Matter 7 Evidence / 558499
Sembcorp Bournemouth Water

CHRISTCHURCH & EAST DORSET CORE STRATEGY EXAMINATION IN PUBLIC

MATTERS & ISSUES 7B/1, 7C/1-5

HOUSING SPACE STANDARDS
AFFORDABLE HOUSING

AUGUST 2013

Goadsby Planning & Environment
99 Holdenhurst Road, Bournemouth
Dorset, BH8 8DY

1.0 INTRODUCTION

1.1 This statement comprises a response to the issues identified by the Inspector for the Examination in Public (EIP) into the soundness of the Christchurch & East Dorset Core Strategy (CS). This submission is on behalf of Sembcorp Bournemouth Water ("Sembcorp"), the owners of land at Marsh Lane, Christchurch. It is one of a number of submissions, the objective of which is set out at the commencement of our statement in respect of Matter and Issues 1.

2.0 MATTER & ISSUE 7B/1

2.1 ARE MINIMUM SPACE STANDARDS JUSTIFIED (LN 1)

2.2 Policy LN 1 is justified in the CS on the basis that over crowded conditions result in poor health, family conflict, poor educational attainment and anti-social behaviour. However, there is no actual evidence to prove that this is the case in Christchurch or East Dorset. Most of the settlements in the area covered by the CS are essentially suburban and have historically been developed at medium to low densities. There are no very high density, inner urban areas where over crowding, and the social characteristics that go with it, exist.

2.3 Policy LN 1 is at conflict with CS Policy LN 2, which seeks a density of development of 30 dwellings per hectare. The consequence of developing at this density is that houses (or flats) and their associated garden areas will be small, when compared to many of the existing properties in the area.

2.4 The first two bullet points of Paragraph 50 of the NPPF requires housing to be based on future demographic needs, and to be of an appropriate size, type and tenure. However, it does not endorse the use of space standards. For open market housing, space standards were abolished over thirty years ago. To introduce them again will impose requirements to construct dwellings that will, in many cases, be larger than needed. Construction costs will increase, with the cost burden being passed on to the purchaser. This will adversely impact on the affordability of housing.

2.5 On the 20th August the Government commenced consultation on a review of housing standards. Part of the review deals with internal space standards. The consultation does not seek a preferred approach, but instead seeks responses as to the degree to which they should be developed or mandated. The outcome of this consultation may inform the ultimate decision as to whether the CS Policy is sound.

3.0 MATTER & ISSUE 7C/1

3.1 ARE THE PERCENTAGE REQUIREMENTS FOR AFFORDABLE HOUSING SET OUT IN LN 3 JUSTIFIED BY THE VIABILITY EVIDENCE?

3.2 The most recent viability evidence is set out in the consultancy report of Peter Brett Associates (PBA) dated January 2013; 'Community Infrastructure Viability Testing' (ED 23). For Christchurch, this concludes that to set a Community Infrastructure Levy (CIL) of £100.00 per m^2, the affordable housing quota should be set at 30%. The report highlights the fact that this potential charge is well under the viability ceiling. It therefore follows that there may be scope to increase the affordable housing quota without undermining viability.

3.3 However, the PBA report contains, in Paragraph 6.57, a very strong recommendation to set the CIL charge well under the viability ceiling because (i) costs and values will fluctuate over time; (ii) site specific issues may affect costs and values; and (iii) development appraisals invariably involve a margin of error. If it is assumed therefore that the £100.00 per $metre^2$ CIL charging rate is adopted, then a 30% affordable housing quota should be applied. There is no evidence to support a higher quota.

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

4.0 MATTER & ISSUE 7C/2

4.1 SHOULD THE PERCENTAGES REFLECT PROPERTY MARKET AREAS RATHER THAN A GREENFIELD/BROWNFIELD DIFFERENTIAL?

4.2 There is clear evidence to support differential affordable housing rates on greenfield and brownfield sites. The economics of development vary substantially because greenfield land has an inherently lower Existing Use Value (EUV). Therefore, there is greater capacity for greenfield sites to absorb planning gain costs.

4.3 Our statement dealing with Matters and Issues 1 highlighted the fact that the delivery of housing from small, inner urban sites, is unlikely to come forward at the expected levels because the lowering of the affordable housing threshold adversely affects viability. This will apply equally across all property market areas. There may be some merit in reducing affordable housing thresholds in high value areas so as to make development more viable, but this would have the effect of delivering lower levels of affordable housing in areas that may have a high need for it.

4.4 The greenfield / brownfield differential is therefore endorsed, albeit at lower levels to those contained in Policy LN 3.

5.0 MATTER & ISSUE 7C/3

5.1 ARE VIABILITY TESTING ASSUMPTIONS REALISTIC WITH REGARD TO RESIDUAL LAND VALUES, DENSITY AND OTHER COSTS?

5.2 Some of the viability testing assumptions, in particular those contained within ED 23, are not considered to be sound. Our comments here are limited to residential development viability, as this is the sole concern of these representations.

5.3 ED 23 contains assumptions that are questionable. For example, Paragraph 5.9 quotes an opinion regarding land values from an estate agent that does

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

not undertake land transactions. This cannot therefore be regarded as evidence as it is not based on transactional data. Also, there is no commentary as to whether the figure quoted, at £2,000.000.00 per hectare, includes or excludes an allowance for affordable housing. In our opinion, the quoted figure is excessive if the planning obligation costs have already been deducted.

5.4 The PBA report does helpfully include a series of viability appraisals. However, many of the assumptions are falsely based. For example, the affordable housing quotas are set at 30%; as referred to earlier. However, Policy LN 3 increases this to 40%. If the appraisals were run on the basis of the policy expectation, different conclusions would be drawn; i.e. there would be an adverse impact on the residual land value; and therefore site deliverability.

5.5 It is submitted that build costs have been substantially under estimated. The Building Cost Information Service data excludes external construction costs. The PBA Viability Appraisals only include a 10% allowance for external works. When these and the energy costs are added to the BCIS figure, the construction costs are in the range of £954.00 per metre ^{2} for housing and £1,117.00 per metre ^{2} for flats. This is considered to be substantially below current tender prices, which for small sites are in the order of anywhere in the range of £1,200.00 - £1,500.00 per metre ^{2}; depending on the quality of the build.

5.6 Elsewhere in the Viability Appraisals, a contingency sum of 5% is considered too low. 10% is the norm. Also, the developer contributions are limited to £1,000.00 per dwelling. It is assumed that this is because CIL itself will fill the ‘void’ of other planning costs in the appraisals. Finally, financing costs at 7% are lower than current market rates. Arrangement and completion fees normally put the financing costs up to 10%. This is because development is still regarded as high risk when considered against alternative lending options.

5.7 Some of the testing assumptions are not therefore regarded as realistic. This will impact on housing delivery, particularly on sites with a high EUV. In the next section of this statement, a Viability Assessment is produced that analyses a typical site identified in the Christchurch Strategic Housing Land Availability Assessment (SHLAA) (ED 32). To ensure that it is robust; i.e. not overly criticised for increasing costs, some of the inputs (construction, contingency, finance) are more akin to the PBA appraisals.

6.0 MATTER & ISSUE 7C/4

6.1 WILL THE LOW TRIGGER FOR PROVIDING AH PREVENT DEVELOPMENT FROM COMING FORWARD?

6.2 It is considered that the low trigger, as set out in Policy LN 3, will act as a substantial disincentive for landowners to bring sites forward for development. In our response to the 2012 SHLAA, we used a typical inner urban site as an example of how the reduced affordable housing threshold would stop development coming forward in the manner suggested. We then considered what level of development was required to make the site viable.

6.3 This example, at Mill Road, Christchurch, is used again for the purposes of this statement. The explanatory text, and Viability Appraisal, are both reproduced in **Appendices 1 & 2** to this statement. In viability terms the principal constraint is the requirement for 70% of the affordable housing element to comprise affordable or social rented dwellings. The economics of development are such that dwellings providing this tenure produce a negative land value. The low levels of rent suppress the ability to obtain finance for development on the relevant part of the site. Hence the level of cross subsidy from the open market housing must be substantial.

6.4 The consequence is that whilst sufficient profit may be available for a developer, there is insufficient residential development value in the land. A failure to reach EUV, or a sufficient level above EUV, will prohibit development. The NPPF stresses, in Paragraph 173, that there must be a competitive return to landowners. That will not be achieved in many instances if Policy LN 3 is adopted.

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

7.0 MATTER & ISSUE 7C/5

7.1 DOES RECENT VIABILITY TESTING FOR CIL INDICATE THAT ANY CHANGES TO POLICY ARE NEEDED?

7.2 As set out earlier, the future combination of CIL and affordable housing requirements will act as a deterrent to housing delivery. The representations in this statement do not suggest how Policy LN 3 should be amended to encourage the re-development of small sites. That is for others to advocate.

7.3 However, the PBA evidence suggests that for large sites, including the proposed urban extensions, a 30% quota would be appropriate. That is considered to be an acceptable policy objective for the development of the Marsh Lane site, should it be the subject of an MM that re-instates it as a residential development allocation.

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

APPENDIX 1

Extract from SHLAA Response & Viability Appraisal

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

7.4 The example reviewed is Mill Road, Christchurch (Site Ref. 8/07/0321). The SHLAA includes this in the 6-15 year supply period on the basis that four existing bungalows could be demolished and re-developed to form four pairs of semi-detached houses – eight in total – a net increase of four. As a general comment here, site re-development is only really achievable where one property is demolished and replaced with at least three of equivalent value. This equation has not changed throughout the author's 29 year development industry experience.

7.5 There are some exceptions to this. For example in very high value areas (say Friars Cliff), which benefits from a highly desirable environment; i.e. a sea view adds considerably to the bricks and mortar value. However, this is not the norm.

7.6 To assess the Mill Road development potential in more detail, a Viability Assessment has been undertaken. Whilst the costs and values are at today's date, the principles will be equally applicable if developed in the 6-15 year period of the SHLAA. The price variations will be in proportion with each other, as they have been historically. The Viability Appraisal is included as **Appendix 2** to this statement, together with an explanation of the software used in the appraisal.

7.7 The appraisal is based on the following assumptions:

- The sale of the new dwellings @ £250,000.00 each. Sale values are generally representative of the locality and will rarely alter to a large degree, although there may be small variations to reflect the extent and nature of the accommodation.
- The purchase of each property in the sum £250,000.00 - £1M in total, together with the associated stamp duty payment (Note: this does not represent an uplift to the landowner).
- Construction costs @ £1,076.00 per m^2 plus a 5% contingency; and an allowance for demolition (Note: the BCIS cost schedule excludes external works, which add to construction costs).

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

- An affordable housing financial contribution for 40% (3.2 dwellings) @ 80 m^2 GIFA per dwelling x £350.00 per m^2 = £89,600.00.
- CIL @ 80 m^2 GIFA per dwelling x £100 per m^2 = £64,000.00.
- Professional fees @ 10% of the construction cost.
- Sale fees at conventional rates.

7.8 In respect of financing costs, a debit rate of 7.5% is actually considered modest in today's lending market. Despite the bank base rate being at 0.5%, financial institutions are lending at much higher interest rates, reflecting the attitude to risk in the development industry. On top of this, arrangement and completion fees are often levied, although these are omitted from this particular appraisal to avoid unnecessary debate on a relatively small point.

7.9 A credit rate of 3.5% is applied. This represents a small return on the interest from the sale of the first dwellings.

7.10 The appraisal outcome indicates a loss arising from the development of just under half a million pounds. It would clearly not proceed on this basis. Indeed, although the inputs can vary over time, there is unlikely to be any circumstance whereby a development of this nature will be profitable; either now or in the future. To deliver the site for development and make profit, an additional £1.2 M either has to be raised in revenue, or saved in costs. Even waiving the planning contributions will have no impact on bringing the site forward for development.

7.11 It is considered that for the site to be viable, a development would need to comprise, say, 30 apartments – taking into account that 40% would be affordable housing units. A development of this scale and nature would be unacceptable on such a relatively small site, for all sorts of reasons – scale, mass, height, character etc.

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

APPENDIX 2

Viability Appraisal: Mill Lane, Christchurch

The Viability Appraisal uses 'Circle Developer'. This is an established real estate development pro-forma used by owners, developers, brokers, advisors and financial institutions involved in property management. It is used for all forms of development, including commercial, single or multiple residential, retail, office, industrial, land and mixed use developments.

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

Viability Assessment

11-17 Mill Road
Christchurch
Dorset

July 2013

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

TIMESCALE (Duration in months)

Part1	**mths**	**Commences**
Phase Start Date		Jul 2013
Pre-Construction	6	Jul 2013
Construction	12	Jan 2014
Post Development	12	Jan 2015
Part Length	**30**	

Project Length31 (Includes Exit Period)

ASSUMPTIONS

CONSTRUCTION
1. Construction Costs paid on S-Curve
2. Professional Fees are related to Construction

DISPOSAL
1. Purchaser's Costs based on Gross Capitalisation
2. Purchaser's Costs Deducted from Sale (not Added to Cost)
3. Sales Fees based on Sales plus Net Capitalisation
4. Sales Fees Added to Cost (not Deducted from Sale)

INTEREST
1. Single rates of Interest adopted for all Payments/Receipts: Debit Rate 7.50%. Credit Rate 3.50%
2. Interest Compounded Quarterly and Charged Monthly
3. Same rate of interest in each DCF period
4. Interest Not calculated on items in final DCF period
5. Interest Not included in IRR calculations
6. Effective Rates of Interest used

INFLATION/GROWTH

Inflation Sets
Set Number Set 1
Infl.Rate % 0.00

CASHFLOW
1. Payments In Arrears
2. Receipts In Advance
3. Initial IRR guess rate 8.00%

VALUATION

Tables are Annually in Arrears

19/7/2013
Circle Version: 2.06.047

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

			£	£	£
Appraisal Summary for Part 1					
REVENUE					
Sales Valuation	**ft²**	**Rate ft²**	**Grs.Value**		
Dwelling 1	1 unit at	£250,000	250,000		
Dwelling 2	1 unit at	£250,000	250,000		
Dwelling 3	1 unit at	£250,000	250,000		
Dwelling 4	1 unit at	£250,000	250,000		
Dwelling 5	1 unit at	£250,000	250,000		
Dwelling 6	1 unit at	£250,000	250,000		
Dwelling 7	1 unit at	£250,000	250,000		
Dwelling 8	1 unit at	£250,000	250,000		
			2,000,000		
NET REALISATION					**2,000,000**
OUTLAY					
ACQUISITION COSTS					
11 - 13 Mill Road			1,000,000		
Stamp Duty		4.00%	40,000		
Town Planning			3,080		
Survey			1,500		
				1,044,580	
CONSTRUCTION COSTS					
Summary	**ft²**	**Rate ft²**	**Cost**		
Dwelling 1			90,000		
Dwelling 2			90,000		
Dwelling 3			90,000		
Dwelling 4			90,000		
Dwelling 5			90,000		
Dwelling 6			90,000		
Dwelling 7			90,000		
Dwelling 8			90,000		
Contingency		5.00%	36,000		
Demolition			100,000		
				856,000	
Section 106 Costs					
Affordable Housing Financial Cont.			89,600		
CIL			64,000		
				153,600	
PROFESSIONAL FEES					
Architect		4.00%	28,800		
Quantity Surveyor		1.00%	7,200		
Structural Engineer		1.00%	7,200		
Mech./Elec. Engineer		1.00%	7,200		
Project Manager		1.50%	10,800		
Constr. Des. Management		1.50%	10,800		
				72,000	

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY

	£	£	£	£
DISPOSAL FEES				
Sales Agent Fees	1.00%	20,000		
Sales Legal Fees	0.50%	10,000		
			30,000	
FINANCE				
Debit Rate 7.500% Credit Rate 3.500% (Effective)				
Land		204,621		
Building		132,963		
Total Finance Cost			337,583	
TOTAL COSTS				**2,493,763**
PROFIT				**-493,763**
Performance Measures				
Profit on Cost%	-19.80%			
Profit on GDV%	-24.69%			
Profit on NDV%	-24.69%			
IRR %	-3.65%			
Profit Erosion (finance rate 7.500%)	N/A			

19/7/2013
Circle Version: 2.06.047

Goadsby Planning & Environment
99 Holdenhurst Road
Bournemouth, Dorset, BH8 8DY