

**Chichester District Council CIL
Examination: Further Response to
Post-Examination Evidence**

Prepared on behalf of:

Martin Grant Homes

September 2015

Turley

Contents

1. Further Response to Post-Examination Evidence	1
Appendix 1: RICS BCIS - Preliminaries	8

Contact

Matt Spilsbury BA (Hons) MSc MRICS MRTPI
Associate Director
Turley
matthew.spilsbury@turley.co.uk

Client

Martin Grant Homes Limited

Our reference

MARP3005

September 2015

1. Further Response to Post-Examination Evidence

Introduction

- 1.1 This representation is submitted on behalf of Martin Grant Homes ('MGH'). It has been prepared by Turley Economics.
- 1.2 The purpose of this representation is to provide further comment upon the further documents published by Chichester District Council ('CDC'), and its advisors Peter Brett Associates ('PBA'), in response to the questions issued by the Examiner (documents ED/5 and ED/5a) following the Chichester Community Infrastructure Levy (CIL) Examination.
- 1.3 Specifically, correspondence was received from the Programme Officer, send on behalf of the Examiner, requesting comment from MHG upon document CDC/CIL/PH/ED7 by 12 noon on Wednesday 23rd September 2015.
- 1.4 This representation therefore constitutes MGH's response to document CDC/CIL/PH/ED7, published by PBA on behalf of CDC, at the Examiner's request. The structure of the response is consistent with both:
 - Document ED7: The Examiner's Post Hearing Consultation Response Letter to the Council; and
 - Document CDC/CIL/PH/ED7

Sales Values – Transactional Evidence

- 1.5 Firstly, MGH refute the contention by PBA that a selective approach has been utilised in presentation of submitted evidence. MGH is not required to present data on all developments. The examples provided from across the South of NP area represent three separate developments where the achieved sales values have fallen below the values used within the CIL evidence base.
- 1.6 Secondly, MGH would wish to note that Graylingwell Park includes both modern style properties, designed by award winning architects, and more traditional properties. This is quite clear from a review of the developer's website¹. A mix is included within the analysis submitted by MGH to represent the range of unit types and sizes available.
- 1.7 Thirdly, PBA has presented no evidence to underpin the stated assertion that the development has struggled to sell.
- 1.8 With respect to the unit sizes presented – these simply reflect the size of units for which transactional evidence is available (i.e. the size of units sold). MGH wish to highlight that PBA has been required to present data back to October 2014 in order to illustrate just 11 sales for units falling below the 90sqm 'average' used within the CIL viability

¹ <http://www.lindenhomes.co.uk/developments/west-sussex/graylingwell-park-chichester#nav>

evidence base (Table 1.1 of CDC-CIL-PH-ED-7). Of these units, those in West Wittering are from a single development, those on Birdham Road are from a very small single terrace development, as are those on McNair Way, which is to the north of Chichester city centre. In summary, the 'average' size of 90sqm is small when considering the scale of new build development within the Chichester market and there is limited evidence of units below it – the use of such a simplistic approach makes it challenging to compare with market realities. PBA is therefore drawing conclusions from a very small pool of evidence upon which MGH place little reliance.

- 1.9 PBA has criticised MGH for not applying adjustments for unit size and house price inflation. However, PBA's approach to doing so within Table 1.1 of CDC-CIL-PH-ED-7 is not clearly explained. Moreover, even doing so, this demonstrates that 6 of the 11 comparable transactions fall below £3,300/sqm. Only those transactions at Sandpiper Walk, West Wittering exceed this rate. It is MGH's view that this does not constitute conclusive evidence to justify the uplift in open market sales values from £3,300/sqm to £3,400/sqm for houses in the South of the National Park (NP) zone.

Affordable Housing Sales Values

- 1.10 The following paragraph within CDC/CIL/PH/ED7 does not represent a satisfactory, and evidence-based response to MGH's stated concerns:

"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."

- 1.11 The firstly sentence suggests that the CDC does not have evidence on affordable housing values as all sites achieve affordable housing policy, but then this is contradicted by the second sentence. This is followed by a statement that PBA is of 'the opinion' that the rates are appropriate.
- 1.12 This is insufficient to respond to MGH's stated concerns, which to summarise, remain that the overly simplistic nature of the approach taken by PBA overstates the capital values of affordable housing.
- 1.13 Examination of this indicates that if RP's were required to acquire units at the rates utilised, the RP's would be required to introduce rental levels that would exceed the limits imposed by the Universal Credit and Local Housing Allowances (LHA). The rents would be unaffordable. Consequently, RPs would simply not acquire units at the rates used by PBA in the evidence base document CIL-02.
- 1.14 Despite reference to '*HCA policy and consultation with RSLs*' in Table 6-2 of CIL-02, PBA has not provided further clarification or evidence from these sources. Consequently, PBA is still yet to present any evidence of affordable housing sales values to substantiate the capital values attributed to affordable housing.
- 1.15 Moreover, no evidence has been provided to substantiate the uplift in affordable housing capital values as a fixed percentage of open market values when PBA increased proposed open market rates to £3,400/sqm for houses and £3,780/sqm for flats in the proposed South of the National Park (NP) charging zone.

- 1.16 The burden of proof (i.e. evidence) does not lie with MHG to provide this. Given PBA stated it's availability to inform the CIL viability testing, the onus to present this evidence sits with CDC and PBA.
- 1.17 In addition to the above, it is clear that the underpinning evidence for affordable housing capital values incorporated within CIL-02 will precede the implications of the policy announcements made within the Summer Budget 2015.
- 1.18 The Chancellor announced a reduction in both social and affordable rents by 1% in nominal terms, on an annual basis, over a four year period from 1st April 2016 to 31st March 2020. The Government estimates that the policy change will result in a 12% reduction in average rents by 2020/21, thereby reducing the welfare bill.
- 1.19 The new policy replaces the Government's previous rental formula, which allowed rent increases in line with the Consumer Price Index (CPI) plus 1% for 10 years from 2015.
- 1.20 Housing Associations (HA) secure funding for construction and/or acquisition by borrowing against future rental income streams. The forced reduction of rents will reduce the future rental income stream, which will undoubtedly frustrate both the construction and acquisition process over the next four years (and potentially beyond).
- 1.21 Having engaged with both HA's and house builders, HA's are currently reviewing development programmes, business plans and considering spending cuts in response to the new policy. Where not contractually committed HA's are either seeking to reduce offers to acquire affordable housing (affordable rent and social rent) from house builders in order to absorb the reduction in revenue or are simply not bidding at all.
- 1.22 Effectively, the market is undergoing a policy driven 'correction', which is resulting in a reduction in the value of affordable units developed by house builders for transfer to HA's. Consequently, it is anticipated this issue adds further weight to MGH's position that the affordable housing values within the CIL Viability Study (CIL-02) are substantially overestimated.

Build Costs

- 1.23 MGH is somewhat surprised by PBA's response to the representations submitted in relation to this issue as it signals a departure from previous commentary and dialogue. It appears that PBA has shifted its position on the reliability of RICS BCIS build cost data by highlighting perceived limitations. This is considered unusual practice, given it represents the sole basis upon which the base build costs within the CIL Viability Study (CIL-02 and subsequently CDC-CIL-PH-1) are predicated. It is unclear to MGH why PBA would seek to undermine the credibility of its evidence base at this stage given a reliable alternative has not been presented.
- 1.24 MGH also disagree with PBA's suggestion that, '*In addition, there is a general industry assumption that house builders can build at less than BCIS cost.*' This is a sweeping generalisation and quite simply does not reflect an 'industry assumption'. Whilst some schemes will be tendered and constructed at costs below BCIS median (or mean) figures, others will cost in excess of BCIS figures. This is dependent on a wide range of factors, which are frequently site-specific.

- 1.25 PBA proceed to present a scanned headline summary of quotes pertaining to be from house builders to the HCA's Development Partner Panel (DPP) as at August 2013 (Table 1.2). This evidence is stated as being sourced from a presentation at an RICS event conducted by Charles Solomon (former Head of DVS and now independent practitioner) in June 2015.
- 1.26 In summary, by contrasting Table 1.2 with RICS BCIS South East average BCIS data for Quarter 3 2013 (Table 1.3) PBA conclude that this demonstrates BCIS costs being between 14% and 18% higher than the HCA build cost data.
- 1.27 PBA subsequently applies this 18% discount to the Q2 2015 RICS BCIS costs of £1,080/sqm (houses) and £1,186/sqm (flats) within Table 1.4. PBA then compares this to the RICS BCIS Q4 2014 Hard Copy costs of £1,022/sqm (houses) and £1,186/sqm (flats) which are used within the revised viability evidence base (document CDC-CIL-PH-1). PBA subsequently concludes that the result of this process demonstrates that, *'the BCIS build costs used in our (PBA's) CIL viability study are reasonable for a study of this nature and reflect the market analysed'*.
- 1.28 MGH cannot agree with the approach presented by PBA as credible for the following reasons.
- 1.29 Firstly, members of Turley Economics were appointed by several house builders, successfully selected by the HCA onto the DPP1 and DPP2 panels, in order to provide bid support consultancy. This extended to support in preparation a response to the viability 'case study' which it is considered Table 1.2 is derived from. As part of the bidding, each developer was required to provide a hypothetical viability appraisal and 'bid' for acquisition of a case study site from the HCA.
- 1.30 In Turley's experience, due to the hypothetical nature of the bidding process, developers submitted extremely competitive quotations in order to score highly and place themselves with as best chance as possible of securing appointment to the DPP. Consequently, the quoted costs within Table 1.2 do not represent a reality of tendered construction schemes, but the outcome of a historic competition process for which the underpinning evidence is not publicly available, and which is clearly weighted towards house builders minimising cost in a hypothetical 'case study' example.
- 1.31 Secondly, the rationale for PBA comparing RICS BCIS costs with Table 1.2 appears flawed. The data cannot be discerned as being 'like-for-like'. To explain, Table 1.2 clearly states that the build costs reflect *'sub-structure and superstructure only'*. This indicates a number of exclusions, which are unconfirmed. RICS BCIS costs quoted do not reflect only substructure and superstructure and contain additional cost items. For example, the BCIS costs include 'prelims'.
- 1.32 Prelims (i.e. preliminaries) are defined by the RICS as costs associated with management and staff, site establishment, temporary services, security, safety and environmental protection, control and protection, common user mechanical plant, common user temporary works, the maintenance of site records, completion and post-completion requirements, cleaning, fees and charges, sites services and insurances, bonds, guarantees and warranties. These costs are not attached to a specific element but are an overall requirement for undertaking site construction works.

- 1.33 The RICS BCIS indicates that preliminary costs have averaged (median) between 12% and 13.6% for construction contracts tendered since 2010, and equated to 13.4% across 2013². It is MGH's view that the difference between the costs in Table 1.2 and the RICS BCIS is predominantly reflected in the incorporation of this allowance in BCIS costs alongside the issue raised in the previous bullet point.
- 1.34 Thirdly, PBA's approach of applying an 18% discount to the Q2 2015 RICS BCIS costs, and then comparing the results to the RICS BCIS Q4 2014 Hard Copy costs to arrive at their advocated conclusion, does not appear to represent a rational methodology.
- 1.35 PBA is essentially discounting the RICS BCIS rate by a historic factor (i.e. 18%), which effectively seeks to undermine the credibility of RICS BCIS, then compares this to PBA's preferred (hard copy) RICS BCIS measure (used in viability appraisals), which is concluded by PBA to be robust. Unless MGH is misreading PBA's rationale, this does not make sense.
- 1.36 As a final point, PBA seek to critique the use of 'mean' average RICS BCIS build costs in MGH's previous submitted representation. MGH finds this odd, given PBA's methodology clearly highlights that the RICS BCIS mean costs have been used as the basis for the viability appraisals underpinning the CIL evidence base³. PBA's following statement is therefore fundamentally incorrect:
- '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 figures beyond the inter-quartile range. Therefore, we question the reliability of Turley promoting the mean as a robust figure to use in the testing.'*
- 1.37 We would seek to highlight that it was assumed that PBA had utilised the 'mean' rate in the absence of this being reported anywhere in the evidence base prior to confirmation within document CDC-CIL-PH-1. This is clearly stated in previous representation. The utilisation of the 'mean' rate was an attempt to remain consistent and present 'like-for-like' figures.
- 1.38 However, given the use of tender prices for schemes across West Sussex, MGH does not consider that distortion would be a factor, due to the large sample size.

Summary Questions

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?

Comments

- 1.39 PBA has suggested that the evidence presented by MGH has not presented transactions that are reflective of the type of development planned or adjusted this to reflect the unit sizes used in PBA's appraisal.

² RICS BCIS data presented in Appendix 1 for transparency

³ See paragraphs 1.18-1.19 and Appendix B of submitted CIL Examination document CDC-CIL-PH-1

- 1.40 MGH would seek to highlight that the example evidence presented has, over subsequent representations, demonstrated that achieved sales values have fallen below the values used within the CIL evidence base upon three separate developments in the South of the NP zone. The evidence presented for Graylingwell Park includes both modern and traditional style properties and has been submitted based on available transactional information.
- 1.41 The size of units is reflective of units sold. MGH sees little value in seeking to provide evidence solely for smaller units at 90sqm or lower, for this evidence is highly limited, and does not appear to reflect the scale of the majority of new build transactions within the market. Even though MGH has not 'adjusted' transactions, as PBA has (the methodology for which is unclear), PBA's evidence shows over the half of the (limited) comparable transactions fall below £3,300/sqm. It remains MGH's view that this does not constitute conclusive evidence to justify the uplift in open market sales values from £3,300/sqm to £3,400/sqm for houses in the South of the National Park (NP) zone.
- 1.42 PBA has criticised MGH for not presenting any written offers from RP's to support claims. MGH is of the opinion that the evidence provided to date should prove sufficient given it is commensurate with the approach to the capitalisation of affordable housing values, and limitations on rental rates, taken in numerous CIL viability appraisals nationally. Moreover, the burden of proof (i.e. evidence) does not sit with MGH. PPG and the CIL Regulations place the requirement on the charging authority to utilise appropriate available evidence in rate setting. PBA has not presented any evidence to support the blended affordable housing sales values used within viability testing. They have not been demonstrated to be reasonable, representative of the current local market, or based on appropriate available evidence.
- 1.43 In addition, no account has been taken to the implications of the Government's reversal in both social and affordable rents by 1% in nominal terms, on an annual basis, over a four year period from 1st April 2016 to 31st March 2020. This is resulting in a reduction in the value of affordable units developed by house builders for transfer to HAs. The lack of consideration of this substantial issue adds further weight to MGH's position that the affordable housing values within the CIL Viability Study are substantially overestimated.
- 1.44 Consequently, as a maximum, MGH remains of the view that the affordable housing capital values presented in Table 1.3 of the submitted post-Hearing document titled 'Turleys' should be utilised by PBA in revised viability testing in the absence of any further evidence being presented.
- 1.45 It is the view of MGH that PBA's assessment of build costs is fundamentally flawed. The recommendation of MGH remains that the viability appraisals should be re-run in line with the request made in ED/5A. Accepting a date of May 2015, as proposed by PBA, the viability evidence should reflect the BCIS Online 'estate housing – 2 storey' measure for Q2 2015 and draw only upon a '5 year period' in order to encompass a sample of projects that most closely reflect the requirements (and hence costs) of construction to current Building Regulations. This cost would be £1,080/sqm for houses and £1,366 for flats.

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.

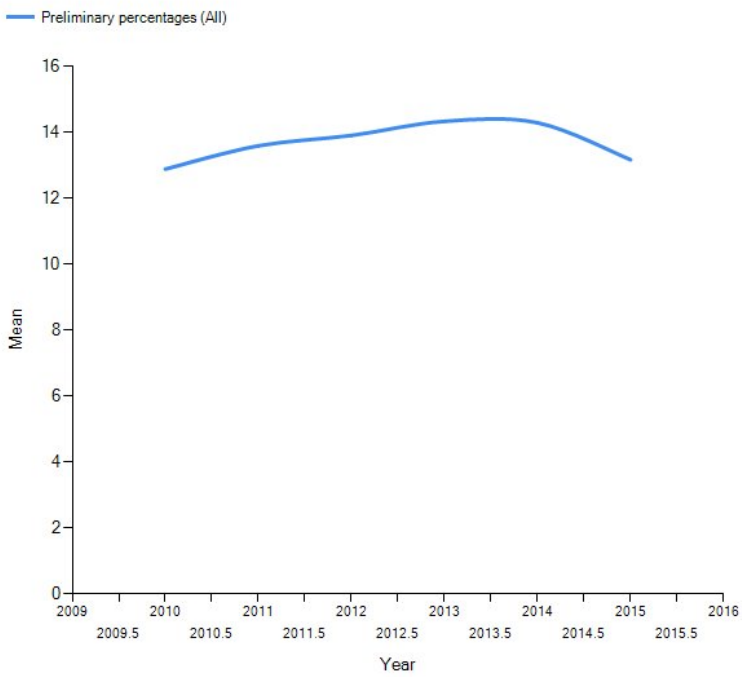
Comments

- 1.46 MGH is disappointed that PBA has concluded that the new evidence does not have an impact on the residential viability results and as a consequence that the viability appraisals have not had to be changed. MGH fundamentally disagrees with this.

Appendix 1: RICS BCIS - Preliminaries

Preliminary percentages (All)

Year	Mean	Lower decile	Lower quartile	Median	Upper quartile	Upper decile	Proportion above zero	Sample size
2010	12.9	6.3	9.3	12.0	15.7	20.2	100.0%	540
2011	13.6	6.8	9.5	12.5	16.7	21.1	99.6%	475
2012	13.9	6.3	9.0	12.9	17.6	22.5	99.8%	652
2013	14.3	6.8	10.1	13.4	17.9	22.1	100.0%	640
2014	14.3	6.8	10.1	13.6	17.2	21.7	99.6%	265
2015	13.2	6.4	8.4	12.1	15.6	19.6	100.0%	29



Turley Office
1 New York Street
Manchester
M1 4HD

T 0161 233 7676

Turley