

IMPACT OF S106 AND CIL ON VIABILITY OF SPECIALIST HOUSING FOR OLDER PEOPLE



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Real Estate for a changing world

INTRODUCTION

- 1. Viability and the changes to the NPPF/NPPG**
- 2. Setting CIL rates**
- 3. CIL regulations are changing**
- 4. How is viability different for older person's housing**
- 5. What do developers need to do**

Taking stock – five years of debate

GN 94/2012

RICS Professional Guidance, England

Financial viability in planning

1st edition, guidance note



RICS the mark of property professionalism worldwide

Viability Testing Local Plans

Advice for planning practitioners

Local Housing Delivery Group
Chaired by Sir John Harman

June 2012



Research



April 2015
Financial Viability Appraisal
in Planning Decisions:
Theory And Practice



rics.org/research



Ministry of Housing,
Communities &
Local Government

National Planning Policy Framework

February 2019
Ministry of Housing, Communities and Local Government



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CHANGES TO VIABILITY IN THE NPPF AND NPPG



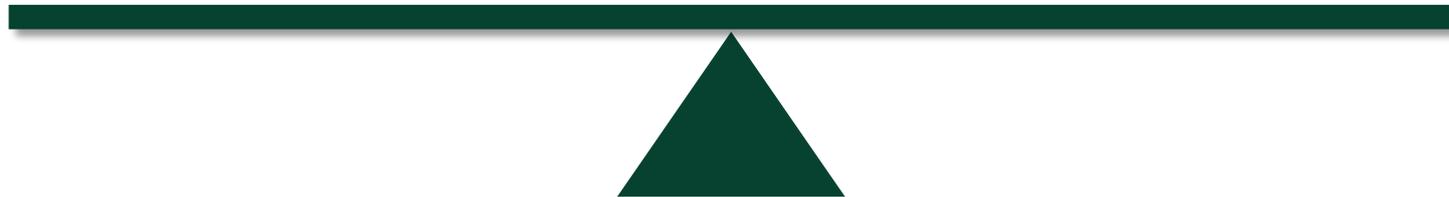
National Planning Practice Guidance (NPPG) 2019

NPPG Viability Para 010:

“In plan making and decision making **viability helps to strike a balance between** the

aspirations of developers and landowners, in terms of returns against risk

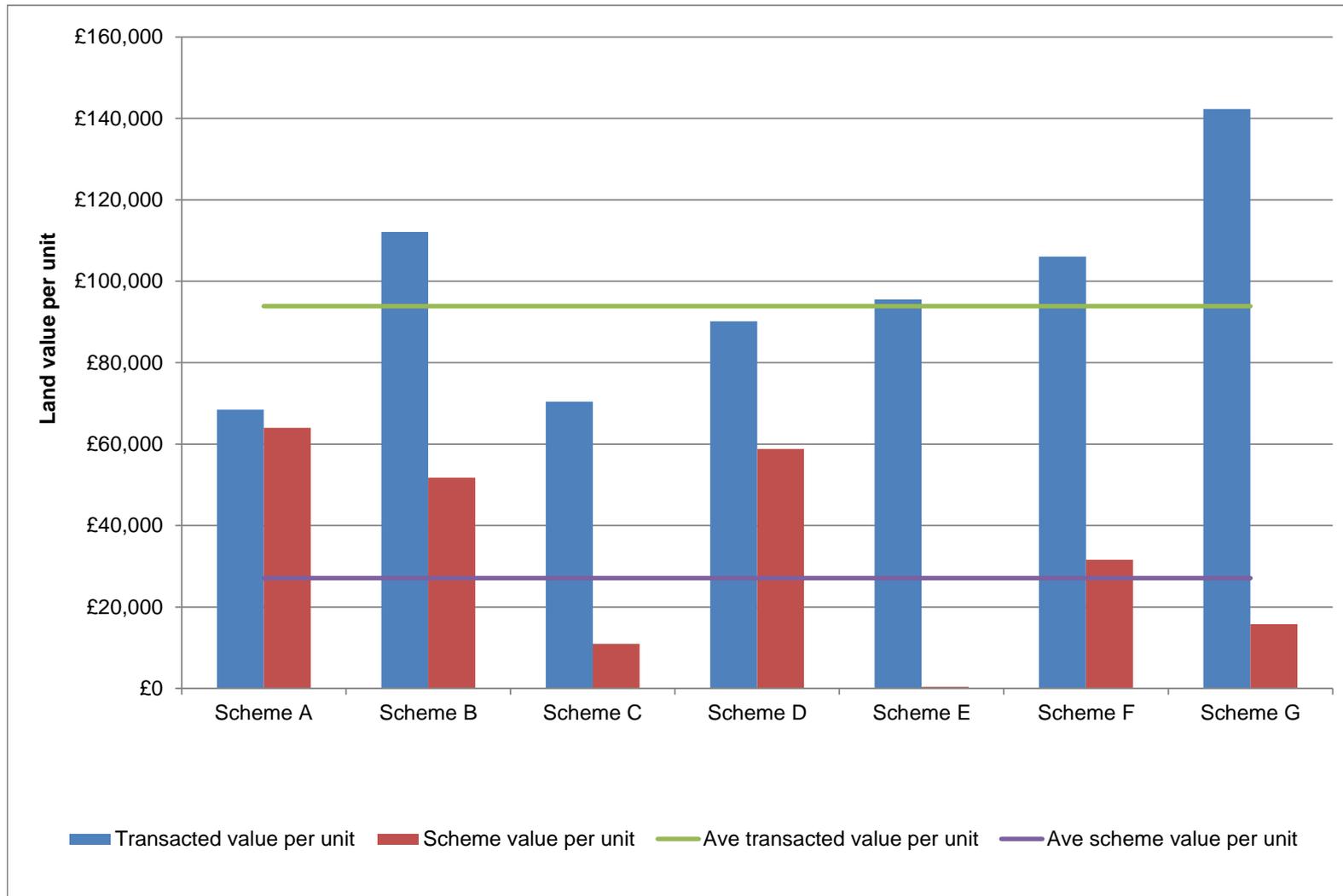
aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.”



NPPG May 2019

- *‘Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan’ paras 002, 006, 011, 014, 018*
- Benchmark to be determined using existing use value excluding hope value
- Plus premium to allow a ‘reasonable incentive’
 - ‘Market evidence can include BLVs from other viability assessments’
 - ‘Land transactions can be used but only as a crosscheck to the other evidence’
 - Any data to be from policy compliant schemes, or adjusted for cost of policies
- Alternative use values can be used but must be policy compliant

Why has the NPPG adopted this position on BLV?



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HOW CHARGING AUTHORITIES SET CIL RATES



CIL - Legal framework, viability and rate setting

CIL Regulation 14 currently identifies that:

Charging authorities ‘must strike an appropriate balance between’

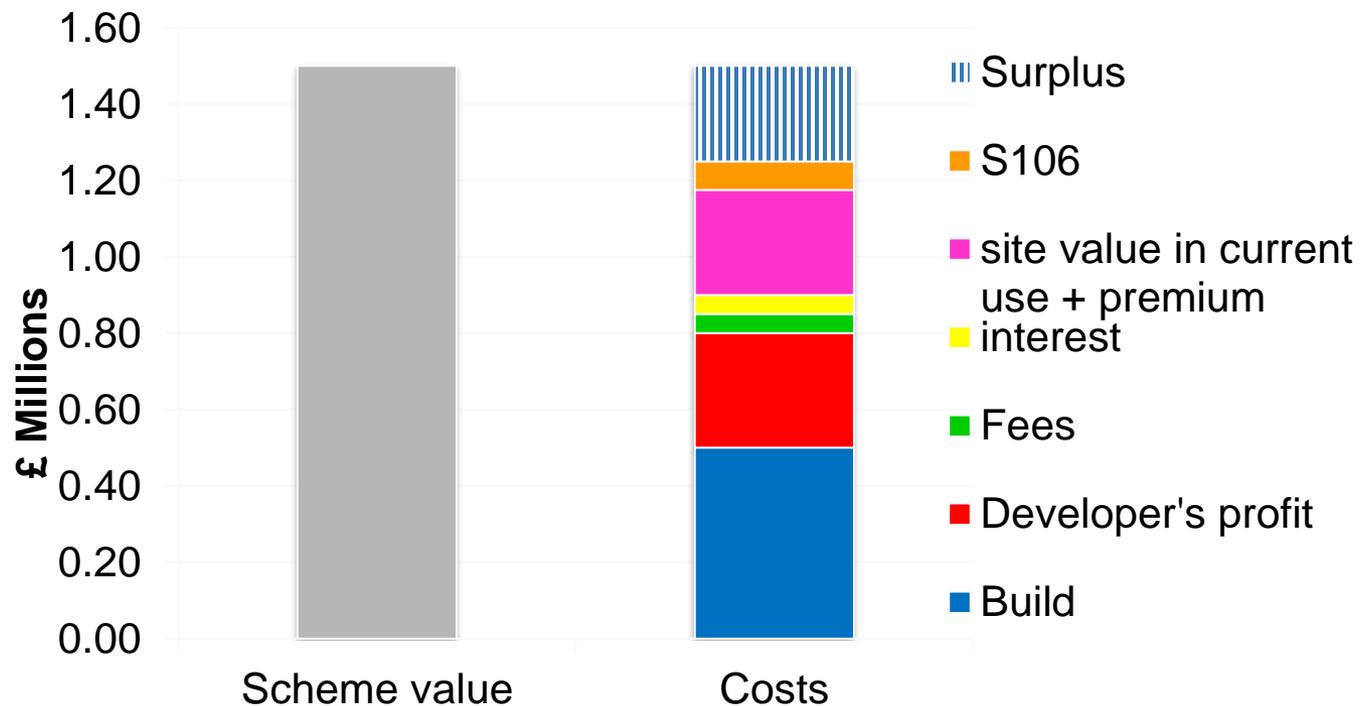
‘The potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area’

‘Raising funds for infrastructure’



Testing the viability of developments

- Residual valuation model
- Typology approach and standardised inputs
- Consultation and examination in public



Approaches to rate setting - guidance

- PPG is not prescriptive on approaches
- CIL needs to be informed by evidence; evidence does not dictate the rates
- No policy-driven low or zero rates
- Recognition that markets are cyclical / subject to change
- Rates should not be set at the margins of viability – ‘buffers’ are essential

Approaches to rate setting – in practice

- Catch-all residential rates, including older person's housing
- Use class driven CIL rates, C2 may (or may not) be caught
- Nominal rates
- Rates for strategic sites, covering all uses
- Nil rates for older person's housing
- How critical is a particular type of development to delivery of the plan?

Influencing CIL rate setting

- Engage with CIL officers – attend informal consultation events
- Formal consultation on Draft Charging Schedule
- Focus on area-wide impact of a proposed CIL rate
- Avoid generalities – provide specific evidence
- Does the viability evidence base reflect the characteristics of OP housing?
- Also engage in Local Plan consultation – is need for OP housing identified?

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CHANGES TO CIL REGULATIONS SEPTEMBER 2019



Key changes

- Current two stage consultation process replaced with a single consultation
- Removal of the pooling restrictions contained within Regulation 123
- Charging authorities will no longer be required to publish a Regulation 123 list
- Greater transparency – annual infrastructure funding statements
- Annual updates to charging schedules to show indexed rates

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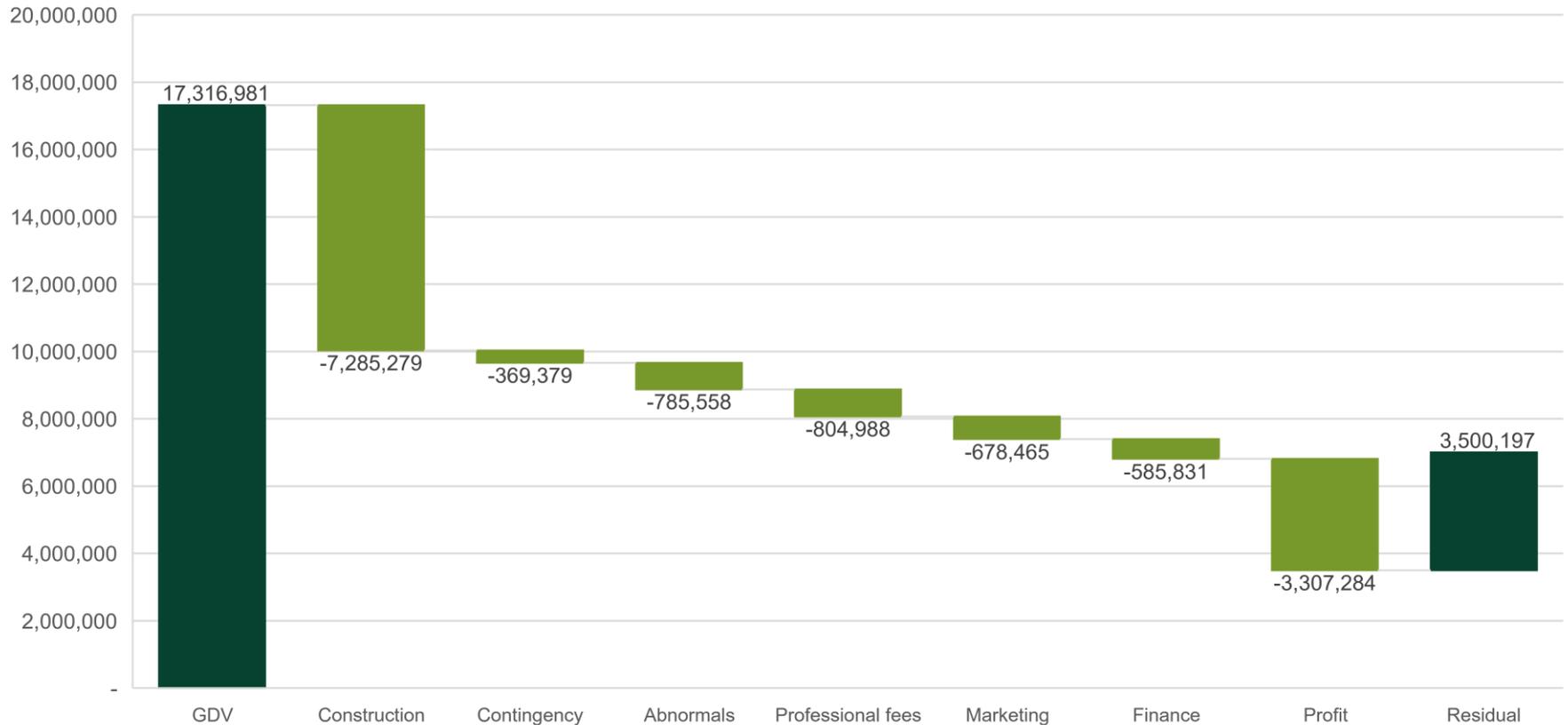
Key characteristics of older person's housing

Input	General purpose residential	Older person's housing
Circulation space	15%	30% - 35%
Sales and marketing % of GDV	2 – 3%	4% - 5%
Sales periods	4-6 sales per month	1-2 sales per month
Empty property costs	None/minimal	High over sales period
Sales values	Reflect local comps	Premium values
Operational income	None	Wellness facilities
Long term commitment	None	Long term involvement in operation including DMF

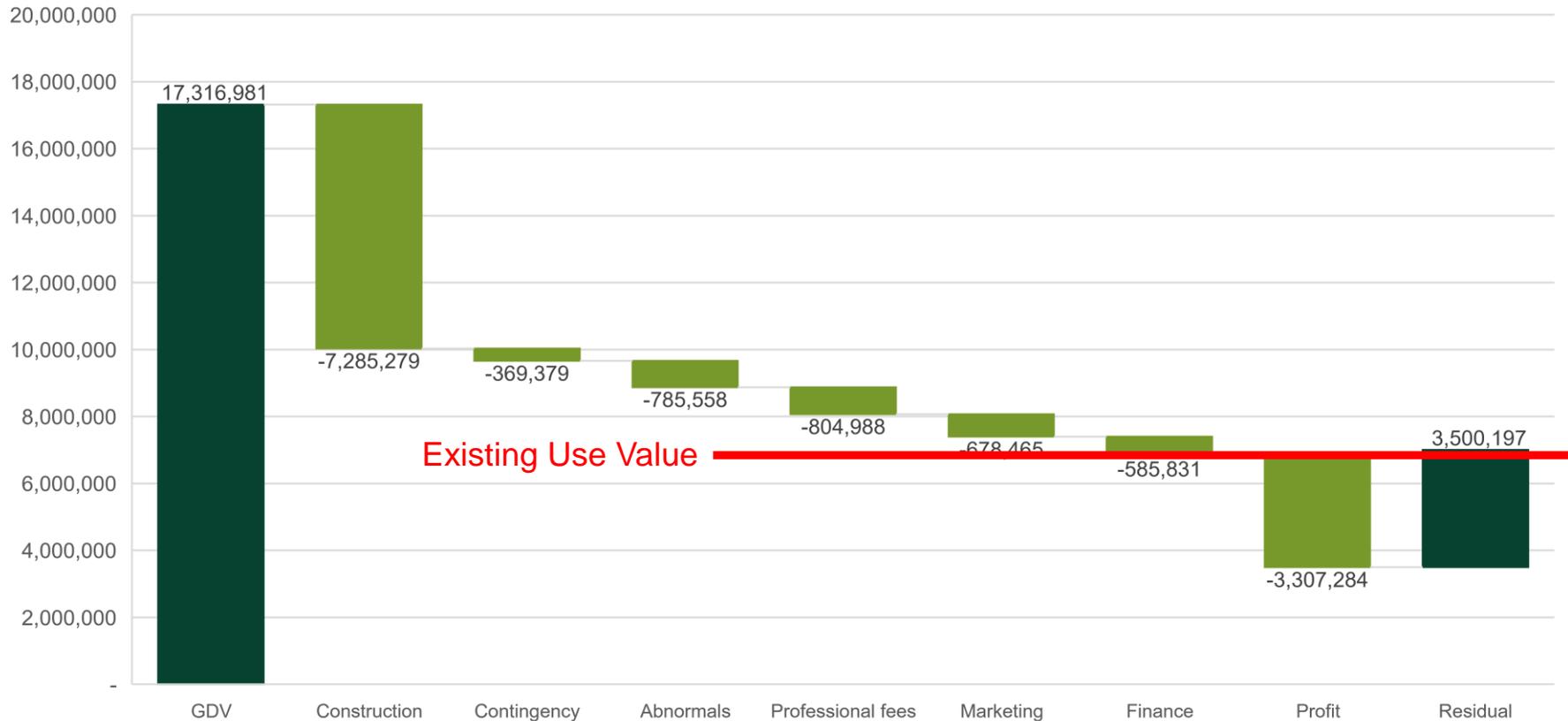
Scheme in Croydon

- Existing uses on site: 5 houses valued at £2.6 million + 20% premium (£3.08m)
- 34 older person's flats (11 one beds and 24 two beds)
- 5 affordable housing units
- Borough and Mayoral CIL liability totalling £660,000

Scheme in Croydon – before CIL



Scheme in Croydon – before CIL



Scheme in Croydon – after CIL



Scheme in Croydon – before CIL



Mitigating the impact

- Affordable housing contribution reduced – CIL is mandatory
- LPAs accept there is a trade-off
- CIL in kind if there is any provision of facilities that qualify as infrastructure
- Exceptional circumstances relief – difficult to demonstrate

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KEY MESSAGES



Conclusions

- Developments can readily absorb CIL – small % of overall costs
- Older person's housing development tends to be on the margins of viability
- Affordable housing contributions tend to get squeezed
- To influence, engage positively with charging authorities early
- Specific evidence is compelling – avoid generalities
- There are forms of mitigation, but they are difficult

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