Churchill
Retirement Living

McCarthy & Stone
Later Life, Greater Life

8th September 2014

EXAMINATION STATEMENT FOR THE WORTHING BOROUGH COUNCIL COMMUNITY INFRASTRUCTURE LEVY DRAFT CHARGING SCHEDULE

This is an Examination Statement written 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.

This representation will specifically answer **Question 9** in the **Residential sub-sections** detailed in the **Questions for the Examination** which reads as follows:

9. Are the assumptions / calculations used in the NCS appraisal of sheltered / retirement housing realistic / correct?

In the joint representation to the Draft Charging Schedule (Document Ref: CD04-10) we expressed our concern that a number of the viability assumptions used in the NCS appraisal underplay a number of viability assumptions contributing to results that are not "typical" of a sheltered / retirement 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.

We will address each of the assumptions used in the order in which they are detailed in Question 9.

a) Floorspace / build costs

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

Floorspace – As detailed in document CD04-10 the total floorspace detailed in the construction segment of the NCS appraisal does provides a total development size that appears to have been underplayed.

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.**

b) land costs

In document CD04-10 we noted that the costs used in Viability Appraisal R9 appears to be strikingly low and we asked 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 (CD04-10a) 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.

	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.

c) average unit size

In document CD04-10 we noted 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 for a one bed and a two bed 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.

Churchill Retirement Living provided evidence of two recent schemes 2 schemes in CD04-10D and CD04-10E in which unit sizes were detailed. The average unit sizes were $55.4m^2$ and $59.1m^2$ respectively, both of which were under typical $60m^2$ asserted in our earlier representation.

There are examples nearby in which the average unit size is comfortably over 60 per m^2 however it is evident that the average unit size can be lower than the 57 m^2 asserted by NCS. In light of this we consider that $57m^2$ proposed by NCS is a reasonable assumption for unit size of sheltered housing provided there is sufficient flexibility in other aspects of the appraisal to allow for developments providing larger units in line with the recommendations of the HAPPI report and Lifetimes Homes.

d) 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 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.

Empty property costs comprise of the following:

a) Council tax, typically Council Tax Band C - £1350.12 per annum or £112 per calendar month in Worthing
b) Electricity – cost of providing heating and lighting communal areas and empty apartments and is circa £20 per unit
c) Service charge – cost of maintaining internal and external areas and house manager salary per unit £175 (this varies between developments)

Attached is a spreadsheet detailing the empty property costs for a typical 40 unit Retirement / Sheltered development with a sales rate of 1 unit per month. **The total empty property costs arising from the development are £213,478.**

e) Sales rate

In the representations to the Preliminary Draft Charging Schedule and Draft Charging Schedule CD04-10 it was 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 NCS development appraisal provides a sales void period of 6 months which seems to suggest a sales rate that is considerably higher than 1 per month. It is still not evident what the sales rate used for the appraisal of Sheltered /Retirement developments is.

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.

In addition to the above we would like to highlight the rate of sale at the nearest current selling McCarthy and Stone Retirement Living Scheme at Foxmead Court, Storrington. This scheme has been selling since 06th August 2013 and at the time of writing only 13 units had been sold – a rate of 1 per month. An additional 4 units have been 'reserved' in which potential residents have provided a non-refundable (dependent on circumstances) deposit of £300, however residents are not obliged to complete on the sale and as such we do not consider these units to be 'sold'.

c) sales / marketing costs.

As previously established the rate of sale for sheltered/ retirement housing is slower than that of conventional 'general needs' housing and there is a concomitant increase in sales and marketing costs accordingly. Typically for a 40 unit development selling at a rate of 1 unit per month, the sales and marketing costs are in excess of 6% of GDV.

Thank you for the opportunity for comment

Yours faithfully,

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