



Report

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CIL Development Viability Study: Residential Urban Extension Birmingham City Council

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Appendix 1: Appraisals

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For and on behalf of GVA Grimley Ltd

Foreword

This Addendum is to be read in conjunction with GVA's 'CIL Economic Viability Assessment Birmingham City Council' of October 2012.

1. INTRODUCTION

- 1.1 This report forms an update to initial viability testing conducted in October 2012. GVA has been instructed by Birmingham City Council (the Council) to test the CIL viability levels in regard to a Sustainable Urban Extension (SUE) in the Birmingham area. This report will also present Land Registry data regarding residential sales in the Birmingham area, and examine the figures recommended in 2012, applying 40% discount to the maximum CIL payable.

2. URBAN EXTENSIONS

- 2.1 Population projections suggest that Birmingham's population will increase by 150,000 and households will increase by 80,000 between 2011 and 2031. The 2012 Strategic Housing Land Availability Assessment indicated that the City could only accommodate 45,000 new dwellings on sites within the urban area. This creates the need to review the Green Belt as one potential source of land for new housing, and it is considered that a minimum 5,000 unit SUE may be required to address this shortage.
- 2.2 The Council produced a Green Belt Options Assessment in September 2013, which recommends that the area to the west of the Sutton Coldfield Bypass (Area C1) is considered for a SUE. As it is within an area being actively promoted by developers, it is anticipated to be deliverable in the plan period.
- 2.3 The table below provides an overview of the anticipated SUE development in the area to the west of the Sutton Coldfield Bypass:-

Table 1: Area C1 SUE

	West of Sutton Coldfield Bypass, Walmley
Administration	Birmingham City Council
Affordable Policy	35%
Dwellings	5,000
Employment	N/A
Gross Ha	274 ha
Promoter	Taylor Wimpey

- 2.4 We have not undertaken an appraisal of an actual scheme, but have adopted a hypothetical example which mirrors the potential characteristics of a scheme on the

recommended Sutton Coldfield site. As agreed with Officers, we have tested a large or 'strategic' scale development scenario of 5,000 units.

- 2.5 We have conducted the testing using the Residual Development Appraisal Model detailed in the main Report.
- 2.6 Effectively the approach assumes that the site is to be developed by housebuilders which, given that the SUE is in fact being promoted by developers, is a reasonable assumption. It is usual for developers to seek a profit principally by reference to the end value of the private housing and the cost of the constructing the affordable housing (which is assumed to be transferred to a local Housing Association on a turn key contract). It is acknowledged that the return on the cost of capital is also an important measure. Given the scale of the costs required to develop such sites, and the cashflow implications of the Enabling Costs which are usually front loaded, it is our current experience that developers require a profit which effectively acknowledges not just the cost of the housing and the land but also the other costs. We have used a profit margin of 20% of GDV for the private housing and 6% of the affordable housing costs.
- 2.7 As the project will be long-running, it is anticipated that there will be a disparity between expenditure and the sale of dwellings. We have therefore also had regard to the Internal Rate of Return (IRR), a metric used by those promoting land for which there is a need to undertake long scale enabling works. We have applied an IRR of 17% to the appraisals.
- 2.8 The assumptions we have made are based on the figures we have adopted for the testing of the other schemes, but also reflect the fact that such developments will inevitably be undertaken by large regional and national developers who benefit from economies of scale. The figures also reflect our experience of dealing with large scale schemes.
- 2.9 With large sites Councils are faced with a significant challenge in deciding the extent to which they will use CIL, and the extent to which they will seek to continue to operate within the S106 regime. It can be expected that an SUE will generate many S106 requirements for onsite mitigation that are exclusive to the development, and therefore unlikely to be aggregated with S106 Agreements for other schemes. There are, however, some contributions which will almost certainly need detailed thought since they may be collected in common with other schemes, for example for secondary schools and off-site highway improvements. Notwithstanding the likelihood that an SUE can continue to be charged a significant S106, some Councils have decided that they will seek to use CIL in almost all cases, including for SUEs, and therefore that the residual S106 items will be minor in nature and cost.
- 2.10 In discussion with Officers we have agreed that for the purpose of the testing we will illustrate the maximum CIL that would arise if the Councils seek to continue charge for S106 obligations equivalent to:
- (a) £10,000 per dwelling (private and affordable); or,
 - (b) £20,000 per dwelling (private and affordable)
- 2.11 In practice, the viability assessment undertaken for a planning application will factor in first the CIL payable and then the necessary S106 obligations. The residual sum will then show

how much is available for affordable housing. For the purpose of this testing we have reversed this sequence and sought to illustrate how much is available to pay for CIL once one takes into account an assumed affordable housing requirement together with the adopted S106 payment.

- 2.12 For ease of reference we have focused only on the housing within the SUE. There will also be other buildings that are potentially liable for CIL; however, for the benefit of this residential testing they have not been considered.

3. ASSUMPTIONS

Private Sales Values

- 3.1 The site identified as most suitable for development for an SUE is located immediately to the east of the Sutton Coldfield urban area. We have therefore adopted the same private sales values as those used in the initial viability testing of October 2012 for Market Value Area 2, which included Sutton Coldfield.

Table 2: Private Sale Values 2013

Adopted Residential Value	£2,476 per sq m (£230 per sq ft)
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- 3.2 The above rate is derived from desktop research relating to achieved and asking prices for a range of new build properties, in a range of developments currently under construction or actively selling post completion.
- 3.3 We are aware that in at least one case (Peterborough) the CIL assessment for a large site has been undertaken on the assumption that sale values will rise during the course of the development at a greater rate than build costs. Whilst we know that developers do sometimes make such assumptions, we are of the opinion that in the current market many are reluctant to enter into contracts on the basis of such assumptions, and funders are most unlikely to provide finance on this basis. Further, it is our experience of developments of the scale being tested that planning viability assessments for planning applications are invariably by reference to current costs and values. We would also note that:-
- (a) the Harman Report recommends the use of current costs and values for setting CIL, echoing the guidance of DCLG; and
 - (b) Large schemes are naturally subject to phasing so the CIL payable for later phases will be by reference to the CIL rates that then apply. If it is shown that values have indeed increased by more than build costs, then there is a likelihood that a higher CIL rate will apply.

Other Assumptions

- 3.4 The assumptions we have adopted are detailed in Table 3 and 4. These assumptions reflect the fact that the sites will be built by national and large regional developers who benefit from economies of scale.

- 3.5 For ease of reference we have shown the results for a blended average of the affordable housing, since we have not varied the split of affordable rent and intermediate tenures.
- 3.6 On instruction we have assumed S106 payments of £10,000 (or £20,000) per unit. We have adopted the following timings and proportions of payments:

Table 3: S106 Payment Schedule

% of Development	0%	20%	40%	60%	100%
% of S106 Paid	2%	40%	30%	23%	5%

- 3.7 We have assumed an average dwelling size of c 93 sq m (1,000 sq ft). This assumption provides for the fact that there would be an element of flats within a SUE.
- 3.8 The cost of Enabling Works, for example utilities, surface water drainage and the main on-site highway costs, can be very significant for SUEs. The Harman Report, which was published in July 2012, suggests that these costs are typically in the range £17,000 to £23,000 per dwelling. We have dealt with a number of large schemes and the costs have ranged from c. £9,000 per dwelling to in excess of £30,000. We have adopted a cost of £20,000 per dwelling (the mid point suggested by the Harman Report).
- 3.9 We have assumed that the Scheme will take c 22 years to build and sell, c 250 dwellings pa, and we have allowed for a period of enabling works before construction of the housing can commence.
- 3.10 Whilst this timescale assumes a relatively fast sales rate, we consider that this is necessary for a scheme of this scale. It significantly assists the prospect for delivery of the scheme since the payback is earlier, and the scheme goes cash positive sooner. We therefore consider that in reality a scheme of this scale would be promoted based on a similar assumption.

Table 4: Assumptions for 5,000 unit scheme

Item	Assumption
No. of dwellings	5,000
Gross site area	270 ha (670 acres)
Net residential area	175 ha (435 acres)
Affordable Housing Split	20%, and 35%
Tenure Split	70:30 Affordable rent: Intermediate
Grant Assumption	No grant
Enabling Costs	£20,000 per unit
Contingency	3%
Professional Fees	10%
Sales Costs	2.75% (on Private and Intermediate sales)
Finance Rate	7.5%
Profit	20% IRR ungeared no growth excluding finance
Residential Build Costs	£883psm

Item	Assumption
Private Sale Values	£2,475psm (£230psf)
Affordable Sale Values	£1,625psm (£151psf)

Base Land Value

- 3.11 We have adopted a Base Land Value of c £67 million based on a gross area of 270 hectares (670 acres), equating to £250,000 per gross hectare (£100,000 per acre).
- 3.12 Clearly there may be circumstances where either lower or higher figures are contracted by the developer, but we believe that the rate is a fair reflection of what a reasonable and willing landowner would require.

4. RESULTS

- 4.1 The Tables below show a selection of the results from the testing: a 5,000 unit scheme with 20% affordable units and the same scheme with 35% affordable units.
- 4.2 In each scheme the implications of an increase in the S106 payment from £10,000 to £20,000 per unit (private and affordable) have also been considered.
- 4.3 As can be seen from the attached appraisals, the assumptions adopted give a positive residual land value, which suggests that the scheme would be deliverable. However, the appraisals do not equal or exceed the Base Land Value we have adopted.

Table 5: CIL assuming 20% Affordable

Enabling Costs	S106		
	£10,000/dwelling	£20,000/dwelling	£25,000/dwelling
£14,000	£0	£0	£0
£17,000	£0	£0	£0
£20,000	£0	£0	£0
£23,000	£0	£0	£0
£26,000	£0	£0	£0

Table 6: CIL assuming 35% Affordable

Enabling Costs	S106		
	£10,000/dwelling	£20,000/dwelling	£25,000/dwelling
£14,000	£0	£0	£0
£17,000	£0	£0	£0
£20,000	£0	£0	£0
£23,000	£0	£0	£0
£26,000	£0	£0	£0

5. CONCLUSIONS

- 5.1 Our assumption as to the general level of Enabling Cost is in line with the Harman Report, and our own experience.
- 5.2 We have tested two different levels of S106 payment, £10,000 per unit and £20,000 per unit (both private and affordable). It is noted that the scheme cannot support a CIL charge using either level of payment.
- 5.3 Any CIL payment that is imposed will effectively reduce the amount of affordable housing that can be provided, and might also impact on the level of S106 Contribution.
- 5.4 We recommend that the Council imposes a Nil Charge for CIL.

Appendices

BIRMINGHAM CIL
Sustainable Residential Development of 5,000 dwellings
Enabling Costs @ £20,000 per dwelling
Assume 20% Affordable Housing & S106 Contribution @ £10,000 per dwelling
Nil CIL

APPENDIX 2iv

REVENUE

Private Housing 4,000 Dwellings	4,002,000 sq-ft at £230 psf	920,460,000
Affordable Housing 1,000 Dwellings	1,000,000 sq-ft at £151 psf	151,083,000
	REVENUE	1,071,543,000

COSTS

Site Value		55,901,029	
Site Stamp Duty	at 4.00%	2,236,041	
Site Legal Fees	at 0.20%	111,802	
	Site Costs		58,248,872
Enabling Works £20,000 per dwelling		100,000,000	
S106 Payment Ph 1		1,000,000	
S106 Payment Ph 2		20,000,000	
S106 Payment Ph 3		15,000,000	
S106 Payment Ph 4		11,500,000	
S106 Payment Ph 5		2,500,000	
	Initial Payments		150,000,000
Dwellings	5,065,000 sq-ft at £86.10 psf	436,096,500	
Contingency	at 3.00%	13,082,895	
Professional Fees	at 10.00%	43,609,650	
	Build Costs		492,789,045
Direct Sale Agents Fee	at 2.75%	25,312,650	
	Disposal Fees		25,312,650
INTEREST			26,432,067
7.50% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Quarter 1 (Sep 12)		
Enabling Works	Quarter 2 to 62 (Dec 12 - Dec 27)		
S106 Payment Ph 1	Quarter 7 (Mar 14)		
S106 Payment Ph 2	Quarter 23 to 32 (Mar 18 - Jun 20)		
S106 Payment Ph 3	Quarter 39 to 48 (Mar 22 - Jun 24)		
S106 Payment Ph 4	Quarter 55 to 64 (Mar 26 - Jun 28)		
S106 Payment Ph 5	Quarter 71 to 80 (Mar 30 - Jun 32)		
Dwellings (bld.)	Quarter 7 to 86 (Mar 14 - Dec 33)		
Contingency	Quarter 7 to 86 (Mar 14 - Dec 33)		
Professional Fees	Quarter 1 to 86 (Sep 12 - Dec 33)		
Direct Sale Agents Fee	Quarter 7 to 88 (Mar 14 - Jun 34)		
Private Housing Sell (sale)	Quarter 8 to 88 (Jun 14 - Jun 34)		
Affordable Housing 1,000 Dwellings	Quarter 8 to 87 (Jun 14 - Mar 34)		
PROFIT	318,760,366	COSTS	752,782,634
PROFIT/SALE	29.75%	PROFIT/COST	42.34%
IRR	20.00%		

NPV/IRR Figures EXCLUDE Interest

Sensitivity Analysis – Site Value

Enabling Costs	S106 Costs			
	£10,000/dwell	£15,000/dwell	£20,000/dwell	£25,000/dwell
£70,000,000	£65,400,000	£60,700,000	£55,900,000	£51,200,000
£85,000,000	£60,700,000	£55,900,000	£51,200,000	£46,500,000
£100,000,000	£55,900,000	£51,200,000	£46,500,000	£41,700,000
£115,000,000	£51,200,000	£46,400,000	£41,700,000	£37,000,000
£130,000,000	£46,400,000	£41,700,000	£37,000,000	£32,200,000

BIRMINGHAM CIL
Sustainable Residential Development of 5,000 dwellings
Enabling Costs @ £20,000 per dwelling
Assume 35% Affordable Housing & S106 Contribution @ £10,000 per dwelling
Nil CIL

APPENDIX 2iv

REVENUE

Private Housing 3,250 Dwellings	3,252,000 sq-ft at £230 psf	747,960,000
Affordable Housing 1,750 Dwellings	1,751,000 sq-ft at £151 psf	264,395,000
	REVENUE	1,012,355,000

COSTS

Site Value		45,938,199	
Site Stamp Duty	at 4.00%	1,837,528	
Site Legal Fees	at 0.20%	91,876	
		Site Costs	47,867,603
Enabling Works £20,000 per dwelling		100,000,000	
S106 Payment Ph 1		1,000,000	
S106 Payment Ph 2		20,000,000	
S106 Payment Ph 3		15,000,000	
S106 Payment Ph 4		11,500,000	
S106 Payment Ph 5		2,500,000	
		Initial Payments	150,000,000
Dwellings	5,065,000 sq-ft at 86.10 psf	436,096,500	
Contingency	at 3.00%	13,082,895	
Professional Fees	at 10.00%	43,609,650	
		Build Costs	492,789,045
Direct Sale Agents Fee	at 2.75%	20,568,900	
		Disposal Fees	20,568,900
			22,563,926

INTEREST

6.75% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Quarter 1 (Sep 12)		
Enabling Works 20k Per Unit	Quarter 2 to 62 (Dec 12 - Dec 27)		
S106 Payment Ph 1	Quarter 7 (Mar 14)		
S106 Payment Ph 2	Quarter 23 to 32 (Mar 18 - Jun 20)		
S106 Payment Ph 3	Quarter 39 to 48 (Mar 22 - Jun 24)		
S106 Payment Ph 4	Quarter 55 to 64 (Mar 26 - Jun 28)		
S106 Payment Ph 5	Quarter 71 to 80 (Mar 30 - Jun 32)		
Dwellings (bld.)	Quarter 7 to 86 (Mar 14 - Dec 33)		
Contingency	Quarter 7 to 86 (Mar 14 - Dec 33)		
Professional Fees	Quarter 1 to 86 (Sep 12 - Dec 33)		
Direct Sale Agents Fee	Quarter 7 to 88 (Mar 14 - Jun 34)		
Private Housing Sell (sale)	Quarter 8 to 88 (Jun 14 - Jun 34)		
Affordable Housing 1,750 Dwellings	Quarter 8 to 87 (Jun 14 - Mar 34)		

PROFIT	278,565,526	COSTS	733,789,474
PROFIT/SALE	27.52%	PROFIT/COST	37.96%

IRR

20.00%
 NPV/IRR Figures EXCLUDE Interest

Sensitivity Analysis – Site Value

Enabling Costs	S106 Costs			
	£10,000/dwell	£15,000/dwell	£20,000/dwell	£25,000/dwell
£70,000,000	£55,400,000	£50,700,000	£46,000,000	£41,200,000
£85,000,000	£50,700,000	£46,000,000	£41,200,000	£36,500,000
£100,000,000	£45,900,000	£41,200,000	£36,500,000	£31,700,000
£115,000,000	£41,200,000	£36,400,000	£31,700,000	£27,000,000
£130,000,000	£36,400,000	£31,700,000	£27,000,000	£22,200,000