

REVIEW OF LOCAL PLAN VIABILITY ASSESSMENT

FOR RETIREMENT LIVING HOUSING

CHICHESTER DISTRICT COUNCIL
LOCAL PLAN 2021-2039 (REGULATION 19 CONSULTATION)

MARCH 2023

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1. Introduction

- 1.1.1 This supporting statement has been prepared on behalf of Churchill Retirement Living, an independent housebuilder specialising in housing for older people.
- 1.1.2 In this statement we critically appraise the evidence underpinning the affordable housing targets detailed in *Policy H4: Affordable Housing* of the *Chichester District Local Plan 2021-2039* (Regulation 19) consultation.
- 1.1.3 This Statement is a focused document underpinning our representations to the Local Plan Regulation 19 consultation on *Policy H4*. In the interest of brevity, it does not comprehensively cover Government policy on viability in Plan preparation or detail the residual land appraisal methodology at length. These matters are comprehensively covered in the LPVA.

2. Review of Local Plan Viability Study

- 2.1.1 *Policy H4: Affordable Housings* advises that on sites of 10 dwellings or more affordable housing provision will be required at the following percentages:
- North of the Plan Area – 40% on greenfield sites, 30% on previously developed land.
 - South of the Plan Area – 30% on greenfield sites, 20% on previously developed land.
- 2.1.2 It is clear from the wording of the policy and its justification that the Local Authority is cognisant of the increased emphasis on Local Plan viability testing in Paragraph 58 of the NPPF. Given the Council's stance towards developer contributions and affordable housing, we find aspects of the evidence base underpinning these policies to be of concern.

2.2 Older Persons' Housing Typologies

- 2.2.1 The affordable housing targets set out in *Policy H4: Affordable Housing* of the *Chichester District Local Plan 2021-2039* (Regulation 19) consultation are informed by the *Local Plan 2021-2039 Viability Assessment* (VA) by Dixon Searle Partnership (January 2023).
- 2.2.2 We note that the VA has assessed the viability of older persons' housing typologies, which is welcomed.
- 2.2.3 In reviewing the methodology for assessing specialist older persons' housing, we note that many of the inputs align with the methodology detailed in the Briefing Note on Viability Prepared for the Retirement Housing Group (hereafter referred to as the RHG Briefing Note) by Three Dragons, although a number do not. Our concerns are that the Viability Assessment has overplayed the viability of older persons' housing.
- 2.2.4 Mindful of the guidance in the PPG that is the responsibility of site owners and developers to engage in the Plan making process. Churchill Retirement Living have provided commentary and supplemental evidence on the viability assumptions used in the viability appraisals for retirement living housing typologies in the VA.

3. Viability Appraisal Inputs

3.1 Introduction

- 3.1.1 Churchill Retirement Living have considered the inputs and assumptions used in the financial viability appraisals for older persons' housing in the *Local Plan 2021-2039 Viability Assessment (VA)* by Dixon Searle Partnership (October 2022). A summary table has been provided in the table entitled: *Comparison of Appraisal Inputs* on page 6 of this report.
- 3.1.2 Many of the inputs used in our appraisal of Retirement Living housing typologies align with the methodology detailed in the *Briefing Note on Viability Prepared for the Retirement Housing Group* (hereafter referred to as the RHG Briefing Note) by Three Dragons. Where they differ is clearly stated in this report.

3.2 Unit Sizes

- 3.2.1 Apartments for specialist older persons' housing tend to be larger than 'general needs' open market housing. The unit sizes used in the VA do however differ from those recommended in the RHG Briefing Note and no justification has been given for this deviation.

RHG Briefing Note Recommended Unit Sizes

	1 bed	2 bed
Sheltered	55 m ²	75 m ²

3.3 Sales Values

- 3.3.1 The VA tests a range of sales values in increments from £5000 per m² to £7,000 per m².
- 3.3.2 Harrington Lodge a Churchill Retirement Living development in Chichester recently sold out (in 2022). Prices at this development were circa £345k for a 1-bed and £475k for a 2-bed. Average sales values per m² in this development were circa£6,250 per m². Harrington Lodge is a very well-located scheme located on the outskirts of Chichester town centre and as such is at the upper limit of what can be achieved in the District.
- 3.3.3 A sales value of £6,250 per m² has been applied in the appraisal.

3.4 Unit Mix

- 3.4.1 The RHG briefing note recommends a 60:40 split for 1bed:2 beds. We have used the recommended mix.

3.5 Base Build Cost

- 3.5.1 Build costs are covered in Chapter 2.11 of the VA which advocates the use of the appropriate BCIS 'Median Generally' costs as a base rate.

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

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> Rebased to Chichester (108; sample 30)

Maximum age of results: 5 years

Building function (Maximum age of projects)	£/m ² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
843. Supported housing							
Generally (5)	1,979	1,248	1,644	1,797	2,331	3,552	26
Single storey (5)	1,808	-	-	-	-	-	1
2-storey (5)	2,086	1,248	1,666	1,797	2,457	3,552	12
3-storey (5)	1,786	1,300	1,572	1,663	1,800	2,793	7
4-storey or above (5)	1,961	1,376	1,677	2,028	2,140	2,585	5
843.1 Supported housing with shops, restaurants or the like (5)	1,606	1,381	1,523	1,557	1,712	1,857	5

3.5.2 The respondents have based their appraisal on the March 2023 Median ‘generally’ BCIS rates for supported housing, re-based to Chichester which are £1,797 per m².

3.6 Sales Rate

3.6.1 The sales rate utilised in the VA is unknown.

3.6.2 A rate of sale of one unit per month, as per the RHG’s best practice methodology, is considered by Churchill Retirement Living to be, broadly speaking, an appropriate reflection of their sales rate nationally, albeit the rate of sale nationally is lower presently.

3.6.3 Chichester is located in the respondent’s South-East region, where the rate for all selling sites is 0.3 sales per month, which reflects the current uncertainty in the market. Evidence of this sales rate is provided in **Appendix 1**.

3.7 Gross to Net

3.7.1 The RHG note stipulates a range of communal floor space between 20-30% of GIA for Sheltered and 35-40% of GIA for Extra Care.

3.7.2 Our experience is that this percentage should be at least 25% of the proposed total area to cater for communal lounges, lodge manager office and guest rooms.

3.8 Benchmark Land Value

3.8.1 A 50-unit retirement living development built at 125dph is presumed to have a Gross site area of 0.4ha in the VA. Benchmark Land Values

Figure 11: Range of BLVs ('Viability Tests')

EUV+ £/ha	Notes
£250,000	Greenfield Enhancement - reflecting larger scale development
£500,000	Greenfield Enhancement (Upper) - reflecting smaller scale development
£850,000	Low-grade PDL (e.g. former community uses, yards, workshops, former industrial etc.)
£1,500,000	
£2,000,000	Medium PDL - industrial/commercial
£3,000,000	Upper PDL Benchmark/residential land values
£3,500,000	

3.8.2 The respondents do not ordinarily develop greenfield land, with a typical site being within 0.5 miles of a town or local centre, so as to best facilitate the independence of the intended residents. We have no comments on the value of greenfield sites accordingly.

3.8.3 It is also more likely that in the edge-of-centre locations typically developed by the respondents, development opportunities are likely to be commercial / office units, former health care facilities such as care homes or site assemblies comprising one or more residential properties. The PDL Commercial (Medium & Uppers) and Residential Benchmark Land Values have been tested accordingly.

3.9 Profit

3.9.1 The *Local Plan Viability Study* allows for a 17.5% profit margin. This does not conform with the recommendations of the RHG Briefing note, but the Planning Inspectorate has also consistently concluded that an acceptable return for risk in respect of retirement living proposals is not less than 20% of gross development value. Examples include:

- McCarthy and Stone proposal at Redditch (Appeal Ref: 3166677)
- Churchill Retirement Living proposal at Cheam (Appeal Ref: 3159137)
- Churchill Retirement Living scheme at West Bridgford (Appeal Ref: 3229412)

3.10 Empty Property Costs

3.10.1 Empty property costs are a function of council tax payable on finished unsold and empty property as well as the service charge which must be paid owing to longer than average sales periods for this type of proposal.

3.10.2 Council applies the Council Tax Empty Property Premium. Council Tax rises to 100% if the property has been empty for longer than two years, 200% for over five years, and 300% if it remains empty for longer than ten years

3.10.3 A typical 50-unit scheme will take over 4 years to sell out and as such substantial monies will be paid in Council Tax over this period.

3.10.4 Residents of specialist older persons' housing are also required to pay a service charge to pay for the upkeep of communal facilities and for staff costs. Service charges are higher for Extra Care accommodation because of the enhanced level of communal facilities and the increased staffing associated with on-site care. Staff and facilities need to be on-site and functional from when the first resident arrives and accordingly the companies subsidise the service charges of empty apartments while they are being sold. McCarthy Stone list their typical services charges on their website as follow:

McCarthy Stone – Typical Service Charge

	1 bed per week	2 bed per week
Sheltered	£48.93	£138.27
Extra Care	£73,36	£184.31

3.10.5 Empty property costs as a result of Council Tax and Service Charge payments are therefore a substantial cost for older persons' housing. We have applied Empty Property Costs of £3k per unit retirement living unit.

3.11 Sales & Marketing Costs

3.11.1 Sales and marketing allowances for specialist housing proposals for older people are widely acknowledged to differ substantially from mainstream housing. This is due to the restricted occupancy and longer than average sales periods often extending over several years.

3.11.2 Sales and marketing activities in respect of this type of proposal are considerably more intensive and long running than mainstream housing and necessitate a sustained campaign with permanent sales staff on site over the course of typically years rather than months for mainstream housing.

3.11.3 The RHG Briefing Note advises that "*Marketing costs are typically 6% of revenue compared with 3% of revenue for general needs houses and flats.*" This has been supported by a recent appeal decision in Redditch Appeal Ref: 3166677.

3.12 S106 Contributions

3.12.1 The extent of Planning Obligations required in the south of the District are substantial and are detailed in below

- CIL (index linked to 2023) £157.20per m² result in 660k for a typical RL scheme of 50 units
- Nutrient Neutrality is £2k per unit - £100k per 50 unit scheme
- Water Neutrality is £2k per unit - £100k per 50 unit scheme
- SPA mitigation - £625 per dwelling - £31,250 per 50 unit scheme
- Residual s106 - £1500 per unit - £75k per 50 unit scheme
- A827 contribution £8kper dwelling - £400k per 50 unit scheme

3.12.2 Total is £1,366,250k in s106 before Affordable Housing contributions.

3.12.3 We are also concerned that the level of financial contributions attributed to achieving nitrate neutrality and water neutrality are underrepresented, we believe that figures could be up to £8k a unit for nutrient neutrality (based on examples requested in other LPAs) and, given there are no example of off-site credit systems, a similar figure could potentially be required again for water neutrality.

3.13 Interest Rates

3.13.1 We note that the appraisals assume 6% for total debit balances (to include interest and associated fees). This does not reflect increased cost of borrowing arising because of the Bank of England changes to base lending rates in September 2022 and the forecasted further increases in 2023 to curb rates of inflation.

3.13.2 In our experience a minimum of 7% is now acknowledged as appropriate when viability is assessed at the development management stage.

Comparison of Viability Inputs

	Retirement Living	
	DSP	CRL
Sales Values	£5,000 to £7,000 per m ²	£6,300per m ²
Unit Size	1bed- 55m ²	1bed – 55 m ²
	2 bed -75m ²	2 bed – 75 m ²
Benchmark Land Value	£1.5 - £3million per ha	£1.5 - £3million per ha
Dwellings per hectare	125dph	125dph
Dwelling Mix	unknown	60% 1-bed 40% 2-beds
No. of units	30	50
Site size	0.24 Hectares (Gross)	0.4 Hectares (Gross)
Build Period	12 months	18 months
Sales Period	Unknown	50 Months
Base Build Costs	£1,700 per m ² .	£ 1,797 per m ² .
Site Costs	£500kper ha	£200k
% Communal floorspace	25%	25%
Biodiversity Net Gain	0.18% of Build Costs	0.18% of Build Costs
Contingencies	5% of build costs	5% of build costs
Professional Fees	8-10% of build costs	10% of build costs
Sustainable Design / Construction	+3.5% Build Costs	3.5% Build Costs
EV Charging	£1,961 per unit	£31,375 based on 1:3 parking provision
S106 Costs	£1.5k per unit	£1.5k per unit
Nutrient & Water Nutralty	£4k per unit	£4k per unit & £8k per unit
A827	£8K per dwelling	£8K per dwelling
SANG	£625 per dwelling	£625 per dwelling
CIL	£157.20 per m ²	£157.20 per m ²
Finance Costs	6%	7%
Profit	17.5%	20%
Agents Fee % of site value	1.5%	1.5%
Sales & Marketing	3%	6%
Legal Fees (% of site value)	0.75%	0.75%
Empty Property Costs	£2,000 per unit	£3,000 per unit

4. Results

4.1 Older Persons' Housing Typologies

- 4.1.1 The outputs of the viability appraisals for older persons' housing typologies are summarised below for ease of reference. This FVA does not include any affordable housing as part of the appraisal and is therefore undertaken based on a 100% private proposal. A summary is provided in Appendix B
- 4.1.2 The residual land value is £1,397,891, with a nutrient / water neutrality contribution of £4k per unit and £1.218,485 with a nutrient neutrality contribution of £8k per unit.
- 4.1.3 When assessing the 100% private scheme against this benchmark land values for Upper Value Previously Developed Lane, there is negligible financial headroom available to contribute towards affordable housing.
- 4.1.4 Specialist older persons' housing providers are already heavily reliant on factors that reduce the cost of development in order to bring specialist older persons' housing coming forward such as achieving efficiencies in the build cost or achieving a lower level of profit.
- 4.1.5 The respondents' do however have significant reservations over aspects of the *Local Plan 2021-2039 Viability Assessment* which overstates the viability of these forms of accommodation. For example, it is presumed that sales rate used in the VA was higher than the 1 unit per month which, generally, reflects the respondent's experience.
- 4.1.6 It is the respondent's view that the cumulative impact of other differences in viability assumptions used in the VA presents an overly optimistic assessment of the viability of older persons' housing.

4.2 Sensitivity Testing

- 4.2.1 The Argus Developer sensitivity function has been applied to test the impact of variations within proposed sales values and build costs for the appraisal assuming 0% affordable housing. The output in **Appendix 3**.
- 4.2.2 Looking across the next 5 years, BCIS tender prices are forecast to increase at a rate of circa 9% over 2021/22 and from thereon 5%, 4% and 3% or in excess of 25% over the next 6 years.

Table 7: BCIS forecast of tender prices

Period	Forecast
2Q2021 to 2Q2022	+9.1%
2Q2022 to 2Q2023	+5.5%
2Q2023 to 2Q2024	+4.7%
2Q2024 to 2Q2025	+3.8%
2Q2025 to 2Q2026	+2.7%
2Q2026 to 2Q2027	+2.4%

Source: BCIS

- 4.2.3 In terms of sales value growth over the same period, there is much uncertainty regarding the property market at present given the Bank of England changes to base lending rates in September 2022 and forecast further increases in 2023 to curb rates of inflation. It is forecast that the knock-on impact on mortgage affordability and wider cost of living issues at present will put an end to the inflation seen in house price growth seen over the last few years. In general, market commentators are forecasting house price reductions across the market during 2023¹.
- 4.2.4 The RICS Market Survey (Oct 22)² concludes:

1.1.1

¹ [UK housebuilders' shares tumble on gloomy house price predictions | Financial Times \(ft.com\)](https://www.ft.com/content/2022/10/20/uk-housebuilders-shares-tumble-on-gloomy-house-price-predictions)

² [10. web -october 2022 rics uk residential market survey final.pdf](https://www.rics.org/uk/news-and-analysis/press-releases/2022/10/10-web-october-2022-rics-uk-residential-market-survey-final.pdf)

Looking ahead, the net balance for the twelve-month price expectations series sank to -42% in the latest findings, falling from a reading of -18% last time. When viewed at the regional/country level, respondents across all parts of the UK are now (on balance) of the opinion that prices will see some degree of decline over the year ahead.

4.2.5 Savills at November 2022³ forecast the following 5 year mainstream housing performance.

UK mainstream house price forecasts

	2023	2024	2025	2026	2027	5-year
UK mainstream house prices	-10.0%	1.0%	3.5%	7.0%	5.5%	6.2%

Source: Savills Research

4.2.6 The immediate outlook therefore is for costs to continue to inflate with some uncertainty in relation to open market sales values beyond 2022.

5. Conclusion

5.1.1 Churchill Retirement Living are strongly of the view that it would be more appropriate to set a nil affordable housing target for sheltered and extra care development, at the very least in urban areas in the south of the District. This approach accords with the guidance of the PPG which states that 'Different (affordable housing) requirements may be set for different types or location of site or types of development' (Paragraph: 001 Reference ID: 10-001-20190509).

5.1.2 The guidance in the NPPF and the PPG is that the role for viability assessment is primarily at the Plan making stage:

Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force (paragraph 57.)

5.1.3 Council Members, Officers and the general public will assume that applications for sheltered or extra care housing will be able to support a policy compliant level of affordable housing. This would however be wholly at odds with the viability evidence underpinning the Local Plan.

5.1.4 The requirement for affordable housing contributions from specialist older persons' housing typologies is therefore speculative rather than based on the evidence presented. The Local Plan is therefore considered to be unsound on the grounds the affordable housing targets are not justified, positively prepared or effective.

5.1.5 We therefore respectfully request that a new subclause is added stating that:

Specialist older persons' housing will be subject to a nil affordable housing requirement on brownfield / urban sites in the South of the District and a 30% affordable housing requirement on greenfield sites.

5.1.6 To that end, we would like to draw the Council's attention to Paragraph 5.33 of Policy HP5: Provision of Affordable Housing in the emerging Fareham Borough Local Plan which advises that:

5.33 ... The Viability Study concludes that affordable housing is not viable for older persons and specialist housing. Therefore, Policy HP5 does not apply to specialist housing or older persons housing.

5.1.7 A nil affordable housing rate could facilitate a step-change in the delivery of older person's housing in the District, helping to meet the diverse housing needs of the elderly. The benefits of specialist older persons' housing extend beyond the delivery of planning obligations as these forms of development contribute to the regeneration of town centres and assist Council's by making savings on health and social care.