

REVIEW OF LOCAL PLAN VIABILITY ASSESSMENT

FOR SHELTERED & EXTRA CARE HOUSING

STROUD DISTRICT COUNCIL
LOCAL PLAN REVIEW (REGULATION 19 CONSULTATION)

JULY 2021

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1. Introduction

- 1.1.1 This supporting statement has been prepared on behalf of McCarthy Stone and Churchill Retirement Living, two independent and competing housebuilders specialising in housing for older people. Together, they are responsible for delivering approximately 90% of England's specialist owner-occupied retirement housing.
- 1.1.2 In this statement we critically appraise the evidence underpinning the affordable housing targets detailed in *Policy CP9: Affordable Housing of the Stroud Local Plan (Regulation 19 Consultation)* – namely the *Stroud District Council Local Plan Viability Assessment (LPVA)* undertaken by HDH Planning & Development.
- 1.1.3 This Statement is a focused document underpinning our representations to the Stroud District Council Local Plan Regulation 19 consultation on *Policy CP9*. In the interest of brevity, it does not comprehensively cover Government policy on viability in Plan preparation or detail the residual land appraisal methodology at length. These matters are comprehensively covered in the LPVA.

2. Review of Local Plan Viability Study

- 2.1.1 *Policy CP9: Affordable Housing* details a flat affordable housing delivery rate of 30% across the District for all development, including Extra Care accommodation, over 10 units.
- 2.1.2 The wording of Policy CP9 and its justification makes it clear that a non-policy compliant level of affordable housing will only be allowed where '*unusually high costs associated with the development of the site, or the realisation of other planning objectives which take priority, make this not viable.*'
- 2.1.3 It is clear from the wording of the policy and its justification that the Local Authority is cognisant of the increased emphasis on Local Plan viability testing in Paragraph 54 of the NPPF. Given the Council's stance towards developer contributions and affordable housing, we find aspects of the evidence base underpinning these policies to be of concern.

2.2 Older Persons' Housing Typologies

- 2.2.1 The affordable housing targets set out in *Policy CP9: Affordable Housing of the Stroud Local Plan (Regulation 19 Consultation)* – namely the *Stroud District Council Local Plan Viability Assessment (LPVA)* undertaken by HDH Planning & Development. We note that the LPVA has assessed the viability of older persons' housing typologies, which is welcomed.
- 2.2.2 In reviewing the methodology for assessing specialist older persons' housing, we note that many of the inputs align with the methodology detailed in the Briefing Note on Viability Prepared for the Retirement Housing Group (hereafter referred to as the RHG Briefing Note) by Three Dragons, although a number do not. A copy of the RHG Briefing Note has been provided as part of this submission, which could result in an unrealistic planning obligations burden in the next Local Plan. Our concerns are that the Viability Assessment has overplayed the viability of older persons' housing.
- 2.2.3 Mindful of the guidance in the PPG that is the responsibility of site owners and developers to engage in the Plan making process. McCarthy Stone and Churchill Retirement Living have provided commentary and supplemental evidence on the viability assumptions used in the viability appraisals for sheltered and extra care older persons' housing typologies in the LPVA.

3. Viability Appraisal Inputs

3.1 Introduction

- 3.1.1 McCarthy Stone and Churchill Retirement Living have considered the inputs and assumptions used in the financial viability appraisals for older persons’ housing in the *Stroud District Council Local Plan Viability Assessment* (LPVA). A summary table has been provided in the table entitled: *Comparison of Appraisal Inputs* on page 6 this report.
- 3.1.2 Many of the inputs used in our appraisal of Sheltered and Extra Care housing typologies align with the methodology detailed in the *Briefing Note on Viability Prepared for the Retirement Housing Group* (hereafter referred to as the RHG Briefing Note) by Three Dragons. Where they differ is clearly stated in this report. A copy of the RHG Briefing Note has been provided as part of this submission.

3.2 Unit Sizes

- 3.2.1 Apartments for specialist older persons’ housing tend to be larger than ‘general needs’ open market housing. The unit sizes used in the LPVA do however differ from those recommended in the RHG Briefing Note and no justification has been given for this deviation.

RHG Briefing Note Recommended Unit Sizes

	1 bed	2 bed
Sheltered	55 m ²	75 m ²
Extra Care	65 m ²	80 m ²

3.3 Sales Values

- 3.3.1 The LPVA details its research into sales values for specialist older persons’ housing in paragraphs 4.98 – 4.106 and references both the RHG methodology and comparable sales evidence from the surrounding area. A value of £3,900/m² is assumed for Sheltered Housing and £4,200/m² is assumed for Extra care. While they have some reservations over the sales values, the respondents consider the methodology used to be robust and are of the view that they are broadly acceptable.
- 3.3.2 We note that the LPVS makes reference to specialist older persons’ housing schemes within 10 miles of Stroud District. While we consider that broadly, Gloucester, is a useful comparison, examples given in Cheltenham and Tetbury are of limited relevance as sales values are much stronger there than Stroud. Rightmove states that in the last year (2020/2021) semi-detached properties had an overall average price of £402,417 in Tetbury and £370,913 in Cheltenham compared to £288,970 in Stroud – a difference of 32% and 25% respectively.

3.4 Unit Mix

- 3.4.1 The RHG briefing note recommends a 60:40 split for 1bed:2 beds. We have used the recommended mix.

3.5 Base Build Cost

- 3.5.1 Appendix 19- Appraisals Older Persons’ Housing of the *Local Plan Viability Study* uses the Median ‘generally’ Supported Housing BCIS costs re-based for Gloucestershire which are £1,774 per m².
- 3.5.2 We recognise that Local Plan Viability Testing is at a generic level and we have applied the BCIS rate used in the LPVS accordingly.

3.6 Sales Rate

- 3.6.1 While it is not stated within the main report of the Stroud District *Local Plan Viability Study*, Appendix 19-Appraisals Older Persons' Housing advises that the Sales per Quarter is 3 units - a monthly sales rate of 1.333.
- 3.6.2 McCarthy Stone and Churchill Retirement Living have schemes currently selling in Gloucestershire. The achieved sales values for the three closest selling schemes relevant scheme are detailed below:

Address	Developer	Total Units	Units Sold	Units to Sell	Date of First Sale	Sales period to date.	Rate of Sale
Llanthony Place, Gloucester (Extra Care)	McCarthy Stone	55	21	31	March 2020	17 months	1.2
Alexandra Lodge, Thornbury (Sheltered)	Churchill	57	46	11	March 2019	29 months	1.5
Trewin Lodge, Yate (Sheltered)	Churchill	65	13	52	March 2020	17 Months	0.7

- 3.6.3 The scheme with the fastest rate of sale is Alexandra Lodge in Thornbury. This is a 57 unit sheltered scheme that has been selling since March 2019 (29 months) and has 11 units left to sell or let at the time of writing.
- 3.6.4 A rate of sale of one unit per month, as per the RHG's best practice methodology, is considered by McCarthy Stone and Churchill Retirement Living to be, broadly speaking, an appropriate reflection of their sales rate nationally, albeit the rate of sale nationally is lower presently.

3.7 Gross to Net

- 3.7.1 The RHG note stipulates a range of communal floor space between 20-30% of GIA for Sheltered and 35-40% of GIA for Extra Care.
- 3.7.2 The LPVS assumes communal space extending to 20% of the Gross Internal Area (GIA) for sheltered housing proposals – the lowest point of the range suggested by the RHG. The Consortium have frequently disputed the figures suggested by the RHG on this matter, contesting that a communal floorspace provision of under 25% is not representative of the sector. Our experience is that this percentage should be at least 25% of the proposed total area to cater for communal lounges, lodge manager office and guest rooms.
- 3.7.3 The RHG note advises the communal space for Extra Care accommodation extends to between 35 and 40% of the GIA. The LPVS goes below the range recommended by the RHG with a communal floorspace provision of 30%, and the reasons for doing so are not made clear. Our experience is that a minimum of 35% of GIA is allowed for non-saleable communal floorspace in Extra Care development.

3.8 Benchmark Land Value

- 3.8.1 The methodology behind the benchmark land values (BLV) used in the Local Plan Viability Assessment are detailed in Chapter 6. Land Values.
- 3.8.2 A 60 unit sheltered /extra care development built at 120dph will have a site size of 0.5ha.
- Greenfield (paddock) land is valued at £50,000 per hectare with a £350,000 uplift per hectare. The BLV for 0.5 hectares of greenfield land is therefore £200,000.
- Industrial Land is valued at £650,000 per hectare with a 20% (£130,000) uplift. The BLV for 0.5 hectares of previously developed land is £390,000.
- 3.8.3 The respondents do not ordinarily develop greenfield land, with a typical site being within 0.5 miles of a town or local centre, so as to best facilitate the independence of the intended residents. We have no comments on the value of greenfield sites accordingly.

3.8.4 However, while specialist older persons' accommodation is built at higher densities and 125dph is achieved on certain sites it is atypical of areas with a rural / suburban character and highly unlikely on a greenfield site - 80dph is considered more appropriate on greenfield land. This would require a site of 0.75 hectare in size with a resultant BLV of £300,000.

3.8.5 The examples provided in *Appendix 9: CoStar Industrial Land* of the LPVS are industrial sites on the periphery of settlements or on the District's road network. The comparables in Appendix 9 used would be of a lower value than better located sites within, or in close proximity to, town or neighbourhood centres.

It is also more likely that in the edge-of-centre locations typically developed by the respondents, development opportunities are likely to be commercial / office units, former health care facilities such as care homes or site assemblies comprising one or more residential properties. The Existing Use Value (EUV) of industrial sites in relatively remote locations will have little bearing on the value of these sites.

3.8.6 To this end we are surprised that in the limited categorisation between the Benchmark Land Values in the LPVS, particularly a 'catch all' BLV for previously developed land. Local Plan Viability Assessments undertaken by other practitioners differentiate to a greater extent between land values on previously developed land often providing a different BLV for higher and lower quality industrial land, commercial units located both outside and inside town centres and residential properties.

3.8.7 Having reviewed the land transactions in *Appendix 9: CoStar Industrial Land* of the LPVS, we are of the view that the BLV for previously developed land has been based on lower quality industrial premises. We are of the view that previously developed land typically redeveloped for older persons' housing will have a greater EUV than that asserted in the LPVS.

3.9 Profit

3.9.1 The *Local Plan Viability Study* allows for a 17.5% profit margin. This does not conform with the recommendations of the RHG Briefing note, but the Planning Inspectorate has also consistently concluded that an acceptable return for risk in respect of retirement living proposals is not less than 20% of gross development value. Examples include:

- McCarthy and Stone proposal at Redditch (Appeal Ref: 3166677)
- Churchill Retirement Living proposal at Cheam (Appeal Ref: 3159137)
- Churchill Retirement Living scheme at West Bridgford (Appeal Ref: 3229412)

3.10 Empty Property Costs

3.10.1 Empty property costs are a function of council tax payable on finished unsold and empty property as well as the service charge which must be paid owing to longer than average sales periods for this type of proposal.

3.10.2 The Stroud District Council website details how the Council has applied the Council Tax Empty Property Premium. This advises that properties that are unoccupied are not entitled to any discount. Full council tax is payable on all properties unless specific circumstances apply. It advises that the Council apply a premium on empty properties as follows:

- 100 per cent premium for properties empty for two years and over.
- 200 per cent for properties empty for five years and over.
- 300 per cent for properties empty for ten years and over.

3.10.3 A typical 50-unit scheme will take over 4 years to sell out and as such substantial monies will be paid in Council Tax over this period.

3.10.4 Residents of specialist older persons' housing are also required to pay a service charge to pay for the upkeep of communal facilities and for staff costs. Service charges are higher for Extra Care accommodation because of the enhanced level of communal facilities and the increased staffing associated with on-site care. Staff and facilities need to be on-site and functional from when the first resident arrives and accordingly the companies subsidise

the service charges of empty apartments while they are being sold. McCarthy Stone list their typical services charges on their website as follow:

McCarthy Stone – Typical Service Charge

	1 bed per week	2 bed per week
Sheltered	£48.93	£138.27
Extra Care	£73,36	£184.31

3.10.5 Empty property costs as a result of Council Tax and Service Charge payments are therefore a substantial cost for older persons’ housing. We have applied Empty Property Costs of £3k per unit of sheltered housing unit and £5k per unit of Extra Care accommodation.

3.11 Sales & Marketing Costs

3.11.1 Sales and marketing allowances for specialist housing proposals for older people are widely acknowledged to differ substantially from mainstream housing. This is due to the restricted occupancy and longer than average sales periods often extending over several years.

3.11.2 Sales and marketing activities in respect of this type of proposal are considerably more intensive and long running than mainstream housing and necessitate a sustained campaign with permanent sales staff on site over the course of typically years rather than months for mainstream housing.

3.11.3 The RHG Briefing Note advises that *“Marketing costs are typically 6% of revenue compared with 3% of revenue for general needs houses and flats.”* This has been supported by a recent appeal decision in Redditch Appeal Ref: 3166677.

3.12 CIL & s106 costs

3.12.1 Under the existing Stroud District Council CIL charging schedule, older persons’ housing typologies are not charged CIL. Paragraph 12.77 of the LPVA advises that there is £1,000 per unit allowance for Section106 contributions.

Comparison of Viability Input

	Sheltered Housing		Extra Care Accommodation	
	HDH	McCarthy Stone / CRL	HDH	McCarthy Stone / CRL
Sales Values	£3,900 per m ²		£4,200 per m ²	
	£3,900 per m ²		£4,200 per m ²	
Unit Size	1bed- 50m ²	1bed – 55 m ²	1bed- - 65m ²	1bed – 65m ²
	2 bed -75m ²	2 bed – 75 m ²	2 bed -80m ²	2 bed – 80m ²
Benchmark Land Values	Greenfield (Paddock)- £200,000	Greenfield (Paddock)- £300,000	Greenfield (Paddock)- £200,000	Greenfield (Paddock)- £300,000
	Brownfield (PDL) - £390,000	Brownfield (PDL) - £390,000	Brownfield (PDL) - £390,000	Brownfield (PDL) - £390,000
Dwellings per hectare	120dph	120dph	120dph	120dph
Dwelling Mix	50% 1-bed 50% 2-beds	60% 1-bed 40% 2-beds	60% 1-bed 40% 2-beds	60% 1-bed 40% 2-beds
No. of units	60	60	60	60
Site size	0.5 Hectares	0.5 Hectares	0.5 Hectares	0.5 Hectares
Build Period	13 Months	18 Months	13 Months	18 months
Sales Period	45 months	60 Months	45 Months	60 months
Base Build Costs	£1,774 per m ² .	£ 1,774 per m ² .	£1,774 per m ² .	£1,774 per m ² .
% Communal floorspace	20%	30%	30%	35%
Contingencies	5% of build costs	5% of build costs	5% of build costs	5% of build costs
External Build Costs	5% of build costs	5% of build costs	5% of build costs	5% of build costs
Abnormal Build Costs PDL	5% of build costs	5% of build costs	5% of build costs	5% of build costs
Professional Fees	8% of build costs	8% of build costs	8% of build costs	8% of build costs
Sustainable Design / Construction	3.1% of build costs	3.1% of build costs	3.1% of build costs	3.1% of build costs
Part M4(2) and Part M4(3)	£521 / £10,111 per dwelling	£521 / £10,111 per dwelling	£521 / £10,111 per dwelling	£521 / £10,111 per dwelling
Open Space Contributions (Policy DHC5)	£4,000 per dwelling	£4,000 per dwelling	£4,000 per dwelling	£4,000 per dwelling
Residual S106 (non-CIL)costs	£1,000 per unit	£1,000 per unit	£1,000 per unit	£1,000 per unit
CIL	Nil	Nil	Nil	Nil
Finance Costs	6.5%	6.5%	6.5%	6.5%
Profit	17.5%	20%	17.5%	20%
Agents Fee % of site value	1%	1%	1%	1%
Sales & Marketing	Unknown	6%	unknown	6%
Legal Fees (% of site value)	0.5%	0.5%	0.5%	0.5%
Empty Property Costs	Unknown	£3,000 per unit	unknown	£5,000 per unit

4. Commentary on LPVS Results

4.1.1 McCarthy Stone and Churchill Retirement Living find the basis on which the flat 30% affordable housing target is recommended across the Authority to be unjustified.

4.1.2 The results of the viability modelling for sheltered housing are provided in Table 10.12 and Appendix 19 of the *Local Plan Viability Study*. This concludes that sheltered typologies can deliver up to 15% affordable rent on Greenfield land, but that development on previously developed land cannot support affordable housing.

			EUV	BLV	Residual Value
Site 2	Green	0%	50,000	400,000	1,403,823
Site 3	Green	5%	50,000	400,000	956,949
Site 4	Green	10%	50,000	400,000	510,075
Site 5	Green	15%	50,000	400,000	45,625
Site 6	Green	20%	50,000	400,000	-423,262
Site 7	Green	25%	50,000	400,000	-896,383
Site 8	Green	30%	50,000	400,000	-1,380,633
Site 14	Brown	0%	650,000	780,000	189,624
Site 15	Brown	5%	650,000	780,000	-279,263
Site 16	Brown	10%	650,000	780,000	-748,150
Site 17	Brown	15%	650,000	780,000	-1,230,252
Site 18	Brown	20%	650,000	780,000	-1,714,501
Site 19	Brown	25%	650,000	780,000	-2,198,751
Site 20	Brown	30%	650,000	780,000	-2,683,661

Source: HDH (October 2020)

4.1.3 The results of the viability modelling for extra care accommodation are provided in Table 10.13 and Appendix 19 of the *Local Plan Viability Study*. This concludes that extra care can deliver up to 20% affordable rent (25% is possible but finely balanced) on Greenfield land. Development on previously developed land can support affordable housing contributions of up to 10% but this is on the margins of viability.

			EUV	BLV	Residual Value
Site 2	Green	0%	50,000	400,000	3,261,790
Site 3	Green	5%	50,000	400,000	2,674,663
Site 4	Green	10%	50,000	400,000	2,087,535
Site 5	Green	15%	50,000	400,000	1,500,408
Site 6	Green	20%	50,000	400,000	913,280
Site 7	Green	25%	50,000	400,000	321,114
Site 8	Green	30%	50,000	400,000	-294,520
Site 14	Brown	0%	650,000	780,000	1,892,575
Site 15	Brown	5%	650,000	780,000	1,305,677
Site 16	Brown	10%	650,000	780,000	718,779
Site 17	Brown	15%	650,000	780,000	117,688
Site 18	Brown	20%	650,000	780,000	-498,122
Site 19	Brown	25%	650,000	780,000	-1,120,427
Site 20	Brown	30%	650,000	780,000	-1,756,417

Source: HDH (October 2020)

4.1.4 Despite the findings of the *Local Plan Viability Study* concluding that neither of the older persons' housing typologies could support affordable housing provision of 30%, a bespoke affordable housing target for these forms of development is not recommended. The LPVS advises that:

10.77 *The results indicate that specialist older people's housing is likely to be able to bear some affordable housing, but not 30%.*

10.78 *When considering the above, it is important to note that paragraph 10-007-20180724 of the updated PPG specifically anticipates that the viability of specialist older people's housing will be considered at the development management stage. It is therefore not considered necessary to develop a specific policy for this sector.*

4.1.5 We acknowledge the PPG does states that circumstances that justify the need for a viability assessment at application stage can include where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people) (Paragraph ID: 10-007-20190509).

4.1.6 The guidance in the NPPF and the PPG is that the role for viability assessment is primarily at the Plan making stage:

Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force (paragraph 57.)

4.1.7 Council Members, Officers and the general public will assume that applications for sheltered or extra care housing will be able to support a policy compliant level (30%) of affordable housing. This would however be at odds with the viability evidence underpinning the Local Plan. Furthermore, **no reference is made to the inability of older persons' housing typologies providing policy compliant levels of affordable housing in either the text of the Policy CP9 or its justification.** Burdening specialist forms of accommodation with an unrealistic affordable housing requirement on the presumption that viability will be considered on a site-specific basis, but not making this clear to either developers or Council Officers in the wording of the policy creates both uncertainty and a significant opportunity for conflict. This is particularly concerning as **the NPPF and the PPG both make it clear that the weight attributed to a viability assessment is to at the discretion of the decision maker .**

4.1.8 *Policy CP9: Affordable Housing* details a flat affordable housing delivery rate of 30% across the District for all forms of residential development, including Extra Care. The PPG however advises that '*Different (affordable housing) requirements may be set for different types or location of site or types of development*' (Paragraph: 001 Reference ID: 10-001-20190509). We are strongly of the view that it would be more appropriate to set a lower, potentially nil, affordable housing target for sheltered and extra care development, particularly in urban areas.

4.1.9 The Local Plan is therefore considered to be unsound on the grounds the affordable housing targets are not justified, positively prepared or effective.

5. Conclusion

- 5.1.1 The McCarthy Stone and Churchill Retirement Living consider that the conclusions of the *Stroud District Council Local Plan Viability Assessment* does not in our view provide a credible basis for proving a flat 30% affordable housing rate across the Authority.
- 5.1.2 The Local Plan Viability Assessment concludes that neither sheltered housing or extra care accommodation can support affordable housing contributions of 30%. We support this, albeit we consider that the viability of older persons' housing typologies has been overstated, as several the viability assumptions do not reflect our experience in bringing these forms of development forward (See **Chapter 3. Viability Appraisal Inputs**).
- 5.1.3 As a suggestion we would recommend a supplemental sub-clause to Policy CP9 which reads as follows:
 - i. Specialist older persons' housing including sheltered and extra care accommodation will not be required to provide an affordable housing contribution.*

