**CHICHESTER COMMUNITY INFRASTRUCTURE LEVY
CHARGING SCHEDULE EXAMINATION**

RESIDENTIAL RATES
Viability Study Assumptions

1. ***Is the CIL viability study (CIL-02) submitted by the Council in support of the Draft Charging Schedule appropriate, particularly with regard to its assumptions for sales values, benchmark land values, build costs, residual S106 costs, professional fees, contingency, developers profit, stamp duty and abnormal development costs for residential development?***

   a. ***Does the available evidence support the following values adopted in the Viability Study for residential development in the south and north of the district:***

      - Sales values for market housing of £3,300-£3,600psm in the south and £4,120-£4,635psm in the north?

      - Benchmark land values of £2.47-£2.75 million/hectare in the south and £3.6-£4.12 million/hectare in the north?

   b. ***Does the available evidence support the residential build costs assumed of £1,168psm for flats and £938psm for houses?***

   c. ***Does the available evidence support the following cost assumptions:***
      - Residual S106 costs at £1,000/unit?
      - Professional fees at 8%?
      - Contingency at 5%?
      - Developers profit at 20%?
      - Stamp duty?

   d. ***Is the approach adopted in the Viability Study towards abnormal costs appropriate?***

   e. ***Would sensitivity testing the appraisals with lower sales values and higher benchmark land values, higher build costs and higher percentages for contingency, professional fees and developers profit assist in more robustly demonstrating the viability of the proposed residential charges?***

<u>Response</u>

1 Yes – there is a full explanation of how the data was assembled for the appraisal inputs in the Peter Brett and Associates Viability Study – Chapter 6, Viability Testing assumptions p23 (CIL-02)

<u>Response (a)</u>

1.1 Property values are derived from different sources. For housing, Land Registry data at July 2014 is the basis for our analysis. This provides a full record of all individual transactions. This data is then supplemented following conversations with agents and house builders' sales representatives, which allows us to form a view on new build sales values.

1.2 Further data since the Viability Study confirms that average house price inflation in the PO district is circa 5.8% per annum (land registry) February 2015.

1.3 The benchmark land values are based on the assumption that the site is fully serviced, free of significant abnormals but does not have the benefit of full planning permission. The values also take into account that the sites will be subject to full policy costs as at the date of the viability study. Such an approach was originally used (as a basis for comparing land values) by the Valuation Office Agency (VOA) when it published its annual figures on land values. It is difficult if not impossible to compare evidence without a single definition of land value as every development site by its nature is different.

1.4 Actual available evidence in the public domain is sparse within Chichester as many land transactions remain confidential between the landowner and the developer. Furthermore analysis depends upon detailed knowledge of the terms of the transaction in relation to planning, timing and intent. Our benchmark values are therefore based on a combination of agents and developers opinion and some transactional evidence which is then adjusted for policy requirements in accordance with DCLG and RICS guidance. The benchmark figures are perhaps towards the higher end of the scale (and nearer market values) to take into account market fluctuation.

1.5 Recent sites marketed in Chichester and its surroundings include:

- Shripney Road Shripney West Sussex PO22. Site with outline planning for 10 units being marketed at £750,000 (£2.65m ha)
- Bracklesham Lane, Bracklesham Bay, West Sussex, PO20. Site with development potential for housing available for £2.894m (per ha)

Response (b)

1.6 Yes – the BCIS data upon which the costs are based are regarded as appropriate available evidence and have been used in the vast majority of approved CIL schedules in England and Wales. This is because they are a retrospective report on actual build costs adjusted for region and are sufficiently detailed to estimate construction costs by type and size of development.

1.7 BCIS cost inflation is predicted to rise by circa 4.5 -6% per annum over the next 5 years.
http://www.rics.org/uk/news/news-insight/news/strong-construction-demand-to-drive-tender-price-increases--bcis-forecast-20152019/

Response (c)

1.8 Section 106 will continue to exist after CIL begins to be charged. However, the use of S106 will be scaled back. Section 106 is now expected to be very tightly targeted at mitigating the impacts of individual developments. The £1,000 is an estimate and subject to future viability testing on individual sites. The actual level of S106 will therefore be either higher or lower depending on individual circumstances.

- Professional fees at 8% is consistent with recommendations within the Harman report for standard housing accommodation.
- A 5% contingency is appropriate to the typical greenfield development in Chichester.
- Stamp duty has been included at HMRC rates.
- A 20% profit on value for market housing and 6% on affordable housing is consistent with the risk profile of residential development in Chichester. A split profit approach is also consistent with the advice in the Harman Report.

Please see chapter 6 of the Peter Brett Viabilty Study, p27 (CIL-02) for a fuller explanation.

<u>Response (d)</u>

1.9 It is impossible to introduce a generic allowance for abnormals as every site is different. The PBA approach has been previously accepted at other examinations and builds in market flexibility to land acquisition.

<u>Response (e)</u>

1.10 Assuming hypothetical increases to cost assumptions in isolation without considering changes in values would in our opinion not be a true sensitivity test or project a likely future market scenario. It would therefore not assist with the CIL setting process.

1.11 Rather than sensitivity testing we would recommend an update of appraisals looking at all relevant data including changes in sale values, policy requirements and any other factor that would have a material impact on viability.

1.12 Based on the latest evidence, average house price inflation in Chichester is at 5.8% per annum (land registry data and house price commentators) and cost increases at 4.5-6% per annum.

1.13 Short term fluctuations are a natural part of the property market and one of the reasons why the CIL regulations recommend setting CIL charges well below the theoretical viability ceiling. The table below is reproduced from Chichester DC's CIL evidence base storyboard (CIL-09). It shows that the CIL is well below the theoretical maximum and sub 5% of development value in all residential scenarios.

CIL rates set significantly below the theoretical maximum

Development Type	PDCS (£m²)	DCS (£m²)		Theoretical max viable CIL (£m²)	CIL as % of theoretical max CIL	CIL as % of sale value (£m²)
Residential Development South of District (Houses)	£120	£120	Most viable scenario (4 houses)	£208	58%	3.6%
			Least viable scenario (100 houses)	£163	74%	3.6%
Residential Development South of District (Flats)	£120	£120	Most viable scenario (4 flats)	£225	53%	3.3%
			Least viable scenario (24 flats)	£199	60%	3.3%
Residential Development North of District (Houses)	£200	£200	Most viable scenario (4 houses)	£459	44%	4.8%
			Least viable scenario (100 houses)	£412	49%	4.8%
Residential Development North of District (Flats)	£200	£200	Most viable scenario (4 flats)	£771	26%	4.3%
			Least viable scenario (24 flats)	£751	27%	4.3%