

# **Bath & North East Somerset Community Infrastructure Levy**

## **Preliminary Draft Charging Schedule**

**Representations submitted by Savills**

**on behalf of the House Builder Consortium Group**

June 2012





# Contents

Introduction ..... 1

Impact of CIL on Viability and Housing Delivery ..... 3

Critique of Valuation Assumptions ..... 7

- i) Residential Sales Values ..... 7*
- ii) Geographical Boundaries ..... 9*
- iii) Apartment Efficiency ..... 9*
- iv) Site Coverage ..... 10*
- v) Abnormal / Exceptional Costs ..... 11*
- vi) Site Servicing Costs ..... 12*
- vii) Build Costs ..... 13*

*Benchmark Land Values ..... 14*

*Sensitivity Testing ..... 16*

*Phasing of Payments ..... 17*

*Summary of the Alternative Assumptions ..... 18*

Conclusion ..... 19

- Sensitivity Testing ..... 19*
- Next Steps ..... 20*

## Introduction

These representations have been prepared by Savills on behalf of the House Builder Consortium Group in response to the consultation on the Bath & North East Somerset Community Infrastructure Levy Preliminary Draft Charging Schedule. The group comprises a number of the major house builders active in the Bath area who have joined together in order to provide a single comprehensive response to the proposed introduction of CIL tariffs across the City.

The groups objective and the *raison d'être* for these representations is not to dismiss CIL but to ensure that the level set in the Charging Schedule is robust, well evidenced and will not put at harm the overall delivery of housing in the City. To that end, the Charging Schedule must be founded upon sound and credible evidence and the methodology used to establish the proposed charges should be reasonable and fit for purpose. These representations have been prepared in that context and with particular reference to Regulation 14 of the Community Infrastructure Levy Regulations 2010. In so doing, the representations address the two principal tests outlined in the Department for Communities and Local Government Guidance document '*Community Infrastructure Levy Guidance: Charge Setting and Charging Schedule Procedures*'. These are:

- (i) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area; and
- (ii) the need to strike an appropriate balance between the desirability of funding from CIL and the expected estimated total cost of infrastructure required to support development.

### **Savills**

Savills is one of the largest property companies in the UK with considerable professional expertise in a wide range of technical disciplines including planning, valuation and land sales. Allied to this, the company has residential sales agencies across the country which, alongside the New Homes and Residential Investment team, deal with the sale of a considerable number of residential properties each year. The Residential and Commercial

Research departments provide forecasts for a broad range of sectors which are highly regarded across the industry, and which have been used to inform the BNP Paribas sensitivity testing appraisals.

Savills has a substantial presence and range of expertise in the Bristol and Bath offices. The New Homes and Residential Investment team are market leaders in the sale of new build properties in Bristol and Bath, and have a wealth of experience of sales values and sales rates. Both the planning and development teams have acted for the residential development sector in the authority area and have an in depth knowledge of the issues relating to housing delivery and economic viability. In addition to this the development team have sold many sites in Bath & North East Somerset and have a good understanding of land values.

### ***Structure of the Representations***

The following section of these representations addresses the first of the two tests from the CLG Guidance identified above. We have assessed the broad implications that the introduction of the CIL charge proposed in the Preliminary Draft Charging Schedule will have on viability and in turn housing delivery.

The subsequent section addresses the second key test, i.e. the need to strike an appropriate balance in setting the CIL level. In so doing it covers the methodology adopted in deriving the draft Bath and North East Somerset CIL, and in particular, the key assumptions used in the residual valuations of hypothetical development scenarios produced to calculate the maximum potential CIL charge.

The concluding section draws together our conclusions on the impact of our evidence on economic viability of development in Bath & North East Somerset and recommends changes to the Preliminary Draft Charging Schedule. The implications of the work we propose are significant and we set out the next steps we consider appropriate in order to rectify the issues we have raised.



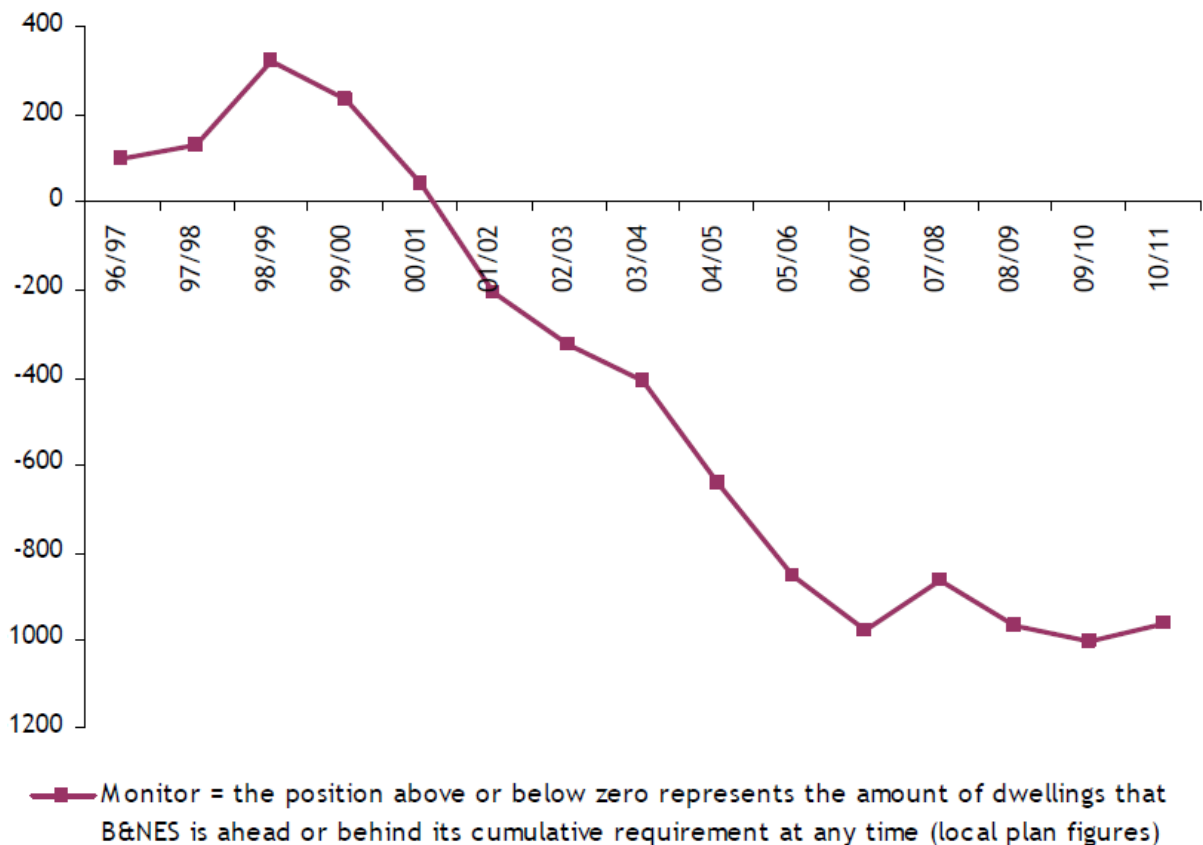
## Impact of CIL on Viability and Housing Delivery

In this section of the representations we analyse the potential impact of the proposed CIL charges on the delivery of residential development in Bath and North East Somerset. This analysis is based on the current rates of CIL contained within the Preliminary Draft Charging Schedule and the economic viability analysis within the BNP Paribas Report, and does not therefore take into consideration our critique of the assumptions used in the viability evidence or the proposed corrected appraisal inputs.

### Background

During the past ten years there has been a significant under delivery of housing within Bath & North East Somerset. Figure 1 below (which is taken from the 2009/10 Annual Monitoring Report) shows the cumulative scale of under delivery against the strategic housing requirement contained in the Local Plan.

Figure 1 – Cumulative under delivery of housing in Bath & North East Somerset





There were 5,709 net dwelling completions in Bath and North East Somerset between 1996 and 2011 which, when compared to the Local Plan housing requirement of 6,855 dwellings, equated to a shortfall in excess of 1,000 dwellings. This shortfall has occurred during a period of strong economic performance and high house price inflation.

Sustained low levels of dwelling completions in Bath and North East Somerset have also compounded the shortfall of affordable housing. The resulting pent up demand provides for a projected annual requirement for affordable housing that exceeds the projected annual completion figures, inclusive of open market dwellings.

The emerging Core Strategy proposes a revised average housing requirement of 550 dwellings per annum, thus increasing the required scale of completions (over the Local Plan) annually by 93 dwellings.

The past delivery rates for housing are important in understanding the context within which the Authority propose to introduce a CIL levy. Whilst not all of the housing shortfall can be attributed to financial viability constraints on house building, this is undoubtedly one of a number of constraining factors, either directly because the financial constraints on a development site are such that it is not viable to develop, or because the constraints would reduce the return to the landowner below a level considered acceptable to incentivise the sale of land.

It is extremely important that the introduction of CIL does not impact upon the viability of house building to such an extent that it will put in jeopardy the delivery of the future housing requirement. We are very concerned that this will be the case if the proposed charges are adopted and consider that the Authority's own evidence base supports this conclusion, particularly in relation to certain sub-areas of the District.

A basic examination of the results contained within Appendix 2 of the BNP Paribas Report, demonstrates the challenges facing the delivery of residential development across three large sub-areas of the District – Bath North West / South / Chew Valley East, Keynsham, and Norton Radstock. Using the BNP Paribas residual values and comparing these against benchmark land values 1 and 2 (for the reasons provided in the following section we discount the use of benchmark land values 3 and 4), reveals that only one hypothetical site topology within these three areas produces a land value above the benchmark land value 2. This

serves to demonstrate the viability constraints effecting parts of the District (even using the viability assumptions that we consider to be flawed).

These conclusions are particularly concerning given the significant under-delivery of housing within Bath and North East Somerset in recent years. Simple logic dictates that the imposition of a further charge on residential development will render more sites unviable than there are at present. Whilst it is not possible to accurately quantify the net impact that CIL would have on the delivery of residential development, there is no doubt that an additional charge will inevitably further reduce the delivery of housing to the detriment of housing delivery.

It is particularly concerning that the three sub-areas in the BNP Paribas evidence which produce a residual valuation below benchmark land value represent an important component of the future housing land supply for the District. The emerging Core Strategy proposes the delivery of:

- 6,000 dwellings in Bath, a proportion of which will be within Bath North West and Bath South;
- 1,500 dwellings at Keynsham; and
- 2,700 dwellings in the Somer Valley (Norton Radstock sub-area).

Even based on the conservative assumption that 1,000 dwellings are within the Bath sub-areas, the total scale of housing proposed within the Core Strategy for those sub-areas which are identified as being unviable is 5,200 dwellings. This is just short of 50% of the strategic housing requirement (11,000 dwellings) and thus an extremely important component of future land supply. Introducing a further cost of £100 per sq.m. to residential developments within these areas will compound viability constraints and undoubtedly render unviable many sites which are currently on the margins of viability.

### *BNP Paribas Methodology*

There are a number of hypothetical site typologies identified by BNP Paribas Report where the residual land value does not exceed the benchmark. The BNP Paribas response to this is to discount, and thus effectively ignore, those circumstances where development would be



---

unviable even without the imposition of a CIL charge. We consider this approach to be fundamentally flawed and the conclusions that emerge as a result to be misleading.

The residual valuations of the seven site typologies are based upon a series of average assumptions. In practice there will be some sites where circumstances dictate that residential development will be more viable than the average and other cases where it will be less viable. To simply ignore those typologies where the residual valuation does not exceed benchmark levels fails to recognise that there are some sites which are more viable than the average but which would nevertheless become unviable should the Authority implement CIL.

For this reason these site typologies should not be ignored. Instead, they indicate that development within the identified sub-areas is very challenging and that to impose CIL will not only render the average site less viable but would also impact upon the development sites within that sub-area which are at the margins of viability. It is not in our view appropriate or reasonable to introduce an additional financial burden on residential development where the evidence indicates that, based on average assumptions, the site typologies do not produce a residual land value which exceeds the benchmark figure.



## Critique of Valuation Assumptions

We have a number of specific concerns relating to the key assumptions used to establish the maximum potential CIL charge that could be levied in respect of the various hypothetical scenarios tested. The primary areas of concern are as follows:

### *i) Residential Sales Values*

Accurate, well evidenced and credible residential sales values are a key component of the viability appraisals which inform the proposed CIL charging schedule. The assumed revenue applied to each of the geographical districts should be based on a comprehensive data set of recently completed new build development so as to be appropriate and relevant in the context of future supply. Where employed, market areas should be defined not by geographical distribution, but by consistently priced housing stock, so as to prevent the inclusion of a wide range of sales values resulting in an inaccurate average.

Average blended sales values have been provided by BNP Paribas for each of the seven geographical areas proposed within the CIL charging schedule. We have reviewed the data provided by BNP Paribas which has informed these revenue assumptions and have identified the following key issues:

- The range of development sampled is too limited;
- Certain major and significant development sites have been ignored or excluded
- Second hand comparables have been used in areas where a significant premium is paid for period property
- Assumed revenues have been benchmarked against average property values derived from HM Land Registry data, applied to inappropriate 'indicative' unit sizes – despite accurate data being available

Notwithstanding these concerns, our research indicates that many of the sales values quoted are significantly higher than those achieved within Bath and the surrounding areas.

We have used the spreadsheet produced by BNP Paribas and added to this our research on the sales values of the identified schemes. Savills were responsible for the sale of a number



of the schemes identified and we therefore have accurate and reliable information on sales values. We have also obtained comparable evidence of sales rates from a number of other schemes to provide an accurate picture of values across the District. The site specific information on sales values is commercially confidential and therefore hasn't been provided within these representations. We do however provide the average sales values for each area and welcome the opportunity to review the data that has informed these averages with the Council in due course.

The results of this research indicate that the following sales values should be used in the viability appraisals:

*Table 1: Comparison of Residential Sales Value Assumptions*

	BNP average (per sq.ft)	BNP average (per sq.m)	Savills average (per sq.ft)	Savills average (per sq.m)	Diff (£ per sq.m)	% Change
<b>Bath City Centre</b>	£516	£5,554	£375	£4,037	-£1,517	-27.3%
<b>Bath Rural / Bathavon</b>	£464	£4,991	n/a	n/a	n/a	n/a
<b>Bath N &amp; E</b>	£410	£4,414	£352	£3,792	-£622	-14.1%
<b>Chew Valley W</b>	£364	£3,721	£318	£3,423	-£298	-8.0%
<b>Bath NW &amp; S and Chew Valley E</b>	£257	£2,769	£269	£2,896	+£127	+4.6%
<b>Keynsham</b>	£226	£2,428	£242	£2,608	+£180	+7.4%
<b>Norton Radstock</b>	£195	£2,095	£202	£2,174	+£79	+3.6%

You will note that we have not yet been able to identify any new homes delivered within the Bath Rural/Bathavon (greenbelt) area within the past 36 months. Nor have we been able to locate the two developments described within BNP Paribas submission which have informed the CIL charge which is 100% higher than that for the balance of the local authority area. Clearly these inputs and the associated CIL premium will need to be substantiated and well evidenced.

We have also sought to obtain further evidence regarding sales values. If, once we have received this information we find it materially alters the above table, we will provide you with an amended table.

## ***ii) Geographical Boundaries***

In order to test the residential sales value assumptions provided by BNP Paribas we have reviewed residential sales data within the geographical housing market areas defined within their evidence, however, we have some concerns as to the appropriateness of the associated geographical boundaries.

As observed above, housing market areas should, wherever possible, be representative of a comparable pricing scale, so as to provide a limited range and an accurate average sales value. In practical terms this is not always possible as there can be a fair amount of variance in quite a small area, however, in particular, we consider the grouping of Upper Lansdowne, which is representative of Bath's prime housing market, and Batheaston, representative of a secondary suburb, as inappropriate, particularly in consideration of the wide range of sales values (from £335 p.s.f. to £450 p.s.f.).

In our view a more appropriate zoning, reflecting the hierarchy of the local housing market would provide for more accurate analysis.

## ***iii) Apartment Efficiency***

We agree with the BNP Paribas Report that it is important to include a gross to net discount to reflect the difference between the total building floor area (gross internal area) and the net sales area for which the developer expects to receive a financial return (net sales area). However, in our experience and that of a number of architects canvassed in relation to residential buildings in Bristol, the average gross to net reduction is 80% rather than the 85% used in the viability modelling.

Whilst more efficient buildings are achievable, this usually requires the addition of extra "core" in order to reduce the corridor space. The downside of this is that the addition of further cores increases build costs which overall has a net negative impact on viability. If using average BCIS build costs in the viability assessment, it is prudent to assume an average building and thus we advocate the use of an 80% gross to net reduction rather than 85%.

---

#### **iv) Site Coverage**

The benchmark land values used in the BNPP report are based upon the net developable area. For many of the small sites in Bath & North East Somerset, there is effectively a 100% site coverage and it is appropriate therefore to apply a net density to the whole of the site area. However, in other cases, particularly on larger development sites, not all of the gross site area will be developed. Where this is the case, the developer must pay for the gross site area, but will only be able to develop a proportion of this and hence the overall density of development is reduced.

The now revoked guidance issued by the Government in “tapping the potential” provided an explanation of this and the effect that it has on the amount of land available for development. The relevant extract is attached at **Appendix 1**. Of particular note are the typologies 6 and 7 included within the BNPP report where the guidance in “tapping the potential” suggests that for developments of 2ha or larger, a site coverage of 50% - 75% should be assumed. The difference between the gross and net site coverage, taking into account the area of land not available for development but which is required for related uses such as infrastructure, strategic planting, playing pitch provision, drainage etc is therefore considerable.

The impact of incorporating infrastructure provision within larger residential developments is clear from a number of specific examples within the authority area. One recent example is the land south of Keynsham which was recently granted planning permission on appeal for 285 dwellings. The gross site area extends to 11.7 hectares, which includes residential development, associated highways infrastructure and incidental open space, but also the retention of a large dwelling and the land within its curtilage, additional public open space, a new playing pitch, strategic planting and an extension to the adjacent primary school site. The combined affect of these is to reduce the gross developable area from 11.7 hectares to a net developable area of approximately 8.5 hectares. Based on these site areas, the development density is approximately 34 dwellings per net hectare (below the assumption in the BNP Paribas evidence) as opposed to 24 dwellings per gross hectare.

The benchmark land values for the Council area (which are discussed in more detailed elsewhere in these representations) reflect the amount paid for land on a gross basis and with the benefit of planning permission. In order to provide a like for like comparison it is essential that the hypothetical residual valuations incorporate a reasonable allowance to

address site coverage in order that they provide an accurate and reasonable reflection of land values. Failure to do so has a dramatic impact upon the residual valuation of the larger sites within the District where a significant gross to net site coverage reduction is likely to take place. The figures we have suggested in Table 3 relate to site typologies 5 and 6 only and are therefore provide a conservative adjustment.

**v) *Abnormal / Exceptional Costs***

The development pipeline within Bath & North East Somerset comprises a mix of greenfield and brownfield sites. However, given that there are no strategic greenfield allocations within the emerging Core Strategy, it is reasonable to assume that considerable reliance will be placed upon previously developed land in achieving the strategic housing requirement. This conclusion is consistent with past completion rates which (according to the Annual Monitoring Report 2009/10) show that between 2001/02 and 2010/11, 79% of new dwellings were on previously developed land.

Indeed, considerable emphasis is placed on large brownfield sites coming forward within the District such as Bath West and Riverside and the Ministry of Defence sites at Warminster Road, Endsleigh and Foxhill. All of these sites and many others within the District have considerable costs associated with the preparation of the land for development, including decontamination, demolition and flood defences.

Despite this, no allowance has been made whatsoever in the BNP Paribas evidence for any abnormal or exceptional development costs. In all cases it is assumed that the land will be flat, clean and serviced and that the only costs associated with the development are the building of the houses themselves. Indeed, paragraph 4.7 of the BNPP report states that “*we therefore exclude exceptional costs, as to apply a blanket allowance would generate misleading results*”. Given the heavy reliance on previously developed sites to achieve the strategic housing requirement within the authority area, we consider this assumption wholly inappropriate - it is more likely to be the rule rather than the exception that these costs should be factored into a residual land valuation.

We have examined a sample of 17 sites from across the South West for which we have detailed information on abnormal and demolition costs which demonstrate the range of costs associated with the delivery of residential development. Details of the sample sites are

attached at **Appendix 2**. The range of abnormal and demolition costs from the sample varies from £3,704 per unit to £22,202 per unit. At the upper end of the range, the additional development costs would have a significant bearing on residential development viability. However, these are not that unusual in an authority area such as Bath & North East Somerset. For example, the exceptional development costs associated with the delivery of Bath West and Riverside are substantial. Not only do these involve demolition and decontamination, but also flood defence works and addressing the gas holder. In order to provide an accurate reflection of the residual land value, it is necessary to apportion a realistic allowance for abnormal / exceptional costs across all those site typologies which are likely will come forward on previously developed land.

Both paragraphs 4.7 and 4.27 of the BNP Paribas report indicate that the average *“level of costs for decontamination, flood risk mitigation and other abnormal costs”* are reflected in BCIS data used to establish the average build cost per square metre. This is not the case. BCIS online states that *“the building prices used in this study are the cost of the building, excluding external works and contingencies, with preliminaries apportioned by value expressed in pounds per sq m. of gross internal floor area”*. More specifically, our understanding is that BCIS build costs include only costs that are directly related to the building. Therefore they do not include an allowance for costs such as decontamination, flood risk mitigation and other abnormal costs.

Given the nature of the sites within the development pipeline it is clear that there will be a large number where abnormal costs are likely to exist, particularly demolition. It is important to make a suitable allowance for this and, in the absence of alternative information, we advocate the inclusion of the allowance proposed in Table 3.

#### **vi) Site Servicing Costs**

It is not clear from the BNP Paribas Report whether an allowance has been made in the residual valuations for site servicing costs. These are additional to the abnormal costs and typically include the costs of items such as highways infrastructure, strategic landscaping, drainage, utilities connections etc.

Research compiled by the Home Builders Federation using actual costs from a sample of sites in England found that the typical costs of servicing a site in preparation for development

is on average £20,000 per plot. This is not accounted for in the BCIS figures and represents a necessary and unavoidable additional cost to development.

### **vii) Build Costs**

Paragraph 4.26 of the viability evidence states:

*“Our base construction costs assume that housing is provided to Code for Sustainable Homes (CSH) level 3. The Council has no current plans to seek a higher level of CSH over the anticipated life of the charging schedule”.*

It is unclear why this conclusion has been reached given the wording of Policy CP2 (Sustainable Construction) within the emerging Core Strategy which requires all major developments over the plan period to accord with Code for Sustainable Homes level 4 (in full) by 2013 and Code for Sustainable Homes level 6 (in full) i.e. zero carbon by 2016.

Notwithstanding this, even if the Authority themselves were not committed to improving sustainability through local planning policy, the measures contained within the Code for Sustainable Homes would nevertheless be implemented through the tightening of part L of the Building Regulations and hence would be a mandatory requirement upon all new development. It is clear therefore that higher levels of CSH will definitely be required over the lifetime of the charging schedule.

We recognise that the Inspector in his report on the Newark and Sherwood CIL charging schedule stated that CIL viability should be based upon current requirements only. This report however pre-dated the publication of the National Planning Policy Framework which contains guidance for testing viability. At paragraph 174 of the NPPF, it states that *“Local Planning Authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards”* [our emphasis].

The national standards for the Code for Sustainable Homes are an adopted Government policy position and thus in our view, fall into the category of *“national required standards”*.

Whilst the higher code levels will not be required until 2015 and 2016, if the CIL charging schedule was adopted in 2013, this would mean that the viability evidence which underpins the charging schedule is out of date within two years. It is far more prudent in our view to set a CIL charge which is applicable in the longer term and which takes into account policy requirements which are due to be applied imminently.

Whilst there is some doubt as to whether the future application of Code for Sustainable Homes level 6, it is in our view reasonable to assume that Code level 5 will be required by 2015 in accordance with the current government timetable. This requirement will take effect within two years of the anticipated date for the implementation of the CIL Charging Schedule.

Various research reports have been produced on behalf of the Department for Communities and Local Government to establish the increase in costs that reflect the requirement for Code Level 5, the latest of which was produced by Davis Langdon in October 2011. The average uplift in build costs across the range of development typologies is anticipated to be 25%. This is a known and quantifiable cost and, given the period of time in which it will be required in relation to the adoption of the CIL Charging Schedule, it is our view that this should be built in to the build costs which are used to test viability.

Although it is possible that improvements in technology will rescue a proportion of the additional costs of Code Level 5, it should also be understood that site specific factors and constraints can increase the costs of reaching the Code's standards significantly. Therefore we have included the costs of reaching Code Level 5 at an additional build cost of 25%, in line with the Davis Langdon findings.

### ***Benchmark Land Values***

Paragraphs 4.10 – 4.14 of the BNP Paribas report outlines the rationale for the selection of the benchmark land values against which residual site values have been compared to determine viability. These are a fundamental part of the appraisal process and their accuracy is therefore essential. It is therefore particularly worrying that the values used and the rationale for their selection is clearly erroneous and unjustified.

There are four benchmark land values against which residual land values from the hypothetical appraisals have been assessed. Despite this, the only justification that has





been provided for the selected benchmark land values at paragraph 4.14 relates to the VOA residential land benchmark figure. No explanation is provided as to how the remaining two benchmark land values have been derived, their purpose or justification.

Taking the VOA benchmark land values first, the evidence base states that *“the VOA does not produce any data specific to Bath and the Bristol residential land values are the closest data available to Bath”*. For this reason, Bristol VOA land values have been used in the appraisal. Whilst close in geographical terms, land values vary significantly not just between Bristol and Bath, but also within the various sub areas identified within the Bath & North East Somerset administrative area. This fact alone draws into question the validity and robustness of the benchmark land values selected for the viability evidence.

With regards to the two unexplained benchmark land values, it is unclear how these have been derived or their value in the viability exercise. Unless a basis for these figures can be explained and justified, then they should be removed.

Notwithstanding the above, it is not at all clear why a range of threshold land values for residential development have been used in the viability evidence. We accept and acknowledge that land values vary within an authority area, particularly one such as Bath and North East Somerset, however, rather than testing the residual land value against a range of benchmark values, it would be more appropriate in our view to compare the residual land values against a single benchmark figure for each of the seven sub areas into which the District has been divided. This would be much clearer and would provide a simpler basis upon which to test viability.

The benchmark figures selected should represent realistic and reasonable values based upon comparable evidence from recent transactions. This evidence would demonstrate the market value of land based upon a willing vendor and a willing purchaser.

The two unexplained benchmark land values of £900,000 per net developable hectare and £500,000 per net developable hectare grossly underestimate the value of residential development land within Bath and North East Somerset. Our understanding of recent land transactions within the District indicate that land on the edge of Bath is more likely to be valued at between £4 million - £5 million per net developable hectare.

The viability evidence as it currently stands is fundamentally flawed as a result of the gross underestimation of the benchmark land value for residential land within Bath and North East Somerset. We strongly urge the Council and BNPP to review this component of the viability evidence and base the assessment of viability on robust and reasonable benchmark land values.

### ***Sensitivity Testing***

With regards to future sensitivity testing, we note that the BNP Paribas Report uses research produced by Savills to justify a 10% uplift in anticipated sales values. This, the Report claims, is used as a sensitivity test to understand the potential impact that an increase in sales values could have in the future and, whilst it is based on research which is now out of date (Savills has reduced its five year forecast for house price inflation in the South West from a total of 17.9% in May 2011, to a total of 10.3% in November 2011), we acknowledge that there is a benefit to sensitivity testing an uplift in sales values. It is however in our view misleading and unhelpful to build in a forecast increase in sales values without also reflecting an accurate increase of build cost inflation.

It is not clear from the BNP Paribas Report where the figure of 5% build cost inflation has been derived. This figure appears to be a significant under-estimate of the future build costs. Evidence from the construction sector suggests that the figure should be considerably higher. The latest forecasts from the leading companies are as follows:

*Table 2: Anticipated Build Cost Inflation*

	<b>Forecast Date</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2011-15</b>
<b>Faithful+Gould</b>	Oct 2011	+2.0%	+2.0%	+3.0%	+3.0%	+3.0%	13.69%
<b>BCIS</b>	Sept 2011	+3.65%	+3.08%	+3.41%	+3.72%	+4.78%	20.07%
<b>Gleeds</b>	Q3 2011	N/A	+1.4%	+2.4%	+3.0%	+3.9%	11.11%
<b>Cyril Sweett</b>	Q3 2011	0%	+1.0%	+2.5%	+3.5%	+3.75%	11.16%
<b>Gardiner &amp; Theobald</b>	Q3 2011	-2.5%	+1.5%	+3.0%	+3.5%	+3.5%	9.19%
<b>Turner &amp; Townsend</b>	Q2 2011	+2.5%	+3.0%	+3.5%	N/A	N/A	9.27%

Source: <http://www.fgould.com/uk/research-and-features/article/construction-inflation-report-october-2011/>

This evidence supports an inflationary figure of 9.19% to 20.07% based on the views of the construction industry. These figures should be weighed against any potential increase in revenue resulting from house price inflation.

We have not reappraised the work of BNP Paribas on their sensitivity testing, however, the strong indication is that towards the end of the five year period, inflation in build costs will have a negative impact on any sales price inflation. The implications of this are potentially significant and are likely to further jeopardise housing delivery if the CIL remains at the level proposed in the current Preliminary Draft Charging Schedule.

### ***Phasing of Payments***

We welcome the introduction of a phased apportionment of the CIL charges. This is essential as to require the full CIL charge upfront prior to the receipt of any sales from the residential units would add further to the finance costs for a developer.

In many circumstances (mainly for smaller sites) the phasing arrangement proposed would be broadly acceptable, however, a significant proportion of the housing supply pipeline is held within large schemes within the City where it may be necessary or appropriate to consider an alternative CIL instalment policy.

Where a large major development has been approved, it is not unreasonable to assume that there would be a period of 6 months to discharge planning conditions and an 18-24 month construction period prior to the receipt of sales revenue. In such circumstances, there would be very little, if any, capital receipt prior to the payment of the full CIL charge, a fact which would have a significant bearing upon viability. It is therefore recommended that a further threshold is incorporated into the instalment policy for those developments where the total CIL liability is above a higher threshold set to reflect a large major development. This would distribute the liability for instalments over a longer period of time and assist in ensuring that CIL does not have a negative impact on housing delivery.

## Summary of the Alternative Assumptions

Table 3: Summary of Alternative Assumptions

	BNP Paribas	Savills
<b>Landowner Premium</b>	20%	25%
<b>Residential Sales Values (per sq m)</b>		
Bath City Centre	£5,554	£4,037
Bath Rural / Bathavon	£4,991	tbc *
Bath North and East	£4,414	£3,792
Chew Valley West	£3,721	£3,432
Bath North / West / South and Chew Valley East	£2,769	£2,896
Keynsham	£2,428	£2,608
Norton Radstock	£2,095	£2,207
<b>Apartment Efficiency (Typologies 3 and 5)</b>	85%	80%
<b>Site Coverage (Typologies 6 and 7)</b>	100%	65%
<b>Abnormal Costs</b>	£0	£12,000 per unit
<b>Site Servicing Costs</b>	£0	£20,000 per unit
<b>Build Costs</b>	BCIS +6%	BCIS +25%
<b>Benchmark Land Value (per gross hectare)</b>		
Residential Land (High)	£2,520,000	Replace with a single benchmark land value for each sub-area.
Residential Land (Low)	£1,680,000	
Greenfield (No Services)	£900,000	
Vacant Serviced	£500,000	

*\*Note: As observed above there is very little new homes sales evidence to support the higher rate CIL charge proposed in Bath Rural/Bathavon.*

---

## Conclusion

The evidence provided in these representations clearly demonstrates the detrimental impact that the proposed CIL charge would have on viability and delivery of the strategic housing requirement. For the reasons provided elsewhere in these representations we strongly urge the Council to review the CIL Charging Schedule and in so doing we advocate the use of the assumptions summarised in Table 3 above.

Once the viability work has been reappraised we believe there are grounds to amend the proposed Charging Schedule in line with the following recommendations:

- i) Reduce of the CIL rates to reflect the reappraisal of viability across the authority area; and
- ii) Include an additional threshold in the Instalments Policy to account for those larger sites which will inevitably take a longer time to develop.

### ***Sensitivity Testing***

The BNP Paribas Report undertakes sensitivity testing of the maximum CIL rates proposed. This sensitivity testing has been based on assumptions of 10% house price inflation and 5% build cost inflation. Whilst the former is consistent with our own research on house price growth, the build costs inflation of 5% is well below the forecast average of the construction industry and takes no account of the Code for Sustainable Homes.

We have not run appraisals to assess the impact of the alternative assumptions on sensitivity testing, however, it is clear from the alternative assumptions that economic viability of housing delivery will be more constrained in the future than it is at present.

Notwithstanding the sensitivity testing, the assumptions used are inevitably based upon uncertain forecasts and are therefore subject to potential changes. The Council has suggested that the Charging Schedule will be reviewed on a 5 year rolling cycle. We support this and consider a 5 yearly review to be entirely sensible in the circumstances as it will overcome the uncertainties of relying upon long term forecast assumptions.



---

## **Next Steps**

These representations have been produced to assist the Council in setting a CIL charge for residential development which strikes the appropriate balance required by the Regulations and will not put the overall delivery of development at serious risk.

We recognise that the findings of our research and the evidence presented in our representations have significant consequences for the rate of CIL proposed in the Preliminary Draft Charging Schedule. The inevitable consequence of our findings is that the CIL charge for residential development must be reduced as failure to do so would have a significant detrimental impact on the economic viability of delivering housing in the city.

We would welcome the opportunity to meet with the Council and / or BNP Paribas in order to review the evidence and how this should be interpreted into a Draft CIL Charging Schedule for Bath & North East Somerset.

**Savills**

**NM**

**8 June 2012**



## **Appendix 1**

Extract from "Tapping the Potential"



## Tapping the potential

However, as underlined in *The Use of Density in Urban Planning*<sup>53</sup> there is a need for care when applying density multipliers. It is not just a case of adding up the total area of potential sites and multiplying it by a density.

This is because the density at which a site can be developed will vary depending not just on the policy context but on its size, configuration and the need for supporting facilities. For example, a small site with a street frontage could be developed entirely for housing, whereas on a larger site provision may need to be made for roads, open space and possibly even facilities such as schools. A net density multiplier would be applicable to the former (reflecting the approach used in PPG3 to consider residential density) but for the latter applying a net density across the site could give a misleading yield.

The difference in yields between net densities and gross densities was explored by URBED through the Sustainable Urban Neighbourhood Initiative<sup>54</sup>. This showed that gross densities could be as little as 45% of net densities across an area which included neighbourhood facilities, such as schools and parks.

One approach to address this complexity would be simply to vary the net density depending on the size of the site, using a banding approach. Another way would be to reflect the approach proposed in a report for Friends of the Earth<sup>55</sup>. This assumed that half of the identified vacant land would be in small sites and could be developed at net densities. The remainder would be larger sites where gross densities would apply. It was assumed that gross densities were half of expected net densities.

Yet another possible approach is to take account of different sizes of site but to group sites into broad size bands with corresponding gross to net density ratios. Smaller sites will typically make use of existing roads and facilities and yield can be readily assessed using a net density multiplier. On larger sites, the density multiplier must reflect the fact that as the demand of other uses becomes greater, the gross to net ratio decreases. The ratios in Table 3 are derived from work carried out by URBED and Llewellyn-Davies and are illustrative of how such an approach might work. The ratios selected in capacity work should be drawn up in the light of the local context.

**Table 2: An illustration of gross to net ratios for different site sizes**

• Up to 0.4 hectares	100% gross to net ratio
• Up to 0.4 – 2 hectares	75-90% gross to net ratio
• Over 2 hectares	50-75% gross to net ratio

Another way of using density multipliers is to categorise housing opportunities by location, such as city centre, ped-shed, suburban, or rural village. Each category would be accorded a density multiplier. These would need to be drawn up locally in the light of the guidance in PPG3. And the multiplier would also need to vary depending upon whether it applied to flats, terraces, semi-detached houses, or other forms of development. For example, a multiplier could be drawn up for terraced houses in ped-sheds. The more multipliers, the more complicated the exercise but the better and more useful the eventual data.

<sup>53</sup> 'The use of density in urban planning', DETR, 1998.

<sup>54</sup> 'Building the 21st Century Home – the sustainable urban neighbourhood', David Rudlin and Nick Falk, The Architectural Press, 1999.

<sup>55</sup> 'Tomorrow, a peaceful path to urban reform', David Rudlin, Friends of the Earth, 1998.





## **Appendix 2**

### Abnormal / Exceptional Costs Evidence



Location	Description	Units	Abnormals / unit
Bath	Former garage for demolition	9	£3,704
Gloucester	Former warehouse for conversion	26	£4,546
Trowbridge	Cleared site	79	£6,327
Gloucester	Former garden land	23	£8,816
Andoversford	Former garages / bus depot	39	£10,263
Stroud	Former sports ground	77	£10,863
Bristol	Former employment land	87	£10,905
Bishops Cleeve	Greenfield	450	£11,644
Taunton	Greenfield	80	£11,713
Barnstaple	Former garden land	28	£11,942
Bristol	Greenfield	192	£12,161
Bristol	Former industrial buildings	57	£13,509
Cullompton	Greenfield	261	£14,046
Yate	Greenfield	70	£14,743
Street	Greenfield	83	£18,096
Bristol	Greenfield	354	£19,697
Bristol	Greenfield	325	£22,202
<b>Average</b>			<b>£12,069</b>