

Our ref: 33518/01

10 September 2015

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Dear Karen,

RE: Examination Response – Martin Grant Homes Representation Post CIL Examination

Further to your email on Friday 28 August 2015 which contained the examiners questions in relation to the written statement by Turley on behalf of Martin Grant Homes. Please find PBA response on behalf of Chichester District Council to the three areas of clarification sought and the two direct questions asked by the Examiner.

Clarification Point 1 Sales Values – Transactional Evidence

Examiner Statement

The analysis of Land Registry data presented in table 1.1 and paragraphs 1.16-1.18 of the statement which provides evidence to suggest that the average sales values from recently transacted sales of new build properties in Chichester are less than the figure of £3,400psm used in the revised viability appraisals presented by the Council in CDC-CIL-PH-1.

PBA Response

Turley has been selective in the evidence used. As shown in Figure 1.1 the Linden Homes development, which it has used as the sole comparator, is not typical for Chichester. As a result it has struggled to sell.

Figure 1.1 Images of Graylingwell Park, Chichester – Linden Homes



Source: <http://www.lindenhomes.co.uk/developments/west-sussex/graylingwell-park-chichester/gallery#nav>

Furthermore the units analysed by Turley range between 133 sq m and 155 sq m in size. The CIL viability model has used much smaller units, with an average unit size of 90 sq m average. MGH comparables are 48% to 72% bigger in size. There is a general rule of thumb in the market that the bigger the unit the lower the sale value per sq m. Turley has not made any adjustments to their evidence to reflect the 90 sq m unit

size tested, nor sought to use comparable size properties to those tested in the PBA CIL study. Furthermore, no adjustment has been made to the comparable evidence to reflect house price inflation. When using comparable evidence it is important that adjustments are made to ensure a like for like assessment.

As shown in Table 1.1 additional comparable evidence (not previously submitted in past studies) of similar unit sizes tested in the PBA viability assessment, adjusted for house price inflation¹ where necessary to reflect current day values, provide a general range of £3,300 to £3,500 per sq m. We are therefore of the opinion that the values used in our viability appraisal are reasonable.

Table 1.1 New build sale values, Chichester

Date of sale	Address	Typology	Price paid	Adjusted for inflation	Size sq m	Sold price £psm (adjusted where appropriate)
17/06/2015	14 TURNSTONE CLOSE WEST WITTERING	2 bed Semi-detached	£242,995		68	£3,554
17/06/2015	15 TURNSTONE CLOSE WEST WITTERING	3 bed Semi-detached	£311,995		89	£3,510
15/06/2015	11 TURNSTONE CLOSE WEST WITTERING	2 bed Semi-detached	£242,995		68	£3,554
01/05/2015	4 SANDPIPER WALK WEST WITTERING	2 bed Semi-detached	£240,000		68	£3,510
17/12/2014	2 SANDPIPER WALK WEST WITTERING	2 bed Semi-detached	£280,000		68	£4,095
12/12/2014	6 MILESTONE COTTAGES BIRDHAM ROAD	3 bed terraced	£250,000	£257,845	79	£3,264
05/12/2014	8 MILESTONE COTTAGES BIRDHAM ROAD	3 bed terraced	£240,000	£247,531	79	£3,133
14/11/2014	7 MILESTONE COTTAGES BIRDHAM ROAD	3 bed terraced	£260,000	£268,159	79	£3,394
30/10/2014	11 MCNAIR WAY	2 bed terraced	£279,950	£293,086	85	£3,294
28/10/2014	14 MCNAIR WAY	2 bed terraced	£279,950	£293,086	85	£3,294
27/10/2014	12 MCNAIR WAY	2 bed terraced	£279,950	£293,086	85	£3,294

Source: PBA, Land Registry, Chichester DC Planning portal, Rightmove

¹ House price inflation has been made using Land Registry House Price Index for West Sussex

Clarification Point 2 Affordable Housing Sales Values

Examiner Statement

The evidence presented in Table 1.2 and paragraphs 1.21-1.33 of the statement which indicates that affordable housing values are 7.5-10.4% lower than those assumed in the Council's revised viability appraisals.

PBA Response

Turley has presented evidence based on a formula approach and not evidence of affordable housing values actually achieved for schemes in Chichester.

The Council has little evidence on affordable housing values as when sites do come forward for development they are achieving affordable housing policy. When the Council has had to negotiate on affordable housing, the values agreed are generally in line with the values used in our viability assessment.

We are therefore of the opinion that the values we have used in the viability appraisals are reasonable and reflect the market analysed.

Clarification Point 3 Build Costs

Examiner Statement

The evidence presented in paragraphs 1.35-1.65 of the statement indicating that the BCIS figures for the second quarter of 2015 record current average base build costs for West Sussex at £1,080psm for 2-storey houses and £1,366psm for 3-5 storey flats, which is around 5% higher for houses and 15% higher for flats than the figures for base build costs assumed in the Council's revised viability appraisals.

PBA Response

PBA has relied on the hard copy version of the BCIS data and Turley has relied on the on-line version. Both sets of data have been taken from the same period in time. Both figures are correct, but the sample of evidence which sits behind the costs is slightly different which has led to different results.

As with all data sources BCIS has its limitations, whether using a hard copy or on-line version. BCIS data is an acceptable source of build cost data for the purposes of policy testing, and is recommended by the Harman report.² However, BCIS highlights that their costs are *only "general levels of building prices. The prices are derived from detailed analyses of accepted tender prices. It should be remembered that the figures are averages, the results of statistical analyses of many individual figures"*.³

The BCIS cost data is adjusted (re-based) for the region. This adjustment also has limitations. BCIS states that:

"Derived Regional Tender Price Indices chart regional movements in tender prices and are based upon the results of a statistical analysis of projects included in BCIS tender price indices. BCIS tender price indices measure the trend of contractors' pricing levels in accepted tenders, i.e. cost to client, for schemes let on a lump sum basis on Bills of Quantities or quantified schedules.

*The BCIS Regional Tender Price Indices are based on trends in regional prices where there is insufficient data to calculate actual regional indices, and should therefore be used with caution and only taken as an indication of general trends. They are not suitable for contractual index linking."*⁴

² Local Housing Delivery Group Chaired by Sir John Harman (2012) *Viability Testing Local Plans Advice for planning practitioners(P34)*

³ BCIS (February 2015) *Quarterly review of building prices*

⁴ BCIS (21 March 2014) *BCIS Regional Tender Prices Indices*

Furthermore, the robustness of BCIS as a data source is slowly diminishing as since October 2014 Registered Providers have not been required by Government to provide tender price responses (confirmation from RICS website enclosed). Registered Providers have been the main contributors towards the sample data. Most private house builders do not provide sample data. Therefore the pool of data which sits behind the BCIS cost data is becoming less extensive. Unfortunately at the current time there is no credible alternative source of cost data available.

In addition, there is a general industry assumption that house builders can build at less than BCIS cost. This was confirmed by Charles Solomon (former Head of Development Viability at the District Valuation Service) at a RICS event on the 18 June 2015. The evidence presented, as set out in Table 1.2, shows the average build costs for house builders that responded to the Homes & Communities Agency (HCA) preferred partner tender. This tender was in August 2013. Table 1.3 shows that when we analyse the average tender prices received by the HCA against the South East average BCIS data for Quarter 3 2013 (same quarter as tenders received) five year default period⁵ results in the BCIS costs being between 14% and 18% higher than the HCA build cost data.

Table 1.2 HCA Development Preferred Partner Tender August 2013 – Summar of Quotes

	DPP2 Midlands Lot. Summary of figures to be carried forward for reerence on project specific tenders.	Open Market Housing GDV per sqm	Affordable Housing GDV per sqm*	Open Market Housing Build Costs per sq m. (Sub-structure and superstructure only)	Affordable Housing Build Costs per sqm. (Sub- structure and superstructure only)
Midlands	Ave	£2,125 % of OMV	£1,350 63.5%	£742	£751
	Median	£2,139 % of OMV	£1,351 63.2%	£754	£757
Northern	Ave	£2,109 % of OMV	£1,245 59.0%	£723	£744
	Median	£2,118 % of OMV	£1,236 58.4%	£732	£729
South East	Ave	£1,801 % of OMV	£1,281 71.1%	£842	£853
	Median	£1,759 % of OMV	£1,278 72.7%	£859	£872
South West	Ave	£1,744 % of OMV	£1,298 74.4%	£847	£831
	Median	£1,747 % of OMV	£1,329 76.1%	£851	£820
All	Ave	£1,945 % of OMV	£1,293 66.5%	£789	£795
	Median	£1,941 % of OMV	£1,299 66.9%	£799	£795

Source: Financial Viability in Planning - Case Study Analysis

⁵ Preferred method by Turley set out on Page 12 of their *Chichester District Council CIL Examination: Response to Post Examination Evidence August 2015*

Table 1.3 Difference between HCA panel rate and BCIS re-based for the South East, five year period

Building Function	PrimarySub Class	BCIS Q.3 2013		Difference between BCIS and HCA Mean cost of £842	Difference between BCIS and HCA Median cost of £859
		Mean	Median		
Estate housing	Generally	£962	£935	14%	9%
Estate housing	Single storey	£1,085	£1,083	29%	26%
Estate housing	2-storey	£942	£929	12%	8%
Estate housing	3-storey	£986	£972	17%	13%
Estate housing detached		£989	£961	17%	12%
Estate housing semi detached	Generally	£971	£940	15%	9%
Estate housing semi detached	Single storey	£1,121	£1,094	33%	27%
Estate housing semi detached	2-storey	£947	£932	12%	8%
Estate housing semi detached	3-storey	£971	£963	15%	12%
Estate housing terraced	Generally	£962	£935	14%	9%
Estate housing terraced	Single storey	£1,113	£1,090	32%	27%
Estate housing terraced	2-storey	£948	£917	13%	7%
Estate housing terraced	3-storey	£959	£970	14%	13%
Average				18%	14%

Source: BCIS, HCA

Turley is proposing a higher rate BCIS build cost, taken from the on-line version, of £1,080 per sq m for houses and £1,366 per sq m for flats. PBA has used the lower rate BCIS build cost, taken from the hard copy version, of £1,022 per sq m for houses and £1,186 per sq m. If an 18% reduction is factored into the Turley BCIS build costs to reflect the analysis in Table 1.3 then the Turley cost is below the cost used in our viability study – see analysis in Table 1.4. Based on this evidence PBA is of the opinion that the BCIS build costs used in our CIL viability study are reasonable for a study of this nature and reflect the market analysed.

Table 1.4 Difference between Turley proposed BCIS costs with a discount to reflect HCA panel rates and PBA build costs used in the viability testing

Turley proposed BCIS rate (para. 1.65)		Turley BCIS rate adjusted by 18% to reflect HCA evidence		Build cost in PBA CIL viability study		Difference between PBA viability assessment and Turley BCIS cost with 18% discount	
Houses	Flats	Houses	Flats	Houses	Flats	Houses	Flats
£1,080	£1,366	£886	£1,120	£1,022	£1,186	£136	£66
						15.4%	5.9%

Source: BCIS, PBA, Turley, HCA

As a further point of clarification, please note that PBA has used the median and not the mean. PBA prefer the median because, unlike the mean, it is not distorted by extreme figures⁶ beyond the inter-quartile range. Therefore, we question the reliability of Turley promoting the mean as a robust figure to use in the testing.

⁶ BCIS (August 2015) *Quarterly review of building prices, Issue 38 (P.35)*

Summary

The Examiner has raised two questions on the Council's revised viability assessment which directly relate to the analysis of the three points of clarification; we deal with each of these as follows:

Examiner Question 1

What implications does this new evidence have for the assumptions for sales values and build costs made in the Council's revised viability appraisals?

PBA response

The new evidence does not have any impact on the sales values and build costs used. Once we have analysed Turley's response there is insufficient evidence for us to change the assumptions used in our viability appraisal because:

- **Sale evidence** - The sales evidence data provided by Turley is not reflective of the type of development planned nor has their evidence been adjusted to reflect the unit sizes used in our appraisal.
- **Affordable housing values** - Turley has not provided any written offers from Registered Providers for Chichester to support their claims for lower values. The affordable values used by PBA in the revised viability testing are reasonable and in line with the blended averages achieved in the District.
- **BCIS build costs** - Both sets of BCIS data proposed by PBA and Turley are acceptable but have relied on a slight variation in the sample evidence. Both sets of costs should be considered a range. Our evidence shows that BCIS data has its limitations. Based on our analysis of the difference in costs in what private house builders can develop and the BCIS cost proposed by Turley then there is an argument that the build costs in the appraisals should be reduced rather than increased. At this stage we do not propose to reduce the build costs as the assumptions used are considered sufficiently reasonable and robust for the level of viability testing required for a study of this nature.

Examiner Question 2

What effect, if any, does this evidence have on the ability of residential development in Chichester district across the range of typologies tested by the Council, including the strategic sites, to viably support the proposed CIL charges? Where appropriate the residential appraisals should be re-run across the full range of scheme scenarios and typologies, including the strategic sites, to demonstrate the effect on the maximum viable CIL rates.

PBA Response

The new evidence does not have an impact on the residential viability results. The viability appraisals have not had to be changed based on our response to the Examiner in question 1 above.

I hope the above and enclosed is satisfactory to support the CIL Charging Schedule progressing. Please feel free to contact me if you have any questions.

Yours sincerely,



Author: Stuart Cook, Associate



Reviewed and approved: Cristina Howick, Partner

For and on behalf of
PETER BRETT ASSOCIATES LLP

Enc. RICS extract on BCIS costs



TPISH Forms

05 Oct 2014

Important information regarding TPISH submissions:

As of October 2014, The AHCFG has been updated to remove references to Tender Price Index of Social Housing (TPISH). There will no longer be any reporting and audit requirements relating to TPISH.

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