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Dear Hayley,

CIL VIABILITY STUDY – RETIREMENT HOMES, SHELTERED HOMES & EXTRA CARE HOMES

As requested, I write with comments on the CIL rate that we consider should be applied to Retirement Homes, Sheltered Homes and Extra Care Homes.

One of the main difficulties of dealing with these forms of development is the use class classification that should be applied to any scheme. Where an application is classified as C3 then it is likely that the Council would seek to apply its policies for general housing, which would include affordable housing (in such cases this is often a commuted sum rather than on-site provision). Consequently, we understand that applications for many schemes are now made for Use Class C2. We understand that some schemes are also deemed to be Sui Generis.

It is possible for a scheme to incorporate both Use Class C2 and C3 within the same complex. The test as to which Use Class applies, in our experience, usually depends on the services to be made available to the residents, according to their needs and what they wish to receive/purchase, and the degree of the care provided; this applies where the individual dwellings prime facie meet the test of being self-contained. It is also the case that a resident may begin by receiving or purchasing few services, but, as they age, requires increasingly more help, which can be provided without the need for them to move. This test therefore may not take into account the specific layout of the building(s), which can often be indistinguishable as between the two uses, and the final definition is dictated by the planning conditions and S106 obligations that are imposed.

We would note that a number of schemes are promoted and operated by Housing Associations and charities, all of whom benefit from the exemption to pay CIL (Regulation 43).

Commercial operators and the charities can and do buy sites on the open market, and are willing to pay values that exceed the current use match the value that would be paid for other uses. Indeed, mainstream housebuilders have noted that they can be outbid for land on occasions by these specialist developers.

It is suggested by the operators that there are good reasons to suggest that these forms of development should have a Nil assessment when compared with the CIL rate that is proposed to apply for conventional housing in the same area. These reasons include:

1. The net to gross ratio is much lower than for conventional housing due to the need to provide communal areas, disabled access throughout, staff facilities etc. In other words, it is more expensive to build relative to the sale receipts;
2. The higher net to gross ratio will also result in a higher CIL charge relative to other forms of housing;
3. Planning application decisions show that such schemes can often afford to make little affordable housing contribution, and that given the difficulties of mixing affordable housing with this use, it is usually in the form of a capital contribution. This means that the CIL will be applied to 100% of the gross area, unlike housing schemes of a similar scale;
4. Such schemes usually attract a relatively low S106 contribution because it is accepted in most instances that education contributions are inappropriate and not required;
5. The units in retirement schemes can take much longer to sell – buyers usually want to see and visit the completed scheme before committing so will not buy off-plan. The longer selling period means higher carrying cost for the developer, not just the interest charge, but also in council tax and service charge for the unsold units;

Operators have pointed to the testing undertaken by BNP for North Northamptonshire JPU which suggests that development of this type has a nominal, nil or negative land value. In our view this testing is clearly at odds with the market evidence that shows that land is bought for significant sums; it is not disputed by operators that land is bought at commercial values.

These arguments have recently been presented at the CIL Examination for Sevenoaks DC, where McCarthy & Stone appeared at the hearing. I have already supplied you with the evidence that was prepared for the Council, the representations made by McCarthy & Stone and Churchill Retirement Living, and the Examiner's findings. Sevenoaks proposed that C3 development be charged at the same whilst C2 would be Nil. The operators sought a Nil rate for C3 where an age restriction on the occupiers is imposed. The Examiner accepted the evidence of the Council and the C3 CIL applies whilst C2 is £0. At Hertsmere it was agreed between the Council and the retirement home developers that a single rate would be appropriate, but that it would apply to both C2 and C3 uses at the same rate (£120 whereas the conventional C3 rates are £180, £120 and £0).

We prepared the evidence for Dartford BC, which was considered at the same time as Sevenoaks by the same Examiner (there was no hearing). In that instance it was accepted that a C3 use be charged at the same rate as conventional housing but that C2 uses or uses that meet a definition of extra care sheltered accommodation, should be £0.

Our response to the points made by the operators is:

1. Not all schemes are blocks of flats so the issue over net to gross does not always apply. We agree, however, that the provision of communal areas does mean

that the net to gross is usually in the range 65-75% and worse than for an equivalent block of flats;

2. We agree that the majority of schemes do not include on-site affordable, and therefore the CIL would invariably apply to 100% of the scheme, in contrast with an equivalent scale conventional housing scheme. However, we are also aware that many schemes are deemed be Use Class C2 and therefore outside the requirement to make an affordable housing contribution. This is done not on grounds of viability but because of the way the building will be occupied and operated. In other words, the operators are very alive to the ways in which applications can be presented in order to minimise their S106 obligations and to deploy arguments not available to conventional housing schemes;
3. Your current S106 policy does not provide education contributions and this is one of the reasons for introducing CIL;
4. The issues as to the rate of sales and holding costs are factored into the appraisals done by the operators, but it is also expected that the dwellings will sell for a significant premium above the prices that would apply to conventional, new build units in the locality.
5. The service charge can be much greater than for an equivalent flat, but this is in part as a result of the level of services that each occupier requires, and those services can be integral to the argument as to whether a unit is properly classified Use Class C2 or C3 i.e. the more services that are provided, and paid for within the service charge the greater the likelihood that the unit may be considered Use Class C2.

Our long standing view is that many of these issues are difficult to deal with in high level testing, and do not necessarily turn on the exact physical form of the development (a C2 care home development can be identical to a C3 care home development).

We have carried out high level testing of an assumed scheme with 65 dwellings all of which are available for sale. We have assumed that the units will command a 15% premium above the prevailing values, but that it will take 2 years post completion to sell all the units. The testing suggests that such a scheme cannot afford to pay a CIL unless the build costs are materially less, except in Value Area 1. Copies of the appraisals are attached.

Item	Assumption
Scheme	65 beds – 45 x 1 bed (56 sqm) & 20 x 2 bed (83 sq m) 25 car spaces 68% net to gross
Site	0.6 ha (1.48 acres)
Sale Values - 2012	15% above prevailing private values for each area
Build Cost - 2012	£974 per sqm Professional Fess – 10% Contingency – 5%
Profit	20% of GDV

Value Area	Residual Land Value	Base Land Value	Base Land Value	Surplus	Max CIL excl buffer
		EUV + 20%	Residential		
1	£1,400,000	£675,000	£1,125,000	£275-725,000	£44-117
2	£70,000	£675,000	£1,125,000	Nil	£0
3	£0	£675,000	£1,125,000	Nil	£0
4	£0	£360,000	£450,000	Nil	£0
5	£0	£360,000	£450,000	Nil	£0
6	£0	£360,000	£450,000	Nil	£0
7	£0	£360,000	£450,000	Nil	£0
8	£0	£360,000	£450,000	Nil	£0

Our recommendation to other Councils is that it is fair and appropriate to apply £0 CIL to those units that are classified Use Class C2. Clearly the viability testing suggests that except in the case of Area 1 no development, if classified as Use Class C3 can afford a CIL. We would therefore advise that Nil CIL be charged.

Yours sincerely,

CHARLES TRUSTRAM EVE
Director

For and On Behalf of GVA Grimley Ltd

Value Area 1

REVENUE			
Ground Rents - 1 Bed	45 units at 450.00 ea./pa	20,250	
Ground Rents - 2 Bed	20 units at 500.00 ea./pa	10,000	
Inv.Value-A	Net annual income	30,250	
	Capitalised at 6% Yield	504,167	
	Less Purchasers costs at 4.8%	23,092	481,075
1 Bed	2,520.00 sq-m at 2,973.00 psm		7,491,959
2 Bed	1,660.00 sq-m at 2,973.00 psm		4,935,180
Car Spaces	25 units at 1.00 ea.		25
		REVENUE	12,908,239
COSTS			
Site Value		**1,407,000**	
Site Stamp Duty	at 4.00%	56,280	
Site Legal Fees	at 0.50%	7,035	
Site Agency Fees	at 1.00%	14,070	
		Site Costs	1,484,385
1 Bed	3,690.00 sq-m at 950.00 psm	3,505,500	
2 Bed	2,440.00 sq-m at 950.00 psf	2,318,000	
Enabling	6,190.00 sq-m at 47.50 psm	294,025	
Car Spaces	25 spaces at 3,000.00 ea.	75,000	
Contingency	at 5.00%	309,626	
Professional Fees	at 10.00%	619,253	
		Build Costs	7,121,404
Direct Sale Agents Fee	at 5.00%	621,358	
		Disposal Fees	621,358
Legal Fees		39,000	
Empty Property Costs		300,000	
		End Payments	339,000
INTEREST	**(See CASHFLOW)**		760,221
7.50% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Sep 12)		
1 Bed (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
2 Bed (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
Enabling (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
Car Spaces (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
Legal Fees	Month 16 to 45 (Dec 13 - May 16)		
Empty Property Costs	Month 16 to 39 (Dec 13 - Nov 15)		
Inv.Value-A 6%	Month 45 (May 16)		
1 Bed (sale)	Month 16 to 39 (Dec 13 - Nov 15)		
2 Bed (sale)	Month 16 to 39 (Dec 13 - Nov 15)		
Car Spaces (sale)	Month 16 to 39 (Dec 13 - Nov 15)		
PROFIT	2,581,871	**COSTS**	10,326,368
PROFIT/SALE	20.00%	**PROFIT/COST**	25.00%
IRR	26.44%		
	NPV/IRR Figures EXCLUDE Interest		

BIRMINGHAM CC CIL
Care Homes
2012 Values & Costs

Value Area 2

REVENUE			
Ground Rents - 1 Bed	45 units at 450.00 ea./pa	20,250	
Ground Rents - 2 Bed	20 units at 500.00 ea./pa	10,000	
Inv.Value-A	Net annual income	30,250	
	Capitalised at 6% Yield	504,167	
	Less Purchasers costs at 4.8%	23,092	481,075
1 Bed	2,520.00 sq-m at 2,846.00 psm		7,171,920
2 Bed	1,660.00 sq-m at 2,846.00 psm		4,724,360
Car Spaces	25 units at 1.00 ea.		25
		REVENUE	12,377,380

COSTS			
Site Value		**66,000**	
Site Legal Fees	at 0.50%	330	
Site Agency Fees	at 1.00%	660	
		Site Costs	66,990
1 Bed	3,690.00 sq-m at 1,100.00 psm	4,059,000	
2 Bed	2,440.00 sq-m at 1,100.00 psf	2,684,000	
Enabling	6,190.00 sq-m at 55.00 psm	340,450	
Car Spaces	25 spaces at 3,000.00 ea.	75,000	
Contingency	at 5.00%	357,923	
Professional Fees	at 10.00%	715,845	
		Build Costs	8,232,218
Direct Sale Agents Fee	at 5.00%	594,815	
		Disposal Fees	594,815
Legal Fees		39,000	
Empty Property Costs		300,000	
		End Payments	339,000
INTEREST	**(See CASHFLOW)**		668,898
7.50% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Sep 12)		
1 Bed (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
2 Bed (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
Enabling (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
Car Spaces (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
Legal Fees	Month 16 to 45 (Dec 13 - May 16)		
Empty Property Costs	Month 16 to 39 (Dec 13 - Nov 15)		
Inv.Value-A 6%	Month 45 (May 16)		
1 Bed (sale)	Month 16 to 39 (Dec 13 - Nov 15)		
2 Bed (sale)	Month 16 to 39 (Dec 13 - Nov 15)		
Car Spaces (sale)	Month 16 to 39 (Dec 13 - Nov 15)		
PROFIT	2,475,460	**COSTS**	9,901,920
PROFIT/SALE	20.00%	**PROFIT/COST**	25.00%
IRR	28.01%		
	NPV/IRR Figures EXCLUDE Interest		

BIRMINGHAM CC CIL
Care Homes
2012 Values & Costs

Value Area 3

REVENUE			
Ground Rents - 1 Bed	45 units at 450.00 ea./pa	20,250	
Ground Rents - 2 Bed	20 units at 500.00 ea./pa	10,000	
Inv.Value-A	Net annual income	30,250	
	Capitalised at 6% Yield	504,167	
	Less Purchasers costs at 4.8%	23,092	481,075
1 Bed	2,520.00 sq-m at 2,726.00 psm		6,869,520
2 Bed	1,660.00 sq-m at 2,726.00 psm		4,525,160
Car Spaces	25 units at 1.00 ea.		25
		REVENUE	11,875,780
COSTS			
Site Value		**1**	
Site Legal Fees	at 0.50%	0	
Site Agency Fees	at 1.00%	0	
		Site Costs	1
1 Bed	3,690.00 sq-m at 1,100.00 psm	4,059,000	
2 Bed	2,440.00 sq-m at 1,100.00 psf	2,684,000	
Enabling	6,190.00 sq-m at 55.00 psm	340,450	
Car Spaces	25 spaces at 3,000.00 ea.	75,000	
Contingency	at 5.00%	357,923	
Professional Fees	at 10.00%	715,845	
		Build Costs	8,232,218
Direct Sale Agents Fee	at 5.00%	569,735	
		Disposal Fees	569,735
Legal Fees		39,000	
Empty Property Costs		300,000	
		End Payments	339,000
INTEREST	**(See CASHFLOW)**		681,096
7.50% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Sep 12)		
1 Bed (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
2 Bed (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
Enabling (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
Car Spaces (bld.)	Month 1 to 15 (Sep 12 - Nov 13)		
Legal Fees	Month 16 to 45 (Dec 13 - May 16)		
Empty Property Costs	Month 16 to 39 (Dec 13 - Nov 15)		
Inv.Value-A 6%	Month 45 (May 16)		
1 Bed (sale)	Month 16 to 39 (Dec 13 - Nov 15)		
2 Bed (sale)	Month 16 to 39 (Dec 13 - Nov 15)		
Car Spaces (sale)	Month 16 to 39 (Dec 13 - Nov 15)		
PROFIT	2,053,730	**COSTS**	9,822,050
PROFIT/SALE	17.29%	**PROFIT/COST**	20.91%
IRR	24.66%		
	NPV/IRR Figures EXCLUDE Interest		