

Prepared on behalf of
St Modwen Developments Limited

Stratford on Avon District Council
Community Infrastructure Levy
(CIL) Hearing Statement

September 2016

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1. Introduction

- 1.1 This Hearing Statement is submitted on behalf of St Modwen Developments Limited (SMD) in respect of the Stratford upon Avon District Council (SADC) Community Infrastructure Levy (CIL) Schedule Examination.
- 1.2 SMD has a number of concerns particularly in relation to the CIL evidence base, the lack of consideration of large rural brownfield sites and key inputs and assumptions of the Economic Viability Study (EVS) prepared by Peter Brett Associates (PBA).
- 1.3 Cushman & Wakefield (C&W) do not agree with the proposed CIL tariff of £150 per sq m on residential development within the Central part of the District, including SMD's landholding at Meon Vale. C&W consider the development viability evidence underpinning the proposed charging level to be unrealistic due to:
- Sales value assumptions which do not reflect sales values within the area of the subject property
 - A substantial underestimation of the abnormal costs associated with the development of brownfield sites.
 - Insufficient sensitivity testing in arriving at the maximum CIL tariff
 - Unrealistic site value thresholds which are not sufficiently evidenced
 - No evaluation of Large Rural Brownfield Sites.
- 1.4 C&W propose that there is an additional typology of large rural brownfield sites to reflect the characteristics of sites such as Meon Vale and the further 3 sites noted in CS AS 11 and other similar sites which may come forward in the plan period. They have large abnormal costs and lower sales values than those examined in the typologies provided by PBA. We are not in a position to provide a costed appraisal of a future masterplan of development on Meon Vale and the abnormal costs which would be associated with this but examining previous costs we believe that a CIL level of £40 - £60 per sq m would be appropriate.

2. Relevant Development Plan Policy Considerations

2.1 This section of our statement explains that:

- Large Rural Brownfield Sites are a key part of the district's planned housing provision
- The CIL charging schedule is not based on appropriate evidence
- A separate CIL charging rate for Large Rural Brownfield Sites is necessary to ensure housing delivery targets for the district can be achieved.

The contribution of Large Rural Brownfield Sites

2.2 The adopted 2016 Stratford upon Avon Core Strategy (CS) sets the distribution of development in the district during the plan period to 2031 (Policy CS.15) based on a pattern of balanced dispersal "in accordance with the distinctive character and function of the wide range of sustainable locations across the District".

2.3 The range of sustainable locations that will accommodate the district's development needs are set out in Policy CS.15 and Policy CS.16 identifies the minimum level of housing development each of these sustainable locations will provide over the plan period in order to meet the district requirement of at least 14,600, which comprise:

- a) Stratford-upon-Avon – at least 3,500 dwellings
- b) Main Rural Centres – at least 3,800 dwellings
- c) New Settlements – at least 4,400 dwellings
- d) Local Service Villages – at least 2,000 dwellings
- e) Large Rural Brownfield Sites – at least 1,245 dwellings
- f) All other settlements – at least 750 dwellings

2.4 Policy AS.11 (Large Rural Brownfield Sites) encourages the effective use of previously developed land and sets out the specific approach to four sites – Gayden, former Engineer Resources Depot, Long Marston, former Southam Cement Works, Long Itchington and the former Harbury Cement Works, Bishop's Itchington. **The Government has continued to emphasise the importance of redeveloping brownfield land through the recent Housing and Planning Act with the creation of Brownfield Land Registers and Permission in Principle.**

2.5 In relation to the Former Engineer Resources Depot, Long Marston (Meon Vale), Policy As.11 is clear that the site can deliver additional residential development within the plan period to 2031. Specifically, it states:

"All development proposals on the site should take into account the need to provide a fresh Masterplan in advance of any future development proposals on the site that materially depart from the existing commitments and thereafter justify any significant departures from its provisions"

2.6 Both individually and comprehensively these large rural brownfield sites make a considerable contribution towards meeting the district's housing requirement through committed development and further redevelopment in accordance with Policy AS.11. The scale and nature of the sites provides the potential to deliver a significant number of dwellings to meet the district's requirements. In the case of Meon Vale there is potential to deliver several significant additional residential development during the plan period.

The Importance of Housing Delivery

- 2.7 The Inspector's Report on the Examination of the CS warned SADC of the importance of ensuring housing delivery. In paragraph 401 the Inspector states that:

"The Council should be under no illusions that it needs to continue its recent good progress in improving housing delivery in the District. There is no room for complacency. If outline and reserved matters applications are not progressed expeditiously, particularly on the largest housing sites, the concerns raised by participants might be validated. The Council should consider focussing its efforts in the short term on turning resolutions to grant into issued planning permissions and ensuring reserved matters are turned around quickly to allow houses to be built."

- 2.8 In this context, none of the largest housing sites have progressed at the pace that was presented to the Inspector during the examination. Outline planning permission has yet to be granted for both of the proposed schemes at Gaydon Lighthorne Heath¹. Furthermore, outline planning permission for any housing has yet to be granted on the Long Marston Airfield site. Delay in the delivery of the strategic sites will affect the trajectory of housing provision in phase 2 of the Core Strategy (2016 – 2021)².

- 2.9 In considering the proposed reserve sites that are proposed to be identified through the Site Allocations Plan (SAP), the Inspector states at paragraph 527 that:

"The objective [of the reserve sites] is to maintain a 5-year housing land supply rather than just react to a shortfall, which is necessary in the interests of soundness."

- 2.10 Until reserve sites are formally allocated through the adoption of the SAD, it is crucial that the sites identified within the Core Strategy are capable of providing flexibility in order to ensure housing delivery rates meet the minimum requirement. The Large Rural Brownfield Sites are capable of providing sufficient flexibility to the district.

An Inappropriate Evidence Base - The absence of a Large Rural Brownfield Site CIL charging rate

- 2.11 The EVS (September 2015) recommends a series of CIL charging rates for residential development in the district, which was informed by residential viability testing of a range of development typologies. However, notwithstanding the comments submitted by SMD to the Preliminary Draft CIL Charging Schedule consultation, the EVS has failed to assess any development typologies reflective of Large Rural Brownfield Sites.

¹ IM Properties revised application was submitted in June 2016 and is expected to be considered at 11th October 2016 planning committee. Legal agreements have yet to be completed for the 2,000 home application submitted by Bird Group.

² 725 dwellings anticipated for delivery.

3. Review of PBA Assumptions

3.1 Cushman & Wakefield have reviewed the evidence provided by PBA in the Draft Charging Schedule and have highlighted below a number of inputs which require re examination. C&W are particularly concerned that the sales values considered within the Central Region do not take consideration of the sales values of development on brownfield sites in areas which are to the south of the area and some distance from the motorway network.

Base Data Evaluation

3.2 Section 211 (7a) of the Planning Act 2008 (as amended), required SADC to use “appropriate available evidence” to inform the Local Plan and CIL. Owing to the key test of Regulation 14 (1) it is important that the viability appraisals prepared in support of CIL are fit for purpose, as at examination, the Charging Schedule will need to be supported by “relevant evidence” (CIL Regulations 2010 as amended).

3.3 C&W do not believe that the evidence on which the charging schedule is based upon is sufficiently robust and that this puts at risk the soundness of the charging schedule due to the lack of underlying evidence base and the historic nature of the evidence provided.

3.4 The 2013 EVS pre- dates the last Planning Practice Guidance and CIL Regulations. The 2015 EVS does not re-examine the viability and does not take into account changes in development costs and the residential market vale predictions which have decreased by 1.7%. PBA have utilized the Savills 5 year Forecast from 2014 and which has not been revised in Q1 2016. The table below provides an indication of the impact of not updating the base line data to reflect the current market;

	UK	NW	Wales	WMids	SW	EMids	East	London	SE
PBA report	19.3%	13.7%	15.3%	18.2%	21.1%	19.3%	25.2%	10.4%	26.4%
Q1 2016	17%	13.7%	14.8%	16.5%	19.9%	17%	21%	15.3%	21.6%
Differential	-2.3%	0	-0.5%	-1.7%	-1.2%	-2.3%	-4.2%	+4.9%	-4.8%

3.5 This use of historic data both in predictions but also in looking at historic trends will have an impact on the viability assessment of the sites.

3.6 It should also be noted that the build costs utilised by PBA have also not been updated to reflect the Q1 2016 BCIS costs which have increased by an average of 3.23% since the Q4 2014 BCIS costs utilised by PBA.

Sales Values

3.7 The 2015 EVS updates the sales values in part, however it only examines the average price, and combines both new and second hand data as it is taken from Land Registry records. This is not an accurate way to analyse the viability of a large new build developments such as that at Meon Vale; it is only new homes sales which should be utilised.

3.8 The 2013 EVS Appendix A examines schemes which are coming forward and allows for a 5% discount on the quoting price. The 2015 EVS uses the same schedule, with further additions but is shown to be prices achieved rather than the quoted sales price. This highlights that the sales information is being is

approximately three years old and does not take into consideration the sales evidence from Meon Vale itself.

3.10 The Gaydon Lighthorne Heath (GLH) sales value is an addition to the range since the last Economic Viability Study published by PBA in 2014. PBA cite the reason for the additional GLH sales value as being because “the type of development proposed and the location are not reflective of its value area”.

3.11 For the same reason, C&W propose that a new sales value should be included for new residential development at Meon Vale and other large rural brownfield sites which generally do not reflect the values achieved elsewhere in the Central Area. We display recently achieved sales prices and floor areas for properties at the Meon Vale development in the table below:

Meon Vale Sales Values

Plot	Name	No. of Beds	Det/Semi/Terr	Completion Date	Revenue achieved on completed plots	Area sq ft	Area m2	Price per sq ft	Price per sq m
164	The Thirsk	4	Det	15/01/2016	£274,090.00	1080	100.3	£253.79	£2,731.74
172	The Fakenham	4	Det	29/01/2016	£318,906.00	1256.1	116.7	£253.89	£2,732.80
186	The Houghton	4	Det	29/01/2016	£399,496.00	1563	145.2	£255.60	£2,751.21
234	The Ripon	3	Det	29/01/2016	£271,632.00	958	89.0	£283.54	£3,052.00
167	The Fakenham	4	Det	28/02/2016	£318,746.00	1256.1	116.7	£253.76	£2,731.43
236	The York	4	Mid Terr	29/02/2016	£250,291.00	1151.8	107.0	£217.30	£2,339.04
235	The York	4	End Terr	15/03/2016	£262,609.00	1151.8	107.0	£228.00	£2,454.16
237	The York	4	End Terr	24/03/2016	£256,208.00	1151.8	107.0	£222.44	£2,394.34
239	The Knightwick	3	Semi	24/03/2016	£239,098.00	853.2	79.3	£280.24	£3,016.44
238	The Abberton	2	Coach House	31/03/2016	£174,329.60	635.2	59.0	£274.45	£2,954.13
261	L2	2	Semi	15/05/2016	£89,997.00	783.1	72.8	£114.92	£1,237.03
262	L2	2	Semi	15/05/2016	£89,997.00	783.1	72.8	£114.92	£1,237.03
263	L3	3	End Terr	15/05/2016	£104,847.00	878	81.6	£119.42	£1,285.38
264	L2	2	Mid Terr	15/05/2016	£89,997.00	783.1	72.8	£114.92	£1,237.03
265	L3	3	End Terr	15/05/2016	£104,847.00	878	81.6	£119.42	£1,285.38
256	The Overbury	3	Semi	20/05/2016	£211,880.00	780.4	72.5	£271.50	£2,922.42
253	The Beverley	2	End Terr	27/05/2016	£186,730.00	643.6	59.8	£290.13	£3,122.97

255	The Beverley	2	End Terr	27/05/2016	£188,827.00	643.6	59.8	£293.39	£3,158.04
257	The Overbury	3	Semi	27/05/2016	£215,603.00	780.4	72.5	£276.27	£2,973.77
283	The Knowlsey	4	Det	27/05/2016	£460,995.00	1830	170.0	£251.91	£2,711.53
174	The Kedleston	4	Det	17/06/2016	£447,000.00	1750	162.6	£255.43	£2,749.41
254	The Beverley	2	Mid Terr	17/06/2016	£182,820.00	643.6	59.8	£284.06	£3,057.58
251	The Beverley	2	Semi	24/06/2016	£189,914.00	643.6	59.8	£295.08	£3,176.22
252	The Beverley	2	Semi	24/06/2016	£188,025.00	643.6	59.8	£292.15	£3,144.63
17	The Goodwood	3	Det	30/06/2016	£264,995.00	871.8	81.0	£303.96	£3,271.83
							Average	£236.82	£2,549.10

- 3.12 The above table demonstrates that average sales value achieved of £2,549 per sq m (£236.82 per sq ft) in 2016. These are all new build sales on Meon Vale and clearly demonstrate the disparity between what has been achieved and the values cited by PBA in the Central region within which Meon Vale lies. We recognise that values are slowly rising through the lifetime of the development and would therefore propose that £240 per sq ft is the appropriate sales value on which Meon Vale should be assessed going forward.
- 3.13 C&W propose that the sales value for Meon Vale for viability testing purposes should be set as £2583.34 per sq m (£240 psf) as the site should be analysed under an additional typology of Large Rural Brownfield Sites. This is a huge differential from the £321 per sq ft figure proposed in the PBA CIL proposed figure.
- 3.14 C&W do not believe that the PBA has taken sufficient consideration of the variations achieved within each value area. It is clear that there is a wide variation of value between a large brownfield rural site in rural SoADC and a similar residential development in central Stratford Upon Avon.

Affordable Housing Values

- 3.15 PBA have appraised the viable levels of affordable housing which will then be transferred to a registered provider (RP) at the following percentages of Market Value rates:
- Social Rented – 45%
 - Affordable Rented 55%
 - Intermediate 65%
- 3.16 As outlined in our previous submission there have been changes to the affordable housing market which will mean a 12% reduction in average rents by 2020/2021.
- 3.17 This has had a large impact on RPs but we are now seeing the following percentages of Market Value rates:
- Social Rented 40%
 - Affordable Rented 50%
 - Intermediate 70%
- 3.18 C&W believe that the Affordable Housing Market has evolved since PBA examined it and that the new market levels should be utilised.

Build Costs

- 3.19 C&W accept that PBA’s build cost assumptions have been assessed utilising the BCIS Build Cost data which are approximations to represent the average cost over a range of scheme types.
- 3.20 However, Cushman & Wakefield disagree with PBA using the BCIS Build Cost data that is stated in their Economic Viability Study to date from the fourth quarter of 2014 as it is 18 months out of date. We display in the table below some examples of the increase in the BCIS Build Cost Index using mean prices:

Development Type	Q4 2014 Cost per sq m	Q2 2016 Cost per sq m	% difference
Housing, Mixed Developments	£1,002	£1,032	+2.9%
Estate Housing (General)	£968	£1,006	+3.9%
Flats (apartments) (General)	£1,170	£1,205	+2.9%
		Average	+3.23%

- 3.21 As can be seen in the table above, there has been a not insignificant increase in the BCIS Build Cost Index for new residential development in Stratford District across the past year.

External Works

- 3.22 PBA have assumed 10% of the build costs to cover external works. C&W expect construction costs for external works including tertiary roads to equate to circa £80 per sq m (£7.50 per sq ft) and service connections equating to £43 per sq m (£4.00 per sq ft) based upon appraisals received from volume housebuilders on schemes in the West Midlands. This represents an External Cost allowance of 12% - 13% of the overall build costs which C&W consider is appropriate.
- 3.23 It should be highlighted that within the sample appraisals provided it appears that the externals have not been included within the build costs and therefore the contingency and professional fees are based off too low a figure.

Professional Fees

- 3.24 PBA have utilised 12% within their report however the appraisal utilises 10%. This has been applied solely to the base build cost and not incorporated the Higher Housing Standard or External Costs.

Higher Housing Standard

- 3.25 We agree with PBA’s assessment of the additional 2.5% required to comply with the Higher Housing Standard, however it should be included as part of the build costs so that the contingency and professional fees are based upon this higher build cost.

Purchasers Costs

- 3.26 The Stamp Duty Land Tax (SDLT) regime has not changed in the PBA assessment and the appraisals and viability assessments need to be reviewed to take account of SDLT changes from 17th March 2016.

Finance Costs

- 3.27 There is a lack of clarity regarding the proposed finance costs which are 7% debit rate (per annum) in the PBA report but 6.5% (per annum) in the appraisals. Given the current tightening on borrowing following the Brexit vote C&W believe this should be 7% (per annum).

Site opening up and abnormal costs

- 3.28 We consider that the Council's CIL evidence substantially underestimates the likely scale of abnormal costs associated with developing schemes within the District. The Viability Testing of Local Plans (Local Housing Delivery Group 2012) suggest a range of £17,000 to £23,000 per plot as an appropriate range for site opening up costs for strategic sites, added to which we would expect there to be an allowance for abnormal costs.
- 3.29 The costs of opening up Meon Vale for development have been costed for the phases undertaken to date and they currently exceed £23,000 per unit.
- 3.30 C&W evidence supports the increase of the allowance for opening up the site to the higher end of the range to £23,000.

4. Threshold Land Values

- 4.1 C&W welcome the revision of the land value of strategic and large sites from £600,000 to £640,000 per net hectare, however as noted in our previous representations on the Draft Charging Schedule in 2014, we consider that £680,000 per net hectare (£275,000 per acre) is a more appropriate figure and greater reflects minimum land values found in option and promotion agreements for strategic and large sites.
- 4.2 Once again, we note that PBA's EVS is very limited in respect of actual transactional evidence to support the proposed site value thresholds and appears to rely on discussions with developers/agents. In view of the critical importance of this element of the work to determining a CIL tariff we strongly urge the Council to review this aspect of the evidence to ensure that it provides an appropriate benchmark that reflects the return that a land owner would require in order to release their land.

5. Sensitivity analysis

- 5.1 The Council's CIL viability evidence document outlines assumptions for many of the key appraisal variables recognising the inherent uncertainty and margin of risk for a high level development appraisal exercise of this type. However, there appears to be no sensitivity analysis carried out to examine the effect of changes in key variables especially sales values, site opening costs and build costs.
- 5.2 The importance of sensitivity analysis is set out clearly in the RICS guidance document Financial Viability in Planning (2012 – page 13): "It is strongly recommended that financial appraisals are sensitivity tested as a minimum, and with more complex schemes further scenario/simulation analysis should also be undertaken.

6. Residential Typologies

- 6.1 Whilst C&W acknowledges that PBA have examined a number of site typologies within the viability testing, we do not consider that any of these effectively match sites such as Meon Vale which are providing 500+ units on brownfield sites in the Central Area. The closest typologies are Central Large Brownfield (120 units) and Central Urban Extension (500 units). However, neither of these effectively reflect the challenges of bringing forward a large standalone residential-led mixed use community that could accommodate significant residential development on previously developed land.
- 6.2 As such, C&W recommend that PBA include a new typology for 'Large Rural Brownfield Sites' in their viability testing. This would correspond with the four sites noted in the adopted CS AS 11 which would appropriately be reflected in a new typology. With the increased importance placed on redeveloping brownfield land in the adopted CS, and the quantum of housing that is to be delivered from such, makes it entirely sensible to have a typology that evaluates accurately the level of CIL that can be viably delivered from this typology.
- 6.3 C&W consider the CIL Charging Schedule to be flawed, as it has failed to consider the implications of the proposed CIL tariff on all large rural brownfield sites, which the development strategy identifies for housing delivery to meet the district's requirements.

- 6.4 Paragraph 523 of the Inspectors Report states that: *“The ‘Plan Viability & Affordable Housing Study’ found that all the residential development typologies relevant to the planned trajectory are viable, but that the level of CIL might have to be reviewed when all costs are included.”* It is C&W’s contention that the study did not adequately evaluate all typologies relevant to the planned trajectory. The importance of including all costs is recognised, but was not considered in the case of large rural brownfield sites.
- 6.5 The EVS should have assessed a typology which comprised the delivery of a large housing site (in the region of 400 dwellings) on rural brownfield sites. The typology should reflect the substantial site opening costs associated with the redevelopment of large brownfield sites, as it has done for the Strategic sites within the adopted Core strategy. In doing so, we consider the EVS would have concluded that a lower CIL charging rate would be appropriate for large rural brownfield sites, consistent with other adopted CIL charging schedules within the Midlands. We explain in the next section how we have identified the acceptable CIL rate, which would not put housing delivery rates at risk. We believe that a CIL rate of £40 - £60 per sq m would be appropriate for this typology.

7. Summary and Conclusions

- 7.1 C&W has highlighted above a number of fundamental concerns in relation to the technical aspects of the CIL Viability evidence base which underpins the rates proposed.
- 7.2 C&W considers that the evidence base which underpins the charging rates proposed in the CIL does not reflect the current market, is historic and is lacking in market evidence to provide a solid base of evidence especially in connection with sales values and threshold land values.
- 7.3 In reviewing the draft evidence base, it is considered that there are a number of limitations in the viability analysis that have led to the proposal to introduce a tariff of £150 per sq m. We consider that correcting these assumptions should lead the Council to the conclusion that if SADC is to introduce CIL and meet the District's development requirements as proposed in the emerging Core Strategy, the appropriate general tariff should be reduced given the scale of other costs that sites will typically incur in delivery.
- 7.4 C&W considers that the lack of sensitivity testing inhibits the PBA EVS from being robust. In the current changing environment with economic forecasting increasingly difficult it is essential that the report is based upon the most recent data to enable the report to be robust and to withstand the changing economic circumstance while not inhibiting development.
- 7.5 PBA's EVS Study has not examined in sufficient detail the wide variance in sales values across the very large areas which they have identified, especially the Central Area.
- 7.6 It is therefore requested that Large Brownfield Sites in Rural Locations be examined as an independent typology, with a sales value which reflects the values achieved within these specific areas and the cost of opening up Meon Vale and those other sites included in CS AS 11.
- 7.7 C&W considers that the acceptance of the separate CIL rate for the development site at GLH is the appropriate approach to be taken as the location is "not reflective of its value area". We consider that Meon Vale is also not reflective of its' value area and the sales on the site clearly demonstrate that the sales value achieved is £2,583.34 per sq m not £3,450 per sq m. C&W therefore propose that sales values for Meon Vale for viability testing purposes should be set at £2,583.34 per sq m.
- 7.8 Meon Vale and the other sites noted in CS AS 11 require a separate typology of Large Rural Brownfield Sites which contain achievable sales values and reflect the cost of delivering those sites. We believe that due to the lower sales value and abnormal costs associated with these developments a CIL of £40-£60 per sq m would be appropriate.