

Item 6: Appendix 2 Background Paper on Viability - Supplementary Paper

Further viability evidence relating to flats

Summary

This supplementary paper deals with some additional evidence relating to flatted developments over 6 storeys¹. The viability of this development is examined and due to high build costs, a revised rate of CIL- £100 per sqm is recommended as an addition to the Norwich City Council Draft Charging Schedule. This will help to avoid a reduction in overall levels of CIL income and achieve a more acceptable level of affordable housing on sites where this type of development is appropriate.

Introduction

1. Concern was expressed during the consultation by one respondent about the level of CIL and the specific costs associated with the development of brownfield sites. Some further evidence has already been prepared in Appendix 2 (Background Paper on Viability) to the report on the CIL consultation. This deals with an example of a brownfield site in the City for housing. Having looked further into the problems of viability on brownfield sites, one significant difference which has come to light relates to multi-storey flatted developments. This paper provides some further evidence on this matter and recommends some further changes to the CIL charging schedule as a consequence.

Main differences relating to flatted development

2. For flatted development it is recognised that the build costs per sq m are higher than for other lower rise residential development. This is mainly because flats over 5 storeys are of steel frame construction rather than traditional residential construction, require lifts and often include decked or basement car parking. In addition the amount of floorspace within individual flats (the saleable area excluding communal areas, lifts, stairwells etc) represents only about 65% of the gross internal floor area of the buildings.
3. BCIS figures for December 2011 indicate that at a national level the mean build costs for 6+ storey flats is £1331 per sq m compared with rates of £951 per sq m for 3-5 storey and £933 for 1-2 storey flats (although there is significant variation in individual schemes)

¹ Flats in blocks of 6 storeys and above (above ground) including blocks where some floors may have other uses (e.g. retail)

Scenarios

4. The analysis uses a residual land value model applied to notional flatted developments in Greater Norwich. Figures and assumptions have been cross referenced with Appendix 2 Background Paper on Viability, already provided as part of the report back on the CIL consultation. The assumptions are based on an assessment of BCIS data and confidential appraisals of real schemes by the district valuer. The attached scenario in Appendix 1 is based on two hypothetical sites and a number of sensitivity tests have been undertaken.

Scheme X

5. Scheme X represents a 7 storey, 66 dwelling development on a City Centre brownfield site of 0.22 hectares with average 72sqm flat size.
 - Abnormal costs have been included at a rate of £0.5m per hectare. These are typical of brownfield city centre sites and are likely to include contamination, flood risk, archaeology and subsidence.
 - The appraisal has been developed based on a number of assumptions used by the district valuer in assessing the viability of real schemes in the City as well as data from the GVA study and BCIS average build cost data.
 - BCIS average build cost data for flatted schemes of 6+ storeys is £1358 per m² when indexed for Norfolk, this is inconsistent with real scheme data and even with no affordable housing, no CIL and no S106 based on current values would result in a residual land value of -£1.9m.
 - BCIS average build cost data (£970 per m²) for 3-5 storey schemes is very close to real scheme data for a 7 storey flatted scheme and is used in this example.
 - The scheme assumes a basement car park and as such the net internal area is only 65% of gross internal area, a smaller lower density flatted scheme would not have such a low percentage of net to gross.
 - Benchmark land value for the site is £287,439 based on GVA figures plus stamp duty and agent/legal fees. It should be noted that this is well below the level accepted by the district valuer on a number of City centre sites as higher values have been necessary to deliver redevelopment.
6. A number of scenarios have been examined to take account of variations in assumptions:
 - Xa) is the policy compliant scenario with CIL at £115 per m² with £5 per m² for parking areas and 33% affordable housing with an 85:15 split between social rented and affordable. The residual land value is - £0.65m.
 - Xb) maintains CIL at £115 per m² with £5 m² for parking but reduces affordable housing to 14% (maintaining an 85:15 split) in order to make the scheme viable and to give a residual land value just above the benchmark value.
 - Xc) This details a 7% increase in the value of private open market units and delivers 25% affordable housing (maintaining an 85:15 split) with the residual land value almost reaching the benchmark value. It should be noted that build costs have not been increased in this scenario for consistency with other examples. However, while forecasts project growth

of 6% over the next five years in the UK, inflation adjusted 5 year growth is predicted at -11% (Savills).

- Xd) This reduces CIL to £0 but with full 33% affordable housing giving a negative residual land value of -£4k..
- Xe) This sets CIL to £100. 17% affordable housing would be viable (73:27 mix social:shared) delivering a residual land value close to the benchmark.
- Xf) This sets CIL to £75. 20% affordable housing would be viable (77:23 mix social:shared) delivering a residual land value close to the benchmark.
- Xg) This is scenario Xc with 7% increase in values of private open market dwellings but with a 10% inflation on build costs and abnormals. This shows that with CIL at £115 per m2, affordable housing would drop to 9% to make the scheme viable.

Scheme Y

7. Scheme Y represents a 3-4 storey, 30 dwelling development on a City Centre brownfield site of 0.22 hectares with average 72sqm flat size.
 - Abnormal costs have been included at a rate of £0.5m per hectare (as scheme X).
 - Assuming a more conventional build construction to scheme X a build cost of £900 per m2 has been adopted.
 - The scheme assumes surface parking as opposed to basement parking and as such the net internal area is 80% of gross internal area.
 - Benchmark land value for the site is £287,439 (as scheme X).
8. A number of similar scenarios have been explored:
 - Ya) Sets out the policy compliant scenario with 33% affordable and CIL at £115 m2 which gives a negative residual land value.
 - Yb) sets out a viable scenario adjusting affordables to 25% giving a residual land value in the region of the benchmark value.
 - Yc) increases GDV of private open market housing by 7% and is viable with 33% affordable (85:15 split) and CIL at £115. (the same issue applies here as in Xc) above in relation to build costs).
 - Yd) as Yc but with inflation of 10% on build costs and abnormals. A viable scheme would see affordable housing drop to 20%.

Results

9. The analysis demonstrates a high degree of variability in assessing viability using a residual land value model. The viability of higher density multi storey flatted schemes is much more marginal and it is likely to be difficult to achieve acceptable levels of affordable housing if CIL is set at the standard residential rate. Lower density flatted schemes such as scheme Y will not be affected anywhere near to the same degree, however such schemes are unlikely to be acceptable in many parts of the City Centre.
10. It is worth highlighting that the higher density scheme with CIL a £75 per m2 this delivers more CIL (£420,266.00) than the lower density scheme with CIL at £115 per m2 (£310,500.00). This means that the unintended consequence of setting

CIL too high for high density flatted development would be to encourage lower density schemes which will deliver a lower level of CIL overall.

Legal position

11. Legal advice has been sought about the ability to differentiate between different types of residential accommodation. The advice is that as long as this is supported on viability grounds then a distinction between different types of residential accommodation can be made.

12. This is borne out by the inspector's report on the examination into the Newark and Sherwood Charging schedule. Paragraph 29 of the Inspector's report deals with making a special provision for flats/apartments and decides that it is not necessary to do so after reviewing the construction costs relevant to the district.

The initial residential VAs indicated that the building of new flats would be uneconomic at present across the whole district. However, this was based on the construction costs for a large block of apartments, such as those often found in city centres that require lifts and include steel frames. In this area new flats are more likely to be provided through conversions and as part of a mix of size and type of new housing on major development sites. In the latter case at least the use of more traditional building methods and materials would enable provision at similar construction costs to more typical new 2 and 3 storey housing, as the Council's revised figures show. Therefore, there is no need to make any special provision for flats/apartments in the CIL schedule.

If different cost evidence had been available a different decision could have been made.

Conclusion

13. This analysis demonstrates that the delivery of the policy requirement of affordable housing and CIL at the full residential rate is affected by the viability of multi storey flatted development. Even allowing for increases in house prices, the viability of this type of scheme could be in doubt. In order to strike the right balance between maximising CIL revenue and promoting development, a CIL rate for flats of 6 storeys and above is proposed.

Recommendation

14. The GNDP Board is recommended to:

- Agree a proposed change to the draft charging schedule to include a rate for flats (of 6 storeys and above) of £100 per sq m.
- Agree other consequential changes to all the other documents relating to this report, to be considered by the district councils' respective cabinets and councils.
- Amend the response to Q4b in the Regulation 15 Report of Consultation to include a further paragraph:
"the Partnership will undertake further work to look at the specific problems of brownfield sites, in particular flatted development."