Broadland District Council, South Norfolk District Council and Norwich City Council (The Councils) – Community Infrastructure Levy Examination

Regarding the Councils' Supplementary Paper on Proposed Rate of Residential CIL

Response by Savills on behalf of Easton Landowners consortium, Norfolk Homes Ltd and Endurance Estates Ltd

1. This note is a response to the Councils' supplementary paper on the proposed rate of residential CIL, dated 22nd October 2012.

Reduction in Land Value

2. The Councils' note responds to the Examiner's reasoning that CIL could be funded from a fall in land value, citing the example of a 25% reduction in land value. Whilst we agree with the general principle that CIL does 'come out of land value', the key questions here are:

    a. whether the proposed rate puts overall development of the area at serious risk (paragraph 9 of the CIL Regulations), with particular reference to the Councils' planned levels of housing;

    b. whether or not the charge has been set right up to the margins of economic viability across the vast majority of sites in the area (paragraph 29 of the CLG CIL Charge Setting and Charging Schedule Guidance, 2010); and

    c. whether the approach taken is consistent with the principles of the National Planning Policy Framework.

3. A central principle of the NPPF (at para 173) is that "*the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened*". This paragraph goes on to say that viability should be assessed with reference to provision of "*competitive returns to a willing land owner and willing developer to enable the development to be deliverable*".

4. Guidance published by the RICS[1] and the Local Housing Delivery Group, chaired by Sir John Harman[2] (the Harman guidance) are helpful in expanding upon what this competitive return to a willing landowner means in practice.

---

[1] Financial Viability in Planning. RICS Guidance Note 1st Edition (GN 94/2012), August 2012.
[2] Viability Testing Local Plans. Advice for Planning Practitioners. Local Housing Delivery Group Chaired by Sir John Harman, June 2012.

5. The RICS guidance recognises (at para 3.3.5) that ‘site value’ may need to be adjusted to reflect the emerging policy/ CIL charging level, on the assumption that site delivery would not be prejudiced. This is expanded upon (at para 3.3.6), where it says that “*there must, however, be a ‘boundary’ placed on the effect on land, to reflect new policy or the burden of CIL charge, in terms of restricting any reduction so that it does not go below what land would willingly transact at in order to provide a competitive return to a willing landowner*”.

6. The Harman guidance uses the term Threshold Land Value to represent the value at which a typical willing landowner is likely to release land for development (page 28). It goes on to say (on page 30) that “*in setting out a Threshold Land Value, it is important to avoid assuming that land will come forward at the margins of viability. To guard against this, planning authorities should consider incorporating an appropriate ‘viability cushion’ in the testing in order to ensure that the sites upon which the Local Plan relies in the first five years will, on the balance of probability, come forward as required*.”

Benchmark Land Value on Large Greenfield Sites

7. With regard to large greenfield sites, which make up a very substantial proportion of the land supply pipeline in the Greater Norwich Development Partnership (GNDP) area, the Harman guidance states that Threshold Land Value should take account of typical minimum price provisions used within developer/ site promoter agreements for sites of this nature, going on to say (on page 31) that “*if such benchmarks are disregarded, there is an increasing risk that land will not be released and the assumptions upon which a plan is based may not be found sound*.”

8. Savills holds records of 20 current agreements between landowners and developers or promoters in relation to large greenfield sites in Norfolk, including eight agreements within the GNDP area. The minimum price provisions in these agreements are in a range of £80,000 to £140,000 per gross acre.

9. Typically, less than 50% of the area of such sites is developable residential area, having provided land for open space, sustainable urban drainage systems, community facilities and strategic on site infrastructure. On larger sites, the net area can be as little as 30% (Harman page 36).

10. As a consequence, these minimum price provisions are equivalent to a benchmark land value of between £200,000 and £250,000 per net developable acre.

11. In these market circumstances, taking account of the need for a viability cushion, to rely on land values on large greenfield sites falling to the bottom end of this range in all circumstances would be to

introduce new risk and uncertainty into the policy framework at a time when:

a. housing delivery in the GNDP area has been running significantly below target, at 54% of target in the three years to March 2011; and

b. planned delivery on large greenfield sites makes up a substantial proportion of the 28,750 additional homes required under the Joint Core Strategy between 2011 and 2026, in addition to the shortfall against target of some 3,900 homes during the 2001 to 2011 period. The JCS identifies a total of between 9,800 and 14,200 homes that could be delivered at the strategic locations that rely on large greenfield sites, equivalent to between 43% and 62% of the minimum volume of new allocations required. There are 10 large greenfield sites, within these locations, that could provide more than the total allocation of 14,200 homes required from the strategic locations (see Appendix 1).

Benchmark Land Value on Smaller Greenfield Sites

12. The GNDP assumption for benchmark land value of a 250 unit site is £210,000 to £250,000 per acre in Zone A and £200,000 per acre in Zone B. These figures are at the lower end of the range of values seen in the market and, as such, they are an appropriate measure for benchmark land value, i.e., the value at which a typical willing landowner is likely to release land for development.

13. As noted above, the guidance is clear that policy should not be set on the assumption that land will come forward at the margins of viability. To rely on land values on smaller greenfield sites falling below the benchmark levels above would be to introduce new risk and uncertainty into the policy framework. It would push directly against the recommendation in guidance that a viability cushion should be built into assessment of policy viability.

Viability Appraisal Assumptions

14. We have noted the HCA e-mail to the Councils dated 15 November 2011 and make specific reference to it in paragraph 17b below, with regard to expenditure on overheads. We take issue with many of the other points made by HCA in that note, but do not feel the need to expand on these other than the points made below, on the basis that the discrepancies between the viability appraisals presented in EV6 relate to contingencies, overheads, finance and developer profit.

15. The Councils' supplementary paper includes a reworked appraisal, using revised assumptions for contingencies and developer profit,

either in line with or in excess of those included in the EV6 developer appraisal. However, it has not taken account of the other two discrepancies discussed at Examination, namely finance and overheads.

16. The GNDP appraisal continues to underestimate cost of finance by some £550,000 or £2,200 per unit, when compared with the developer appraisal. It was established at the Examination that the GNDP assumption was based on a fixed 7% of build cost, whereas the developer assumption takes account of the cash flow of the scheme over its entire life, including all expenditure and receipts throughout the period.

17. The GNDP appraisal continues to underestimate cost of overheads (including professional fees, marketing and sales, planning costs) by some £2.4m or £9,500 per unit, when compared with the developer appraisal. The developer appraisal includes 11% of GDV which based on the experience of Norfolk Homes. This is in line with Savills experience of working with clients and the Harman guidance which recommends:

    a. an allowance of 3% to 5% of sales value for sales and marketing costs (at page 35); and

    b. an allowance for fees relating to design, planning and other professional input, ranging from 8-10% of build costs for straightforward sites to 20% for the most complex sites (page 45). The guidance recognises that volume house builders may be able to realise savings on this (at page 35), echoing the point made to the Councils by the HCA in point 6 of the e-mail dated 15 November 2011. However, given the range of size of housebuilder and site complexity across the GNDP area, Savills view is that a central view should be taken within this range of 8% to 20% of build costs.

18. The allowance for overheads within the developer assumption appraisal in EV6 is £4.8m. This is in line with overheads calculated at 4% of open market sales to cover sales and marketing, plus 14% of build costs to cover fees.

19. There is one significant extra item of expenditure that we raised at Examination and in our written representations, and which is not included in the EV6 developer appraisal. This is the extra cost of servicing large greenfield sites. The Harman guidance indicates (at page 44, point 2) that the cost of servicing a large site with infrastructure is typically in the order of £17,000 to £23,000 per unit, compared with the £7,000 per unit included within the EV6 appraisals. Therefore, an extra allowance of at least £10,000 per unit should be made for the cost of servicing large greenfield sites.

Viable Rates of CIL

20. As noted in paragraph 11 of this note, around 50% of future housing delivery across the GNDP area is reliant on large greenfield sites. The Councils are not proposing a separate CIL zone for such sites, or a separate use defined by size of development. Therefore, CIL should be set at a level that takes account of the economies of development of all types of site, including these larger sites. It follows that an extra £5,000 per unit should be allowed to cover the average cost of servicing with site specific infrastructure across all the types of site on which housing delivery relies.

21. Given the points made above in paragraphs 14 to 19, the developer appraisal included within EV6 remains the most robust assessment of viability, subject to allowing for the extra cost of £5,000 per unit to service the 'average' site across the whole supply pipeline.

22. For the reasons outlined in paragraphs 2 to 11 above, benchmark land values should be no less than the £210,000 to £250,000 per acre benchmarks used in Zone A and the £200,000 per acre used in Zone B, if extra risks to delivery are to be avoided.

23. There are a number of additional risk factors that should be borne in mind when considering what represents 'the margins of economic viability across the vast majority of sites in the area', namely:

    a. the costs of building to higher levels of the Code for Sustainable Homes and towards zero carbon standard by 2016, compared with the EV6 developer appraisal which represents the cost of building now to the mandatory baseline of the Building Regulations Part L 2010, equivalent to Code level 3. The Government has consulted on options for the forthcoming changes to Building Regulations in 2013[3], with additional costs relative to Part L 2010 estimated at an average of between £795 and £2866 per dwelling, with further additional costs to follow in 2016;

    b. the costs of promoting large schemes to secure an outline planning consent, in addition to a minimum price provision. These can be substantial and should be considered separately from minimum price provisions (Harman page 31); and

    c. the likelihood that Section 106 costs will be in excess of £750 per home on larger schemes. We note that EV6 includes sensitivity analysis of the impact of higher Section 106 costs at £2,000 per unit.

---

[3] 2012 consultation on changes to the Building Regulations in England. DCLG, January 2012.

24. The table at Appendix 2 summarises the results of using the assumptions set out in paragraphs 20 to 22, but before consideration of the additional risk factors in paragraph 23. It also builds in flexibility on affordable housing policy to 18% of homes, rather than the full policy target of 33%, using the sensitivity analysis contained within EV6. This shows that, in Zone A, at a benchmark land value of £250,000 per net developable acre and 33% affordable housing, no payment of CIL is viable.

25. Building in flex on affordable housing policy and land value (recognising the risk in this latter assumption):

    a. if land values were to flex across the board by 15% to £210,000 per acre; and

    b. should the Councils move to a formal recognition via Supplementary Planning Guidance that an affordable housing target in the order of 18% is viable (providing more clarity than the current policy position of flexibility against a higher target); then

    c. a theoretically viable level of CIL would be £83 per square metre.

26. As noted above, around half of the sites in the supply pipeline have a cost base significantly above this average level. Equally, a significant proportion of new homes sales are at values substantially less than the average levels used in the EV6 appraisals. Because CIL is, by its nature, a fixed and inflexible financial sum, application of a viability cushion to the theoretically viable levels of CIL will protect against CIL presenting a serious risk to delivery of the GNDP housing targets.

27. We are aware that many other local authorities are proposing to set CIL rates at a level that allows a viability cushion of between 30% and 60% of the theoretically viable level, to allow for site variation around the average. Application of this principle, using a cushion of 30%, would give a viable level of CIL in Zone A, of:

    a. assuming a formalised affordable housing policy of 18% and no fall in land value, of £36 per square metre;

    b. assuming a formalised 18% affordable housing policy and a 15% flex in land value, of £58 per square metre; and

    c. assuming a formalised 18% affordable housing policy and taking a riskier view of a 25% land value flex, of £75 per square metre.

28. These assumptions introduce an element of risk into the policy framework. Taking account of these risks, balanced by a viability cushion, we conclude that this supports the Savills recommendation

that CIL should be set at a rate of between £60 and £65 per square metre in Zone A.

29. Application of a similar approach to Zone B, using the EV6 developer appraisals and a benchmark land value of £200,000 per acre, would give a viable level of CIL in Zone B, of:

    a. assuming a formalised affordable housing policy of 18% and no fall in land value, of £18 per square metre;

    b. assuming a formalised 18% affordable housing policy and a 15% flex in land value, of £35 per square metre; and

    c. assuming a formalised 18% affordable housing policy and taking a riskier view of a 25% land value flex, of £46 per square metre.

30. These viable levels of CIL in Zone B are between 50% and 60% of the levels that are viable in Zone A.

Funding Pot for Major Infrastructure Projects

31. With regard to the ability to assemble a funding pot for major new infrastructure projects, we note the strengths of the partnership with regard to prudential borrowing capacity. We would also draw attention to the potential for New Homes Bonus to be used to contribute to the funding pot.

Delivery of Sites

32. Savills' clients are committed to working with the Councils to bring forward their sites to help deliver the housing targets. This submission relates to all types of site within the supply pipeline, with no specific reference to specific sites in which Savills' clients have an interest. The intention of this submission is to help the Councils to set policy in a way that facilitates full delivery of the housing targets.

29 October 2012

Appendix 1 – GNDP Strategic Growth Locations and Large Greenfield Sites

Appendix 2 – Summary of Viable Rates of CIL, Zones A and B

APPENDIX 1 - GNDP STRATEGIC GROWTH LOCATIONS AND LARGE GREENFIELD SITES

Strategic Location	Site	Site Capacity	Site Capacity within each Strategic Location	Location Delivery Target
Growth triangle	White House Farm Phase 2 (Persimmon)	1,500		
	Beyond Green	3,250		
	Rackheath Eco-town	4,000	8,750	7,000
Easton/ Costessey	Easton	1,000		
	Costessey (Hopkins)	500	1,500	1,000
Cringleford	Colney Land, Cringleford (Barratt)	2,000	2,000	1,200
Hethersett	Site promoted by Bidwells	1,196	1,196	1,000
Long Stratton	Urban extension	1,500	1,500	1,800
Wymondham	Endurance promotion	750		
	Pelham	3,000	3,750	2,200
Total		**18,696**	**18,696**	**14,200**

Appendix 2 - Summary of Viable Rates of CIL, GNDP Zone A

	Affordable Housing Target	
	33% AH	**18% AH**
Per Unit (All Tenure)		
Residual Land Value before Section 106, EV6 Developer Assumptions	22,235	30,118
Less extra cost of servicing the average site	5,000	5,000
Less minimum Section 106	750	750
Net Residual Land Value	16,485	24,368
Density per net acre (from EV6)	12.9	12.9
Average unit size square metres (from EV6)	97	97
Benchmark Land Value		
At £250,000 per net developable acre	19,397	19,397
At £210,000 per net developable acre (15% flex)	16,294	16,294
At £180,000 per net developable acre (25% flex)	13,966	13,966
Excess over Benchmark (all units)		
At £250,000 per net developable acre	-2,912	4,971
At £210,000 per net developable acre (15% flex)	191	8,074
At £180,000 per net developable acre (25% flex)	2,519	10,402
Theoretical Maximum Level of CIL before Viability Cushion		
At £250,000 per net developable acre	0	51
At £210,000 per net developable acre (15% flex)	2	83
At £180,000 per net developable acre (25% flex)	26	107
Viable Level of CIL after 30% viability cushion		
At £250,000 per net developable acre	0	36
At £210,000 per net developable acre (15% flex)	1	58
At £180,000 per net developable acre (25% flex)	18	75

Appendix 2 - Summary of Viable Rates of CIL, GNDP Zone B

	Affordable Housing Target	
	33% AH	**18% AH**
Per Unit (All Tenure)		
Residual Land Value before Section 106, EV6 Developer Assumptions	12,569	23,768
Less extra cost of servicing the average site	5,000	5,000
Less minimum Section 106	750	750
Net Residual Land Value	6,819	18,018
Density per net acre (from EV6)	12.9	12.9
Average unit size square metres (from EV6)	97	97
Benchmark Land Value		
At £200,000 per net developable acre	15,518	15,518
At £170,000 per net developable acre (15% flex)	13,190	13,190
At £150,000 per net developable acre (25% flex)	11,638	11,638
Excess over Benchmark (all units)		
At £200,000 per net developable acre	-8,699	2,500
At £170,000 per net developable acre (15% flex)	-6,371	4,828
At £150,000 per net developable acre (25% flex)	-4,819	6,380
Theoretical Maximum Level of CIL before Viability Cushion		
At £200,000 per net developable acre	0	26
At £170,000 per net developable acre (15% flex)	-66	50
At £150,000 per net developable acre (25% flex)	-50	66
Viable Level of CIL after 30% viability cushion		
At £200,000 per net developable acre	0	18
At £170,000 per net developable acre (15% flex)	-46	35
At £150,000 per net developable acre (25% flex)	-35	46