**Community Infrastructure Levy Regulations 2011 (amended)**
**Preliminary Draft Charging Schedule Consultation**
**3 October 2011 – 14 November 2011**

# How to respond to this consultation

The Community Infrastructure Levy (CIL) is a new levy that local authorities in England and Wales can charge on new developments in their area. The money will be used to support development by funding infrastructure that the council, local community and neighbourhoods want – for example, new or safer road schemes, public transport and walking and cycling schemes, park improvements or a community hall.

The system is very simple. It applies to most new buildings and charges are fixed based on the size, type and location of the new development.

The three councils of Broadland, Norwich and South Norfolk have chosen to work together as the Greater Norwich Development Partnership (GNDP) and adopt a co-ordinated approach to the implementation of CIL. In order to comply with the regulations, three separate Preliminary Draft Charging Schedules have been published for comment. These are almost identical and they share the same evidence base. The only difference in the schedules relates to the geographical charging zones, Norwich is entirely in Zone A and Broadland and South Norfolk include areas in both Zone A and Zone B.

This is the first stage in consultation for setting a CIL for the three districts.

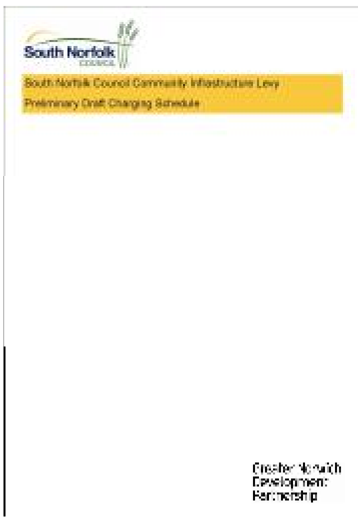
The Broadland District Council Preliminary Draft Charging Schedule looks like this:


Broadland District Council Community Infrastructure Levy
Preliminary Draft Charging Schedule
Greater Norwich Development Partnership

The Norwich City Council Preliminary Draft Charging Schedule looks like this:


Norwich City Council Community Infrastructure Levy
Preliminary Draft Charging Schedule
Greater Norwich Development Partnership

The South Norfolk Council Preliminary Draft Charging Schedule looks like this:


South Norfolk Council Community Infrastructure Levy
Preliminary Draft Charging Schedule
Greater Norwich Development Partnership

# Getting involved

The consultation documents are:

- Preliminary Draft Charging Schedule for Broadland
- Preliminary Draft Charging Schedule for Norwich
- Preliminary Draft Charging Schedule for South Norfolk

As part of this consultation a number of documents providing supporting evidence have been published:

- The explanatory document ‘Community Infrastructure Levy: Background and Context’
- Viability Advice on a CIL/ Tariff for Broadland, Norwich and South Norfolk (GVA, December 2010)
- Charging Zones Schedule Report (GVA, July 2011)
- Topic Paper: Green Infrastructure and Recreational Open Space (GNDP, June 2011)

There is also earlier background information supporting this consultation:

- Joint Core Strategy for Broadland Norwich and South Norfolk adopted March 2011
- Infrastructure Needs and Funding Study (EDAW/ AECOM 2009)
- Local Investment Plan and Programme for Broadland, Norwich and South Norfolk v4 June 2011

All these documents are available on the GNDP website, at www.gndp.org.uk.

The consultation documents and evidence can be viewed at each of the district council offices.

The consultation documents will also be available at libraries, at the Broads Authority offices and at the Norfolk County Council offices at County Hall. Where facilities are available evidence can be accessed via the GNDP website, www.gndp.org.uk.

The Department of Communities and Local Government has produced a helpful guide to the Community Infrastructure Levy that can be found on their website:

http://www.communities.gov.uk/publications/planningandbuilding/cilsummary

## You can respond to this consultation by email or by post:

The Preliminary Draft Charging Schedules and the supporting evidence are open for six weeks of consultation from **3 October 2011** to **14 November 2011**. Consultation responses must be received by **5pm** on **Monday 14 November 2011** in order to be considered.

A response form is available on the GNDP website at www.gndp.org.uk. If possible, please use this form to assist us in analysing your response and in publishing them correctly.

For more information contact the GNDP:

**tel:** 01603 430144
**email:** cil@gndp.org.uk

When responding to the consultation you can comment on one, two or all three schedules. You can:

- Use one form to comment on the Preliminary Draft Charging Schedule for one district using one response form, or to give the same comment on the Preliminary Draft Charging Schedules for two or all districts or,
- Use more than one form to give different comments for each district's Preliminary Draft Charging Schedule that you are commenting on

Please note that comments cannot be treated as confidential. All responses to this consultation will be made available as public documents. Unfortunately we are only able to acknowledge emailed responses, but all comments will be carefully considered.

## Forms and comments can be:

**emailed to:** cil@gndp.org.uk
**posted to:** GNDP, PO Box 3466, Norwich, NR7 7NX
**hand delivered:** to your local district council office:

- Broadland District Council, Thorpe Lodge, 1 Yarmouth Road, Norwich NR7 0DU
- Norwich City Council, City Hall, St Peter's Street, Norwich, NR2 1NH
- South Norfolk Council, South Norfolk House, Swan Lane, Long Stratton, NR15 2XE

**Evidence**

Please use this section to give us any comments you have on the evidence:

- The explanatory document 'Community Infrastructure Levy: Background and Context'
- Viability Advice on a CIL/ Tariff for Broadland, Norwich and South Norfolk (GVA, December 2010)
- Charging Zones Schedule Report (GVA, August 2011)
- Topic Paper: Green Infrastructure and Recreational Open Space (GNDP, June 2011)

**Question 1:** Having considered the evidence do you agree the appropriate balance between the desirability of funding from CIL and impacts on the economic viability have been met?

Yes ☐ No X

Please add any comments below

We do not agree that the balance between the desirability of funding from CIL and impacts on economic viability have been met for the following reasons:

**<u>GVA Final Report and Charging Zones Schedule</u>**

1. We consider the approach taken to assess viability by your advisors, GVA, to be flawed. Having spoken a number of the agents, developers and house builders mentioned in their report as having given views on values etc, many deny having spoken to them. Of those that did, we have not been able to pin point one that provided value and build cost inputs similar to those adopted by GVA in their appraisals. Whilst they might have had regard to Land Registry data, this cannot give the same level of information and background as speaking to those acting and developing in the GNDP area. Savills new homes department were agents on 7 schemes, amounting to 97 units in 2007 and 5 schemes, 51 units, in 2009 within the GNDP area. Despite this we were not asked to provide hard data in relation to sale prices, property and scheme sizes, timing of sales and incentives. Various staff did however attend meetings and open forums where the inputs adopted by GVA were challenged. At no time did Savills concur with the inputs.

2. In order to assess viability, GVA had regard to minimum land values of £500,000 per acre in the central area, £210,000 to £250,000 per acre in the Inner Area and A11 Corridor and £200,000 per acre in the Outer Area. Their assumption of viability was benchmarked against these and they concluded that that provided the effects of introducing CI/Tariff did not result in a reduction in land values of more than 25%, then landowners will not ultimately withhold their land from the market. We accept that these are reasonable for recessionary land prices but are well below those achieved at the height of the market. GVA have assessed viability based on height of the market house prices benchmarked against recessionary land values, so it is

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hardly surprising that they achieved positive results. They should have taken a consistent approach and benchmarked values at the same point in the property cycle. Landowners know that, at the height of the market, land values in the Inner Area were more than twice the value being adopted (see table attached at **Appendix 1)** so they are unlikely to release land at £375,000 per acre more as house prices start to rise. This unbalanced assumption by GVA could severely restrict the land coming forward for development in the medium to longer term.

3. GVA has carried out some viability assessments having regard to the availability of grants to housing associations. Whilst these might have been available at the height of the market, they are not going forward and GVA should have carried out their assessments only on a realistic basis rather than a hypothetical one. All of the assessments on this basis are therefore irrelevant.

4. GVA recommends that CIL/Tariff be set on "normal" market conditions. Their view of normal is the peak of the market as at 2007. We attach various property indicators at **Appendix 2**, which clearly show 2007 to be a significant peak. If the CIL/Tariff is to be indexed going forward based on BCIS build costs, then it has to be set at a level which reflects house prices at the date that the indexation starts, i.e. current market levels. We attach the BCIS Tender and Cost Forecast Graph, which shows that 2010 was the trough in build costs and it has been rising since. If CIL/Tariff is based on 2007 house and commercial values, then they will be artificially high to start and this error will not be rectified due to the increasing index.

5. It appears from the GVA report of December 2010 that their recommendations are partly based around the assumption of a quick recovery to the housing and commercial markets. We understand that they were only able to have regard to the data available to them prior to their report being published but GNDP now have the benefit of hindsight. House prices are now falling again and there has been no let up in the high availability of commercial premises. Weattach a copy of the latest Savills' research into the housing market at **Appendix 4**, which now states that the five year forecast has changed radically with inflation adjusted growth at -11.00%. This is a very different background to that in existence when GVA were reporting.

6. As GVA have based their recommendations on a "normal" 2007 basis, they have used the maximum sales rates. They have adopted an average rate of £2,250 per sq m for Zone A, which, in the absence of clear evidence, we have assumed relates to both houses and flats. We have analysed average sales rates across four schemes in Norwich and set out the percentage uplift in flats over housing below.

**Samson & Hercules, Tombland (City Living)**
2007 – n/a
2009 – 50%

**Old Millers Wharf (Hopkins Homes)**
2007 – 17%
2009 – 17%

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**Meridian Place (Hopkins Homes)**
2007 – 14%
2009 – n/a

**Fellows Plain (Charles Church)**
2007 – 25%
2009 – n/a

Furthermore, in 2007, developers in Norwich followed a uk wide trend of delivering city centre flats and large schemes such as Reads Mill and Paper Mill Yard came to the market and achieved record rates. This type of development does not only skew the average value but also build and sales rates. It is imperative that the charging authorities understand that this phenomenon will not be repeated as there are a) very few sites with scope for such schemes, b) a lack of funding for flats for both owner occupiers and investors and c) a lack of demand. Not only, therefore, should 2007 not be considered to be the normal market but going forward average prices should only be reviewed across houses not flats.

7. Having regard to the inputs included by GVA in their appraisals as set out in the residual calculation attached at **Appendix 2**, it is clear that they have omitted many costs from their appraisal, including:

a. The increase in costs due to the need to achieve the rising code levels for sustainable homes. At Appendix A2 of their December 2010 Report, they state that they have assumed Level 3 for private homes and Level 4 for affordable housing in their "recessionary" appraisal and Level 6 for both in their "normal" appraisal. Their build cost range is £861 to £1,076 per sq m for both scenarios. On their average unit size of 90 sq m, this equates to a build cost of between £77,490 and £96,840. Even with the lack of discernable data, it is reasonable to assume that they have adopted the lower figure for Level 3 and the higher figure for Level 6. In Appendix A2 they have compared their approach with that taken by Drivers Jonas Deloitte (DJD) who carried out an affordable housing study for GNDP. It is interesting to note that DJD's base cost is between £1,040 and £1,190 per sq m with an additional £7,000 per unit for Level 4 and £27,000 for Level 5. On a 90 sq m unit on this basis, the build cost would be a minimum of £100,600 for Level 3 and a maximum of £134,100 for Level 5. This is a differential of between 29% and 38%. We attach at **Appendix 3**, extracts from the CLG Cost Analysis of The Code for Sustainable Homes report, which sets out a view on the impact of the Code on build costs both now and going forward. It is clear that the cost assumptions made by GVA are incorrect and therefore make their viability appraisals unsafe.

b. We consider the build cost adopted by GVA to be low, irrespective of their assumptions in relation to the Code. You are aware of the detailed build costs provided by Norfolk Homes and these are supported by data that we have received from various house builders in relation to the loan security valuation work that we undertake. The rates normally adopted are exclusive of many of the site/estate costs and these, too, have been explicitly set out in the Norfolk Homes appraisal, equating to about £100,000 per acre. We have also had advice from Duncan Jenkins of 4dplan, who acts on behalf of Endurance Estates in relation to the larger sites, which

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require adopted spine roads and other major infrastructure and this cost can rise to between £200,000 and £250,000 per acre.

c. GVA appears to have assumed that the provision of affordable housing is cost neutral. Even with grants, this was an unreasonable assumption but going forward in a world of no grants, it is unacceptable. We have spoken to a number of house builders, both local and regional/national who state that, at best, they receive 75% of the open market value for intermediate units down to 40% for affordable/social rent whereas, due to Code Level 3, they cost more to build. A cost neutral assumption does therefore skew the residual substantially. The GDVs for the affordable provision on the Norfolk Homes appraisal are indicative of the offers they are receiving from housing associations but we have also been given evidence of offers from another local housing association at between £66 per sq ft and £93 per sq ft for two bed units, both of which lie below the total build cost rate. A cost neutral approach is therefore unacceptable when considering the level of CIL/Tariff.

d. GVA have omitted to include standard development appraisal costs such as stamp duty land tax and land purchase legal fees. Their work also appears to exclude the cost of EPCs, NHBC warranties etc, all of which should be included in a full viability appraisal.

e. We were advised during a recent meeting with you that the average Section 106 cost that would remain on developments would be circa £750 per unit, including affordable housing. GVA have not included this in their appraisals.

f. There is no clarity in relation to the issue of additional costs associated with brown field sites, in relation to demolition, remediation etc. If this is included in the low build costs as set out above, then any assumption that brownfield land can come forward for development at the proposed CIL/Tariffs is unsafe. The Government set a target of 60% of development being on brownfield land and this aspiration has been fulfilled as far as possible in the site specific policies and five year housing supply for the three charging areas. We consider that the GVA recommendations severely compromise these policy documents.

g. GVA has not included the cost of achieving a workable planning permission. Drivers Jonas Deloitte did in their affordable housing assessment and it is a cost factored in by both developers and agents alike when carrying out residual valuations. The cost of applying for planning permission is considerable and cannot be disregarded.

**Community Infrastructure Levy: Background and Context**

1. GVA recommended CIL/Tariff of £170 per sq m for Zone A and £85 per sq m for Zone B in relation to residential development. The Background and Context document states that these levels are considered viable on the basis that they are in line with agreed Section 106 contributions from various “open book” appraisals carried out in relation to current planning applications. However it is recognised that Section 106 contributions will still be payable and these have been estimated at £750 per property. There is no reasoning provided as to why this is a suitable level and we

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consider that it will vary significantly from site to site, depending on the proposed scheme. In order to adjust the CIL/Tariff accordingly, £10 per sq m has been deducted from the GVA recommended level to arrive at charges of £160 and £75 per sq m. It is difficult to comment on this without any background workings but we consider it to be a very simplistic approach and whilst smaller schemes may not make any Section 106 contributions at all, larger schemes will make considerably more and it is these large schemes that will enable the charging authorities to a) fulfil their housing requirements and b) be the main contributors to the funding gap via CIL.

2. Section 7.11 gives a very optimistic view of the recovery in the housing market in the eastern region. Whilst there was growth in house prices earlier this year, the trend has changed once more and we have seen further falls in pricing over the past two months or so. The Royal Institution of Chartered Surveyors September report indicated that property price expectations for the future remain negative, with 23 per cent more members expecting a decline in prices over the next three months. House prices will fall 10.5 per cent in real terms over the next five years, as inflation outstrips their rise, according to a NIESR forecast. This has prices to ease 4.5% in real terms in 2011 and then 'by an average of 1.5% per annum in the subsequent four years.' This pattern could see house prices post small nominal rises, but the economic forecasters see these as falling behind RPI inflation. This is in line with the Savills research, mentioned earlier in this section. GNDP's view of a 21% average house price rise to 2015 is clearly way off the mark.

3. We note that, despite their view of house price growth, each authority within GNDP has adjusted the CIL/Tariff down by 20%. There is no explanation given for this change but in view of the above, it appears that they are trying to minimise the potential damage to the development industry in the GNDP area from a significantly flawed initial study. A total review of the data is required and more regard had to what those who are going to develop in the area going forward have to say. We do not consider that there is a general antipathy towards CIL as many builders are currently frustrated by potential development land being restrained by the need for more infrastructure and see CIL as the fairest way of delivering what is needed. They are however, rightly, concerned that at the current proposed levels, CIL/Tariff will stop land coming forward, reduce the provision of affordable housing and generally make a lot of development unviable.

Our answer applies to (please tick one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

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**Geographical zones**

Please use this section to give us any comments about the boundaries of the geographical charging zones shown in appendix 1 of the Preliminary Draft Charging Schedule

**Non-residential development zone boundary**

**Question 2:** It is intended that, for non-residential development, one charging area will apply to the administrative areas of Broadland District Council, Norwich City Council and South Norfolk Council. Do you agree with this approach?

Yes X No ☐

Please add any comments below

My answer applies to: (please mark one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

**Residential development zone boundaries**

**Question 3:** The viability evidence supports two charging zones for residential development, Zone A and Zone B. The Norwich City Council area falls entirely in Zone A. Broadland District Council and South Norfolk Council areas are within Zone A and Zone B. Do you agree with the boundaries for the charging zones?

Yes ☐ No X

Please add any comments below

The justification for reducing the Zones to two appears flawed. The disparity between average house prices between the locations considered by GVA could actually have a significant effect on land value. Sensitivity analysis in an appraisal shows that small increment changes of say £5 per sq ft in value, can affect land values by 59%. We show this effect in our sensitivity summary attached at **Appendix 6**.

My answer applies to: (please mark one or more of the boxes):

Broadland ☐ South Norfolk ☐ All X

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**Charging Schedule**

Please use this section to comment on the rates of charge as shown in the table on page 2 of the Preliminary Draft Charging Schedule

**Residential development – Zone A**
**Question 4a:** It is intended that the rate of charge for residential development in Zone A will be within a range of £135 to £160 per m2.

What do you think the rate should be?

**£63.50 per $m^2$**

**Question 4b:** What is your justification for this rate?

In the absence of clear and transparent information from GVA on their appraisals, we have undertaken our own appraisal on the basis of a hypothetical scheme of 250 dwellings (as per their Scheme 4 Development Typology). We have used the following assumptions:

1. For the purposes of the appraisal, we have used the average floor area per unit of $90m^2$, in accordance with the Charging Schedule background evidence.
2. 33% affordable housing, of which 70% is social rent and 30% is intermediate tenure.
3. The value of the affordable housing is equivalent to an average of 65% of Market Value across intermediate and social rent, reflecting the averaging of social rent being valued at 75% of Market Value and intermediate tenure being valued at 40% of Market Value.
4. We have used GVA's assumed build costs of £860 per $m^2$, even though we believe these to be too low (they should be more like £85 per $m^2$).
5. We have assumed values equivalent to £1,991 per $m^2$ (185 per $ft^2$).
6. Given the scale of the development, there will be site servicing costs in the order of £100,000 per acre.
7. NHBC warranties are included at £140 per dwelling.
8. £750 per market dwelling has been incorporated, although we understand that the GNDP believe this figure will apply to both market and affordable homes.

A copy of the appraisal summary is included in **Appendix 7**.

To calculate the amount available for CIL payments, we have used the following methodology:

1. We have taken the benchmark land value for a Zone A development to be as high as £500,000 per acre (as per GVA's recommendations), based upon a relatively high density scheme of 55 dwellings per hectare.
2. This is therefore roughly equivalent to £23,000 per plot.
3. We have then applied this to the hypothetical scheme at an assumed density of 35 dwelling per hectare, which we believe to be a more realistic density

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given market conditions and demand profiles.

4. This therefore equates to around £322,000 per acre.
5. Taking the assumption that a landowner would be prepared to sell at a value up to 25% less that Market Value (as per GVA's assumptions), this reduces the land value to £241,500.
6. We have incorporated a fixed land cost of £241,500 per acre for an 18 acre scheme (based on 35 dwellings per hectare).
7. The residual in the appraisal is therefore profit. Assuming a base developer's profit of 20% on cost (which we also believe to be very low), we can then calculate the amount of 'super' profit that could be available to pay for CIL contributions.

Given the above, the appraisal shows a profit of £7,124,400 on a cost of £30,869,773, equivalent to 23.8% profit on cost. Assuming a 'super' profit of 3.08%, therefore, this equates to £950,789. The total floorspace of market dwellings is 15,030m$^2$. This therefore equates to a potential CIL contribution of £63.26 per m$^2$.

My answer applies to (please tick one or more of the boxes):

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Broadland | ☐ | Norwich | ☐ | South Norfolk | ☐ | All | X |

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**Residential development – Zone B:**

**Question 5a:** It is intended that the rate of charge for residential development in the Zone B will be £75 per m2. Do you agree with this approach?

Yes ☐ No X

Please add any comments below

To be advised – due to the 5 year land supply policy, we have focussed on the Zone A rate, but we will provide feedback on this in due course.

**Question 5b:** If you answered no to the above question:

What should the charge be?

What is your justification for this rate?

My answer applies to (please tick one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

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**Residential development – zones A and B**

**Question 6a:** It is intended that the rate of charge for domestic garages (excluding shared-user garages) in Zones A and B will be within a range of £25 to £35 per m2.

What do you think the rate should be? **£0**

**Question 6b:** What is your justification for this rate?

The study carried out for GNDP by Mott McDonald dated 14 September 2011 concludes that having carried out primary and secondary research, it would appear that under most scenarios the cost associated with constructing a detached garage actually surpasses the increased value which having a garage adds to the sale price.

My answer applies to (please tick one or more of the boxes):

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Broadland | ☐ | Norwich | ☐ | South Norfolk | ☐ | All | X |

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**Large convenience goods based supermarkets and supermarkets**

**Question 7a:** It is intended that the rate of charge for large convenience goods based supermarkets and superstores of 2,000m2 gross or more will be £135 per m2. Do you agree with this approach?

Yes ☐ No X

Please add any comments below

The retail sector is a complex one and there is a significant difference between the world of superstores and supermarkets. We understand that over the period of the Joint Core Strategy there are unlikely to be many superstores being delivered in the GNDP area but, where there are, the operators have the capability to pay significantly more in CIL/Tariff than those trading from smaller stores. Land values for stores in neighbour centres tend to be in the region of £500,000 per acre whereas the operators will base their land bid on demographics for the superstores and have been known to pay well over £1,000,000 per acre. In view of this we consider that there should be a higher tariff for superstores.

**Question 7b:** If you answered no to the above question:

What should the charge be? **£270 for superstores**

What is your justification for this rate?

We have not carried out specific appraisals for this but have based it purely on a land value basis.

My answer applies to (please tick one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

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**Other retail and assembly and leisure developments**

**Question 8a:** It is intended that the rate of charge for all other retail and assembly and leisure developments will be £25 per m2 (including shared user garages). Do you agree with this approach?

Yes ☐ No X

Please add any comments below

This covers a wide variety of actual uses and the market for them varies. It is noted that where this exists in other areas, the lowest necessary charge is levied to encourage employment development.

**Question 8b:** If you answered no to the above question:

What should the charge be? **£0**

What is your justification for this rate?

There has been no speculative development of this nature in the GNDP area for many years, even at the height of the market.

My answer applies to (please tick one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

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**Community uses**

**Question 9a:** It is intended that the rates of charge for all other Community Uses will be £0 per m2. Do you agree with this approach?

Yes X No ☐

Please add any comments below

**Question 9b:** If you answered no to the above question:

What should the charge be?

What is your justification for this rate?

My answer applies to (please tick one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

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**Other types of development**

**Question 10a:** It is intended that the rates of charge for all other types of development (including shared-user garages) covered by the CIL regulations will be £5 per m2. Do you agree with this approach?

Yes ☐ No X

Please add any comments below

Industrial and office development in the GNDP area is barely viable even at the height of the market and to add another layer of cost will fetter the commercial market. The level of speculative development has always been very limited in this area due to viability and the majority of new build industrials and offices have been built as a result of pre-lets or design and build contracts.

Furthermore, since late 2007 there has been increasing difficulty in obtaining bank finance for the development of commercial premises, even if pre-let contracts are in place. It cannot be said that this is an abnormality in the market as it has been ongoing for three years and there is no sign that the banking sector will stabilise in the short to medium term. If GNDP want to encourage employment in their area, it is imperative that developers and owner occupiers are given every encouragement to develop buildings. Without this, the overall stock will continue to age and this will make it more difficult to attract larger companies who are seeking quality of accommodation.

**Question 10b:** If you answered no to the above question:

What should the charge be? **£0**

What is your justification for this rate?

From 2007, i.e. the height of the market, Promis Data stated that only 23% of office development was speculative with the remainder being either pre-let or on a design and build basis. The total office stock in Norwich sits at 31% below the national average and only 6.1% has been completed since 2004.

The Promis data on the industrial sector in Norwich states that only 2.00% of the stock is new. There was no new build over 2010 and take up in the six months to Q4 2010 stood at 53.38% down on the previous six months and significantly below the peak in 2006/2007.

This data shows that even at the height of the market, Norwich failed to make any great advances in developing Grade A stock and that it remains a very fragile market. Whilst there were peaks in 2007 based around a viable development, the underlying trend is very static.

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My answer applies to (please tick one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

NOTE In accordance with CIL regulations, the charging rates proposed in the Preliminary Draft Charging Schedules aim to balance the need to fund infrastructure in Greater Norwich with the potential impact on the economic viability of development. Any comments suggesting a variation in the rate of CIL should be justified by viability evidence.

There are other issues we would like your views on, though these are not part of the Preliminary Draft Charging Schedules.

**Discretionary relief**

The approach to discretionary relief can be found on page 3 of the Preliminary Draft Charging Schedule and in section 12 of the 'Community Infrastructure Levy: Background and Context'.

**Question 11** Do you agree with the approach to Discretionary Relief?

Yes X No ☐

Please add any comments below

My answer applies to (please mark one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

**Staging of payments**

The approach to the staging of payments can be found in page 3 of the Preliminary Draft Charging Schedule and in section 11 and appendix 4 of the document 'Community Infrastructure Levy: Background and Context'.

**Question 12:** Do you have any comments about the draft policy

Yes ☐ No ☐

Please add any comments below

Appendix 4 of the CIL: Background and Context (draft?) states that for residential development, payment will be phased according to the progress of the development, measured by commencement of a proportion of the units permitted. It also sets out a notional assumed build rate if the development does not progress as intended. The notional build rate states that the first commencement will take place six calendar months after the commencement of the development and thereafter, commencements will progress at a rage of one unit per week unless it can clearly be shown that this would not be achievable. The published CIL: Background and Context is not as explicit and merely sets out the proportion and timing of instalments depending on the size of the scheme. If these have been based on the initial approach, this seems inequitable for two reasons. Firstly, if a scheme is not progressing it is usually down to sale or funding issues, not because a house builder merely decides to stop building for a while. If the developer is struggling to find finance for the next phase or there are simply no buyers in the market place, then it is

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very unlikely they will have the facility to pay the next phase of CIL. Secondly, I know of no circumstances where house builders build and sell one unit per week. The norm is circa 20 to 30 units per annum.

My answer applies to: (please mark one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

NOTE In accordance with CIL regulations, the charging rates proposed in the Preliminary Draft Charging Schedules aim to balance the need to fund infrastructure in Greater Norwich with the potential impact on the economic viability of development. Any comments suggesting a variation in the rate of CIL should be justified by viability evidence.

**Payment in kind**

Within the GNDP area, where land is required within a development to provide built infrastructure to support that development (such as a school) it will be expected that land transfer will be at no cost to the local authorities and will not be accepted as a CIL payment in kind. Where the facility is needed to serve more than one development, any land transfer over and above that needed for the specific development would be regarded as payment in kind of CIL. The approach to payment in kind can be found on page 3 of the Preliminary draft charging schedule and in section 12 of the document 'Community Infrastructure Levy: Background and Context'.

**Question 13:** Do you agree with the approach to payment in kind?

Yes ☐ No X

Please add any comments below

We consider that the payment in kind issue needs to be considered very carefully and that the charging schedule needs to be worded accordingly. There are a number of large development areas that should come forward in the GNDP area as a result of road and other improvements. These will undoubtedly necessitate the provision of new schools, neighbourhood centres etc. These sites may well be "kicked off" with a single permission but be owned by a consortium of land owners and be developed by a number of house builders. In such cases it would be inequitable for the land transfer to be considered on a single permission basis.

My answer applies to: (please mark one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All ☐

NOTE In accordance with CIL regulations, the charging rates proposed in the Preliminary Draft Charging Schedules aim to balance the need to fund infrastructure in Greater Norwich with the potential impact on the economic viability of development. Any comments suggesting a variation in the rate of CIL should be justified by viability evidence.

**Neighbourhoods and CIL**

The Government proposes that neighbourhoods where development takes place will receive a 'meaningful proportion' of CIL revenue to spend on infrastructure projects locally. The local community will be able to decide how this money should be spent as long as it is used for infrastructure.

The government is currently consulting on this proposal which can be found its website at www.dclg.gov.uk.

The consultation suggests that in Broadland and South Norfolk districts the Parish and Town Councils will take on this responsibility. In Norwich, where there are no Parish or Town councils, an approach appropriate to the area will need to be developed.

**Question 14a:** Subject to any updated Regulations it is proposed that 5% of the net CIL receipts be passed to local communities (e.g. the Parish Council or Town Council in the two rural districts) who express an interest in receiving it. Do you agree with this approach?

Yes X No ☐

Please add any comments below

N/A

My answer applies to: (please mark one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

**Question 14b:** Do you have any views about how the CIL which will be made available for the local community in Norwich, where there are no Parish or Town Councils, should be administered?

Please add any comments below

NOTE In accordance with CIL regulations, the charging rates proposed in the Preliminary Draft Charging Schedules aim to balance the need to fund infrastructure in Greater Norwich with the potential impact on the economic viability of development. Any comments suggesting a variation in the rate of CIL should be justified by viability evidence.

**Other comments**

**Question 15:** Do you have any other comments on the Preliminary Draft Charging Schedule(s) or the Community Infrastructure Levy?

Yes X No ☐

Please add any comments below

We agree with the principle of CIL as a transparent method of filling the infrastructure funding gap but it has to be set at a level which will enable development going forward to fulfil the GNDP housing requirements and provide affordable housing at the required 33% where possible.

We have studied the five year land supply and plotted the proposed development sites on the CIL Charging Zone Map. From this exercise, we have found that all the development land over the next five years is within Zone A. Of this only two sit outside the former Inner Area as allocated by GVA. Whilst we have not assessed each one individually, from our knowledge of Norwich, we can see that the vast majority are brownfield sites, thus requiring some form of demolition and/or remediation. This puts a maximum of 63.97 hectares (3,636 units) at risk from the viability miscalculation. Assuming 33% affordable housing, this amounts, potentially, to the loss of 1,200 affordable units over the next five years.

The viability approach by GVA is so flawed that, even where there is potential for sites to come forward at the proposed level of CIL/Tariff, it is very unlikely that there will be any “surplus” in the development to provide anywhere near the required level of affordable homes. If CIL/Tariff is set but Section 106 obligations are still subject to viability arguments, then affordable housing is the most obvious casualty.

CIL will be used to fund infrastructure required to enable development across the GNDP area. Due to the phasing of development, this infrastructure has to be forward funded by the charging authorities. If the proposed charging schedule is adopted, there is a clear and significant risk that much of the envisaged development will simply not come forward. The charging authorities are therefore at great risk of incurring huge debt with no guaranteed way of servicing it.

It needs to be understood that even if house prices do rise to 2007 peaks or beyond, the development world is a very different place now. The Code for Sustainable Homes, general rising build costs, reduction in labour pools, the reluctance of land owners to sell, the significantly low level of transactions, the lack of finance and the cost of finance are all factors which both commercial and residential developers have to contend with. The CIL/Tariff is a reasonable way in which to fund infrastructure but it would be inequitable for it to be set at a level which reflects an economy and development world of four years ago and then be set to rise on an index linked basis.

We understand that this exercise is about viability in this area and, therefore, comparisons with other charging authorities are difficult. However from those

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CIL/Tariffs that have been set, the GNDP area appears high other than when compared with LB Wandsworth, even those which are closer to London and therefore benefit from much higher land and property values.

Our answer applies to: (please mark one or more of the boxes):

Broadland ☐ Norwich ☐ South Norfolk ☐ All X

For paper copies of this form please email **cil@gndp.org.uk** or telephone 01603 430144

| Please return the form to: | OFFICE USE ONLY: |
|---|---|
| Email: cil@gndp.org.uk | Date received: |
| Post: Greater Norwich Development Partnership<br>PO Box 3466<br>Norwich<br>NR7 0NX | Representation no: |

Forms can also be delivered by hand to:

to your local district council office or to the County Council:

- Broadland District Council, Thorpe Lodge, 1 Yarmouth Road, Norwich NR7 0DU
- Norwich City Council, City Hall, St Peter's Street, Norwich, NR2 1NH
- South Norfolk Council, South Norfolk House, Swan Lane, Long Stratton, NR15 2XE

**ALL FORMS MUST BE RECEIVED BY 5PM ON MONDAY 14 NOVEMBER 2011**

NOTE In accordance with CIL regulations, the charging rates proposed in the Preliminary Draft Charging Schedules aim to balance the need to fund infrastructure in Greater Norwich with the potential impact on the economic viability of development. Any comments suggesting a variation in the rate of CIL should be justified by viability evidence.

For more information or if you require this document in another format or language, please contact the GNDP:

**email:** cil@gndp.org.uk
**tel:** 01603 430144

IN TRAN
communication for all

APP 1

Height of Market Land Values

| Address | Date | Size (Hectares | Size (Acres) | Planning Permission | Brownfield? | Price | Rate (£ per hectare) | Rate (£ per acre) | Comment |
|---|---|---|---|---|---|---|---|---|---|
| Site at Duke Street, Norwich | Jan-06 | 0.12 | 0.29 | 21 flats | Yes | £950,000 | £8,094,544 | £3,275,862 | Part of larger permission. 130 year lease |
| Old Laundry Court, Norwich | Mar-06 | 0.07 | 0.17 | 3 houses | Yes | £225,000 | £3,270,396 | £1,323,529 | |
| Bishop Bridge Road, Norwich | | 0.45 | 1.12 | 24 flats | Yes | £750,000 | £1,654,665 | £669,643 | |
| Wherry Road, Norwich | Aug-08 | 0.25 | 0.62 | 72 flats | Yes | £500,000 | £1,992,715 | £806,452 | Offer made |
| 321 Fakenham Road, Taverham | 2007 | 0.25 | 0.62 | 19 flats | Yes | £725,000 | £2,889,436 | £1,169,355 | Former filling station. Offer made but not accepted |
| Edward Street, Norwich | 2006 | 0.10 | 0.24 | 24 flats | Yes | £905,000 | £9,317,602 | £3,770,833 | |
| Bridge Farm, Costessey | Jan-07 | 0.83 | 2.06 | 7 houses, 4 flats | Yes | £1,100,000 | £1,319,448 | £533,981 | Close to gasometer |

APP 2

# Property Indicators

1. **Gross Mortgage Lending Figures**

| Year | Total £m |
|---|---|
| 2001 | £160,123 |
| 2002 | £220,737 |
| 2003 | £277,342 |
| 2004 | £291,249 |
| 2005 | £288,280 |
| 2006 | £345,355 |
| **2007** | **£362,758** |
| 2008 | £254,022 |
| 2009 | £143,276 |
| 2010 | £135,930 |
| **10 yr av** | **£247,907** |
| **5 yr av** | **£206,890** |

Source: Council of Mortgage Lenders

2. **Mortgage Produces Available**

| Year | No of Products |
|---|---|
| **2007** | **27,962** |
| 2008 | 3,405 |
| 2009 | 2,282 |
| 2010 | 2,516 |

Source: Council of Mortgage Lenders

3. **House Price Indices**

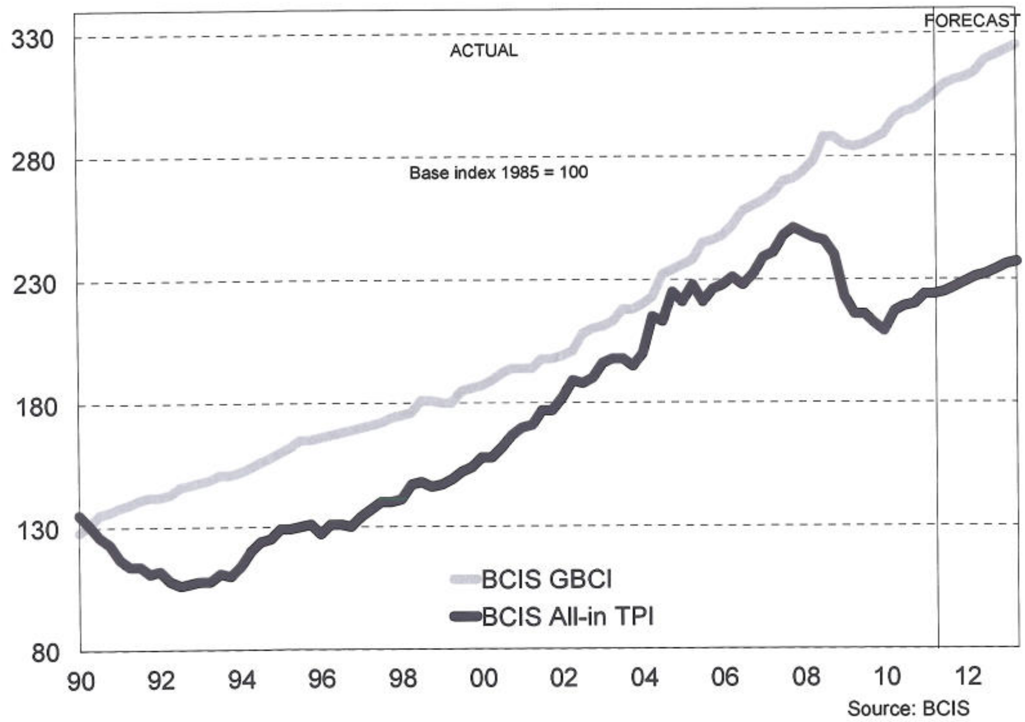
| Year | East Anglia | |
|---|---|---|
| | **Index** | **%** |
| 2000 | 279.7 | 16.0 |
| 2001 | 322.6 | 15.4 |
| 2002 | 386.0 | 19.6 |
| 2003 | 465.0 | 20.5 |
| 2004 | 522.3 | 12.3 |
| 2005 | 536.0 | 2.6 |
| 2006 | 581.1 | 8.4 |
| **2007** | **637.3** | **9.7** |
| 2008 | 600.8 | -5.7 |
| 2009 | 520.2 | -13.4 |
| 2010 | 540.9 | 4.0 |

**INDEX 1983 = 100**

Source: Halifax

APP 3

BCIS Tender and Cost Forecast



APP 4

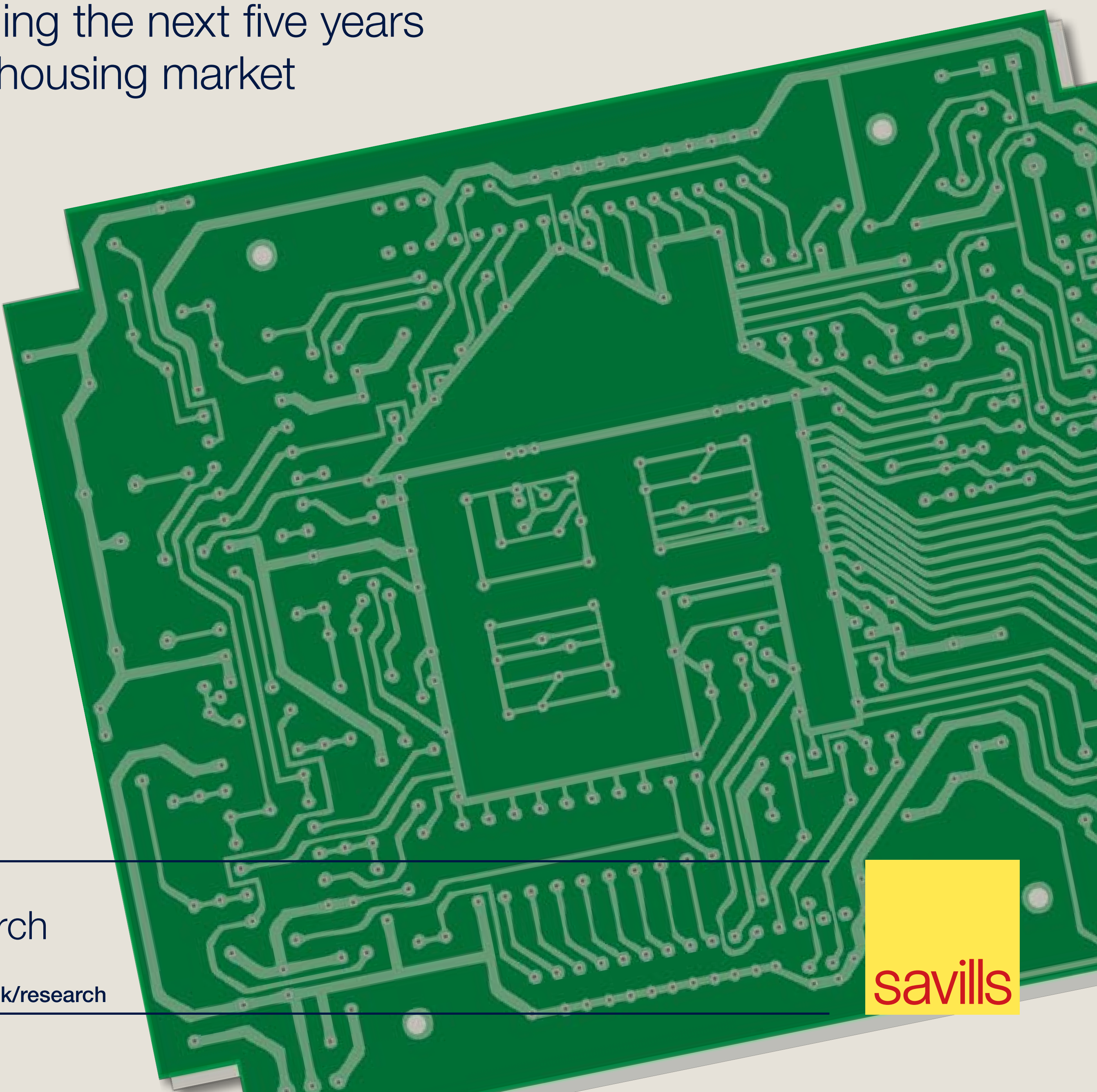


# Residential Property Focus

The **Forecasts** Issue

## Re-programmed: 2012-2016

Decoding the next five years of the housing market



Savills Research

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Foreword

# WHAT NEXT IN THE RE-PROGRAMMED ECONOMY?

Since we made our forecasts last year the world has changed, and we are making them this year viewing a dramatically altered economic outlook

**Our forecasts for the housing market are shaped by forecasts from Oxford Economics for economic growth, household incomes, base rates and all the other variables that go into our model of housing affordability.**

This host of variables is determined by their outlook for the global economy. This year, in common with virtually every other forecaster, they have been revising their outlook for growth consistently and constantly downwards. Expectations are now, at best, for continued lower growth rather than the gradual recovery predicted in 2010.

So we now find ourselves looking at a fundamentally altered national economic backdrop – and also a potentially confusing array of housing market indicators saying different things. Taken on an annual basis, house price movements in the 12 months to September varied according to which monitor you looked at. Rightmove said +1.5% while Land Registry and Hometrack said -2.6% and -3.5% respectively. Our index for prime central London property was saying +13.6% while our index of prime regional property showed –2.8%. Clearly, market behaviour has been complex.

There are three drivers at work in the market currently: 1. Overseas equity 2. Wealth created domestically and 3. Limited mortgage availability.

Prime central London is acting as a safe haven for global wealth so is growing. Prime South East markets and London-centric markets did benefit from city bonuses and financial sector recovery after March 2009 but are now waning. Elsewhere, there has been essentially no significant recovery since the markets fell in 2008 and transactions have been extremely low.

So the market has polarised in three directions: between the equity haves and have nots, between North and South and between prime and mainstream. No wonder different indices are saying different things. Understanding these differences helps shed light on the market.

Asking price indicators reflect the optimism of vendors rather than the price at which a property will actually transact. This is valuable in revealing the stickiness of supply that dogs the market. It shows how turnover is often the first casualty of a falling market as sellers withdraw (or let) their property when they can't achieve a desired price.

There is a difference between transactions involving a mortgage and those involving equity. Cash transactions are now a more significant proportion of the market than ever before. These transactions are not showing up in every index and are making the whole-market sample measured by Land Registry very different to what has gone before.

Valuation-based indices have a representative sample of all stock, not just the properties that are selling at any one time. They tend to pick up change earlier than others which have to wait for vendor's expectations to adjust and a transaction to take place. These indices outside London have picked up signs of further falls in property value and indicate vendors will have to adjust their expectations if they want to sell.

This forecast issue suggests how much these expectations may need to adjust over the next five years in different markets. ■

## Executive summary

### The key findings in this issue

■ Most property markets in the UK have not seen the recovery observed in the London-centric markets of southern England and have remained at low levels of growth and/or seen small falls since 2008.

■ We expect very low growth in average nominal house prices over the next five years. It is inflation that will continue to strip value from mainstream property over this time.

■ In the absence of widespread repossessions flooding the domestic markets, we see that turnover will remain the main casualty of this recession, with transaction levels staying at their all-time low level.

■ London and southern markets, and particularly prime markets, are different. They have seen a V-shaped recovery as opposed to the L-shape of other regions. This is because they are capable of being driven by buyers with large amounts of equity and low reliance on borrowing. The discretionary nature of these purchasers makes these markets more volatile however, and buyers withdraw when sentiment fails.

■ Prime London is different again as it belongs to a different class of world cities. The downside risks in this market are factors which diminish the creation of global wealth, such as commodity prices and appreciation in the sterling exchange rate. While global economic turmoil persists and the global rich seek a safe-haven store of wealth and a sterling-denominated currency play, prime central London property will prosper.

## Contents

04 UK mainstream market
06 Market forecasts
08 UK prime markets
10 Private rented sector
12 Housebuilding
14 Transactions

**Yolande Barnes**
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UK mainstream market

# INFLATION IS MAJOR THREAT TO VALUE

Due to weak economic growth and constrained access to mortgage finance, our forecasts predict low capital growth prospects for the mainstream market over the mid term

**Words by Lucian Cook**

**This time last year, we foresaw a turbulent time for mainstream house prices and anticipated that austerity measures in the economy would start to impact on household finances and home buyer confidence.**

These effects have indeed turned out to be negative, but not as damaging to values as we thought. The main casualty of the current housing market downturn has been transaction levels. Owners are simply not selling in the current climate and, with interest rates at manageable levels, are not forced to sell.

While these circumstances prevail and repossessed and distressed stock levels remain low, it is difficult to see the mechanisms by which widespread price falls will take place.

This means the shape of the mainstream housing market has changed rather more than house prices over the past 12 months.

In this article we argue that it is inflation, rather than nominal price falls that will erode housing value over the next few years.

## More equity, less debt

Transaction levels have been far lower than the pre-crunch norm for some four years now. Proportionately more equity and less debt has been used to buy property. This has led to relatively stable prices, with little upward or downward movement across the country as a whole.

In recent decades, average house prices have outgrown inflation by around 2.5% per annum. Due to the recent downturn though, there has been no real (inflation-adjusted) growth so that in real terms, average mainstream house prices now stand at 2003 levels.

## MAINSTREAM MARKETS

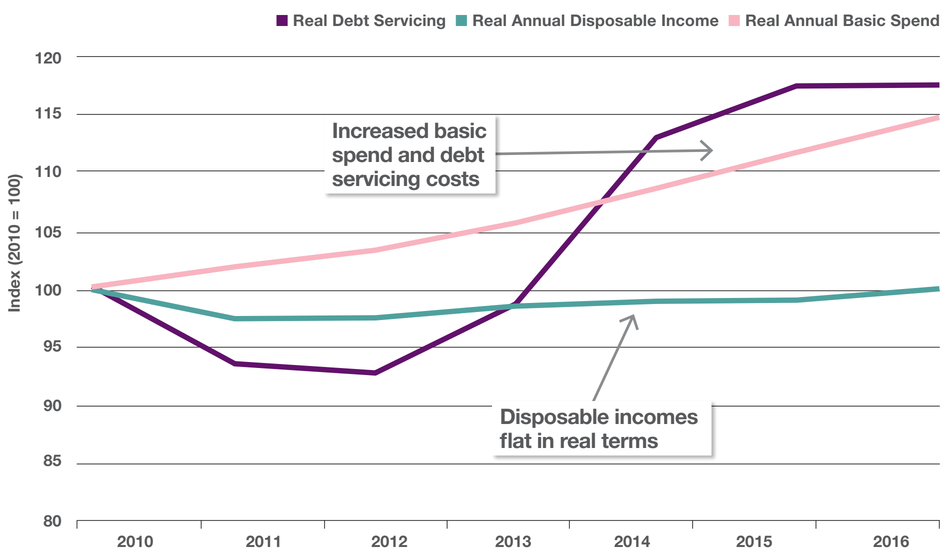
Five-year forecast values 2012-2016

| Forecasts | 2012 | 2013 | 2014 | 2015 | 2016 | Inflation-adjusted 5-year growth | Nominal 5-year growth |
|---|---|---|---|---|---|---|---|
| UK | -2.0% | 0.5% | 1.0% | 2.0% | 4.5% | -11.0% | 6.0% |
| London | -0.5% | 1.0% | 5.0% | 6.0% | 6.5% | 2.0% | 19.1% |

Graph source: Savills Research

GRAPH 1.1

### Components of Housing Affordability 2010-2016




Graph source: Oxford Economics, Savills Research

## ECONOMIC VIEW

Expectations for global economic growth now incorporate a 'second slip' over 2012 that wasn't there this time last year. The implications for the UK are that 2012 GDP, which was expected at around 2.5%, is now likely to be closer to 1%, provided Eurozone collapse and its wider economic implications are avoided. The resulting levels of unemployment will suppress household income growth and, in turn, suppress both household consumption generally and spending on housing in particular. Positively for the housing market, poor economic growth prospects serve to depress base rates and help prevent mass repossessions flooding the market.

This raises the question of whether austerity measures have created a new era for mainstream house prices, with the trend of inflation-busting house price growth firmly consigned to history.

## Affordability levels

With the economic outlook weakening over the past 12 months and forecasts for the recovery being pushed out further, the Bank of England is likely to maintain base rates at their historically low level for longer than expected.

Following the announcement of a further expansion of quantitative easing by £75 billion, our economic forecasters do not foresee any base rate increase before Q2 2013 at the earliest. This should have the effect of preserving affordability levels for longer, but it can no longer be relied upon to enable a return to real house price growth.

Our model of house price affordability is based on whether, after taking care of basic expenditure, households can afford the mortgage payments on the purchase of a new house. Through 2008 house price affordability soared as prices, levels of borrowing, and interest rates all fell, but we have already seen some of the affordability cushion built up during that period eroded by the rebound in house prices during 2009, high levels of inflation and flat real incomes.

## Growth constraint

A continuation of these factors combined with base rate rises further down the line, are likely to erode affordability further. This is likely to limit the capacity for price growth at a national level, with the lack of economic growth meaning the trigger for house price growth is also pushed back.

Taking all of the above into account our mainstream forecasts have been cut back since this time last year. At a national level, prices are forecast to remain flat. We are predicting total nominal growth of 6.0% in the average UK house price over the five year period covered by our forecasts.

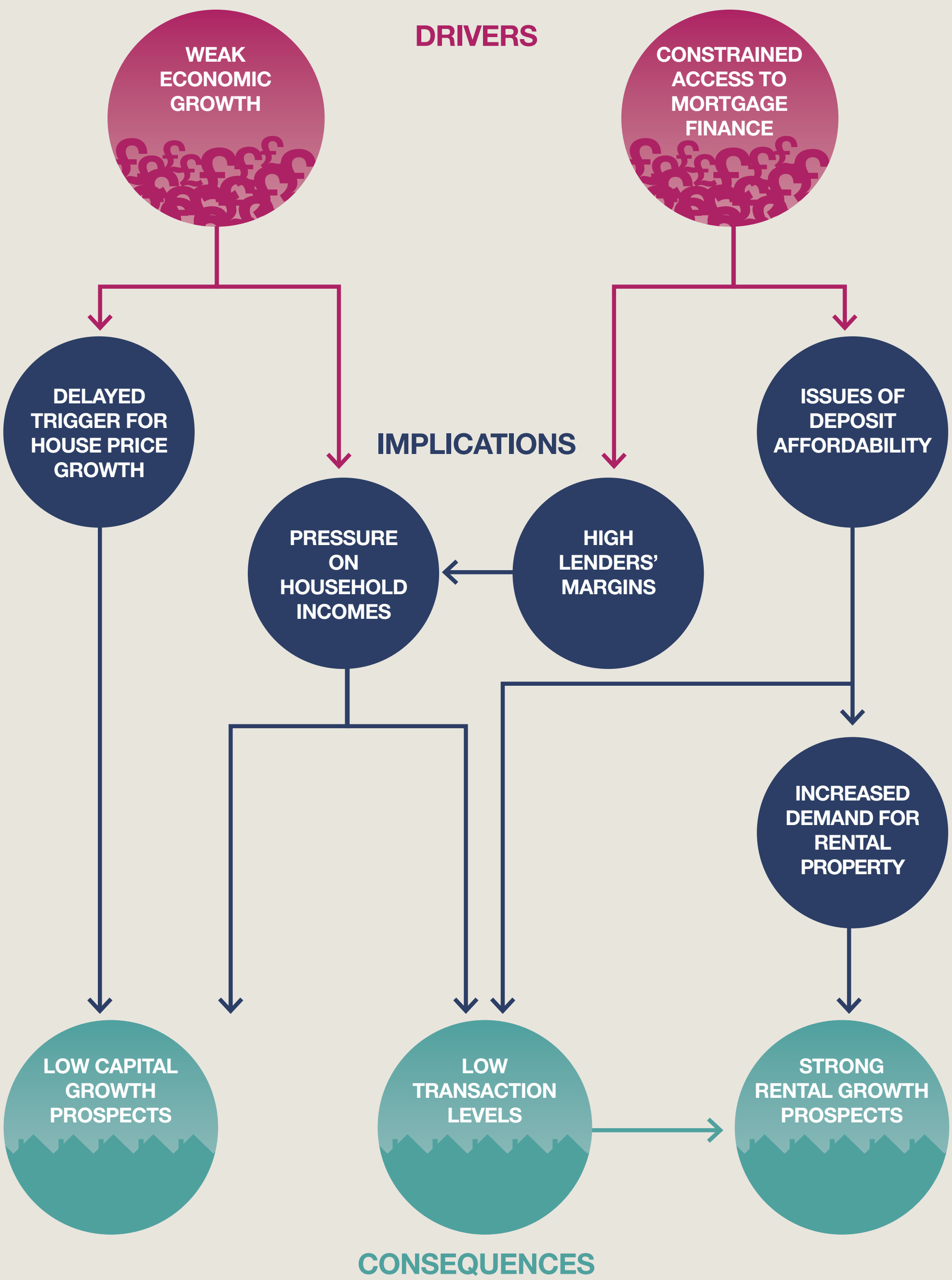
We expect the picture to vary geographically. Relatively strong five year price growth in London (19.1%) and the surrounding markets (South East 15.7% and East 14.1%) is expected on the back of stronger economic performance and a lesser reliance on mortgage finance. By contrast, northern regions are set to lag, seeing little to no growth (see page 6).

While real house price growth is likely to be put on hold for some time, it does not necessarily follow that it is consigned to the history books forever. At the end of 1995, inflation-adjusted house prices were at the same level they were 12 years previously. In the following decade they rose by 140% in real inflation-adjusted terms.

We now expect a period of necessary house price affordability correction that will push out yields and be a draw for investors. ■

FIGURE 1.1

**HOUSING MARKET FORCES 2012-2016** Drivers, implications and consequences



House price values

# MARKET FORECASTS

## PRIME MARKETS

Five-year forecast values, 2012-2016

| | Change from peak to date | 2012 | 2013 | 2014 | 2015 | 2016 | 5 years to 2016 |
|---|---|---|---|---|---|---|---|
| Prime Central London | 15.6% | 3.0% | 0.0% | 5.0% | 6.5% | 6.5% | 22.7% |
| Prime Regional | -16.6% | -3.0% | 2.5% | 4.0% | 5.5% | 5.5% | 15.1% |
| Prime South East | -12.5% | -2.5% | 3.0% | 6.5% | 6.5% | 6.5% | 21.3% |
| Prime South West | -20.8% | -3.5% | 2.0% | 4.0% | 4.5% | 5.5% | 12.9% |
| Prime East | -18.4% | -2.5% | 2.5% | 4.0% | 4.5% | 6.0% | 15.1% |
| Prime Midlands/North | -23.5% | -6.0% | 2.0% | 2.0% | 4.5% | 5.0% | 7.3% |
| Prime Scotland | -17.8% | -4.0% | 1.0% | 2.0% | 3.0% | 5.0% | 7.0% |

Source: Savills Research

## MAINSTREAM MARKETS

Five-year forecast values, 2012-2016

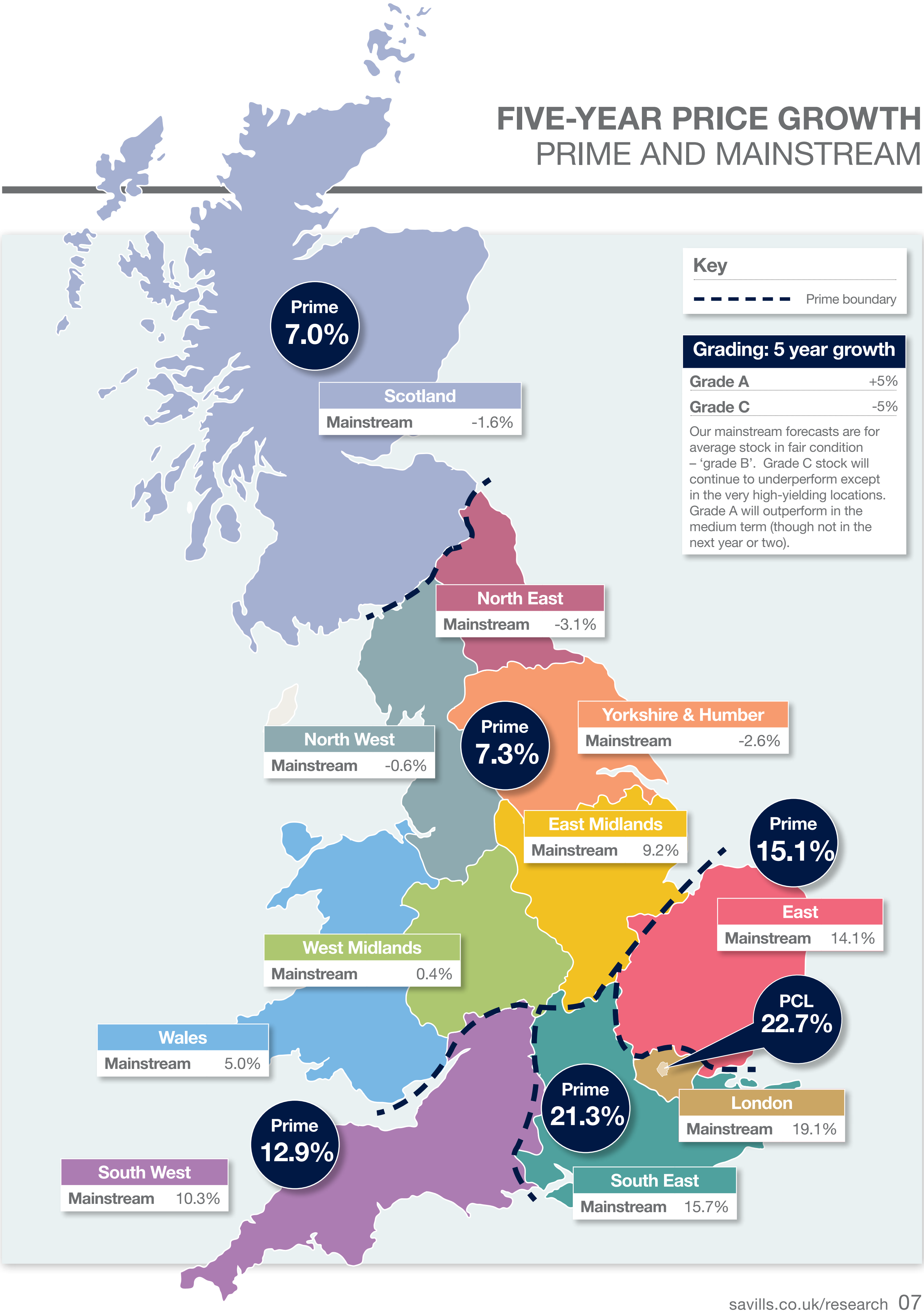
| | Change from peak to date | 2012 | 2013 | 2014 | 2015 | 2016 | 5 years to 2016 |
|---|---|---|---|---|---|---|---|
| UK | -9.5% | -2.0% | 0.5% | 1.0% | 2.0% | 4.5% | 6.0% |
| London | -2.9% | -0.5% | 1.0% | 5.0% | 6.0% | 6.5% | 19.1% |
| South East | -7.7% | -1.0% | 1.0% | 4.0% | 5.0% | 6.0% | 15.7% |
| South West | -8.0% | -1.5% | 0.5% | 2.5% | 3.5% | 5.0% | 10.3% |
| East | -9.1% | -1.0% | 1.0% | 3.5% | 4.5% | 5.5% | 14.1% |
| East Midlands | -10.3% | -1.5% | 0.5% | 2.0% | 3.0% | 5.0% | 9.2% |
| West Midlands | -10.6% | -2.0% | -1.0% | 0.0% | 0.0% | 3.5% | 0.4% |
| North East | -13.3% | -2.5% | -1.5% | -1.5% | -0.5% | 3.0% | -3.1% |
| North West | -14.0% | -2.0% | -1.0% | -1.0% | 0.0% | 3.5% | -0.6% |
| Yorks & Humber | -12.2% | -2.0% | -1.5% | -1.0% | -1.0% | 3.0% | -2.6% |
| Wales | -10.4% | -2.0% | 0.5% | 0.5% | 1.5% | 4.5% | 5.0% |
| Scotland | -9.6% | -4.0% | 0.0% | 0.0% | 0.5% | 2.0% | -1.6% |

**Annual house price growth key:**

Below 0% | 0% to 2% | 2% to 4% | 4% to 6% | 6% to 8% | 8% and over

Source: Savills Research forecasts based on Nationwide actuals

# FIVE-YEAR PRICE GROWTH
## PRIME AND MAINSTREAM



Prime markets

# WORLD CLASS WINNERS

The prime markets of central London and the rest of the UK are currently heavily reliant on economic factors and the comparative strength of both overseas and domestic equity

Words by
Yolande Barnes

**The prime markets in London and the rest of the UK have historically always been driven by the availability of equity rather than borrowing. This has made them particularly resistant to the recent downturn in mainstream markets but there is a question over whether this can continue.**

Strong buyer sentiment and the availability of equity to prime buyers has meant that prime country house prices rose significantly after March 2009. In London, the impact of equity purchasers, particularly from overseas, has been even more pronounced. We estimate that, in the 18 months to June this year, a net £6 billion flowed into the second-hand and new-build markets of prime London from overseas sources. This contributed to a 12.7% increase in prime central London values during the first three quarters of 2011.

Prime London has been largely immune to the malaise that has hit mainstream property markets over the last year or so. Prime regional markets have been less protected though and changes in local economies have suppressed sentiment outside London so that prime regional values have fallen in line with mainstream markets, by -2.4% over the nine months to September 2011.

Despite the widening price gap between town and country, there seems to be an increasing reluctance among Londoners to move out of the capital and so we have seen a 24% drop in this type of relocation activity. If the equity doesn't migrate from London, prime country markets will remain suppressed.

TABLE 3.1

### The global outlook

| Forecast for | Forecast as at | |
|---|---|---|
| | Autumn 2010 | Autumn 2011 |
| Eurozone Economic Growth 2012 | 1.7% | 0.6% |
| Middle East Economic Growth 2012 | 5.3% | 4.4% |
| Eastern Europe Economic Growth 2012 | 5.3% | 3.5% |

Table source: Oxford Economics

TABLE 3.2

### Outlook for London has weakened

| Measure for Greater London | Forecast for | Forecast at | |
|---|---|---|---|
| | | Autumn 2010 | Autumn 2011 |
| Financial Services Economic Growth | 2011 | 2.9% | -4.2% |
| | 2012 | 4.4% | 3.0% |
| Financial Services Employment Growth | 2011 | 0.4% | -1.0% |
| | 2012 | 0.9% | 0.9% |
| Business Services Economic Growth | 2011 | 4.7% | 0.7% |
| | 2012 | 5.4% | 4.1% |
| Business Services Employment Growth | 2011 | 0.7% | -1.2% |
| | 2012 | 2.6% | 1.7% |

Table source: Oxford Economics

## Personality divide

Meanwhile, the prime London market itself is also experiencing a personality divide. On the one hand, the more 'domestic' prime markets of south west London and locations such as Islington are more reliant upon earnings and employment in the Capital's financial and business services sector.

On the other hand, there is an enormous amount of overseas wealth coming to the capital. High commodity prices and growth in emerging economies are creating international billionaires and multi-millionaires at an unprecedented rate. Many of these ultra high net worth individuals are attracted to the prime London markets. Some come because they are based here but others see a London property as part of a portfolio of must-have real estate.

They are attracted by the UK's political, financial and legal stability and see the City as a 'safe haven' store of wealth. They are also attracted at present by low rates of exchange and some may see a sterling denominated asset as a longer term currency play.

This state of affairs is not uncommon in a market which has seen regular influxes of global wealth in past decades but it does mean that PCL markets have been more volatile

## PRIME MARKETS
Five-year forecast values

| Forecasts | Change from peak to date | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Prime Central London | 15.6% | 3.0% | 0.0% | 5.0% | 6.5% | 6.5% |
| Prime South East | -12.5% | -2.5% | 3.0% | 6.5% | 6.5% | 6.5% |

Data source: Savills Research

as this activity has ebbed and flowed. What is different today is the relative lack, and little immediate prospect, of large amounts of wealth being created in the City of London and finding its way into the residential real estate markets as the result of a strong domestic economy. In the absence of the influx of overseas equity, prime London would probably be undergoing a similar fate to prime property in the rest of the country.

Further growth in the central London market is dependent on it continuing to defy – or even benefit from – the pressures on the global economy. On the one hand, greater uncertainty encourages the search for a safe haven for wealth while on the other, there comes a point where a slowdown, prevents new wealth being generated and shrinks the pool of potential buyers.

While the Eurozone may be teetering on the brink of a double-dip recession, the outlook in other parts of the world is more favourable. Economic forecasts for the Middle East, Asia and Eastern Europe have been 'trimmed' but they are more positive than for the US and Eurozone so we anticipate that buyers from these regions will drive demand in the medium term (see Table 3.1).

The health of the Eurozone affects the more family-oriented London prime markets such as south west London, where many households are employed in the financial and business services sector (see Table 3.2 for London outlook). So far, these markets remain unsupported by large-scale city bonuses. The latest estimates from the Centre for Economic and Business Research suggests the 2011/12 bonus pool will shrink to about 62% of what is was in 2007 and be paid out over several years.

### Global city fundamentals

We have already highlighted the volatile nature of prime central London and a lull in this market is to be expected at some point. On balance, we believe the influx of global wealth in uncertain times still has some time to run and may even be boosted by the international attention that London will receive in the run-up to the 2012 Olympics. We have therefore forecast continued, but lower, prime central London growth next year with a short-lived downward blip in the final quarter before growth resumes later in 2013, driven by strong global city fundamentals and an improving domestic economy.

The prospect of a lull in London will do little to improve sentiment in the prime markets beyond London, but the gap between London and country prices is wide and makes prime property outside the M25 look comparatively good value.

To date, the markets which are completely divorced from London (the Midlands, the North and Scotland) have been the slowest to recover. That is set to continue. ■

"We believe the influx of global wealth in uncertain times still has some time to run"

Yolande Barnes, Savills Research

## LONDON'S PRIME WILL GROW AGAIN

### PCL property set to perform on a par with UK gilts

Over the next five years, we expect the capital value growth of prime central London residential assets to outperform many commodities markets and perform in line with West End offices and UK gilts, with additional rental growth on top.

In an investment world searching for yield and security there are few options for investors. As illustrated in the table below, capital growth in the non-yielding commodities such as gold could come a long way behind our forecasts for prime central London residential property, which is increasingly heralded as a store of value in uncertain times.

UK property is also a sterling-dominated asset, which makes it look cheaper by international standards and can be particularly attractive to overseas investors looking for an additional currency play.

We even expect UK mainstream residential property to look attractive in the medium to long term. Historically, gold has been the asset of choice during economic uncertainty but Oxford Economics predicts, as do others, that the price of it and other commodities will fall at some point. The income-producing nature of residential real estate as well as the potential for real-world added value and sound capital growth prospects means that the case for housing investment looks increasingly supportable.

TABLE 3.3

### Relative performance of different asset classes

| Rank | Asset class | 5yr growth to 2016 |
|---|---|---|
| 1 | Dow Jones Global Index | 49.3% |
| 2 | West End Offices | 26.8% |
| 3 | UK 10-yr gilts | 24.3% |
| 4 | Prime central London | 22.7% |
| 5 | Oil | 10.9% |
| 6 | UK residential mainstream | 6.1% |
| 7 | Non-fuel primary commodities | 0.3% |
| 8 | Gold | -37.1% |

Forecaster: 4,6 Savills Research / 1,3,5,7,8 Oxford Economics / 2 IPD

Private rented sector

# RENTAL GROWTH IN A GROWING MARKET

A marked increase in the demand for rental property has caused a shortage in supply, consequently rental values are growing at a far faster rate than capital values across the UK

**Words by Yolande Barnes**

**Even though we have long been advocates of residential property investment in the private rented sector, this has until recently been predicated chiefly on the expectation of increased capital value.**

Now, in the face of increased rental demand, a shortage of property to rent is currently pushing up rents at a rate faster than capital values across the UK. According to findaproperty.com asking rents rose by 4.6% in the year to the end of September, while the LSL buy-to-let index suggests rental movements of 3.5% over the same period.

There is a growing demand for rental property as more newly formed households look to rent, more first time buyers choose to delay or are prevented from making a purchase and economic constraints push more people from home ownership into rented accommodation.

This scenario is unlikely to change for as long as mortgage finance remains scarce and first time buyer deposits are unaffordable.

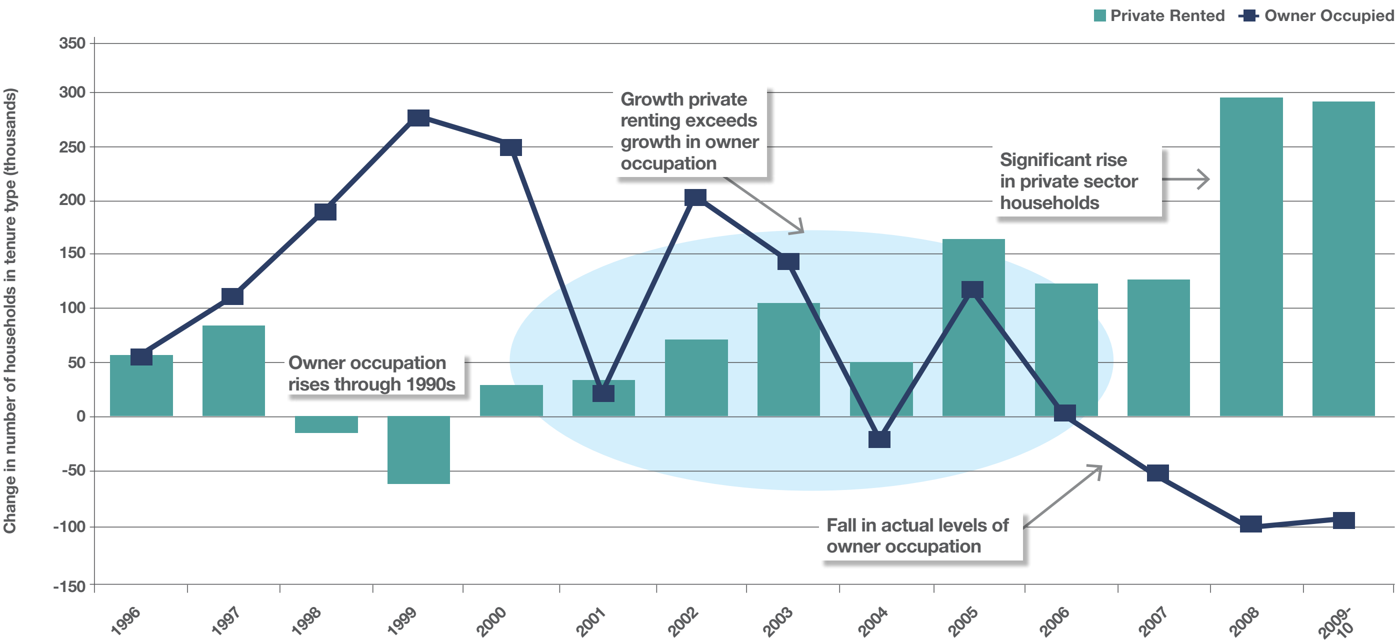
The recent low levels of investment in the residential sector means available property to rent is scarce. Demand for mortgage finance among buy-to-let investors is rising, but the level of new lending in this sector remains heavily suppressed. In the second quarter of 2011 gross buy to let mortgage lending was just 28% of its level at the peak of the market.

Large scale portfolio investment, which has the potential to significantly expand the rented sector, has garnered significant interest; but is yet to bear

> "Large scale portfolio investment for the rented sector has garnered significant interest"
> Yolande Barnes, Savills Research

GRAPH 4.1

**The rise in renting** Change in owner occupied and private rented households in England




Graph source: CLG

## RENTAL MARKETS
Five-year forecast values

| Forecasts | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2012-2016 |
|---|---|---|---|---|---|---|---|
| Prime London | 8.0% | 4.0% | 5.0% | 5.0% | 5.5% | 5.5% | 27.6% |
| UK Mainstream | 4.0% | 3.0% | 3.5% | 3.5% | 4.5% | 4.5% | 20.5% |

Source: Savills Research

fruit. Much of this comes down to investors' views of income yields rather than the positive look for cashflows.

In London and the South East where capital values remain relatively high the supply-demand imbalances between renters and available property to rent are greatest. Higher yielding properties favoured by investors are simply in lower supply there.

This sticky supply-side is key to our prognosis that rents will rise by over 20% across the country as a whole over the next five years. Were it not for the constraints of affordability, this forecast would be even higher.

This level of rental growth has the effect of maintaining average UK rents at 38% of net disposable household income which is slightly higher than their 10-year average but in line with where they were at the turn of the millennium. By this yardstick, rental 'affordability', a term which we expect will assume increasing significance, will not worsen under this scenario.

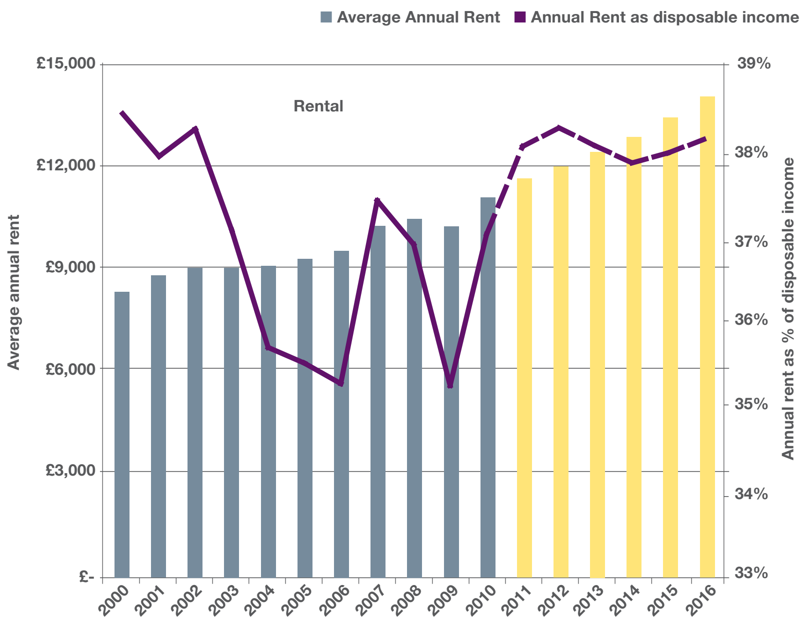
### Upward yield shift

Rental growth of this level would see the headline gross yield on residential stock increase from 5.0% to 5.7%. In areas of weak owner occupier demand, where yields start from a higher base, we expect an even greater upward yield shift.

This means one and two-bedroom properties in secondary and tertiary locations should begin to stand up as income yielding investments, when compared to alternative asset classes over the next five years. ■

GRAPH 4.2

**The rise of rents** Rental affordability




Graph source: Savills Research, IPD

## FORECAST OF TENURE PATTERNS

### Private renting set to increase to 20% of households by 2015/16

The summer issue of Residential Property Focus outlined in depth how the structure of the housing market has changed, and how the number of owner occupiers has been falling since the early Noughties while the private rented sector has grown.

The increased movement of new households into private renting and movement of former owner occupiers into the rented sector have exacerbated this trend in the post credit crunch environment of rationed mortgages. According to the Survey of English Housing, the number of households in private rented accommodation rose by just under 290,000 between 2008/09 and 2009/10.

We expect this to continue such that private renting will rise from 15.6% of all households in England in 2009/10 to 20% of households by 2015/16.

## INVESTMENT CREDENTIALS

### Residential investment activity will increase

UK investors in residential property have come to expect that capital growth will provide the bulk of their returns. In the last decade, total returns on standing residential investment portfolios have been 10.1% according to IPD's analysis of the sector. Most of this return (6.2%) has been the result of rising capital values – despite the 2008 downturn. Only 3.7% has been net income from rents.

This does not mean rents have been static over this period, it's just that (more volatile) capital values have grown much more. Indeed, rental growth on commercially managed residential properties has been greater than in other commercial property asset classes in the past three years.

As average UK rents increase in the future at a rate faster than average capital values, income yields will continue to move out. This should increase the attractiveness of the sector to investors, particularly those looking for strong income-producing assets with growth potential and should be the catalyst for increased institutional and other residential investment.

Consequently, we expect activity in the residential investment sector to start its ascendency next year.

Housebuilding

# TURNING UP THE VOLUME

The shortfall in the supply of new build housing is widening, but is it possible for development volumes to increase to the levels that are necessary?

Words by
Jim Ward

**Build rates for new homes are now running at less than half the levels required. This may be good news for homeowners, lenders and investors as it supports existing house prices, but in economic and social terms it is potentially disastrous.**

New young working households, expanding families and older households looking for living space are not finding the homes they need.

The Government has acknowledged this much in the draft National Planning Policy Framework and, undoubtedly, we will be reading more on this subject in the Government's Housing Strategy when it is published later this year.

## Financial viability

The draft planning framework emphasises how the planning system should respond to signs of unmet demand with the sustainable development of new places.

Furthermore, for meeting housing requirements, it strengthens the need for local planning authorities to identify and maintain a supply of deliverable sites to meet locally identified housing requirements.

The limited financial viability of development has prevented significant volumes of land coming forward for new housing. Since 2007, new planning consents have been granted for 487,000 new homes in England, yet development has started on only 333,000 new dwellings during the same period (see Graph 5.1).

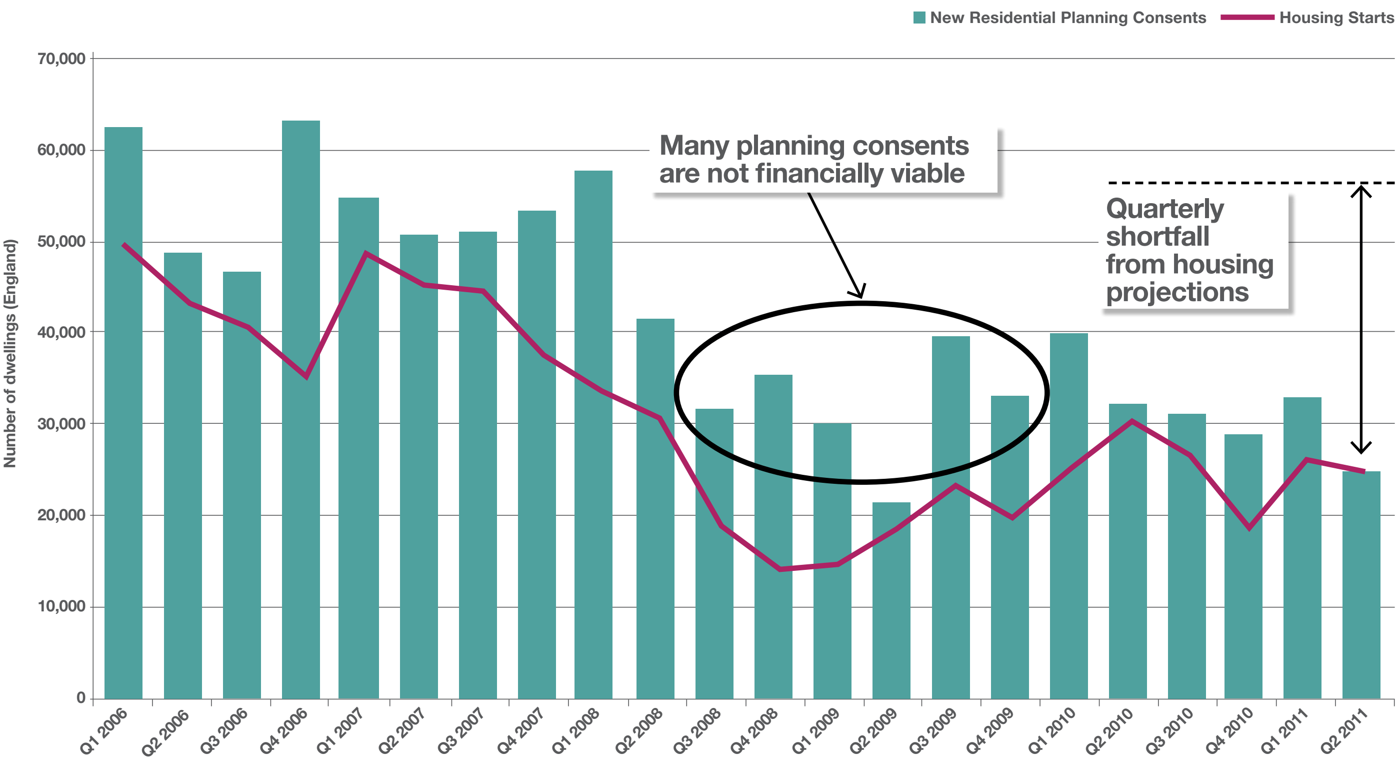
The principal constraint on the financial viability of land is a reduced market capacity brought about by the limited availability of mortgage finance. New homes registrations have fallen by 41% since 2007, in line with the fall in market transactions as outlined on page 14 of this report.

## Public sector support

Volumes of new housing would have fallen much further, except for public sector funding of affordable housing. Spending by both the Labour and Coalition governments supported shared equity loans to first time

GRAPH 5.1

**Residential permissions and starts in England**




Graph source: Glenigans for HBF, CLG

Build rates for new homes are now running at half the levels required.

buyers of new homes via Homebuy Direct and FirstBuy, while Kickstart unlocked the development of 18,500 homes on stalled schemes.

The public purse does not have the capacity to be the sole provider of the funds needed for a substantial increase in development volumes, particularly since Government spending on housing has been cut by more than 70% since the Comprehensive Spending Review. Future funding could come from a number of sources, which include the following.

## 1. A review of planning obligations

A rising proportion of affordable housing was delivered as part of developers' planning obligations (conditions of the planning consent) during the 2002-06 period, reaching more than half of all affordable housing in 2005-06.

Their contribution has barely changed. This worked during a time of rising house prices and land values by creating a 'viability cushion' for developers. Since the market downturn, and until recently, central government grants have supported viability, but at much reduced development volumes.

In the new age of public sector austerity, Government spending on housing is insufficient to expand development volumes. Today the 'viability cushion' is thin and often non-existent, particularly on larger sites with high costs of development and long cashflow.

Given our forecasts of slower and delayed recovery in house prices and rates of sale, the return of a significant supply from this sort of planning obligation provision is unlikely.

For development volumes to rise significantly, policy should allow for land to come forward from willing landowners for development by willing developers.

It is important this is a guiding principle of the viability testing of charging schedules for Community Infrastructure Levy and other planning obligations, which once fixed is non-negotiable at a site level.

"Government spending on housing is insufficient to expand development volumes."

Jim Ward, Savills Research

# FILLING THE GAP WITH PRIVATE RENTED STOCK

## Can the rental investor fill the demand for new build housing?

Given the limited extent to which we can rely on a recovery in mortgage transactions, there is a clear role for the private rented sector to fill the gap in demand for new build housing. We expect the private rented sector to expand to 20% of housing stock in England by the end of 2016 (see page 11).

The key variable is the price at which investors are prepared to buy new homes from developers. In the past, individual buy-to-let investors have bought at prices close to the price paid by owner occupiers, or early 'off-plan' at a discount. As these investors, constrained by more risk averse mortgage lending, have faded into the background, professional investors, including property companies and institutions have been the main driver of the investor market. These investors appraise their acquisitions with reference to income return and rental growth prospects and in some markets make their purchases at substantial discounts to owner-occupied values. The gap is greatest where rental demand and rental growth prospects are weakest and conversely at its narrowest in strong markets.

This is the new reality of residential development viability and needs to be understood by developers. On many larger sites, most notably in urban areas where tenant demand is high, market absorption will depend on substantial investor acquisition at discounts to owner occupied values.

## 2. The use of surplus public sector land

Surplus public sector land offers a significant way of breaking out of the viability deadlock, because of the opportunity to release land at a value that allows wider policy objectives to be met. The Government has recently announced its intention to release sufficient public land to deliver 100,000 new homes by 2015.

The success of this strategy depends on whether the 'Government department landowner' is more interested in the delivery of new places than the realisation of cash receipts. If it is the former, then value can be realised over a longer timeframe and is therefore more likely to be immediately viable. If landowners remain wedded to the latter it is unlikely that land can be brought forward at scale in any but the highest value markets. ■

Transactions

# SHORTFALL IN ACTIVITY WIDENS

## Activity this year predicted to be just over 50% of level before the crunch

TABLE 6.1

**Projected level of transactions** (in 000s)

| | Transactions | Previous 10 year average | Shortfall | Cumulative Shortfall |
|---|---|---|---|---|
| 2007 | 1,613 | 1,684 | 71 | 71 |
| 2008 | 901 | 1,684 | 783 | 853 |
| 2009 | 859 | 1,684 | 825 | 1,678 |
| 2010 | 886 | 1,684 | 798 | 2,476 |
| 2011 | 856 | 1,684 | 828 | 3,303 |
| 2012 | 863 | 1,684 | 821 | 4,124 |
| 2013 | 880 | 1,684 | 804 | 4,928 |
| 2014 | 912 | 1,684 | 772 | 5,699 |
| 2015 | 967 | 1,684 | 717 | 6,416 |
| 2016 | 1,047 | 1,684 | 637 | 7,053 |
| Total | 9,784 | 16,837 | 7,053 | 7,053 |

Table source: HMRC

**Transactional activity remains the weakest feature of the UK residential market. We anticipate that, by the year end, around 850,000 residential sales will have completed, which is just over 50% of the level recorded annually prior to the credit crunch.**

Owners are simply not selling in the current climate and, with interest rates at manageable levels, are not forced to sell leaving repossessed and distressed stock levels low.

This weakness is most pronounced in the mortgage-dependent markets, which tend to be the lower value markets. Conversely, the higher value markets, where equity rich buyers are most prevalent, are the markets in which transactional activity has been strongest.

We estimate that, in the 18 months to June this year, a net £6billion flowed into the second hand and new-build markets of prime London from overseas sources alone; these buyers tend not to sell in order to buy reducing the pool of property available. Also this year, there has been reluctance among Londoners to move out of the capital leading to a 24% drop in this type of relocation activity.

Looking ahead, the strength of recovery in transactions will be determined by the volume of mortgage lending available for house purchases.

Reduced expectations for house price growth may well temper the willingness of banks and building societies to lend and the prospect of tighter restrictions on lending, in light of the ongoing global financial stress, will doubtless affect their capacity to do so.

This points to a slower and later recovery in transaction volumes meaning that in the 10 years to the end of 2016 transaction levels could be seven million fewer than in the preceding 10 years. ■

## Please contact us for further information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APP 5



# Chapter 6

## Conclusions

This update to previous analysis of the costs of associated with achieving different standards of the Code for Sustainable Homes refines the analysis by:

- Considering the relative costs on four discrete development scenarios
- Incorporating a more detailed analysis of the costs associated with achieving the minimum energy standards required at each level including for Code Level 6.
- Adjusting the analysis of some Code categories to reflect the detail of the September 2007 Code technical guide
- Assessing the potential for reduction in cost over time

This revised analysis shows that the costs of achieving the higher code levels can vary quite substantially as a result of dwelling type, development type and site characteristics (e.g. ecological value and flood risk). The range in per dwelling cost estimates varies from £19k to £47k per unit. Lowest costs are typically seen for those developments where there is potential to use site wide carbon saving technologies (e.g. CHP systems), these are typically sites with relatively high numbers and densities of development. Nonetheless, in the absence of medium/large scale wind solutions it is necessary to make extensive use of microgeneration technologies (e.g. PV) to achieve the standards required at level 6.

The costs of achieving the specific energy standards required level 6 are typically higher than those associated with achieving zero carbon status (without the need for a heat loss parameter of less than 0.8 $w/m^2$ K). This is because of the cost associated with the additional thermal efficiency measures and the impact of reduced heat demand on the carbon savings arising from CHP systems. Where it is possible to utilise medium/large scale wind turbines on site (or connected via a private wire) costs are expected to be substantially lower than for the approaches detailed in this analysis (assuming the distance of private wire required is not prohibitively expensive).

It is expected that costs of compliance will fall over time and that by 2016 they could have reduced by between 16 and 25 per cent depending on Code level.

**Table 5.2:** End terraced house cost estimate for 2016

| CSH Level | Mandatory (£) | Energy (£) | Water (£) | Flexible (£) | Total cost (£) | Cost £ per m² | Percentage increase on 2006 Building Regs |
|---|---|---|---|---|---|---|---|
| **Best Case (Market Town scenario with low ecological value and low flood risk)** | | | | | | | |
| 1 | £490 | £248 | £0 | £0 | **£738** | £7 | 1% |
| 2 | £490 | £1,483 | £0 | £0 | **£1,973** | £20 | 3% |
| 3 | £490 | £3,323 | £101 | £20 | **£3,934** | £39 | 5% |
| 4 | £490 | £6,404 | £101 | £860 | **£7,855** | £78 | 10% |
| 5 | £490 | £10,624 | £2,126 | £1,150 | **£14,390** | £142 | 19% |
| 6 | £490 | £18,368 | £2,126 | £1,490 | **£22,475** | £223 | 30% |
| **Medium Case (Market town scenario with medium ecological value and low flood risk)** | | | | | | | |
| 1 | £490 | £248 | £0 | £0 | **£738** | £7 | 1% |
| 2 | £490 | £1,483 | £0 | £0 | **£1,973** | £20 | 3% |
| 3 | £490 | £3,323 | £101 | £70 | **£3,984** | £39 | 5% |
| 4 | £490 | £6,404 | £101 | £860 | **£7,855** | £78 | 10% |
| 5 | £490 | £10,624 | £2,126 | £1,490 | **£14,730** | £146 | 20% |
| 6 | £490 | £18,368 | £2,126 | £2,700 | **£23,685** | £235 | 31% |
| **Worst Case (Small scale scenario with high ecological value and medium/high flood risk)** | | | | | | | |
| 1 | £490 | £248 | £0 | £0 | **£738** | £7 | 1% |
| 2 | £490 | £1,483 | £0 | £70 | **£2,043** | £20 | 3% |
| 3 | £490 | £3,524 | £113 | £860 | **£4,987** | £49 | 7% |
| 4 | £490 | £5,292 | £113 | £1,150 | **£7,045** | £70 | 9% |
| 5 | £490 | £11,431 | £2,363 | £2,700 | **£16,984** | £168 | 23% |
| 6 | £490 | £21,751 | £2,363 | £3,690 | **£28,293** | £280 | 38% |

This predictive (and therefore uncertain) analysis suggests that while substantial cost reductions are achievable by 2016 there will still be a sizeable increase in overall capital costs in comparison to the current benchmark. In 2016, the majority of the additional costs are still likely to be associated with the achievement of energy standards. The proportion of these total costs directly attributable to the Code (rather than to Building Regulations) will reduce as building regulations become progressively tighter.

# Chapter 4

## Estimated costs in 2008

Tables 4.1 to 4.3 show the estimated 2008 costs of compliance for each level of the Code for the detached house, end terraced house and flat under the best, medium and worst case scenarios described in Section 3, in all cases it is assumed that no electricity generation from wind turbines is possible at any scale[9]. The results for the mid terrace house are very similar to those for the end terrace and are not presented separately.

As well as presenting the overall costs of compliance, the costs are broken down into the mandatory entry level code requirements, the minimum standards for energy and for water and the remaining flexible credits required to achieve the credits threshold at each Code level.

**Table 4.1:** Detached house

| CSH Level | Mandatory (£) | Energy (£) | Water (£) | Flexible (£) | Total cost (£) | Cost £ per m² | Percentage increase on 2006 Building Regs |
|---|---|---|---|---|---|---|---|
| **Best Case (Market town scenario with low ecological value and low flood risk)** | | | | | | | |
| 1 | £490 | £275 | £0 | £0 | **£765** | £7 | 1% |
| 2 | £490 | £1,648 | £0 | £50 | **£2,188** | £19 | 2% |
| 3 | £490 | £3,916 | £125 | £220 | **£4,751** | £41 | 5% |
| 4 | £490 | £9,868 | £125 | £1,110 | **£11,593** | £100 | 13% |
| 5 | £490 | £17,132 | £2,625 | £1,600 | **£21,847** | £188 | 24% |
| 6 | £490 | £32,752 | £2,625 | £1,950 | **£37,817** | £326 | 41% |
| **Medium Case (Market town scenario with medium ecological value and low flood risk)** | | | | | | | |
| 1 | £490 | £275 | £0 | £0 | **£765** | £7 | 1% |
| 2 | £490 | £1,648 | £0 | £120 | **£2,258** | £19 | 2% |
| 3 | £490 | £3,916 | £125 | £460 | **£4,991** | £43 | 5% |
| 4 | £490 | £9,868 | £125 | £1,250 | **£11,733** | £101 | 13% |
| 5 | £490 | £17,132 | £2,625 | £1,950 | **£22,197** | £191 | 24% |
| 6 | £490 | £32,752 | £2,625 | £2,950 | **£38,817** | £335 | 43% |
| **Worst Case (Small scale scenario with high ecological value and medium/high flood risk)** | | | | | | | |
| 1 | £490 | £275 | £0 | £30 | **£795** | £7 | 1% |
| 2 | £490 | £1,648 | £0 | £585 | **£2,723** | £23 | 3% |
| 3 | £490 | £3,916 | £125 | £1,110 | **£5,641** | £49 | 6% |
| 4 | £490 | £10,914 | £125 | £2,000 | **£13,529** | £117 | 15% |
| 5 | £490 | £22,367 | £2,625 | £3,350 | **£28,832** | £249 | 32% |
| 6 | £490 | £40,228 | £2,625 | £4,190 | **£47,533** | £410 | 52% |

[9] On sites where medium or large scale wind technologies are suitable overall compliance costs would be expected to be significantly lower.

Communities and Local Government

# Cost Analysis of The Code for Sustainable Homes

**Final Report**

July 2008

Department for Communities and Local Government

APP 6

# SENSITIVITY ANALYSIS REPORT — SAVILLS

**GNDP CIL**
**Norfolk**

## Table of Land Cost and IRR%

| Sales: Rate pf² | | | | |
|---|---|---|---|---|
| -10.00 pf² | -5.00 pf² | 0.00 pf² | +5.00 pf² | +10.00 pf² |
| (£3,538,074)<br>20.0416% | (£4,061,712)<br>19.8100% | (£4,585,349)<br>19.5950% | (£5,108,988)<br>19.3949% | (£5,632,625)<br>19.2081% |

## Sensitivity Analysis : Assumptions for Calculation

**Sales: Rate pf²**
Original Values are varied in Fixed Steps of £5.00

| Heading | Phase | Rate | No. of Steps |
|---|---|---|---|
| Phase 1 Open Mkt Houses | 1 | £190.00 | 2 Up & Down |
| Phase 1 Open Mkt Flats | 1 | £200.00 | 2 Up & Down |
| Phase 2 Open Market Houses | 3 | £190.00 | 2 Up & Down |
| Phase 2 Open Mkt Flats | 3 | £200.00 | 2 Up & Down |
| Phase 3 Open Mkt Houses | 4 | £190.00 | 2 Up & Down |

APP 7

# Savills (L&P) Ltd

## Development Appraisal

GNDP CIL

Norfolk

Report Date: 14 November 2011

Prepared by Savills

**GNDP CIL**
**Norfolk**

**Timescale (Duration in months)**

Project commences Apr 2012

Phase 1: Phase 1 (Open Mkt 44 plots)

| Stage Name | Duration | Start Date | End Date | Anchored To | Aligned | Offset |
|---|---|---|---|---|---|---|
| Phase Start | | Apr 2012 | | | | |
| Pre-Construction | 5 | Apr 2012 | Aug 2012 | Purchase | End | 0 |
| Construction | 18 | Sep 2012 | Feb 2014 | Pre-Construction | End | 0 |
| Sale | 24 | Apr 2013 | Mar 2015 | Income Flow | End | -11 |
| Phase End | | Mar 2015 | | | | |
| **Phase Length** | **36** | | | | | |

Phase 2: Phase 1 (Affordables - 60 plots)

| Stage Name | Duration | Start Date | End Date | Anchored To | Aligned | Offset |
|---|---|---|---|---|---|---|
| Phase Start | | Apr 2012 | | | | |
| Construction | 18 | Apr 2012 | Sep 2013 | Pre-Construction | End | 0 |
| Sale | 1 | Oct 2013 | Oct 2013 | Income Flow | End | 0 |
| Phase End | | Oct 2013 | | | | |
| **Phase Length** | **19** | | | | | |

Phase 3: Phase 2 (Open Mkt 84 Plots)

| Stage Name | Duration | Start Date | End Date | Anchored To | Aligned | Offset |
|---|---|---|---|---|---|---|
| Phase Start | | Apr 2012 | | | | |
| Construction | 30 | Apr 2012 | Sep 2014 | Pre-Construction | End | 0 |
| Sale | 42 | Dec 2013 | May 2017 | Income Flow | End | -10 |
| Phase End | | May 2017 | | | | |
| **Phase Length** | **62** | | | | | |

Phase 4: Phase 3 (Open Mkt 39 Plots)

| Stage Name | Duration | Start Date | End Date | Anchored To | Aligned | Offset |
|---|---|---|---|---|---|---|
| Phase Start | | Apr 2012 | | | | |
| Construction | 12 | Apr 2012 | Mar 2013 | Pre-Construction | End | 0 |
| Sale | 20 | Apr 2013 | Nov 2014 | Income Flow | End | 0 |
| Phase End | | Nov 2014 | | | | |
| **Phase Length** | **32** | | | | | |

Phase 5: Phase 3 (Affordables 23 plots)

| Stage Name | Duration | Start Date | End Date | Anchored To | Aligned | Offset |
|---|---|---|---|---|---|---|
| Phase Start | | Apr 2012 | | | | |
| Construction | 9 | Apr 2012 | Dec 2012 | Pre-Construction | End | 0 |
| Sale | 1 | Jan 2013 | Jan 2013 | Income Flow | End | 0 |
| Phase End | | Jan 2013 | | | | |
| **Phase Length** | **10** | | | | | |

**Project Length** **62** **(Merged Phases - Includes Exit Period)**

**Assumptions**

**Expenditure**

Professional Fees are based on Construction
Purchaser's Costs are based on Gross Capitalisation
Purchaser's Costs Deducted from Sale (Not added to Cost)
Sales Fees are based on Net Capitalisation
Sales Fees Added to Cost (Not deducted from Sale)

**Receipts**

| | |
|---|---|
| Show tenant's true income stream | On |
| Offset income against development costs | Off |
| Rent payment cycle | Quarterly (Adv) |

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**Norfolk**

**Assumptions**

| | |
|---|---|
| Apply rent payment cycle to all tenants | On |
| Renewal Void and Rent Free apply to first renewal only | Off |
| Growth starts from lease start date | Off |
| Deduct Ground Rent from Stepped Rent, | On |
| | |
| Initial Yield Valuation Method | Off |
| Default Capitalisation Yield | 0.0000% |
| Apply Default Capitalisation to All Tenants | Off |
| Default stage for Sale Date | Off |
| Align end of income stream to Sale Date | Off |
| Apply align end of income stream to all tenants | On |
| When the Capital Value is modified in the cash flow | Recalculate the Yield |
| Valuation Tables are | Annually in Arrears |
| Deduct Post-Sale TI Costs & Lease Comm. from Cap. Value | Off |
| Rent Free method | Defer start of Tenant's Rent |

**Finance**

| | |
|---|---|
| Financing Method | Basic (Interest Sets) |
| Interest Compounding Period | Quarterly |
| Interest Charging Period | Monthly |
| Nominal rates of interest used | |
| Calculate interest on Payments/Receipts in final period | Off |
| Include interest and Finance Fees in IRR Calculations | Off |
| Automatic Inter-account transfers | Off |
| Manual Finance Rate for Profit Erosion | Off |

**Calculation**

| | |
|---|---|
| Site Payments | In Arrears |
| Other Payments | In Arrears |
| Negative Land | In Arrears |
| Receipts | In Advance |
| | |
| Initial IRR Guess Rate | 8.00% |
| Minimum IRR | -100% |
| Maximum IRR | 99999% |
| Manual Discount Rate | Off |
| IRR Tolerance | 0.001000 |
| | |
| Letting and Rent Review Fees are calculated on | Net of Deductions |
| Development Yield and Rent Cover are calculated on | Rent at Sale Date(s) |
| Include Tenants with no Capital Value | On |
| Include Turnover Rent | Off |
| Net of Non-Recoverable costs | On |
| Net of Ground Rent deductions | On |
| Net of Rent Additions/Costs | On |
| Leasing Commissions are calculated | After Non-Recoverable cost deductions |
| | For the First Term of the lease only |

**Value Added Tax**

| | |
|---|---|
| Global VAT Rate | 0.00% |
| Global Recovery Rate | 0.00% |
| Recovery Cycle every | 2 months |
| 1st Recovery Month | 2 (May 2012) |
| VAT Calculations in Cash Flow | On |

**Residual**

| | |
|---|---|
| Land Cost Mode | Fixed Land Value |

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**Assumptions**

**Distribution**

| | |
|---|---|
| Construction Payments are paid on | S-Curve |
| Sales Receipts are paid on | Single curve |
| Sales Deposits are paid on | Monthly curve |

**Interest Sets**

**Interest Set 1**

| Debit Rate | Credit Rate | Months | Start Date |
|---|---|---|---|
| 6.000% | 0.000% | Perpetuity | Apr 2012 |

**Loan Set 1**

| Debit Rate | Credit Rate | Months | Start Date |
|---|---|---|---|
| 0.000% | 0.000% | Perpetuity | Apr 2012 |

**Inflation and Growth**

**Growth Sets**

**Growth Set 1**
Inflation/Growth for this set is calculated in arrears
This set is not stepped

| Rate | Months | Start Date |
|---|---|---|
| 0.000% | Perpetuity | Apr 2012 |

**Inflation Sets**

**Inflation Set 1**
Inflation/Growth for this set is calculated in arrears
This set is not stepped

| Rate | Months | Start Date |
|---|---|---|
| 0.000% | Perpetuity | Apr 2012 |

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**GNDP CIL**
**Norfolk**

**Summary Appraisal for Merged Phases 1 2 3 4 5**

**REVENUE**

| **Sales Valuation** | | **Units** | **ft²** | **Rate ft²** | **Unit Price** | **Gross Sales** |
|---|---|---|---|---|---|---|
| Phase 1 Open Mkt Houses | 29 | 27,782 | £190.00 | £182,020 | 5,278,580 | |
| Phase 1 Open Mkt Flats | 15 | 9,344 | £200.00 | £124,587 | 1,868,810 | |
| Phase 1 Affordable Houses | 40 | 38,320 | £123.50 | £118,313 | 4,732,520 | |
| Phase 1 Affordable Flats | 20 | 11,906 | £130.00 | £77,389 | 1,547,780 | |
| Phase 2 Open Market Hou | 79 | 75,682 | £190.00 | £182,020 | 14,379,580 | |
| Phase 2 Open Mkt Flats | 5 | 3,237 | £200.00 | £129,472 | 647,360 | |
| Phase 3 Open Mkt Houses | 39 | 37,362 | £190.00 | £182,020 | 7,098,780 | |
| Phase 3 Affordable Flats | 8 | 4,682 | £130.00 | £76,079 | 608,634 | |
| Phase 3 Affordable Houses | 15 | 14,370 | £123.50 | £118,313 | 1,774,695 | |
| **Totals** | **250** | **222,685** | | | **37,936,739** | |

| **Rental Area Summary** | **Units** | **MRV/Unit** | **Initial at Sale** | **Net Rent MRV** | **Initial** |
|---|---|---|---|---|---|
| Phase 1 Ground Rents | 15 | £150 | 2,250 | 2,250 | |
| Phase 2 Flats Ground Rent | 5 | £150 | 750 | 750 | |
| **Totals** | **20** | | **3,000** | **3,000** | |

| **Investment Valuation** | | | | | |
|---|---|---|---|---|---|
| **Phase 1 Ground Rents** | | | | | |
| Market Rent | 2,250 | YP @ | 5.0000% | 20.0000 | |
| | | PV 0y 11m @ | 5.0000% | 0.9563 | 43,032 |
| **Phase 2 Flats Ground Rents** | | | | | |
| Market Rent | 750 | YP @ | 5.0000% | 20.0000 | |
| | | PV 0y 10m @ | 5.0000% | 0.9602 | 14,402 |
| | | | | | **57,434** |

| | |
|---|---|
| GROSS DEVELOPMENT VALUE | 37,994,173 |
| **NET REALISATION** | **37,994,173** |

**OUTLAY**

| **ACQUISITION COSTS** | | | |
|---|---|---|---|
| Fixed Price | 1,794,345 | | |
| Fixed Price | 1,449,000 | | |
| Fixed Price | 1,069,845 | | |
| Total Acquisition (17.86 Acres £241,500.00 pAcre) | | | 4,313,190 |
| Stamp Duty | 4.00% | 172,528 | |
| Legal Fee | 0.50% | 21,566 | |
| Town Planning | | 36,565 | |
| | | | 4,543,849 |

**CONSTRUCTION COSTS**

| **Construction** | **ft²** | **Rate ft²** | **Cost** | |
|---|---|---|---|---|
| Phase 1 Open Mkt Houses | 27,782 | £80.00 | 2,222,560 | |
| Phase 1 Open Mkt Flats | 10,993 | £110.00 | 1,209,230 | |
| Phase 1 Affordable Houses | 38,320 | £80.00 | 3,065,600 | |
| Phase 1 Affordable Flats | 14,007 | £110.00 | 1,540,776 | |
| Phase 2 Open Market Hou | 75,682 | £80.00 | 6,054,560 | |
| Phase 2 Open Mkt Flats | 3,808 | £110.00 | 418,880 | |
| Phase 3 Open Mkt Houses | 37,362 | £80.00 | 2,988,960 | |
| Phase 3 Affordable Flats | 5,508 | £110.00 | 605,880 | |
| Phase 3 Affordable Houses | 14,370 | £80.00 | 1,149,600 | |
| Totals | 227,832 | | 19,256,046 | **19,256,046** |
| Contingency | | 5.00% | 962,802 | |
| | | | | 962,802 |

**Other Construction**

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| | | | | | |
|---|---|---|---|---|---|
| NHBC Certification | 44 un | 140.00 /un | 6,160 | | |
| NHBC Certification | 60 un | 140.00 /un | 8,400 | | |
| NHBC Certification | 84 un | 140.00 /un | 11,760 | | |
| NHBC Certification | 39 un | 140.00 /un | 5,460 | | |
| NHBC Certification | 23 un | 140.00 /un | 3,220 | | |
| | | | | 35,000 | |
| **PROFESSIONAL FEES** | | | | | |
| Architect | | 4.00% | 771,423 | | |
| Project Manager | | 4.00% | 771,423 | | |
| | | | | 1,542,847 | |
| **MARKETING & LETTING** | | | | | |
| Marketing | 167 un | 750.00 /un | 125,250 | | |
| | | | | 125,250 | |
| **DISPOSAL FEES** | | | | | |
| Sales Agent Fee | | 1.50% | 569,913 | | |
| Sales Legal Fee | | 0.50% | 189,971 | | |
| | | | | 759,883 | |
| **Additional Costs** | | | | | |
| **MISCELLANEOUS FEES** | | | | | |
| s.106 | 44 un | 750.00 /un | 33,000 | | |
| Site Servicing | 7 ac | 100,000 /ac | 743,000 | | |
| s.106 | 84 un | 750.00 /un | 63,000 | | |
| Site Servicing | 6 ac | 100,000 /ac | 600,000 | | |
| s.106 | 39 un | 750.00 /un | 29,250 | | |
| Site Servicing | 4 ac | 100,000 /ac | 443,000 | | |
| | | | | 1,911,250 | |
| **FINANCE** | | | | | |
| Debit Rate 6.000% Credit Rate 0.000% (Nominal) | | | | | |
| Total Finance Cost | | | | 1,732,845 | |
| **TOTAL COSTS** | | | | | **30,869,773** |
| **PROFIT** | | | | | |
| | | | | **7,124,400** | |

**Performance Measures**

| | |
|---|---|
| Profit on Cost% | 23.08% |
| Profit on GDV% | 18.75% |
| Profit on NDV% | 18.75% |
| Development Yield% (on Rent) | 0.01% |
| Equivalent Yield% (Nominal) | 5.00% |
| Equivalent Yield% (True) | 5.16% |
| IRR | 20.63% |
| Rent Cover | 2374 yrs 10 mths |
| Profit Erosion (finance rate 6.000%) | 3 yrs 6 mths |

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