Churchill
Retirement Living

McCarthy & Stone
Later Life. Greater Life

Worthing Borough Council
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17th April 2014

REPRESENTATION TO THE WORTHING BOROUGH COUNCIL COMMUNITY INFRASTRUCTURE LEVY - DRAFT CHARGING SCHEDULE

This is a joint representation on behalf of McCarthy & Stone Retirement Lifestyles Ltd. (M&S) and Churchill Retirement Living Ltd. (CRL) 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 Worthing Borough Council Community Infrastructure Levy (CIL), insofar as it affects or relates to housing for the elderly.

McCarthy & Stone Retirement Lifestyles Ltd. independently provided commentary on the Preliminary Draft Charging Schedule in March 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. For your convenience we have provided a copy of our initial responses.

We therefore commend the Council on their decision to provide a Viability Assessment of Sheltered / Retirement housing.

Several aspects of said appraisals however are of concern and these issues will be covered in the remainder of this letter:

Viability Methodology

We are concerned that the NCS appraisal underplays a number of viability assumptions contributing to results that are not "typical" of a sheltered / reitrement housing scheme. The effect is to compound the underestimation of costs such that it has a disproportionately positive effect on the residual land value of the scheme.

Our concerns related chiefly to the following assumptions:

Unit Sizes – NCS have assumed average unit sizes of circa 57m^2 which we take to be an amalgamation of typical 1 and 2 bedroom unit sizes.

McCarthy & Stone and CRL also use "typical" flat sizes of c50sq m and 75 sq m respectively. This is the case across the industry where space standards have increased recently in response to a number of factors such as the HAPPI report, Lifetime Homes standards and Sustainability standards. A typical unit mix for a retirement housing development is a 60:40 ratio of 1-bed to 2-bed units, which for a 40 unit scheme would give a mean unit size of $60m^2$.

The typical unit size proposed by NCS is only $3m^2$ less than our respective position. Applied across the 40units however it reduces the land take of the development by $120m^2$, or by 2 units.

Non-Saleable Space - The DCP appraisal assumes non-saleable space (i.e. communal areas & corridors etc) of 30% which we do not dispute.

Sales Values – We find the sales values as detailed in the heb Land Value Appraisal Study (Supplementary Report) to be broadly comparable and do not dispute this aspect of the appraisal.

Empty Property Costs - Properties can only be sold upon completion of the development and the establishment of all the communal facilities and on-site house manager. These communal areas cost additional monies to construct and are effectively subsidised by the developer until a development has been completely sold out. In a McCarthy and Stone development the staff costs and extensive communal facilities are paid for by residents via a management / service charge. However, due to the nature of these developments the communal facilities have to be fully built and operational from the arrival of the first occupant. Therefore to keep the service charge at an affordable level for residents, service charge monies that would be provided from empty properties are subsidised by the Company (these are typically known as Empty Property Costs). This is a considerable financial responsibility as, as previously mentioned, it usually takes a number of years to fully sell a development. For a typical 45 unit McCarthy and Stone Retirement Living development the Empty Property Costs are on average £200,000.

Sales Rate - the previous representations to the Preliminary Draft Charging Schedule highlighted that in the case of retirement housing there is a much longer sales period which reflects the niche market and sales pattern of a typical retirement housing development. This has a significant knock on effect upon the final return on investment. Currently the typical sales rate for a development is approximately one unit per month.

We would like to point out that the slower sales rate attributed to specialist accommodation for the elderly was recently recognized by Government in their recently published Draft National Planning Practice Guidance. Specifically the guidance within the *"How should different development types be treated in decision taking*?" subheading (ID 10-018-130729), states that *"The viability of individual development types, both commercial and residential, should be considered. Relevant factors will vary from one land use type to another".* It goes on goes on highlight that *"For older people's housing, the scheme format and projected sales rates may be a factor in assessing viability".*

The DCS development appraisal provides a sales void period of 6 months which seems to suggest a sales rate that is <u>considerably</u> higher than 1 per month.

Sales rates on CRL schemes average 0.64 units per site per month in the locality, but some of these sales have straddled a market downturn. Hence the 1 unit per month per site is a more robust assumption looking at CRLs current experience of sales. M&S sales rates are slightly better at 0.85 units per site per month in the South East of England. Given McCarthy & Stone's size their evidence is perhaps to be preferred as it encompasses more outlets and is therefore less likely to be skewed by any particularly under or over performing sites. To illustrate this point we have provided evidence in the form of:

- Recent Sales Rates on CRL sites in Surrey and close by; and,
- M&S sales rates compiled by an external surveyor for an appeal at Clacton on Sea.

With regard to sales off-plan, a number of units are indeed reserved and then completed in the early period of sales release. However, this is allowed for in a sales curve on the cashflow, hence the linear sales rate of units per month is not the only measure of viability.

Sales and Marketing Costs – as mentioned previously, as a result of thw aforementioned slower rate of sale, the marketing fees for specialist accommodation for the elderly are typically in excess of 6% of GDV.

Base Build Costs - We do not dispute the build costs used by DCP £1,200 per m² which provides an uplift over general residential build costs.

The construction segment of the DCS appraisal does however provide development size that contrasts with our own.

The size of the development is 40 units at 57m² (2,280m²) with the additional of 30% communal floorspace (684m²) which results in a total floor area of 2,964m². The total floor area as proposed by DCS is 2,342m² which is a deficit of 622m².

This would reduce the build cost of the development by £746,400.

Land Costs – the land costs used in all the appraisals detailed in Appendix 3 appear to be strikingly low and we would be grateful for additional clarity as to how the level of land required has been determined.

The land cost is determined on the basis of the cost per plot for 28 units, land costs per plot are therefore only based on the open market land requirements of this development and the land for open market housing has not been included. This gives little indication of the size of the site assumed for the development and we would be grateful for additional clarification on the size of the site used in the appraisal.

The typical sheltered housing scheme tends to be circa 3 storeys given the urban and suburban locations, surrounding storey heights and the needs of the user. The business models of both companies are formed on "typical" model sites of the 40-45 unit size at 3 storeys. We typically expect to see c40-50dph per floor of development for these schemes.

I would like to refer you to the RHG's CIL viability briefing note and the suggested standard viability assumptions for the density of sheltered apartments which are 100 - 120dph. At 120dph a typical 40 unit scheme would require a site of circa 0.34ha in size.

Based on the residential land values in the Community Infrastructure Levy Land Value Appraisal Study, we have prepared the following table which compares the land cost of a typical 0.34ha site using low, medium and high land values detailed in this report to the land costs used in the appraisal.

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	Cost of 0.34 hectare site	Cost used in (Brownfield) Appraisal	% in cost
Low Land Value (£1,000,000 per ha)	£340,000	£214,592	36.8%
Medium Land Value (£2,500,000 per ha)	£850,000	£468,720	44.8%
High Land Value (£3,000,000 per ha)	£1,020,000	£583,408	42.8%

Based on the above, it would appear that the land costs used in this appraisal have been significantly underplayed.

Summary

Given the extent of projected housing need for older person's accommodation it is paramount that the Worthing Borough Council CIL provides an accurate and robust assessment of the viability of sheltered / retirement housing. Whilst we highly commend the Council for differentiating between Sheltered / Retirement housing and general needs housing, we have concerns that the present methodology is sufficiently accurate. Whilst some of the differences in the viability assumptions are minor and could, potentially, be mitigated by the level of flexibility in the appraisal and the use of a buffer, the extent of the difference between the land costs and build costs are too considerable to be accounted for in that manner.

Both McCarthy and Stone Retirement Lifestyles Ltd. and Churchill Retirement Living are willing to assist the Council in ensuring that the issue of specialist accommodation for the elderly is dealt with accurately and appropriately in the forthcoming CIL Charging schedule. We do not consider that at present there is a considerable distance between our respective positions and we would welcome the opportunity to resolve any outstanding issues prior to the Submission of the Charging Schedule. Should the Council require any additional information, including meeting with Officers, then we would be happy to oblige.

If however the aforementioned issues are not resolved then we request that we be given the opportunity to present this issue at Examination.

Thank you for the opportunity for comment.

Yours faithfully,

Ziyad Thomas
Policy Planner
The Planning Bureau Ltd.
Enc.
Retirement Housing Group –CIL Briefing Note
Nick Boles MP response to RHG Briefing Note June 2013
McCarthy and Stone Retirement Lifestyles & Churchill Retirement Living- Joint CIL Position Paper