

**PULLINGERS
110-114 ELM GROVE
HAYLING ISLAND
PO11 9EH.
AFFORDABLE HOUSING
AND
VIABILITY STATEMENT**

ON BEHALF OF CHURCHILL RETIREMENT LIVING



Description of the Proposal:

Redevelopment to form 44 sheltered apartments for the retired, including communal facilities (Category II type accommodation), access, car parking and landscaping and separate new build retail unit with 2 bedroom flat above

August 2015

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I. INTRODUCTION

- 1.1 This statement has been submitted in support of a planning application by Churchill Retirement Living Ltd for a Category II sheltered housing scheme of 44 retirement 1 and 2 bedroom apartments and communal facilities and a separate ground floor retail unit with 2 bedroom flat above on the first floor
- 1.2 Planning Issues is acting on behalf of Churchill Retirement Living Limited in respect of the planning application.
- 1.3 The report will outline and justify the inputs that will be used in the residual land appraisal for the site at 110-114 Elm Grove and how the output from the appraisal will show the extent to which the Local Plan affordable housing requirement can be borne by this development whilst maintaining an economically viable position. This is a position allowed for at all levels of planning policy relating to the provision of affordable housing through section 106.

2 The Development Plan and relevant guidance

- 2.1 It is considered that the following documents represent the most relevant parts of the adopted development plan and other current guidance which affect the affordable housing requirement for this proposal:
 - National Policy Planning Policy Framework
 - National Planning Practice Guidance
 - Havant Core Strategy and Housing Supplementary Planning Document
 - RICS Professional Guidance - Financial viability in planning

The National Planning Policy Framework (NPPF)

- 2.2 The NPPF was published on 27th March 2012
- 2.3 From the day of publication, decision-takers may also give weight to relevant

policies in emerging plans according to, inter alia, the stage of preparation of the emerging plan (the more advanced the preparation, the greater weight that may be given).

- 2.4 Housing applications should be considered in the context of the presumption in favour of sustainable development. Relevant policies for the supply of housing should not be considered up-to-date if the local planning authority cannot demonstrate a five year supply of deliverable housing sites.
- 2.5 Where it is identified that affordable housing is needed, policies should be set for meeting the need on site, unless off-site or **a financial contribution of broadly equivalent value** (my emphasis) can be robustly justified.

Planning Practice Guidance

How should viability be assessed in decision taking?

- 2.6 A site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken.

How should changes in values be treated in decision-taking?

- 2.7 *Viability assessment in decision-taking should be based on current costs and values.* Planning applications should be considered in today's circumstances.

However, where a scheme requires phased delivery over the medium and longer term, changes in the value of development and changes in costs of delivery may be considered.

Vacant Building Credit

- 2.8 On 28th November 2014 the government announced a new initiative aimed at encouraging developers and landowners to bring back empty property and redundant land back into use. An announcement was made by the Secretary of State for Housing and Planning confirming that a proposal similar to the exemption in the CIL regulations whereby the levy only applies to additional floorspace.
- 2.9 Since that time, a High Court decision has meant that Vacant Building Credit

has been taken out of national planning guidance. It is understood that the government are likely to appeal the decision but for the time being it

Havant Core Strategy and Housing Supplementary Planning Document (2011)

- 2.10 The Core Strategy was adopted on 1st March 2011.
- 2.11 Policy CS9 states that the Council will seek to negotiate 30% - 40% affordable housing provision from developments of 15+ dwellings unless a lesser requirement is justified by transparent viability.
- 2.12 A tenure mix of 65%-70% social rent and 30%-35% intermediate affordable housing subject to viability.

Housing SPD (27th July 2011)

- 2.13. Supplements Policy CS9 of the adopted Core Strategy
- 2.14. Any financial contribution in-lieu of on-site affordable housing will be equal to the cost of providing affordable housing on site i.e. the value of the serviced land for the affordable housing had they been provided on site.
- 2.15. Where a developer believes that affordable housing requirements make a scheme unviable, an open book approach must be adopted and the claim substantiated by detailed evidence that allows viability to be tested and verified by an independent valuer.

RICS Guidance Note; Financial viability in planning

- 2.16. The guidance note is intended to represent 'best practice', i.e. recommendations which in the opinion of RICS meet a high standard of professional competence.
- 2.17. When determining planning applications LPAs are concerned with the merits of the particular scheme in question. They should disregard who is the applicant as planning permissions run with the land. It follows that in formulating information and inputs into viability appraisals, these should

disregard either benefits or disbenefits that are unique to the applicant, whether landowner, developer or both. The aim should be to reflect industry benchmarks.

- 2.18 Viability assessments will usually be dated when an application is submitted. The decision of the LPA on a planning application needs to be based on the material considerations at the date of determination, hence the conclusions of a viability assessment undertaken at the date of the application will still hold good at the date of decision.

Re-appraisals (viability reviews)

- 2.19 Re-appraisals are generally suited to phased schemes over the longer term rather than a single phase scheme to be implemented immediately, which requires certainty.
- 2.20 ***It is stressed that the re-appraisal should always be undertaken prior to the implementation of a scheme or phase in order to fully account at the time for the risk the developer is undertaking, and, therefore the appropriate return*** (my emphasis). From a technical perspective, so called ‘overage’ arrangements (post development appraisals) are not considered appropriate, as development risk at the time of implementation cannot be accounted in respect of the inevitable uncertainty of undertaking a development or individual phase. It also undermines the basis of a competitive return as envisaged by the NPPF by introducing uncertainty post implementation of the development. This may make funding the scheme difficult or unlikely in many cases.
- 2.21 It is important to ensure that the drafting of re-appraisal provisions do not result in the earlier phases becoming uncertain as to the amount of development to be provided on site. This would have the unfortunate effect of stifling development. Each phase requires sufficient certainty to be able to provide the required returns and secure development funding.
- 2.22 For smaller scale developments, which may be completed in a single phase, it would be reasonable to consider what may be an appropriate affordable

housing and S106 offer with regard to market conditions at the time of the application. This is because there is no later phase to capture future value growth.

3 THE SITE CHARACTERISTICS

- 3.1 The development site has an area of only 0.33ha.
- 3.2 The site is currently occupied by retail accommodation to the front of the site, extended to the rear. Further back is a second retail unit on two floors which was recently occupied by a carpet showroom on the ground floor and offices on the first floor. The site also has car parking spaces and some large storage containers.
- 3.3 The site potential is for 44 sheltered apartments (30 no. 1 beds and 14 no. 2 beds). At 40% the affordable housing requirement would be 16 units and at 30% it would be 13.2 units (say 13).
- 3.4 Additionally, at the front of the site, the site will accommodate a two storey building with a small retail unit on the ground floor and a two bedroom apartment on the first.
- 3.5 The site that is unable to be partitioned to accommodate a further separate building of sufficient size and in a reasonable form to achieve a sustainable sheltered housing scheme and an affordable housing scheme of 13 to 16 apartments each with its own access, parking and grounds.
- 3.6 The provision of on-site affordable housing within or alongside an open market sheltered housing retirement scheme on this small site is impractical.

4 THE NEED TO ACHIEVE A SUCCESSFUL HOUSING DEVELOPMENT

- 4.1 The success of an open market sheltered housing development depends on many factors, including site size, number of dwellings, the incorporation of successful management arrangements and, of course, the nature of the

environment and surroundings in which it is built and accessed.

- 4.2 Planning policy and national guidance clearly require residential developments to be successful both in terms of amenity enjoyed by the occupants and the affordability of the finished dwellings.
- 4.3 In order to ensure the annual management and service charges incurred by the scheme and which are fairly apportioned and payable by each resident/owner are set and maintained at a cost effective and acceptable level to purchasers and comparable to similar private sheltered housing schemes for sale in the area, a minimum number of sheltered apartments are required to form a successful scheme.

5 ECONOMIC (FINANCIAL) VIABILITY

- 5.1 The NPPF requires an off-site affordable housing contribution to be broadly equivalent to on-site provision and would amount to a sum equivalent to the subsidy required to provide 30% to 40% of the development as affordable housing.
- 5.2 In order to establish, initially, the viability of an affordable housing requirement, it is necessary to establish the developer subsidy that would be required in order to satisfy the affordable housing requirement on this site. This is the principle of equivalence whereby the off site contribution equates to the amount of subsidy that would have been provided on site.
- 5.3 This developer subsidy equates to the difference between the value of the scheme without affordable housing (the “unencumbered value”) and the value of the scheme with the policy requirement for affordable housing (the “encumbered value”). This will establish the maximum amount of affordable housing developer subsidy and thereby the maximum amount of off site financial contribution.
- 5.4 However, a requirement to contribute affordable housing is not intended to make a development financially unviable. Therefore we must first establish whether this scheme can afford to make any contribution for affordable housing.

- 5.5 Economic Viability is established as a material consideration in the determination of planning applications - The NPPF considers development viability to be a central consideration in delivering sustainable development, whilst good practice guidance published by the Homes and Communities Agency entitled “Investment and Planning Obligations – Responding to the Downturn” advises Councils on mechanisms to secure housing delivery under current economic circumstances.
- 5.6 A number of Secretary of State (SoS) decisions can be highlighted which have focussed on the issue of viability and affordable housing. It is fair to say that the SoS has shown increased pragmatism given viability and wider economic performance.
- 5.7 It is therefore important to assess whether the Council’s requirements for affordable housing can be delivered as part of a financially viable development.
- 5.8 The principles underlying economic viability rely on the assumption that land will be used in the form that secures an appropriate site value for the land owner. Therefore, unless the residual land value of a proposed development exceeds the market value or alternative use value for the land, then the land owner will not release or sell the land and it will not be brought forward for development.
- 5.9 To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.
- 5.10 It remains to suggest a way of valuing land such that an empirical assessment of the ability of any parcel of land to deliver affordable housing can be made.
- 5.11 A common way of valuing land for development is the use of residual land value appraisal. This method is one which is used industry wide in land purchase and that has been established as the pre-eminent method through

various development plan examinations and planning appeals.

- 5.12 A residual land value appraisal treats the land value as the output of a calculation which compares the costs of development with the revenue generated by it. Since the revenues from housing and the costs of development are relatively inelastic and outside the developer's control the one element of the appraisal that can vary is the land value. Therefore, if affordable housing is required, the cost of it must be deducted from the land value where possible.
- 5.13 For this application we will be testing the economic viability of the proposed development by including all the costs of development including an appropriate alternative use value for the land and all the income generated from the development in a toolkit appraisal, with the output showing either a development surplus (a viable contribution) or deficit (not viable).
- 5.14 The good practice guidance Investment and Planning Obligations Responding to the Downturn published by the HCA states that:
- “Financial models such as the Greater London Authority’s Affordable Housing Development Control Toolkit or the HCAs Economic Appraisal Tool (...) remain appropriate tools to test the viability of single phase developments where overall levels of planning obligations are fixed”***
- 5.15 It is essential however, to use an appropriate version of any toolkit. The HCA Economic Appraisal Tool and its replacement, The Development Appraisal Tool, calculate the residual land value or surplus/deficit of a development using a discounted cash flow.
- 5.16 In contrast, the “Three Dragons” or GLA standard model is a “static” appraisal which does not include important and obvious costs to the development such as interest charges (from the land purchase and the development), Stamp Duty Land Tax and Build Cost Contingencies. The default values are not suitable for appraising a specialist sheltered housing development. It is essential therefore when using the Three Dragons Toolkit

to test the viability of a development which is undertaken over a period longer than one year, to use the Discounted Cash Flow (DCF) option button and overwrite the default input values with ones which are appropriate to specialist sheltered housing development. Even this is not perfect because the crudeness of the toolkit only permits costs and revenues to be included in a particular year of the development rather than a particular month of the development.

- 5.17 On behalf of Churchill Retirement Living, Planning Issues has, since 2007, negotiated appropriate affordable housing and other section 106 contributions on a number of sheltered housing developments using a toolkit viability appraisal. We consider it to be appropriate given the circumstances of the single phase “snap shot” development which a sheltered housing scheme represents.
- 5.18 There are many appraisal software packages on the market. However, they all rely on the principle that land value is the result of subtracting development costs from revenue.
- 5.19 A recognised development appraisal tool will be used to determine the viability of the application scheme.
- 5.20 In section 6, I outline and justify some of the specific headline cost and revenue assumptions which will be inputted into the HCA DAT toolkit to determine the extent to which the development may make a financial contribution to affordable housing without rendering it “unviable”.

6 THE VIABILITY APPRAISAL

- 6.1 The viability appraisal will be used to determine whether there is a resultant surplus or deficit from the proposed development by considering the existing use value or any alternative use values for the site.
- 6.2 It should be remembered that, while this assessment relates to the specific scheme that is the subject of this application, the inputs reflect industry benchmarks where possible in accordance with advice in RICS guidance. This guidance is specific in stating that

“... the nature of the applicant should normally be disregarded, as should benefits or disbenefits that are unique to the applicant. The aim should be to reflect industry benchmarks in ... development management ... viability testing.”

The Proposed Sheltered Scheme

6.3 In summary, the appraisal will include the following elements;

6.3.1 Scheme Revenue:

Sales Values of the sheltered housing scheme - In assessing selling values a number of comparables will be used including local values for sheltered apartments in the local area. Allowance will be made for temporal and spatial differences.

Sales Value from general needs apartment – Income from the sale of the 2 bedroom apartment at a value using comparable sales values in the locality.

Capitalised income from the retail unit – The capital value of the ground floor retail unit based on an appropriate yield and rental income.

Ground Rent Income - Annual ground rent charges for one and two bedroom apartments will be used and capitalised by an appropriate yield at the end of the selling period.

6.3.2 Internal Floor Area of Building

An Accommodation Schedule will be provided as part of the viability assessment that will be submitted.

6.3.3 Base Build Cost Work Up

Base Construction Costs – a recognised suitable and reliable source of build cost data will be used within the viability appraisals.

External Works allowance – This will be assumed as a proportion of the base construction cost, a figure that will be advised by an independent QS as reasonable and in addition to the base build cost.

Building Regulation Enhancements – This is a standard that is not allowed for

in the base build costs.

Site Specific and Extra Over Costs – These elements are site and development specific and will be estimated separately and will be in addition to the base build cost rate identified above.

Build Cost Contingency – In line with building industry norms we will allow for a contingency figure in line with other viability assessments that have recently been agreed.

Professional fees – incorporating building design fees, architects costs, planning costs, QS fees, M&E Engineer fees, Structural Engineer and Project Management Costs. A proportion of the total sheltered housing construction costs will be used to take account of the particular complexity of sheltered housing.

6.3.4 Other Planning Obligations

The CIL Charging Schedule took effect from 1 August 2013. In Hayling Island, a £100 per square metre charge applies to residential development of one dwelling or more.

6.3.5 Sales and Marketing Fees

Legals on sales – A cost per sheltered housing unit will be used.

Agents and Marketing Fees – Appropriate Sales and marketing fees will be included. This figure will be appropriate to sheltered housing in particular given the nature of the product and the costs incurred in selling a specialist housing product.

Sheltered housing is a specialist product aimed at elderly home owners. Generally, the purchaser will be funding the purchase almost exclusively from savings and/or proceeds from the sale of their current home. Marketing involves the targeting and direct contact of potential purchasers as soon as planning permission is gained, right through to the last unit sale. Throughout the sales period, a sales office (which is typically one of the sheltered apartments adapted specifically for the purpose) and several furnished show

apartments must be maintained on site with heat, lighting and power and with sales consultants engaged on a full time (7days per week) basis.

Sheltered Housing purchasers do not buy their new apartments “off-plan”. They prefer to see the finished product and their requirement comes from a physical need for housing, they will not buy speculatively. Where any mortgages are involved in the purchase, the mortgagee will not release funds until the NHBC certificate of completion is issued, precluding any sales completions prior to the building being completed. Hence all development costs are committed and incurred prior to any sale. This therefore affects the allowance for marketing which is included in the appraisal. A number of appeal inspectors have supported this position, specifically at Denmark Road, Gloucester and more recently at Carnarvon Road, Clacton.

6.3.6 Sales Rates and Empty Property Costs

Sales Rates - Based on our experience a sales curve will be applied to take account of a higher rate sales initially tailing off after the first year.

The typical sales rate for sheltered housing is much slower than that of a general needs housing. Sales completions can only occur once the build is complete and the communal areas furnished.

Timing of the sale of the site freehold (i.e. the month at which the ground rent is capitalised and income from this is assumed). This will be timed to coincide with the last apartment sale.

Empty Property Costs - These are a function of (i) Council Tax payable on empty properties, (ii) electricity costs to maintain supply to essential equipment in each empty apartment and (iii) service charges payable to the management company for each empty apartment until its sale. Set off against these costs is the rental income from the lodge manager’s apartment and the ground rent income from each apartment until the last apartment is sold and when the rent income is capitalised.

6.3.7 *Finance Costs*

Lenders arrangement fee – It will be assumed that the arrangement fee has been bound up within the interest rate charge.

Development Costs Interest – the interest charged on development costs levied at monthly intervals throughout the cash flow in line with expenditure at the relevant interest rate.

Interest rate – A debit rate per annum will be used, including charges, which is considered in the current lending climate to be a competitive interest rate for development finance and the associated risks attached to developing sheltered housing. In the HCA Development Appraisal Tool this is used in the cash flow to establish finance costs over the whole of the development period. A less sophisticated method would be to allow for finance as a percentage of construction costs but this would not realistically deal with the long development and sales periods associated with sheltered housing.

A credit rate will be used within the appraisal.

6.3.8 *Land Acquisition Costs*

Stamp Duty Land Tax

Legal Fees – Land purchase legal fees will be assumed as a percentage of the land value on purchase.

Acquisition Agent fees – a percentage of the land value will be included.

6.3.9 *Developer's Return*

Return for Risk – An acceptable return for risk on sheltered development will be assumed. This will take account of the particular risk associated with developing the sheltered housing product, the need to secure development finance and current market conditions.

6.3.10 *Benchmark Land Value*

Existing use and market value (plus a premium) may be used to assess the

benchmark value. There are many examples of where this is used to assess the benchmark against which

An alternative use value may also be reviewed for this site.

7 SUMMARY

- 7.1 A council must apply a consistent approach when considering a planning application for specialist developments such as sheltered housing.
- 7.2 Local Authorities have accepted the principle of commuted sum payments towards offsite affordable housing provision from private sheltered housing developments in the recent past.
- 7.3 It is important to assess whether the Council's requirements for affordable housing can be delivered as part of a financially viable development.
- 7.4 A critical issue for any viability assessment is identifying what is a reasonable return to be attractive enough for the land owner or developer to bring forward their site.
- 7.5 This scheme will be assessed for economic viability to determine if it is viable to make any contribution towards affordable housing.
- 7.6 The viability appraisal will establish the residual values of the proposed sheltered housing scheme using the latest appraisal toolkit with up to date build costs and sales values and will follow the latest published guidance on viability in planning.
- 7.7 The appraisal will determine if contributions towards affordable housing and CIL would render the proposed sheltered housing development unviable.
- 7.8 This is a single phase development which will be implemented without delay.
- 7.9 Development of the proposed scheme will allow other planning objectives to be achieved; such as the delivery of much needed specialist housing for the elderly.

- 7.10 In addition, by allowing the development to proceed now, construction jobs will be created for the benefit of the local workforce in an industry which has contracted as a result of the downturn in the housing market.