondents felt that if a PPSS was in place it would matter less when route announcement or changes to the route were published because it would give homeowners confidence that they would not have to absorb a possible financial loss. Some respondents also thought that as the project progressed and impacts became clearer, uncertainty decreases, meaning that introducing a PPSS to improve certainty at the construction stage would have little purpose.

**Question 5: Should a PPSS only be introduced as a responsive tool, for example in specific areas where blight has been identified?**

- 3.9 Most respondents agreed that a responsive boundary for a PPSS - whereby the scheme would only apply in areas of the route where generalised blight has been identified - would be more complex to implement. It would also delay a homeowner's access to the scheme due to time lags in updating the boundary in line with route changes. While there was some debate about the possible benefits of having a responsive boundary, respondents felt there was a greater benefit to having either a route wide non-responsive boundary or no boundary at all. If it was decided to have a responsive boundary, respondents stated that the following factors would need to be considered for all areas: topography; geography; property values; construction impacts; and transport links.

**Question 6: Should a PPSS have a defined boundary? What risks do you see as likely to arise for a scheme either with or without a defined boundary? How could those risks be mitigated?**

- 3.10 No consensus was reached regarding the value of including a defined boundary for the PPSS, as both options had benefits and disbenefits.
- 3.11 Suggested opportunities of a defined boundary included: it would be simpler to design, to implement and administer; it would remove ambiguity around eligibility thereby simplifying the application process; and it would be easier for HS2 Ltd and the DfT to anticipate funding needs. Risks associated with a boundary included that it would cause grievance to those just outside of it; and that it could lead to perceived 'blighting' of the properties on the other side of the line, creating a 'halo effect'.
- 3.12 Not having a boundary but allowing people to apply for a PPSS if they could prove that they had been generally blighted could be a viable option. It could mitigate against a 'halo effect' and would mean that those who may be blighted beyond 300m from the line of the route (where all existing schemes except Need to Sell end) would have the opportunity to apply to the scheme. However, some risks were associated with this approach. It would result in an application process to gain access to a PPSS which in turn would mean that applicants would need to undertake valuations to determine if they had been generally blighted by HS2. It could also result in many applications from property owners who lived far from the route. Respondents noted that a no boundary PPSS would increase the administrative burden (and hence cost) on HS2 Ltd and DfT as well as on applicants as they would have to go through a more demanding process.
- 3.13 One alternative suggestion was to have one boundary inside which people would automatically be eligible but where people outside could apply to the scheme if they could prove they were subject to generalised blighted.

**Question 7: If you consider that a PPSS scheme should have a boundary, where do you think it should be? Which of the following options would you recommend, and why:**

- aligned to the existing compensation scheme boundaries, 120m (Rural Support Zone) and 300m (Homeowner Payment scheme) from the line in rural area;
  - a fixed boundary beyond the 300m line;
  - a variable boundary based on the physical environment;
  - an assessment of impact akin to the 'Need to Sell' location criterion.
- 3.14 As outlined in question five, there was agreement that a variable or responsive boundary would be difficult to implement, and that if there were a boundary it should be the same along the HS2 line of route.
- 3.15 Aligning a PPSS boundary with existing compensation scheme boundaries would have advantages of being simpler for HS2 Ltd and DfT to design, implement and administer, and was favoured by several respondents. Some respondents thought that in limiting a PPSS to the existing scheme boundaries, the Government would be offering an extra compensation option to those who already have other non-statutory schemes available to them. These respondents thought that a PPSS could offer something to homeowners not currently covered under other schemes, and that one way to do this was by extending the boundary beyond 300 meters.
- 3.16 Several suggestions were made as to how wide a PPSS boundary could be drawn beyond 300m, and it was suggested that the DfT could review evidence from existing

schemes to determine where generalised blight was and use this data to decide how far the boundary should extend.

- 3.17 Respondents noted that there could be a risk of 'double-counting' where an overlap of schemes entitles one homeowner to various payments (for instance in the case of HOP payments<sup>5</sup> or Part One claims<sup>6</sup>). There were mixed views from respondents about the fairness of overlapping schemes and multiple payments, but it was clear that it would increase the financial cost to the Governments should this happen.

**Question 8: Various criteria apply to the existing suite of property compensation schemes. Which, if any, do you think should apply to a PPSS scheme, and why?**

- the homeowner should have a compelling reason to sell;
  - the homeowner should be able to demonstrate no prior knowledge of HS2 before purchasing the property;
  - the PPSS should expire once the railway is operational;
  - a homeowner choosing to sell should have to accept some reduction in value.
- 3.18 No agreement was reached as to whether a PPSS should include a compelling reason to sell clause. Some respondents thought such a clause was important to prevent large numbers of people selling their properties simply because they could do so, effectively turning the PPSS into a 'want to sell' scheme. Other respondents thought that as the purpose of a PPSS was to make it easier for homeowners to sell their property should they wish to do so, increased sales would reflect the normal functioning of the housing market.
- 3.19 There was broad agreement that the first PPSS holder would have to prove that they had no prior knowledge of the HS2 project when they had purchased their property. Respondents also mostly agreed that the PPSS should expire at some point. Many respondents thought this should be when Part One claims become available, which is one year from the start of the operational phase. Consideration was given to the possible outcomes of allowing the PPSS to operate throughout the construction phase. Some respondents thought that the biggest negative impacts on property values would be realised during this phase and they noted that if many PPSS holders sold their properties during this phase, the Government would be liable to pay a greater total 'top-up' amount. It was noted that if a valuation to determine generalised blight was conducted during this phase, the 'blighted value' could become skewed.
- 3.20 While some respondents thought that a PPSS should be transferrable, others noted that this could be complicated to administer.

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<sup>5</sup> The Homeowner Payment (HOP) scheme provides a cash payment to property owners living close to HS2 in rural areas where the railway is not in a tunnelled section. The HOP scheme operates within a zone (the HOP zone) made up of three 60 metre-wide bands. The zone starts 120m from the centre line of the railway (at the outer border of the Rural Support Zone) and runs to 300m from the centre line of the railway.

<sup>6</sup> Under Part I of the Land Compensation Act 1973, compensation can be claimed by people who own and also occupy property that has been reduced in value by more than £50 by physical factors caused by new or altered infrastructure.

**Question 9: HS2 Ltd estimate the cost of acquiring land and property for Phase One of the route, London to the West Midlands, at £3,295 million (Q1 2015 prices). In your view what impact, if any, would the introduction of a PPSS have on the cost of the existing property acquisition and compensation scheme? How do you think the potential cost of a PPSS scheme could best be modelled?**

- 3.21 It was accepted that a PPSS for HS2 would look significantly different to the HS2 property compensation schemes that already exist. Respondents noted that there would not be guaranteed buyers along HS2, unlike some non-linear projects such as Hinckley Point nuclear power station, where some employees were expected to fall within scope of the project's own property bond compensation scheme.
- 3.22 The lack of precedent would make it difficult to model the potential uptake of an HS2 PPSS scheme and therefore its cost. While some respondents considered that a PPSS could theoretically reduce the financial burden on the taxpayer, they also agreed that this proposal remained untested.
- 3.23 Respondents made the point that a PPSS should reduce the number of properties acquired by the Government, resulting in a short term financial benefit from lower acquisition and rental management costs. However, by providing a top-up instead of acquiring properties, the Government would be 'giving away' money without receiving an asset in return, which could be considered poor value.
- 3.24 Running a trial PPSS could be costly for the Government, and would be difficult to orchestrate, according to some respondents.
- 3.25 Respondents noted that for similar projects there was a buyer of last resort who would purchase any property if it could not be sold despite the PPSS being in place. Respondents questioned whether this would be the case with a PPSS for HS2 and what the implications might be for the Government.

**Question 10: Do you think a PPSS scheme might affect any particular group of people disproportionately?**

- 3.26 Respondents agreed that if a PPSS was to be applied in a consistent way across the line of route, then no particular group should be disproportionately affected. Some respondents did question if the eligibility criteria for a PPSS would mirror the current discretionary schemes. They particularly had questions about whether renters or people who lived at the same location as their business premises would be eligible.
- 3.27 One respondent questioned whether owners of multiple properties would be allowed to apply for a PPSS on each of their properties. The respondent thought it might be appropriate to offer such an option, given that since the original HS2 property compensation schemes were introduced, second home ownership and multiple property ownership has increased.

**Additional discussion points**

- 3.28 The logistics of running a trial were also discussed. Several factors were considered important to running a successful trial including: that it should be in an area deeply affected by HS2 where there are no current signs of property values recovering; the area should include a broad range of property values; and the trial would need to run for at least 12 months.
- 3.29 It was broadly agreed that introducing any new non-statutory scheme on an infrastructure project would risk setting a precedent, but that due to the unique nature of HS2, there were opportunities for minimising this risk.

## 4. Review of the 2014 PwC cost report

- 4.1 In 2014, PwC produced a cost report<sup>7</sup> for DfT and HS2 Ltd on the possible implementation of a property bond scheme, given certain assumptions. The PwC report showed that there were significant inherent challenges to analysing the costs of the PPSS which resulted from the lack of prior precedents, the transient nature of the housing market and the wide geographical spread of HS2.
- 4.2 The level of uncertainty was very high. PwC therefore took a scenario-based approach using a wide array of assumptions<sup>8</sup> to generate possible outcomes. 'Optimistic' and 'pessimistic' scenarios were created for three scenarios which reflect different distance-based eligibility from the HS2 line.
- 4.3 Whilst PwC engaged HS2 Ltd to source empirical data where possible, such as property data, subjective assumptions were required to fully develop the model. PwC engaged professional organisations such as the Royal Institution of Chartered Surveyors, the Council of Mortgage Lenders<sup>9</sup>, CBRE Group and the National Association of Estate Agents to incorporate their professional judgement in the final model.
- 4.4 The analysis of the potential net cost and spending profile of the schemes presented considers the following costs and revenues over the schemes' lifespan:
- administrative cost of establishing the relevant property scheme;
  - capital costs of purchasing properties;
  - revenue generated by the sale or leasing of properties acquired by the Government; and
  - transaction costs associated with purchasing and leasing properties, which includes the cost of ensuring they are of a lettable standard.
- 4.5 The results from the PwC model in Table 1 below show that a scheme implemented for Phase One was predicted to result in a net cost in all scenarios and at all distances. As the boundary criteria increase, so does the associated risk and uncertainty which results in the widening cost ranges. The modelling was conducted in 2014 and the approach taken remains sound. However due to this timing, some outdated assumptions on project timelines and the approach to property management were included. These have since been clarified or updated. Given this, these figures should be used for indicative purposes of scale only.

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<sup>7</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/327755/hs2-property-bond-cost-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/327755/hs2-property-bond-cost-report.pdf)

<sup>8</sup> The main assumptions that have been developed for the cost model are: number of eligible properties; number of properties that register; annual number of owners attempting to sell; annual number of owners that fail to sell for protected price; number of HS2 acquisitions; property management/strategy; lease revenues; property sell date; value at time of sale; sale transaction costs; design/set-up costs; registration costs; sale process costs; acquisition costs; and ongoing internal costs. Assumptions also had to be made on the propensity of the wider housing market to influence the value of properties bought and sold.

<sup>9</sup> Known since 2017 as UK Finance.

Distance based eligibility criteria	Net Present Cost (2014 prices)		Unblighted value of eligible properties <sup>10</sup> (July 2013)
	Optimistic scenario	Pessimistic scenario	
120m	£13.1m	£38.5m	£243m
300m	£17.7m	£85.0m	£1,066m
500m	£30.5m	£158.1m	£2,905m

**Table 1: PwC illustrative costs of implementing a property bond scheme**

- 4.6 PwC identified the key risks and assumptions, testing the sensitivity of the outcomes to each variable in isolation. Through this sensitivity analysis, it was found that the most influential assumptions were the number of properties acquired, ongoing generalised blight levels post-construction, the property management strategy, house price inflation and the timing of the property cycle where a market crash between purchase and release would severely affect costs. These indicated that the final cost of a property scheme was not contained to the bond itself and was subject to wider property market conditions over the scheme's lifespan.
- 4.7 Whilst what was analysed was reasonable at the time, PwC themselves recognised that the sensitivity tests they considered represented a small number of potential tests which could be conducted. They advised that the key assumptions detailed in the report should be reviewed when considering implementing the scheme in the future. Certain assumptions, such as generalised blight levels post-construction, were required due to a lack of existing empirical data. The experience and data collected by the HS2 compensation schemes may allow more informed assumptions to be implemented if a property bond scheme were to be re-examined in the future.

<sup>10</sup> Property values were sourced from CBRE for use by HS2 Ltd and PwC and are presented in 2013 prices.

## 5. Conclusions

- 5.1 We have concluded that we should not seek to introduce a PPSS on HS2. In reaching that conclusion, we have drawn upon the evidence presented in response to the technical consultation and the full range of evidence obtained by the means explained in Chapter 1.
- 5.2 We accept that a PPSS or a property bond can be an appropriate intervention in a property market affected by a major infrastructure project. We note evidence, albeit limited, to the effect that such schemes have operated successfully in the UK though not in respect of a linear project on the scale of HS2. A number of responses to the technical consultation emphasised that a PPSS can act to support a market by maintaining sales volumes and property values.
- 5.3 We agree with the point made by several members of the expert panel, that the term 'Property Price Support Scheme' is more meaningful and potentially more readily understood than 'property bond', since it includes the word 'support'. It is the term we used in the technical consultation.
- 5.4 We acknowledge that some support for a PPSS is driven by the consideration that the Need to Sell scheme - currently the only scheme open to property owners more than 300m from the line of route - does not allow a property owner to *choose* to sell to the Secretary of State. However, we remain convinced that it is not in the overall interest of the taxpayer to allow any property owner who considers that they are affected by HS2 to require the Secretary of State to buy their property, irrespective of whether it is needed for the construction or operation of HS2, or how far it is from the line of route. Nor do we see that the perceived limitations of Need to Sell scheme are sufficient reason to introduce a PPSS scheme.
- 5.5 The property compensation schemes already in place for HS2, whether statutory or non-statutory, would have to remain available if a PPSS were to be introduced. The option of starting again with a 'blank page' on HS2 does not exist, and nor should it, given how much consultation and thought was given to the introduction of those schemes, and how many people have already applied to the existing schemes or have applications currently in hand. Clearly then, introducing a PPSS risks adding complexity, 'double counting' and the potential for some of those who have already applied to the existing schemes to feel disadvantaged.
- 5.6 Introduction of a PPSS on HS2 risks a number of other negative effects. First, it could disrupt the market along the route (particularly on Phase One) where some stability has begun to appear. Second, a PPSS could inadvertently extend generalised blight, particularly if a boundary were to be drawn at 500m or further, or if no boundary were to be drawn and it was left to individuals to consider whether they were experiencing HS2-related generalised blight. Third, a PPSS would lead to a situation in which support for property values were simply 'priced in' by potential buyers, so the scheme could introduce the perverse effect of incentivising sales closer to the route where properties would become accessible to buyers for less than they would pay elsewhere, so distorting the wider market.



- 5.7 We found nothing to contradict PwC's conclusions that a bond scheme would have a net cost in all scenarios and at all distances. We also found no reason to dispute PwC's conclusion that the final cost of a property bond would not be contained to the bond itself, but would be subject to wider property market conditions over its lifespan. In short, there are significant financial risks to the introduction of a PPSS for HS2.
- 5.8 There are many potential variables to the design of a PPSS. These include:
- its geographic extent;
  - whether a scheme should be transferable as a property changes ownership;
  - whether a scheme should take account of factors relating to topography, or the construction effects of the project;
  - whether a scheme should be time or value based; and
  - whether all the potential lost value in a property should be covered by a PPSS or whether there should be limit or 'floor' - and what in turn either option might mean for 'gaming' of the scheme.
- 5.9 Complexity and difficulty are not of themselves reasons to avoid introducing a PPSS. But they do relate to other issues that militate against such an approach, including how long it would take to design and launch a scheme, and how readily it would be understood.

## 6. Next steps

### Blight, uncertainty and communications

- 6.1 Uncertainty may be said to further perceptions of generalised blight, so tackling uncertainty has the potential to reduce the effects of generalised blight. We heard from some experts that a PPSS could help to tackle uncertainty, or at least that it could do so if introduced early enough in the life of a scheme. But a PPSS is not the only means of tackling uncertainty.
- 6.2 We heard that much could be done through better and earlier communication of plans and a better explanation of local effects. It was instructive to learn of the efforts of estate agents to dispel or at least reduce the concerns of potential buyers near the HS2 route. One technique they have developed is to show them HS2 Ltd information which they had tailored and adapted to make clear that the local effects of the project were fewer than potential purchasers feared or had been told.
- 6.3 HS2 Ltd does much to communicate with communities along the route, but this is an area where there is always scope to consider more, and the information that can do most to dispel uncertainty is both accurate and timely. Continuing to provide timely, accurate information that reflects as far as possible local concerns should continue to be a priority.

### Future applicability

- 6.4 No one we spoke to suggested that the PPSS concept was a bad idea. Clearly, versions of a property bond have already been used successfully, as the original technical consultation set out. There is every reason to suppose that they may be an appropriate solution for other infrastructure projects, including transport projects. The decision not to introduce a PPSS for HS2 does not in any way set a precedent for any other scheme, including those that DfT sponsors.
- 6.5 We concluded on the basis of the available evidence that the introduction of a PPSS was not the approach to take now for HS2. If significant new evidence on the effects of a PPSS were to become available we would of course take account of it. Furthermore, we and HS2 Ltd would consider whether a PPSS might be an appropriate response where we identify specific, local circumstances on part of the HS2 route.

## 7. Annex A: Background material

- 2011 - High Speed Rail: Investing in Britain's Future Consultation (Annex B, point 24). This consultation first mentions a property bond that is linked to a promise of compensation rather than property purchase.  
<https://webarchive.nationalarchives.gov.uk/20110405154200/http://highspeedrail.dft.gov.uk/sites/highspeedrail.dft.gov.uk/files/hsr-consultation.pdf>
- 2012 – Review of Property Issues. This document sets out why the initial compensation schemes were adopted and why a property bond was not favoured.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/11474/hs2-review-of-property-issues.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/11474/hs2-review-of-property-issues.pdf)
- 2013 - Property Compensation Consultation 2013 for the London-West Midlands HS2 route. This document sought views. We are seeking your views on proposals for long-term discretionary property compensation schemes to assist owner-occupiers of properties affected by Phase One of HS2.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/238891/PR01\\_Consultation\\_document.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/238891/PR01_Consultation_document.pdf)
- 2013/14 - High Speed Two: Property Compensation Consultation 2013 Consultation Summary Report (paragraph 11.3.2). This document summarises consultation responses to various discretionary compensation scheme options including the property bond concept.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/301487/hs2-property-consultation-summary.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/301487/hs2-property-consultation-summary.pdf)
- 2013/14 - Decision Document: Property Compensation Consultation 2013 for the London-West Midlands HS2 route. This document contains the Government response to the 2014 consultation. It notes that the property bond concept "has merit" (para 8.1.10) but that the concept remained largely "untested and unproven in practice" (para 8.1.11).  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/301522/cm\\_8833.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/301522/cm_8833.pdf)
- 2014 – HS2 property bond cost report. This document from PwC explores the potential cost of a HS2 property bond scheme and the sensitivities of such a scheme to various key assumptions and scenarios.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/327755/hs2-property-bond-cost-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/327755/hs2-property-bond-cost-report.pdf)
- 2015 - HS2 Phase Two: West Midlands to Crewe Property Consultation 2015. This document summarises consultation responses to various discretionary compensation scheme options including the property bond concept on Phase 2a.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/526063/HS2\\_Phase\\_2a\\_Property\\_Consultation\\_2015\\_Response\\_Summary\\_Report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/526063/HS2_Phase_2a_Property_Consultation_2015_Response_Summary_Report.pdf)

- 2015 - Decision Document HS2 Phase Two: West Midlands to Crewe Property Consultation 2015. This document contains the Government response to the 2015 consultation. The Government maintained its opposition to the introduction of a property bond, but agreed to consider the concept in more depth.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/525850/west-midlands-crewe-property-consultation-2015-web-version.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/525850/west-midlands-crewe-property-consultation-2015-web-version.pdf)
- 2018 - High Speed 2 (HS2) Property Price Support Scheme Technical Consultation Response. This document contains the Government response to the 2018 technical consultation of the Property Price Support Scheme Concept.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/755344/hs2-ppss-consultation-response-web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/755344/hs2-ppss-consultation-response-web.pdf)

## 8. Annex B: Organisations consulted

8.1 Representatives of the following organisations either took part in the panel of experts, were interviewed subsequently by DfT officials, or in one instance submitted a written response.

- Central Association of Agricultural Valuers (CAAV)
- Compulsory Purchase Association
- Country Land and Business Association (CLA)
- High Speed Two Limited (HS2 Ltd)
- HS2 Residents' Commissioner
- Ministry of Housing, Communities and Local Government (MHCLG)
- National Association of Estate Agents (NAEA)
- Royal Institution of Chartered Surveyors (RICS)
- UK Finance
- Valuation Office Agency (VAO)