

## SDC Response to the Examiner's Pre-Hearing Notes

### 4: RESIDENTIAL CIL

#### Viability Evidence

- Status of viability evidence documents including CIL Viability Study (PBA September 2013 – SCS.17), CIL Economic Viability Study Final.

**SDC's Response:** The PBA CIL Economic Viability Study Final (September 2015 – EBD.2) informed the Community Infrastructure Levy (CIL) Submission Charging Schedule (Oct 2015 – EBD.1). It also replaces including CIL Viability Study (PBA September 2013 – SCS.17) to reflect changes in National and Local Policies on development, revisions in testing site typologies to better reflect the Stratford-on-Avon Local Plan, and improvements in the viability testing methods and assumptions. Therefore, the PBA CIL Economic Viability Study Final (September 2015 – EBD.2) and not the CIL Viability Study (PBA September 2013 – SCS.17) should be relied on as evidence in this Examination.

#### Residential CIL Viability Modelling Assumptions

##### General Housing

- Residential sales values – sources, patterns and trends

**SDC's Response:** Explanation is provided in EBD.2. See Sales values: Para 5.3.5 and Para 5.3.6; Table 5.5; Trends and Patterns in para 5.1.1 and 5.1.2.

- Residential site typologies – sources and relevance in different locations, site coverage and different land types

**SDC's Response:** Explanation is provided in EBD.2. See para 5.2.6; Table 5.3

- Affordable housing – quantum, types and costs

**SDC's Response:** Explanation is provided in EBD.2. See para 5.3.7 to 5.3.10.

- Build costs including allowances for external works and national technical standards requirements

**SDC's Response:** Explanation is provided in EBD.2. See Build costs: para 5.3.16 and para 5.3.17; Externals: para 5.3.18 to 5.3.19; Sustainability and building standards: para 5.3.20 to 5.3.21.

- Should the most up-to-date evidence be used (e.g. Q3 and Q4 2015)? If so would there be any implications for viability?

**SDC's Response:** PBA used the latest sample of actual build costs tender prices and achieved sales values that were available at the time (Q4 2014) to inform PBA's viability study (EBD.2). It is important to note that the costs and values do fluctuate on a monthly basis, but it would be impractical to re-run the appraisals on every month, so a contingency for any unknowns was included in the appraisal. Also in setting the CIL,

a significant financial headroom buffer was included to accommodate such fluctuations.

However, to provide comfort that the viability picture will not have worsened during the time since the time of the published study and the CIL Examination, PBA have checked changes in build costs and house price sales values indices that are available from the BCIS and Land Registry (at 02 September 2016), which are appended with this note.

In summary, PBA's viability study (EBD.2) PBA used build costs derived from BCIS. These were the median figures for the latest sample data available, 4th Quarter 2014, which were then rebased to reflect Stratford-On-Avon. The screenshot in Appendix A indicates that the tender price for the 4th Quarter 2014 was 259. Compared to the tender price for the current period (3rd Quarter 2016), which is 273, this reflects an increase of 5.4%.

For sales values, PBA have consulted the public access website for the Land Registry House Price Index (<http://landregistry.data.gov.uk/app/ukhpi/explore>), which can be explored to provide a index for Stratford-on-Avon between the two dates. The screenshot in Appendix B shows that over the same period as build costs noted above, the housing price index rose from 96.63 in July 2014 (average house price for all properties was recorded as £272,546) to an index of 105.74 (an average price of £298,257). This indicates a change of 9.4%.

Having revisited the data sources for cost and value assumptions, it is understood that house prices have increased at a greater rate (9.4%) than build costs (5.4%). The implications of these changes would be a net positive impact on viability of development in Stratford-on-Avon.

- Fees, contingency, site costs and finance

**SDC's Response:** Explanation is provided in EBD.2. See Fees: para 5.3.22; Contingency: para 5.3.23; Site costs: para 5.3.24 to 5.3.27; Finance: para 5.3.34.

- Are the site cost assumptions for brownfield, greenfield and mixed sites realistic?

**SDC's Response:** Explanation is provided in EBD.2. See para 5.2.5

- Should the Gaydon Lighthorne Heath site be classed as mixed rather than greenfield?

**SDC's Response:** Explanation is provided in EBD.2. See para 5.2.5

- Should the assessment show the development programme assumed for strategic sites? By not doing so, does this underestimate the finance costs associated with delivery of the strategic sites?

**SDC's Response:** Explanation is provided in EBD.2. See para 5.3.34, which notes that a monthly cash-flow appraisal has been used, although the borrowing interest rate has dropped to 6.5% to better reflect market conditions. It would be impossibly too long to show the appraisals for the strategic sites.

- Should the internal rate of return (IRR) be shown as a key part of the analysis on longer-term strategic sites?

**SDC's Response:** Residual value is the value of the completed development (known as the Gross Development Value or GDV) less the costs of undertaking the development including finance and developer return. The residual value is then available to pay for the land, and this amount is compared to the Benchmark Land Value, which is an estimate of the lowest value required by a land owner.

The National Planning Policy Guidance (NPPG) does not name the specific approach to viability testing, although it does state that “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.” (see Paragraph: 016 Reference ID: 10-016-20140306). This clearly includes a residual land value (RLV) approach.

The main source of guidance is Viability Testing Local Plans produced by the Local Housing Delivery Group in 2012 and endorsed by the LGA, the HBF, the Planning Inspectorate and the Planning Officers Society. This states “We recommend that the residual land value approach is taken when assessing the viability of plan-level policies and further advice is provided below on the considerations that should be given to the assumptions and inputs to a model of this type.” Internal rate of return (IRR) is not included in this guidance.

Guidance is also provided by RICS in Financial Viability in Planning, 2012. Box 6 on page 12 states “The residual appraisal methodology for financial viability testing is normally used, where either the level of return or Site Value can be an input and the consequential output (either a residual land value or return respectively) can be compared to a benchmark having regard to the market in order to assess the impact of planning obligations or policy implications on viability”.

Financial Viability in Planning refers to IRR in passing (rates of return that may be required) in terms of its role “in mainstream capital budgeting theory and in property investment appraisal” (Appendix D). It also says that investment appraisals may be appropriate in, for example, assessing continuing existing uses in terms of obsolescence and depreciation. However, none of this is relevant to area-wide viability appraisals.

- S106 and S278 costs

**SDC's Response:** Explanation is provided in EBD.2. See para 5.3.28 and para 5.3.29.

- Developer profit

**SDC's Response:** Explanation is provided in EBD.2. See para 5.3.35 and para 5.3.36.

- Threshold Land Values (TLV) – sources, robustness and relevance in different locations and different types of land

**SDC's Response:** Explanation is provided in EBD.2. See para 5.3.37 to 5.3.49.

- Should sensitivity testing be applied to assumptions regarding density, site coverage, sales values and build costs?

**SDC's Response:** Since values and costs rise as well as fall, and a CIL rate needs to be a specific number and not a range, the value of sensitivity testing is diminished. Instead, PBA rely on a significant financial headroom buffer accommodate such fluctuations.

- Are the assumptions regarding ongoing S106 payments for the strategic sites realistic?

**SDC's Response:** Explanation is provided in EBD.2. See para 5.3.28 and 5.3.29. It is important to note that the S106 costs at this stage can only be estimated and it would be impractical to re-run the appraisals every time the estimate for S106 changes. However in the case of GLH, in August 2016 we have had further discussion regarding the S106 costs with the Council and County Council, and retesting the viability shows that the recommended CIL rate would still be affordable. Plus, a contingency for any unknowns was included in the appraisal. Also in setting the CIL, a significant financial headroom buffer was included to accommodate such fluctuations.

#### Housing for Older People

- Scheme sizes, size of units

**SDC's Response:** Explanation is provided in EBD.2. See para 5.4.9 to 5.4.12.

- Build costs and abnormal costs

**SDC's Response:** Explanation is provided in EBD.2. See para 5.4.13.

- Land values

**SDC's Response:** Explanation is provided in EBD.2. See para 5.4.19.

#### Residential CIL Viability Appraisal Outputs

- Results of the residential viability testing

**SDC's Response:** Explanation is provided in EBD.2. See para 6.2.2 and Table 6.1.

- The process of defining the residential CIL zones and rates

**SDC's Response:** Explanation is provided in EBD.2. See para 6.2.11 to 6.2.21.

#### Residential CIL Zones and Charges

- Approach to viability buffers and CIL as a proportion of development costs
  - The £75 psm CIL charge proposed for small sites (<10)
  - The £150 psm CIL charge proposed for sites 11+ (all areas)

- The £110 psm CIL charge proposed for Gaydon Lighthorne Heath
- The £85 psm CIL charge proposed for the Canal Quarter Regeneration Zone
- The £75 psm CIL charge proposed for Long Marston Airfield
- The £0 psm CIL charge for extra care housing
- The £0 psm CIL charge for retirement dwellings

**SDC's Response:** Explanation is provided in EBD.2. See para 6.2.17 to 6.2.19; and Table 6.2 and 6.4. The results are copied below, along with the amount of financial headroom buffer, which shows a minimum of 40% buffer.

Charge zone/type	Average CIL liable headroom	Recommended CIL rate	Average buffer	Buffer as % of headroom
Small sites of 10 units and under	£188	£75	£113	60%
Sites of 11 to 199 dwellings	£319	£150	£169	53%
Large non- strategic sites 200 plus dwellings	£411	£150	£261	64%
Canal Quarter	£176	£85	£91	52%
Gaydon/ Lighthorne Heath	£183	£110	£73	40%
Long Marston Airfield	£125	£75	£50	40%
Extra care	£272	£as above residential rate	Varies	Varies
Retirement dwellings	£15	£0	n.a.	n.a.

So for a typical 80sqm sized house: on a small sites development of 10 units and under would have a buffer of over £9k, which increases to over £13.5k on sites of 11 to 199 dwellings to over £20k per unit on sites of 200 plus dwellings. Since an allowance for S106 is factored into the three strategic sites appraisals, the buffers are lower, ranging between £4k to over £7k per 80sqm unit.

## 5. COMMERCIAL CIL

### Commercial CIL Viability Modelling Assumptions

- Development types

**SDC's Response:** Explanation is provided in EBD.2. See para 7.1.1.

- Commercial rents and yields

**SDC's Response:** Explanation is provided in EBD.2. See para 7.2.1 to 7.2.2 ; Table 7.1.

- Fees, finance and contingencies

**SDC's Response:** Explanation is provided in EBD.2. See Professional fees: para 7.3.5 ; Finance: para 7.3.8.

- Commercial building costs

**SDC's Response:** Explanation is provided in EBD.2. See para 7.3.4 and Table 7.3.

- Developer profit

**SDC's Response:** Explanation is provided in EBD.2. See para 7.3.3.

- S106 and S278 costs

**SDC's Response:** Explanation is provided in EBD.2. See para 7.3.7.

- Existing use value

**SDC's Response:** Explanation is provided in EBD.2. See para 7.3.12 to 7.3.15.

#### Commercial CIL Viability Appraisal Results

- B Class uses

**SDC's Response:** Explanation is provided in EBD.2. See para 7.4.3 to 7.4.4 and Table 7.4.

- Retail

**SDC's Response:** Explanation is provided in EBD.2. See para 7.4.5 to 7.4.15, and Table 7.5 and 7.6.

- Leisure

**SDC's Response:** Explanation is provided in EBD.2. See para 7.4.16 to 7.4.19; and Table 7.7 and 7.8.

- Private care homes

**SDC's Response:** Explanation is provided in EBD.2. See para 7.4.20 and Table 7.9.

# Appendix A Screenshot of Build Cost Tender Price change

The screenshot shows the 'Average prices' interface on the BCIS website. The page is titled '2. Rebase' and includes a progress bar with steps: Define, Results, Calculate, and Download. The 'Define' step is active, and the 'Rebase' sub-step is selected. A dropdown menu is open for 'Date factor', showing a list of quarters from 2012 to 2020. The 'Adjust for date and location' section is visible, with radio buttons for 'No adjust', 'Adjust to', and 'Use an in'. The 'Adjust to' option is selected. The footer contains contact information for BCIS and the RICS logo.

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## Appendix B Screenshot of House Price Index change

### UK House Price Index

Stratford-on-Avon from July 2014 to September 2016

Date	index (all)	avg.price (all)	change (all)	annualchange (all)	salesvolume
Jul 2014	96.63	£272,546	0.49%	11.68%	230
Aug 2014	97.29	£274,424	0.69%	8.86%	256
Sep 2014	96.89	£273,287	-0.41%	10.13%	185
Oct 2014	98.74	£278,521	1.92%	11.93%	231
Nov 2014	98.08	£276,639	-0.68%	11.69%	210
Dec 2014	98.39	£277,511	0.32%	8.46%	173
Jan 2015	100.00	£282,064	1.64%	6.89%	145
Feb 2015	102.15	£288,130	2.15%	9.25%	135
Mar 2015	102.28	£288,504	0.13%	9.7%	166
Apr 2015	101.08	£285,103	-1.18%	11.32%	176
May 2015	99.60	£280,927	-1.46%	6.76%	197
Jun 2015	99.18	£279,755	-0.42%	3.14%	208



Date	index (all)	avg price (all)	change (all)	annualchange (all)	salesvolume
Jul 2015	99.54	£280,772	0.36%	3.02%	256
Aug 2015	101.12	£285,209	1.58%	3.93%	222
Sep 2015	103.61	£292,246	2.47%	6.94%	234
Oct 2015	104.71	£295,350	1.06%	6.04%	273
Nov 2015	104.57	£294,954	-0.13%	6.62%	253
Dec 2015	103.72	£292,556	-0.81%	5.42%	206
Jan 2016	104.11	£293,665	0.38%	4.11%	122
Feb 2016	104.20	£293,904	0.08%	2%	152
Mar 2016	103.95	£293,217	-0.23%	1.63%	232
Apr 2016	104.38	£294,430	0.41%	3.27%	107
May 2016	104.18	£293,866	-0.19%	4.61%	not available
Jun 2016	105.74	£298,257	1.49%	6.61%	not available