

REVIEW OF LOCAL PLAN VIABILITY
ASSESSMENT
FOR SHELTERED HOUSING

BEDFORD BOROUGH COUNCIL
LOCAL PLAN 2040 (REGULATION 19 CONSULTATION)

JULY 2022

Contents

1.	Introduction.....	1
1.2	Older Persons' Housing Typologies	1
2.	Viability Appraisal Inputs	2
2.1	Introduction.....	2
2.2	Unit Sizes	2
2.3	Sales Values	2
2.4	Unit Mix.....	2
2.5	Base Build Cost.....	2
2.6	Sales Rate.....	3
2.7	Gross to Net.....	3
2.8	Profit.....	3
2.9	Empty Property Costs.....	3
2.10	Sales & Marketing Costs	4
2.11	CIL & s106 costs	4
	Comparison of Viability Input.....	5
3.	Results	6
3.1	Older Persons' Housing Typologies	6
4.	Commentary on the BNP Paribas Viability Assessment.....	7
5.	Conclusion	8

1. Introduction

- 1.1.1 This supporting statement has been prepared on behalf of Churchill Retirement Living an independent housebuilder specialising in housing for older people.
- 1.1.2 In this statement we critically appraise the evidence underpinning the affordable housing targets detailed in *Policy DM3(S): Housing Mix* of the *Bedford Borough Local Plan 2040 (Regulation 19 Consultation)* namely the *Bedford Local Plan 2040 – Borough-Wide Viability Study (2022)* undertaken by BNP Paribas.
- 1.1.3 This Statement is a focused document underpinning our representations to *Bedford Borough Local Plan 2040 (Regulation 19 Consultation)* the consultation on *Policy DM3(S)*. 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.

1.2 Older Persons' Housing Typologies

- 1.2.1 The affordable housing targets set out in *Policy DM3(S): Housing Mix* are informed by the *Bedford Local Plan 2040 – Borough-Wide Viability Study (2022)* undertaken by BNP Paribas.
- 1.2.2 We note that the Viability Assessment has assessed older persons' housing typologies, which is welcomed.
- 1.2.3 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. Our concerns are that the Viability Assessment has overplayed the viability of older persons' housing.
- 1.2.4 Mindful of the guidance in the PPG that is the responsibility of site owners and developers to engage in the Plan making process. Churchill Retirement Living have provided commentary and supplemental evidence on the viability assumptions used in the appraisals for sheltered housing in the Viability Assessment.

2. Viability Appraisal Inputs

2.1 Introduction

- 2.1.1 Churchill Retirement Living have considered the inputs and assumptions used in the financial viability appraisals for older persons' housing in the *Bedford Local Plan 2040 – Borough-Wide Viability Study (2022)* undertaken by BNP Paribas. A summary table has been provided in the table entitled: *Comparison of Appraisal Inputs* on page 5 this report.
- 2.1.2 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.

2.2 Unit Sizes

- 2.2.1 Apartments for specialist older persons' housing tend to be larger than 'general needs' open market housing. The BNP Viability Assessment has deviated slightly from the recommendations of the RHG note and no justification has been given.

RHG Briefing Note Recommended Unit Sizes

	1 bed	2 bed
Sheltered	50 m ²	75 m ²

2.3 Sales Values

- 2.3.1 A relevant comparable scheme in the vicinity of the subject site in the form of Oakhill Place, High View, Bedford, Bedfordshire, MK41 8EN (McCarthy Stone). This currently has a 2-bedroom apartment selling for £348,000 (£4,519 per m²).
- 2.3.2 This is a higher value than the range put forward in paragraph 4.31 of the Viability Assessment - £3,764per m² - £4,144 per m².

2.4 Unit Mix


- 2.4.1 The RHG briefing note recommends a 60:40 split for 1bed:2 beds. We have used the recommended mix. The BNP Viability Assessment has deviated slightly from the recommendations of the RHG note and no justification has been given.

2.5 Base Build Cost

- 2.5.1 As per the guidance in the RHG Briefing Note we have applied the BCIS build costs for 'supported housing' in our financial viability appraisals for older persons' housing. The Viability Assessment advocates using the BCIS 'Supported Housing – Generally' costs but would appear to have utilised the BCIS 'Lower Quartile Build Costs. No justification for this has been given.
- 2.5.2 There has been a rapid increase in both material and labour costs for construction because of Brexit and the recovery of the economy after the pandemic since. BCIS costs have not kept up with the increase in build costs and in some instances the respondents are working to build costs higher than those of the BCIS Upper Quartile.
- 2.5.3 The respondents have based their appraisal on the July 2022 Median 'generally' BCIS rates for supported housing, re-based for Bedfordshire which are £1,717 per m².

Excerpt from BCIS

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims. 
Last updated: 16-Jul-2022 05:38

Maximum age of results: ▼

Building function (Maximum age of projects)	£/m ² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
843. Supported housing							
Generally (15)	1,860	959	1,555	1,717	2,044	3,789	133
Single storey (15)	2,170	1,345	1,707	1,997	2,333	3,789	16
2-storey (15)	1,850	978	1,532	1,681	2,044	3,294	41
3-storey (15)	1,707	959	1,544	1,640	1,884	2,590	47
4-storey or above (15)	1,943	1,166	1,544	1,811	1,981	3,645	26
843.1 Supported housing with shops, restaurants or the like (15)	1,761	1,133	1,504	1,658	1,867	3,006	32

2.6 Sales Rate

2.6.1 We note that the Viability Assessment utilises a sales rate of 3 units per month.

2.6.2 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 is lower presently.

2.7 Gross to Net

The Viability Assessment tested sheltered housing with non-saleable communal floor space of 30% of GIA. This sits within the range suggested by the RHG on this matter.

2.8 Profit

2.8.1 The *Bedford Local Plan 2040 – Borough-Wide Viability Study (2022)* 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)

2.9 Empty Property Costs

2.9.1 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.

2.9.2 The *Bedford Borough 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. If a property should remain unoccupied for between 2 and 5 years, an additional premium of 100% will be payable until such a time

as the property is reoccupied. For properties empty between 5 – 10 years an additional premium of 200% will be payable and for properties empty for over 10 years a premium of 300% will be applied.

- 2.9.3 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

- 2.9.4 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.

2.10 Sales & Marketing Costs

- 2.10.1 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.
- 2.10.2 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.
- 2.10.3 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 an appeal decision in Redditch Appeal Ref: 3166677.

2.11 CIL & s106 costs

- 2.11.1 Bedford Borough Council have an adopted CIL Charging Schedule. This has a bespoke charging rate for *Care homes, extra care and other residential institutions* which includes **Dwelling units classified as C2 will qualify together with C3 units where the units directly benefit from communal facilities comprising 10% or more of the total gross floorspace.* As retirement living apartments provide communal floorspace in excess of 10% then they would sit within the nil rate.
- 2.11.2 S106 Contributions of £10k per unit have been applied in line with those in Table 4.52.1 of the Viability Appraisal.

Comparison of Viability Input

	BNP Paribas	CRL
Sales Values	£3,767per m ² to £4,144 per m ²	£4,519 per m ²
Unit Size	1bed – 50m ² 2 bed – 70m ²	1bed – 50m ² 2 bed – 75m ²
Benchmark Land Values	Secondary Office Brownfield - £5,631,552 Secondary Industrial - £2,499,574.45 Open Storage - £1,251,128	Secondary Office Brownfield - £2,815,776 Secondary Industrial - £1,315,565 Open Storage - £658,488
Dwellings per hectare	100dph	100dph
Dwelling Mix	50% 1-bed 50% 2-beds	60% 1-bed 40% 2-beds
No. of units	85	50
Site size	0.955ha	0.5ha Brownfield
Build Period	Unknown	12 Months
Sales Rate	3 units per month	1 unit per month
Base Build Costs	£1,585 per m ² .	£1,717 per m ² .
Future Homes	£50 per m ²	£50 per m ²
External Works	10-15%	10%
Contingency	5%	5%
Gross to Net saleable	30%	30%
Professional Fees	8-10% of base BCIS build costs	10% of base BCIS build costs
Finance Costs	6%	6%
Profit	17.5%	20%
Sales & Marketing	2.5%	6%
Empty Property Costs	Unknown	£3k per unit
S106	£10k per unit	£10k per unit
Biodiversity Net Gain	0.2% of Base Build Costs	0.2% of Base Build Costs
Part M4(2)	£3,400 per unit	£3,400 per unit
Part M4(3)	£11,000 per unit	£11,000 per unit

3. Results

3.1 Older Persons' Housing Typologies

3.1.1 The outputs of the viability appraisals for older persons' housing typologies are summarised below for ease of reference. This FVA does not include any affordable housing as part of the appraisal and is therefore undertaken on the basis of a 100% private proposal.

3.1.2 We have assessed both Sheltered against the Benchmark Land Values for Brownfield sites and we have assessed the impact of all specialist accommodation being built to Part M4(3)

Typology	Residual Land Value	
	5% M4(3)	100% M4(3)
Secondary Office Brownfield - £2,815,776	- £3,685,487	- £4,027,988
Secondary Industrial - £1,315,565	- £2,186,276	- £2,527,777
Open Storage - £658,488	- £1,529,100	- £1,870,700

3.1.3 All the scenarios tested result in substantial negative residual land value. The extent of the deficit is such that the existing framework of planning obligations places an unacceptable burden on specialist older persons' housing in the area.

3.1.4 Providers are already heavily reliant on factors that reduce the cost of development to bring specialist older persons' housing coming forward such as achieving efficiencies in the build cost or accepting a lower level of profit.

3.1.5 Churchill Retirement Living have struggled to bring forward specialist older persons' housing within Bedford historically as we have been unable to make development viable. The Borough is however of interest to both companies and we would appreciate the opportunity to work with Council Officers to help facility the delivery of specialist older persons' housing

4. Commentary on the BNP Paribas Viability Assessment

4.1.1 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 Appendix 5 of the *Bedford Local Plan 2040 – Borough-Wide Viability Study (2022)* undertaken by BNP Paribas. **There is not a single scenario in which retirement living accommodation can viably deliver all the requirements of the Local Plan - Planning contributions, Accessibility (M4(2) & M4(3)), Biodiversity & Future Homes.** In most instances the residual land value is negative by several million pounds.

4.1.3 Indeed, there **is only one scenario in which sheltered housing can deliver 30% affordable housing** – the highest value area (CIL Value 5) with the lower value greenfield benchmark land value. This does not include any of the other policy requirements, such as s106 contributions and accessibility standards. This is also a highly unlikely scenario as the highest sales values for retirement living apartments will not be achieved in lower value areas.

4.1.4 The *Local Plan Viability Study* provides an understated summary of the viability of older persons' housing typologies advises that:

6.25 *Given the Council's requirement for the delivery of specialist accommodation, which meets a required need in the borough providing for older persons and people with disabilities and special needs, we have tested the viability of delivering such schemes in the borough. The results of our appraisals testing older persons' accommodation demonstrate that the viability of retirement / sheltered housing schemes in the borough can be challenging (see Appendix 5), except where schemes come forward at higher sales values and on sites with lower existing use values. The Council's policy allows for the consideration of viability when determining residential schemes. We consider that this flexibility will ensure that such development continues to come forward over the life of the plan and will deliver the maximum reasonable amount of affordable accommodation.*

4.1.5 It is our view that the viability testing for sheltered housing typologies in the *Local Plan Viability Study* clearly show that the proposed planning policy regime in Bedford will render this form of accommodation unviable. These conclusions should have prompted the Council to revisit the policy requirement for this form of accommodation so as to not jeopardise its delivery of the Local Plan period.

4.1.6 Conversely however, **the planning policy requirements for older persons' housing are higher than for other forms of housing.** *Policy DM3(S): Housing Mix* stipulates a requirement for all units of specialist older persons housing to be built to M4(3). The *Local Plan Viability Study* advises the cost of flats to meet M4(3) is £11,000 per flat (which the respondent considers to be a conservative figure) resulting in an increase to the build cost of a typical 50 unit scheme of £550,000.

4.1.7 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).

4.1.8 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.)

4.1.9 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 DM1(S) 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.**

- 4.1.10 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 nil affordable housing target for sheltered development, at the very least in urban areas. This approach accords with the guidance of the PPG which states 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).
- 4.1.11 To that end, we would like to draw the Council's attention to Paragraph 5.33 of *Policy HP5: Provision of Affordable Housing* in the emerging Fareham Borough Local Plan which advises that:
- 5.33 ... *The Viability Study concludes that affordable housing is not viable for older persons and specialist housing. Therefore, Policy HP5 does not apply to specialist housing or older persons housing.*
- 4.1.12 A nil affordable housing rate could facilitate a step-change in the delivery of older person's housing in the Borough, helping to meet the diverse housing needs of the elderly. The benefits of specialist older persons' housing extend beyond the delivery of planning obligations as these forms of development contribute to the regeneration of town centres and assist Council's by making savings on health and social care.

5. Conclusion

- 5.1.1 Churchill Retirement Living consider that the conclusions of the *Bedford Local Plan 2040 – Borough-Wide Viability Study (2022)* do not provide a credible basis for proving a flat 30% affordable housing rate across the Authority.
- 5.1.2 The Viability Assessments concludes that sheltered housing cannot support affordable housing contributions of 30% or the additional policy costs of building to an enhanced accessibility standard M4(3). These conclusions reflect our own, 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 **The proposed planning policy requirements placed on specialist older persons' housing would render it undeliverable and as such the Policy DM1(S) and Policy DM3(S) fail the tests of soundness in Paragraph 35 of the NPPF.**
- 5.1.4 As a suggestion we would recommend a bespoke affordable housing target of nil for Retirement Living apartments is incorporated into the wording of **Policy DM1(S)**.
- 5.1.5 In the event the Council does not make the necessary amendments to the above policy then the respondent would like to present their case at Examination in Public.

**Appendix A – Viability Appraisal for Retirement Living Apartments
(100% Open Market)**

Development Appraisal
Licensed Copy
28 July 2022

APPRAISAL SUMMARY**LICENSED COPY****100% Open Market Sheltered (1)
Bedford Local Plan 2040
Retirement Living Viability Appraisal****Appraisal Summary for Phase 1 Retirement Housing**

Currency in £

REVENUE

Sales Valuation	Units	m ²	Sales Rate m ²
1 Bed Flats	30	1,500.00	4,519.00
2 Bed Flats	<u>20</u>	<u>1,500.00</u>	4,519.00
Totals	50	3,000.00	

NET REALISATION**OUTLAY****ACQUISITION COSTS**

Residualised Price (Negative land)		870,711
Agent Fee	1.00%	135,570
Legal Fee	0.75%	101,677

CONSTRUCTION COSTS

Construction	m ²	Build Rate m ²	Cost
1 Bed Flats	2,142.86	1,717.00	3,679,286
2 Bed Flats	<u>2,142.86</u>	<u>1,717.00</u>	<u>3,679,286</u>
Totals	4,285.71 m²		7,358,571

Developers Contingency		5.00%	367,929
s106	50.00 un	10,000.00 /un	500,000
M4(2)	50.00 un	3,400.00 /un	170,000
M4(3)			33,000
Future Homes Standard	4,285.71 m ²	50.00	214,286
Biodiversity		0.20%	14,717

Other Construction

External Costs		10.00%	735,857
----------------	--	--------	---------

PROFESSIONAL FEES

Architect		10.00%	809,443
-----------	--	--------	---------

MARKETING & LETTING

 Project: 100% Open Market Sheltered (1)
 ARGUS Developer Version: 8.10.004

Date: 28/07/2022

APPRAISAL SUMMARY**LICENSED COPY****100% Open Market Sheltered (1)
Bedford Local Plan 2040
Retirement Living Viability Appraisal**

Marketing 3.00% 406,710

DISPOSAL FEESSales Agent Fee 2.00% 271,140
Sales Legal Fee 50.00 un 600.00 /un 30,000**Unsold Unit Fees**1 Bed Flats 79,442
2 Bed Flats 94,831**FINANCE**

Timescale	Duration	Commences
Acquisition	1	Apr 2021
Pre-Construction	6	May 2021
Construction	15	Nov 2021
Sale	50	Feb 2023
Total Duration	76	

Debit Rate 6.500%, Credit Rate 2.750% (Nominal)
Total Finance Cost**TOTAL COSTS****PROFIT****Performance Measures**Profit on Cost% 25.00%
Profit on GDV% 20.00%

IRR 25.72%

APPRAISAL SUMMARY**LICENSED COPY**

**100% Open Market Sheltered (1)
Bedford Local Plan 2040
Retirement Living Viability Appraisal**

Unit Price	Gross Sales
225,950	6,778,500
338,925	<u>6,778,500</u>
	13,557,000

13,557,000

870,711

237,247

7,358,571

1,299,931

735,857

809,443

APPRAISAL SUMMARY**LICENSED COPY****100% Open Market Sheltered (1)
Bedford Local Plan 2040
Retirement Living Viability Appraisal**

406,710

301,140

174,273

393,138

10,845,600**2,711,400**