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Winchester City Council
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31st May 2013

REPRESENTATION TO THE COMMUNITY INFRASTRUCTURE LEVY DRAFT CHARGING SCHEDULE

This is a joint representation on behalf of McCarthy & Stone Retirement Lifestyles Ltd. and Churchill Retirement Living Ltd. the market leaders in the provision of retirement housing for sale to the elderly. It is estimated that of the specialist housing providers currently active in this specific market (not including the out of town “retirement village” model), the two companies deliver over 80% of the current supply between them. It is therefore considered that with the extensive experience in providing development of this nature, these companies are well placed to provide informed comments on the emerging Winchester City Council Community Infrastructure Levy (CIL), insofar as it affects or relates to housing for the elderly.

It is worth noting that although these companies are in direct competition with each other, however the potentially serious implications of the proposed CIL regime and the consequential adverse impact on the delivery of specialist accommodation for the elderly in Winchester City Council resulted in a joint approach to this representation.

McCarthy & Stone previously provided commentary on the Preliminary Draft Charging Schedule in February 2013 in which we expressed our concern that the emerging CIL could prohibit the development of specialist accommodation for the elderly at a time when there is an existing and urgent need for this form of development. Notably we raised concerns as to how specialist accommodation for the elderly differs from general needs housing through key issues including, amongst other things, communal floorspace built to a higher specification, a slower sales rate and higher empty property costs. On this basis we respectfully requested that a specific development scenario for sheltered accommodation be carried out for this form of development using a set of viability assumptions which we considered to be appropriate for this form of housing.

The CIL Viability Study Addendum Report following Stage 1 Consultation (April 2013) produced by the Council’s chosen consultant, Adams Integra, details how the CIL Levy will be applied to Specialist Accommodation for the elderly.

C3 Sheltered Housing

In the Viability Study Addendum Report, the Council’s chosen consultants assert that the issues associated with sheltered accommodation including slower sales rates and build costs impact on the rate of the return to the developer, the efficient use of land and a the sales premium attached to sheltered housing schemes potentially balances this out.

Additional modeling was undertaken to cover this aspect in term of the values associated with sheltered development within a C3 Use Class with the consultants concluding that:

We have found from the evidence available a significant premium attached to the values generated by sheltered housing compared to similar apartment developments unencumbered by an age restriction. Our modeling shows that the premium on sales values compensates for the concerns expressed above about the particular characteristics of this form of development.

We have undertaken sensitivity in this area, at this stage we see no overriding reason to amend the CIL charging recommendation in order to treat sheltered / extra care housing differently from the overall C3 charge.

Upon reviewing the Council's approach to determining the viability of Sheltered / Retirement housing, detailed in the Viability Study addendum, we were struck by the scant technical detail in the report. This provides clear difficulties when reviewing the consultant's methodology especially as the additional modeling prescribed to sheltered housing is not publically available on the Council's website. We are therefore unable to ascertain if the viability assumptions used are appropriate (i.e. in line with those suggested in our February 2013 representation) and if the 'sales premium' attached to this form of development is realistic.

We therefore respectfully request that details of the viability assessments for sheltered / retirement housing be forwarded to us so that we may better determine the Council's position.

Our concerns are particularly heightened in this respect as the Adams Integra's findings differ quite considerably from our own. We are providing the Council with three viability appraisals for a standard sheltered housing scheme (a 40 unit retirement scheme) using the Homes and Communities Agency's Development Appraisal Tool (DAT). The three development scenarios are as follows:

1. 0% affordable housing a Nil CIL rate
2. 0% affordable housing and CIL rates of £120 per m²
3. 40% Affordable Housing commuted payment as per the Council's SPD and a Nil CIL rate.

These Development Scenarios use the viability assumptions detailed in our initial representation, the top-end flatted sales values for Winchester town Council as proposed by Adams Integra and propose various levels of affordable housing and CIL contribution. The residual land values for a typical 40 unit retirement housing scheme were as follows:

Table 1 – Residual Land Values of model sheltered housing scheme

Assumption	Residual Value	Residual Value per hectare
Scenario 1	£1,402,196	£3,505,490
Scenario 2	£1,055,304	£2,638,260
Scenario 3	£63,412	£158,530

Against Adams Integra's own analysis of baseline land values at £2.2m per hectare (residential) and £1.5m per hectare (top end employment i.e. office), the following results occur for our 0.4ha assumed site;

Table 2 – Headroom for contributions

Assumption	Residual Land Value minus residential baseline £2.2m ha	Residual Land Value minus employment baseline £1.5m ha
Scenario 1	£522,196	£802,196
Scenario 2	£175,304	£455,304
Scenario 3	-£816,588	-£536,588

A typical sheltered site in Scenario 1 would have headroom for £522,196 - £802,196 of CIL and Affordable Housing payments. If CIL is adopted at £120 per m² as per Scenario 2, this will reduce the amount available for Affordable Housing to £175,304 - £455,304.

If affordable housing commuted payments are made that are compliant with the Council's Affordable Housing SPD, then the site becomes wholly unviable even without CIL and relies on a viability assessment being accepted to propose a lower amount of Affordable Housing.

A wider point to make is that this analysis assumes the baseline land values used are robust. When the residual values achieved above by the sheltered housing development scenarios are compared to the nearest competitor scheme in the Residential Viability Report (October 2012) – the 4th table in Appendix 3, there are interesting conclusions. The Adams Integra 20 unit scheme in an urban location is based on a 0.33ha site. When this scheme in Value Point 4 (Winchester) is assessed it produces a land value of £2,322,213 per hectare, even when making CIL contributions of £100per m² and 40% affordable housing onsite. In order to match or better this land value and secure the site against a competitor use, a sheltered housing provider would need to assume maximum contributions to Affordable Housing of £316,047 based on economic viability. This does not provide much margin for error and prejudices sheltered development somewhat.

Given the above, there are obvious difficulties in advising the Council on a suitable alternative scheme or providing comparable viability assessments. We therefore regret that we feel that we must contest the Council's stance on this issue at Examination.

Extra Care Housing

McCarthy and Stone Retirement Lifestyles Ltd. are concerned at that the Council's proposed approach to the application of the CIL levy on Extra Care Housing (Churchill Retirement Living are not developers of Extra Care Housing). Specifically the recommendation by the Council's consultants to apply the CIL to Extra Care Developments based irrespective of whether such developments fall into the Class C2 or Class C3 Use.

There is a significant element of uncertainty in this approach as specialist accommodation for the elderly can be classified as either a C2 or C3 input dependent on a Council's

individual definition. A development that has such as extensive communal facilities and support services at a significant cost to the developer may, or may not, be considered a C2 use based on a preconceived definition of this form of housing. Indeed, given that that the Council would stand to lose a significant sum of money where it to define a development as C2, there is little incentive for Planning Officers or Council Members to define any form of specialist accommodation for the elderly as anything other than a C3 land use.

Developers will be required to demonstrate to the Council, using undefined criteria, that their development is a C2 land use. This is both a time consuming and costly process and clarity is supposed to be one of the principle benefits of the Community Infrastructure Levy.

We would point out that the consultant's modeling for an Extra Care development (we assume this is Appendix 3 and not Appendix 2 as stated in the report, Appendix 2 models an Out-of-Town comparison retail development) shows a deficit of minus -£1,950,267, which is considerable. Using the information in Appendix 2 we find it difficult to see how a deficit of £2million turns positive when an Extra Care development is classified as a C3.

In short, we consider the logic to be flawed as the key factors that affect the viability of Extra Care development are the enhanced communal facilities, the higher build specifications and the slower rate of sales attributed to the niche market for the product. It makes little sense for these factors to be arbitrarily dismissed in favor of the vagaries of the Use Classes Order on this matter, particularly when the classification of Extra Care developments into a particular Use Class is seemingly intended to increase the viability of by the tune of £2million.

Finally, we would point out that the exemption for public sector Extra Care developments, be they C2 or C3, on the grounds they will benefit from the affordable housing exemption is also flawed and completely ignores the issue of public-private cross-funding. Given the economic climate and Government austerity measures, cross-funding is an increasing necessity. The proposed CIL levy jeopardises the provision of public sector Extra Care development as the potential CIL liability on the units available for private sale or rent will reduce the level of finance available to fund the public sector aspect of the scheme.

On this basis we can only conclude that the proposed approach to the application of a CIL charge on sheltered housing is fundamentally flawed. It ignores the key issues that affect the viability of Extra Care developments in favor of the more simplistic notion that a 'true C2' use will be, by its very nature, unviable. It is our opinion that this argument is fundamentally flawed and there is no evidence provided to support such an assertion.

We would like this issue to be taken to Examination.

Summary

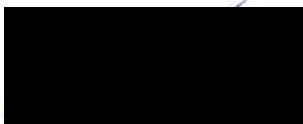
Given the extent of projected housing need for older person's accommodation it is paramount that Winchester City Council CIL provides an accurate and robust assessment of the viability of sheltered / retirement housing and Extra Care accommodation. We are unconvinced by the Council's arguments and evidence on these matters as the Council's assumptions differ significantly from our own. However, given the limited technical detail in the Viability Study Addendum we maintain or reserve our position on the methodology

pending the provision by the Council of the technical data used, we request this is forwarded to us as quickly as is practical.

Both McCarthy and Stone Retirement Lifestyles Ltd. and Churchill Retirement Living are willing to assist the Council should it wish to review this issue prior to submitting the Charging Schedule to Examination.

Thank you for the opportunity for comment.

Yours faithfully,



Ziyad Thomas
Policy Planner
The Planning Bureau Ltd.