Bristol Community Infrastructure Levy

Position Statement

Submitted by Savills

on behalf of the House Builder Consortium Group

June 2012

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Introduction

This Statement has been submitted by Savills on behalf of the House Builder Consortium Group, a collection of major house builders active within the Bristol area, who have come together to provide single comprehensive response to the emerging CIL Charging Schedule for Bristol. The consortium group comprises the following members:

- Persimmon Homes
- Barratt Homes / David Wilson Homes
- Taylor Wimpey
- Linden Homes
- Crest Nicholson
- Redrow Homes
- McCarthy & Stone

The Statement directly addresses the two specific questions posed by the Examiner on the draft programme dated 3 May 2012. It is intended to supplement the evidence previously submitted to Bristol City Council and we do not reiterate our representations to the Preliminary Draft or Draft Charging Schedules, copies of which have been provided to the Examiner. .

The representations to the Preliminary Draft Charging Schedule contain our detailed critique of the viability evidence produced by BNP Paribas which underpin the proposed charges. We examine both the methodology and each of the assumptions used in the residual valuations of the site typologies. The representations to the Draft Charging Schedule build upon this and, through viability modelling, demonstrate the impact that the alternative / corrected assumptions have on hypothetical residual land values for all the site typologies tested.

It is clear from our previous representations that we have fundamental concerns regarding both the robustness of the viability evidence and the potential implications that the proposed introduction of the Community Infrastructure Levy rates will have on the delivery of residential development in the City. For the reasons explained in our representations we consider that the draft Charging Schedule fails the two principal tests of the Regulations. The following two sections of this Statement explain why we consider this to be the case and the final section provides our alternative proposed charges for Bristol.

(a) Are the two local levy rates for residential development in the city justified by appropriate available evidence, having regard to national guidance, local economic context and infrastructure needs, including in relation to the Council's adopted Core Strategy?

For the many detailed reasons outlined within our representations to both the Preliminary Draft and Draft Charging Schedules we do not consider that the viability evidence produced by BNP Paribas, which underpins the proposed CIL rates, provides an appropriate basis upon which to accurately establish a reasonable CIL Charging Schedule for Bristol. We have two fundamental concerns in relation to the evidence base:

i. The viability report, even predicated upon the inaccurate assumptions used by BNP Paribas, demonstrates that for large areas of the city, the residual land values are insufficient to support the introduction of any CIL charge; and

ii. The viability evidence is fundamentality flawed in a number of respects and fails to represent *"appropriate available evidence"* as required by the CIL Regulations 2010.

A full explanation of our objections is provided within the representations to the Preliminary Draft Charging Schedule. In addition to these we wish to highlight two particular components of the viability evidence which we consider fail the necessary test of *"appropriate available evidence"* within the Regulations.

Firstly, some of the evidence incorporated within the hypothetical residual valuations is simply inaccurate and hence, by definition is considered *"inappropriate"*. For example, the data on sales values provided in relation to a number of the comparable sites does not correlate with the sales evidence colleagues have provided in relation to actual schemes which Savills have sold.

One example is the residential component of the 'Finzels Reach' development in the centre of Bristol, where the sales values attributed in the BNP Paribas Report are £476 per sq ft in 2007 and £528 per sq ft in 2011. These sales revenues do not accurately reflect the sales values achieved and are completely at odds with those represented during the Section 106 negotiations for the site where BNP Paribas were acting on behalf of the developer HDG Mansur. This latter viability evidence, provided by BNP Paribas in February 2011 in support of the Section 106 negotiations, is more closely aligned with the average of the developments ten most recent open market sales which equate to blended average sales rate of £356 per sq ft.

As an aside, it is of interest to note that in October 2011 the Council approved the proposed reduction in the Section 106 contributions and quantum of affordable housing on the Finzels Reach site due to economic viability constraints. This example draws into question the validity of BNP Paribas methodology and serves to demonstrate the financial viability constraints facing development sites in Bristol, even in prime city centre, waterfront locations.

A further example is Pro Cathedral in Clifton. We have a number of concerns in using a scheme such as this in the viability evidence base. In summary:

i) The scheme was never built as the bank was not prepared to lend, despite 30 sales having been agreed;

ii) The scheme was aborted, therefore, the average of sales price generated is not reflective of the whole, but of the most desirable and popular units – an inclusive sales figure would be lower;

iii) The development was exceptional in terms of new build supply, a Grade II* listed Cathedral conversion, and values would need to be weighted to reflect the intrinsic qualities of the building and design;

iv) The projected build costs were very much higher than that of conventional new build and considerably higher than BCIS.

Notwithstanding the above, the sale figure quoted is anyway not accurate. The blended sales values of the units which were reserved in October 2007 was £478 per sq.ft and not £571 as indicated by BNP Paribas. It is also worth noting that, despite the above average sales values achieved, the Section 106 agreement included the provision of only 3.7% affordable housing due to the constraints on viability that were demonstrated to the Council at the time planning permission was granted.

These are just two of many examples used in the BNP Paribas Report of flawed sales values. We have analysed a considerable number of the comparable schemes used by BNP Paribas and the vast majority of these overstate sales revenues.

It is unclear how BNP Paribas have derived the sales values for use in the viability appraisals. We offered to meet with the Council and BNP Paribas to share our comprehensive evidence of sales revenue however no meeting was sought. Sales revenue is an extremely important component of a residual valuation and this degree of inaccuracy has a significant bearing upon the outcomes from the residual valuations. The impact of this is shown in our representations to the draft Charging Schedule.

Secondly, the viability evidence fails to properly take into consideration another of the fundamental components of a residual valuation, i.e. abnormal/exceptional costs. A considerable majority of the supply pipeline within Bristol is on previously developed sites where there is likely to be, as a very minimum, the cost of demolishing the existing structure. The viability evidence ignores this fact and fails to therefore properly acknowledge and respond to the specific nature of the supply pipeline within Bristol.

We appreciate that the hypothetical valuation methodology based upon site typology does not enable site specific matters to be taken into consideration. However, in order to provide a reasonable and realistic assessment of development viability, it is absolutely necessary to make an average allowance to cover such development costs. The failure to do so represents a significant flaw in the viability evidence and again fails to represent *"appropriate available evidence"* as required by the CIL regulations.

For these reasons and the others outlined in our representations we do not consider that the viability evidence is sufficiently robust to support the proposed CIL charges within Bristol. In direct response to Question (a), posed by the Examiner, the answer must therefore be "No", the two local levy rates for residential development are not justified by appropriate available evidence.

(b) Are the two local levy rates for residential development in the city reasonable and realistic in relation to an appropriate balance between helping to fund new infrastructure and the potential effects on economic viability, and is the boundary between them appropriate?

It comes as no surprise, given the flaws in the evidence base and the failure to justify the levy on the basis of *"appropriate available evidence"*, that the proposed charges within the draft Charging Schedule are not considered to represent a reasonable and realistic balance between funding infrastructure and the potential impact on economic viability. A fundamental principle of planning, which is not only relevant to CIL but is encapsulated within the CIL Regulations, is that planning is evidence led. In the absence of appropriate available evidence to justify the proposed CIL charges we do not believe that the proposed rates can be supported.

Furthermore, the assessment of alternative / corrected assumptions contained within our representations at the draft Charging Schedule stage demonstrate that the proposed CIL charging rates for Bristol do not strike an appropriate and reasonable balance. Indeed, at present we consider that the proposed Levy would not only impact upon individual site viability to the extent that it would render many sites unviable, but that it also unduly prioritises the delivery of infrastructure to the detriment of site specific mitigation and affordable housing delivery.

In establishing an appropriate CIL rate for Bristol it is necessary to strike a balance not only between the delivery of infrastructure and provision of sufficient new homes to meet the strategic housing requirement, but also to ensure that there is sufficient margin between build costs and sales revenue to ensure appropriate site specific mitigation can be funded where necessary and the delivery of affordable housing is not reduced significantly.

The evidence provided within our representations demonstrates the significant harmful effect that the imposition of the proposed CIL rates would have on residential development viability. At a time when mortgage finance and development finance is heavily constrained and residential planning permissions are already reducing, the imposition of an additional tax upon residential development which has been demonstrated to be unviable, would significantly harm the ability of the Authority to achieve the strategic housing requirement.

Notwithstanding, it is important for the charging authority in setting the proposed CIL rate, to balance the need for infrastructure funding against other strategic priorities such as affordable housing. Once set, there are only very limited circumstances where it would be possible to justify exceptional circumstances and hence the levy represents a fixed cost on development. The only area for negotiation in respect of financial viability is therefore the percentage of affordable housing.

At the levy rate currently proposed within the Charging Schedule, it is in our view highly likely that in many circumstances it would be necessary to reduce the affordable housing required on site below a policy compliant position. Given the need for affordable housing within the City this clearly represents an undesirable consequence of the introduction of CIL. At the rates proposed we consider that the CIL levy will have the effect of prioritising the funding for infrastructure to the detriment of affordable housing delivery. In answer Question (B) raised by the Examiner, we do not consider that the CIL rates strike an appropriate balance between the funding of new infrastructure and the economic viability of residential development.

Conclusion and Recommendations

For the reasons outlined above and explained in detail within our representations, we have very strong concerns that the CIL rates proposed for Bristol are not supported by *"appropriate available evidence"*, and do not strike an appropriate balance between the funding of infrastructure and economic viability of residential development.

Whilst the evidence provided in support of the proposed charge of £70 per sq.m. for the Inner Area is flawed, we acknowledge that a higher CIL charge is achievable within the area defined in the Preliminary Draft Charging Schedule. Residential development within this area generally has higher sales values, and whilst alternative use values are also higher, given the attractiveness of these locations a higher CIL rate is accepted.

The evidence does not however support a rate of £70 per sq m and hence it is necessary to identify a level at which CIL will not put at risk the delivery of the strategic housing requirement. It is our view that a modest reduction to £50 per sq.m. represents an appropriate balance based upon the evidence available.

Outside of the Inner Area, we have extremely strong reservations regarding the viability evidence and we do not consider that development within this part of the City is capable of absorbing £50 per sq.m. without a significant harmful impact upon residential development viability. In its place we propose a reduced charge of £30 per sq.m.

Whilst even the reduced rates of CIL would have an impact upon the viability of residential development, at £50 per sq.m. and £30 per sq.m. respectively the impact would be reduced. These proposed alternative charges are based upon the evidence in our representations and a judgement as to where the balance lies between the need for infrastructure funding and the economic viability of residential development.

Review

The UK and global economic downturn, which stated in 2007 has had a direct bearing on bank lending for residential development and the availability of mortgage finance. With the UK having officially entered into a double-dip recession and general uncertainty in the economic outlook, it is not at all clear when the UK housing market will fully recover. Until this happens, it is not, in our view, appropriate or reasonable to introduce a significant additional charge on residential development which is not supported by robust and credible evidence. In the current economic climate it is far more appropriate to set CIL a rate which will not put in jeopardy the delivery of residential development and the construction sector of the economy.

As market conditions change, so too will the hypothetical residual valuations for residential development across the City. When the CIL Charging Schedule is reviewed in due course it is possible to respond to the changing marking conditions and establish a levy which reflects the changing economic circumstances.

For these reasons, we strongly recommend to the Examiner that the proposed reduced charges of £30 per sq.m. and £50 per sq.m. should be put in place for residential development and that the Charging Authority should commit to regularly review residential development viability. If indicators of market conditions demonstrate that an increased CIL rate is achievable then it would be appropriate to revised the Charging Schedule accordingly. This approach would ensure that the negative consequences of setting too high a CIL rate are avoided and that achievement of the strategic housing requirement is not put in jeopardy by the imposition of an additional tax on development.

Savills
NM
7 June 2012