South Somerset District Council

Community Infrastructure Levy – Examination Hearing

Additional Document 1: 800 Dwelling Appraisal

1. Introduction

1.1 This note has been prepared in response to a request by the Community Infrastructure Levy (CIL) Examiner at the Hearing on Tuesday 9th August. The Examiner requested that the Council carry out an amended/corrected Viability Appraisal in relation to the 800 dwelling Sustainable Urban Extension (SUE) site typology, for two scenarios: a CIL of £40 per square metre (psm); and nil rate of CIL. Alongside this request, the Examiner sought a response from the Council to several points raised by Mr Burrows in his Hearing Statement.

1.2 The detail of the amended/corrected appraisals are appended as separate documents to this note as:

- Appendix 1 – 800 dwelling viability appraisal with CIL at £40 psm
- Appendix 2 – 800 dwelling viability appraisal with CIL at £ZERO psm.

1.3 The results of these appraisals and other sensitivity testing are summarised in Tables 2 – 5, which follow the explanation in Section 2 below. A response to Mr Burrows' specific points is set out in Table 1.

2. Explanatory text

2.1 Section 106 payments on each of the scenarios equates to £10,000 per unit applied to both private and affordable housing, resulting in a total of £8,000,000. S.106 on-site infrastructure is required on schemes of this size as they will not be acceptable in planning terms without those services and community benefits, particularly when considering the requirements of Local Plan Policy YV2 that *"The Yeovil Sustainable Urban Extensions will be developed to the highest sustainability objectives and garden city principles, subject to viability".* The Council does not consider that this level of cost can be reduced. Nor does the Council consider that if it could be reduced this Urban Extension typology would be sufficiently viable also to make a CIL contribution.

2.2 The summary tables below (Tables 2 – 5) show the residual land values at a range of reduced Affordable Housing levels and varying levels of CIL. The results demonstrate that the Residual Land Values are in all cases significantly lower than the Benchmark Land Value attributed in the Viability Study of £495,000 per ha (£200,000 per acre). Applying CIL would clearly put overall development at risk, as it would both increase the deficit below the benchmark land value, but also threaten the Council's ability to

negotiate the on-site infrastructure through Section 106 that would be required to ensure that any proposal would represent sustainable development.

2.3 The Council notes that Mr Burrow's viability appraisals and submissions at the Examination that purport to demonstrate that CIL is viable on urban extensions appear to have been based upon a site area of circa 20 ha. However, the 800 unit typology – whilst generic and not intended to replicate a specific site – is within the range of SSDC's SUE land areas of approximately 800 dwellings and 40-50 hectares in size. Clearly when assessing development viability in £s per ha terms, working from a land area of less than half the size of the likely SUE will significantly skew the outcome. Broadly speaking, this issue alone would result in Mr Burrow's residual land values being double the true amount on a value per hectare basis.

2.4 It is possible that a similar scheme in reality could attract a higher request for S.106 requirements but, for the purpose of the viability study, we have tried to take a realistic average so as not to over-inflate unknown costs. However, we note that at the Examination Hearing a developer representative provided an example of a site-specific negotiation in which his company has been requested to provide significantly in excess of this £10,000 per dwelling sum.

2.5 The Council considers that the adjusted scenario provided here covers all of the matters in relation to points raised post-consultation on the Draft Charging Schedule and in response to the Examiner's Key Issues relating to the initial Viability Study for 800 dwellings issued post-consultation [ED10].

2.6 For clarity and to cover a number of matters raised specifically and in general at the Examination Hearing, our notes to the accompanying viability appraisal scenarios are as follows:

- marketing budget now equates to 3% of the GDV of private housing;
- the BCIS build cost per square metre and a 15% allowance for externals and landscaping have been shown as separate cost lines in the appraisals rather than as a combined single cost;
- The previous version of the appraisal modelled the affordable housing and the private housing as two separate phases, each generating its own residual land value. The summary appraisals in the Viability Study (VS) showed the two residual land values, one of which was negative and one positive. The combined total equates to the residual land value for the scheme as a whole. The Council appreciates that this may have caused some confusion and in the updated appraisal, the single residual value for all tenures is shown. This single residual value for each scenario can then be compared more readily with the Land Value Benchmark;
- The heading which originally encompassed all of the Code for Sustainable Housing (CSH) at 6% was subsequently reduced to 4% to reflect the change of Government policy to withdraw the CSH, and allow for the remaining enhanced Part L building regulations on energy requirements. This is now re-labelled to reflect this cost rather than referring to CSH;

- For clarity the profit margin is a target input into the model, the level of which was agreed as an acceptable average at a consultation workshop held for respondents. For the updated appraisal, a blended profit margin of 17% has been used based upon 20% for private housing and 6% for affordable housing.

- The finance costs were similarly agreed at the workshop as an 'all in' rate to include arrangement fees as a reasonable assumption at that time.

2.7 In addition, at the request of the Examiner, the Council has prepared a response to the specific points raised by Mr Burrows in paragraph 1.6 of his Hearing Statement. This is set out in Table 1 below.

2.8 As a separate matter, 'opening up' costs were raised by the representatives of the development community as an additional cost for large scale schemes such as Urban Extensions that were not included in the Viability Appraisals. The representatives quoted a range identified in the Harman Guidance of £17,000 to £23,000 per unit for gaining new access, major servicing and utilities etc. Clearly if additional costs (£13.6 million if one takes the lower end of the range) were to be added to the updated appraisals, this would only serve to adversely affect the viability of the scheme even further. However, the appraisals are based upon the evidence given in the VS (supported by a number of attendees at the Examination Hearing as reasonable), which clearly show that CIL is not viable without any further costs. Therefore, we have not sought to change the viability appraisal and add new costs into it, at this late stage. In reality, we acknowledge that there could well be additional costs on site specific basis.

2.9 In summary, the Examiner has requested that the Council provide amended viability appraisals for an urban extension of 800 dwellings with 35% Affordable Housing at both £40 per square metre CIL and zero CIL, detailed in Appendix 1 and 2. These updated appraisals confirm the results of the previous version of the appraisal; namely that the imposition of CIL would turn a positive residual land value (albeit only £12,467 per hectare, which is well below the Benchmark Land Value of £495,000 per hectare) into a negative one. Seeking CIL in any scenario would further exacerbate viability issues. The impact of CIL on the land value in percentage terms is significant, as shown in the final right hand column on the tables.

2.10 Only when the scheme is provided with zero CIL as a wholly private development (i.e. no affordable housing) does the residual land value begin to approach a realistic positive land value per hectare, but even then it still does not reach the BLV of £495,000 per hectare.

2.11 As previously referenced, the remainder of this note comprises a series of tables:

- **Table 1: SSDC response to issues raised in Mr Burrows' Hearing Statement**

- **Table 2: 800 unit scheme incorporating 35% affordable housing**

- **Table 3: 800 unit scheme incorporating 25% affordable housing**

- **Table 4: 800 unit scheme incorporating 15% affordable housing**

- **Table 5: 800 unit scheme 100% private housing**

Table 1: SSDC response to issues raised in Mr Burrows' Hearing Statement

Issues by Mr A Burrows (para 1.6 in his Hearing Statement)	SSDC response – revised 800 dwelling viability appraisal
a) total acquisition costs in the 2015 Appraisal appear to bear no relation to the residual land price, and actually exceed the land price shown	The 2015 appraisals show two numbers titled "residualised price". The two residual land values relate to the private housing and affordable appraised as separate phases in Argus. The first residual is the land value generated by the private housing and the second residual (which is shown as negative) is the land value generated by the affordable housing. The sum of the two residuals is the land value for the development as a whole. The combined residual value was then compared to the benchmark land value to determine whether each scenario was viable or unviable.
b) the proportion of affordable housing in the 2015 Appraisal (29.2%) is not in line with local plan policy HG3 aimed at 35% affordable – which is reflected in the 2012 and 2016 Appraisals – although I acknowledge that a reduced/minimum requirement of 30% affordable homes is also raised in paragraphs 6.26 and 6.35 of the local plan	The revised appraisal has incorporated 35% affordable housing at both £40 psm and £ZERO psm. In addition, this has been subject to sensitivity testing at 25%, 15% and nil affordable housing.
c) there is no obvious justification in BNP Paribas' 2013 Report (paragraphs 4.25 to 4.28) or in the 2015 Update Addendum (in which Developer's Profit is not mentioned) for the high rate of return – in excess of 21% on total (not just open market) GDV – that has been assumed in both the 2013 and 2015 Appraisals	For clarity, the profit margin is a target input into the model, the level of which was agreed as an acceptable average at a consultation workshop held for respondents. For the updated appraisal, a blended profit margin of 17% has been used based upon 20% for private housing and 6% for affordable housing.
d) in spite of commenting on page 7 of the Update Addendum Report that an addition to BCIS build costs for the old Code for Sustainable Homes, and/or to reflect other future energy-saving requirements, is no longer appropriate, an addition of 4% is still assumed in both the 2015 and 2016 Appraisals	The heading which originally encompassed all of the Code For Sustainable Housing at 6% was subsequently reduced to 4% to reflect the government changes introduced and allow for the remaining enhanced Part L building regulations on energy requirements. This is now relabelled to reflect this cost rather than referring to CSH.
e) the 2016 Appraisal appears to translate the same assumptions made concerning house prices and build costs, from the 2015 Appraisal, into a generic scheme for 800 new homes at the same	Marketing budget now equates to 3% of the GDV of private housing.

density (40 dwellings per net hectare) and on the same assumption concerning average dwelling size. The proportion of affordable homes, however, has been increased to 35%. But for some reason the allowance for sale and marketing costs has not been adjusted to reflect the greatly reduced GDV for open market homes, and therefore amounts to 13.5% of GDV (rather than 3.5%). Thus those costs are about £10 million higher than they should be.	
f) conversely, the author of the 2016 Appraisal has adopted a more reasonable/appropriate margin for developer's profit (a blended return of 16.08% on total GDV, from both open market and affordable homes); but has failed to include any allowance for Finance Costs. In my opinion these anomalies/errors make the 2016 Appraisal unreliable as evidence on viability.	For clarity, the profit margin and finance rate are target inputs into the model, the levels of both were agreed as acceptable averages at a consultation workshop held for respondents. For the updated appraisal, a blended profit margin of 17% has been used, based upon 20% for private housing and 6% for affordable housing; and the finance rate is explicitly shown at an 'all-in' rate of 7%, in line with other appraisals.
g) the 2015 Appraisal is out of date, as I will demonstrate in my evidence under Issue 2 and might also be considered to lack appropriate proportionality, given that it fails to address the change to two smaller SUEs that I have described in paragraph 1.3 above.	The Council considers that the revised 800 dwelling Urban Extension appraisal provides an up-to-date assessment of viability matters for this site typology.

Table 2: 800 unit scheme incorporating 35% affordable housing

Affordable Housing									
No of Social Rent Units 67%	No of Intermediate Units 33%	No of Private Units	Total Units	CIL Rate £s psm	Residual land value (whole 42.25 ha site)	Residual land value per ha	Target land value per ha	Shortfall against target land value per ha	% reduction in land value due to CIL
188	92	520	800						
				£40	-£1,135,000	-£26,855	£495,000	-£521,855	315%
				£25	-£500,000	-£11,834	£495,000	-£506,834	195%
				£15	-£76,684	-£1,815	£495,000	-£496,815	115%
				£0	£527,000	£12,467	£495,000	-£482,533	0%

Table 3: 800 unit scheme incorporating 25% affordable housing

Affordable Housing									
No of Social Rent Units 67%	No of Discount Market Value Units 33%	No of Private Units	Total Units	CIL Rate £s psm	Residual land value (whole 42.25 ha site)	Residual land value per ha	Target land value per ha	Shortfall against target land value per ha	% reduction in land value due to CIL
134	66	600	800						
				£40	£2,852,751	£67,521	£495,000	-£427,479	39%
				£25	£3,544,051	£83,882	£495,000	-£411,118	25%
				£15	£4,004,893	£94,790	£495,000	-£400,210	15%
				£0	£4,696,164	£111,151	£495,000	-£383,849	0%

Table 4: 800 unit scheme incorporating 15% affordable housing

Affordable Housing									
No of Social Rent Units 67%	No of Discount Market Value Units 33%	No of Private Units	Total Units	CIL Rate £s psm	Residual land value (whole 42.25 ha site)	Residual land value per ha	Target land value per ha	Shortfall against target land value per ha	% reduction in land value due to CIL
80	40	680	800						
				£40	£6,674,316	£157,971	£495,000	-£337,029	24%
				£25	£7,457,738	£176,514	£495,000	-£318,486	15%
				£15	£7,980,042	£188,876	£495,000	-£306,124	9%
				£0	£8,763,473	£207,419	£495,000	-£287,581	0%

Table 5: 800 unit scheme 100% private housing

Affordable Housing									
No of Social Rent Units 67%	No of Discount Market Value Units 33%	No of Private Units	Total Units	CIL Rate £s psm	Residual land value (whole 42.25 ha site)	Residual land value per ha	Target land value per ha	Shortfall against target land value per ha	% reduction in land value due to CIL
0	0	800	800						
				£40	£12,525,626	£296,464	£495,000	-£198,536	16%
				£25	£14,447,310	£318,279	£495,000	-£176,721	4%
				£15	£14,061,766	£322,822	£495,000	-£172,178	6%
				£0	£14,983,452	£354,637	£495,000	-£140,363	0%