Churchill
Retirement Living

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REPRESENTATION TO THE WARWICK DISTRICT COUNCIL COMMUNITY INFRASTRUCTURE LEVY - PRELIMINARY DRAFT CHARGING SCHEDULE

This is a joint representation 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. 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 Warwick District Council Community Infrastructure Levy (CIL), insofar as it affects or relates to housing for the elderly.

The effect of the imposition of CIL will be to constrain land supply. This is a particularly significant threat to land with a high existing use value and therefore to the delivery of retirement developments, which due to the nature of residents are required to be sited in close proximity to town and local centres. It is hoped that the CIL schedule can be adopted in a way that does not constrain this much needed form of development.

The CIL Guidance published in December 2012 by the Department for Communities and Local Government (DCLG) states consistently that *'In proposing a levy rate(s) charging authorities should show that the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole'* (Paragraph 29).

The CIL Guidance also stresses the importance of this principle to individual market sectors that play an important role in meeting housing need, housing supply and the delivery of the Development Plan, such as specialist accommodation for the elderly. This is relevant in the context of Paragraph 37 of the Guidance:

"... However, resulting charging schedules should not impact disproportionately on particular sectors or specialist forms of development and charging authorities should consider views of developers at an early stage".

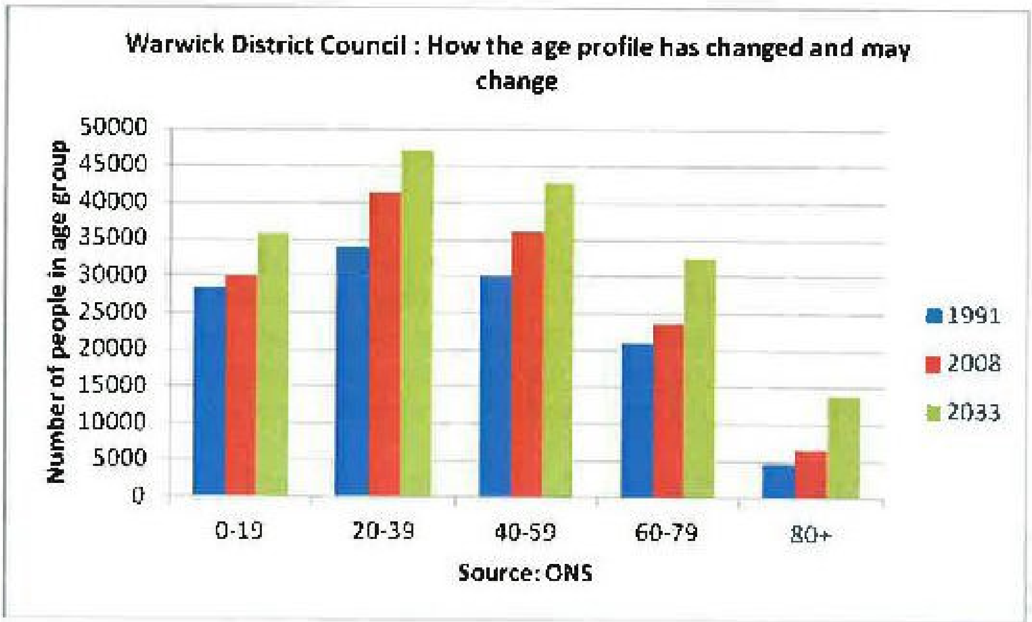
Where the provision of specialist accommodation for the elderly plays a clear role in meeting housing needs in the emerging or extant Development Plan, as it does in the context of the Warwick LDF as discussed below, by not properly considering the effect of CIL on this form of development the Council would be putting the objectives of the Development Plan at risk and thereby contravening Government Guidance. <u>It is therefore of</u>

clear importance that the emerging CIL rate accurately assess the development of specialist accommodation for the elderly in the District of Warwick.

Growing Elderly Population

The National Planning Policy Framework stipulates that the planning system should be *'supporting strong, vibrant and healthy communities'* and highlights the need to *'deliver a wide choice of high quality homes, widen opportunities for home ownership and create sustainable, inclusive and mixed communities. Local planning authorities should plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community...such as...older people'* [emphasis added].

The "What Homes Where Toolkit" developed by the Home Builders Federation uses statistical data and projections from the Office of National Statistics (ONS) and the Department for Communities and Local Government (DCLG) to provide useful data on current and future housing needs. The table below has been replicated from the toolkit and shows the projected change to the demographic profile of Warwick between 2008 and 2033.



In line with the rest of the country, this toolkit demonstrates that the demographic profile of the District is projected to age, with the proportion of the population aged 60 and over increasing from 22% to 27% between 2008 and 2033. This is significantly higher than the average projected increase for UK local authorities by the Office for National Statistics (23% of the population aged over 65 by 2033). The most significant population increases are projected of the 'frail' elderly, those aged 75 and over, who are more likely to require specialist care and accommodation.

The adopted *Warwick District Local Plan 1996-2011* reflects this by identifying that the demographic profile of the area is ageing and raising concerns over the future provision of adequate support and accommodation for the growing elderly population. The provision of suitable housing to meet the diverse needs of the population is addressed in *Policy SC1-Securing a Greater Choice of Housing* which states *'Residential development will not be permitted unless it makes provision for a range of sizes and types of dwelling in all* *appropriate cases'*. Given that the demographic profile of the District is projected to increase considerably it is therefore clear that the development of specialist accommodation for the elderly is a priority for the Council.

In light of the above, we consider that it is of vital importance that the emerging CIL does not 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 and that by not properly assessing this form of development the proposed CIL rate would threaten the delivery of the relevant Development Plan contravening Government Guidance.

Development Scenario

As you are aware, as a national retirement housing company, McCarthy & Stone are currently submitting planning applications throughout the Country, including several recent applications within Warwick District. In light of this we obviously need to ensure that the supporting viability work for the CIL is actually representative of what is happening in the real market place for all forms of housing, as, if it is not, the adoption of CIL may prevent needed development coming forward.

The Preliminary Draft Charging Schedule, whilst providing different rates throughout the District based on viability, provides a uniform CIL levy rate for all forms of residential development and does not differentiate between houses, flats and specialist accommodation for the elderly despite the significant differences between these forms of accommodation.

Whilst there is an understandable desire to keep the charging rates as simple as possible the broad inclusion of some retirement housing within a "general residential heading" fails to acknowledge the very specific viability issues associated with such specialist accommodation for the elderly. Given the significant differences between sheltered accommodation and standard market housing, it is unclear as to what the basis for this is, particularly as the Viability Assessment does not appear to include a development scenario for sheltered housing. This is a considerable oversight particularly given the ageing population of the District.

A crucial element of such a CIL viability appraisal will be to ensure that the baseline land value against which the viability of the retirement scheme is assessed properly reflects the spatial pattern of land use in the locality.

Therefore the viability of retirement should be assessed against both likely existing site values, and just as importantly, of potential alternative (i.e. competitor) uses. Our concern is that CIL could prejudice the delivery of retirement housing against competing uses on the land suitable for retirement housing schemes.

The average age of residents in retirement housing is around 79 years old, likely to have abandoned car ownership, be of lower mobility and/or rely on close proximity to public transport. For this reason retirement housing developers will not consider sites that are over a walking distance of approximately half a mile from a town or local centre with a good range of shops and services to meet a resident's daily needs. The result is that retirement housing can only be built on limited range of sites, typically high value, previously developed sites in close proximity to town centres. It is worth noting that Paragraph 27 of the December 2012 Community Infrastructure Levy Guidance recognises that brownfield sites are those where the CIL charge is likely to have the most effect, stating; *"The focus should be in particular on strategic sites on which the relevant Plan relies and those sites (such as brownfield sites) where the impact of the levy on economic viability is likely to be most significant"*.

A Viability Assessment for specialist accommodation for the elderly should therefore provide a development scenario for a typical flatted retirement housing scheme, located on a previously developed site within 0.4 miles of a town centre.

There is an increasing consensus that specialist accommodation for the elderly should not be viewed as an oversight or 'casualty' of the CIL regime. There is now a considerable amount of guidance available for charging authorities and viability practitioners to address this issue competently and quickly

To assist the Council in providing a more robust viability assessment of retirement / sheltered housing we have provided a copy of a joint position paper produced by McCarthy & Stone Retirement Lifestyles Ltd and Churchill Retirement Living Ltd, the two largest providers of specialist housing for the elderly, and was recently sent to every local planning authority in England and Wales. The paper provides a number of recommendations on testing the viability of specialist accommodation for the elderly for CIL and how it differs from conventional housing.

Additionally the Retirement Housing Group (RHG), a consortium of retirement housing developers and managers from the private sector and housing associations, recently commissioned the consultants Three Dragons to produce a paper that provides evidence and guidance for viability practitioners in appraising sheltered / retirement and extra care accommodation. This paper was sent to every viability practitioner in the UK with a copy sent to the Planning Minister, Nick Boles – a copy of this paper has also been attached for your convenience.

The Planning Minister responded positively to the RHG's paper with a letter sending out a message to charging authorities that they should differentiate between retirement housing and general needs homes where viability is an issue. The letter states *"... The revised Guidance published in December 2012is clear that "charging schedules should not impact disproportionately on particular sectors or specialist forms of development and charging authorities should consider views of developers at an early stage". (page 121, paragraph 37). The guidance does not specify that any form of housing should be treated any differently to other sectors but is clear that if you have any evidence that your development would be made be made unviable by the proposed levy charge, this should be considered by the Authority and the examiner...'.* A copy of the Minister's letter is provided for your convenience.

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 Later Living development the Empty Property Costs are on average £200,000.

Build Costs

Whist the Viability Assessment differentiates between the build costs between bungalows, houses and apartments, excluding abnormals, it does not consider the build costs of flatted sheltered housing.

The Build Costs Information Services (BCIS) shows that the Mean Average Build Costs per m^2 for a region. This database consistently shows that build costs vary significantly between housing types with the cost of providing sheltered housing consistently higher than for general needs housing and apartments.

The most recent BCIS figures for Warwick District (13th July 2013) show that the mean cost of building one m^2 of estate housing is £877, while the equivalent cost for apartment developments is £1,006 per m^2. Sheltered housing costs £1,073 per m^2 - 6.6% more expensive than the cost of building apartments and 22.3% more expensive than estate housing.

While the BCIS figures are subject to fluctuation it is our experience that specialist accommodation for the elderly tends to remain in the region of 5% more expensive to construct than apartments and generally between 15 to 20 % more expensive than estate housing.

Payment by Instalments

Consideration should also be given to the timing of CIL payments and an allowance for payment by instalments. Whilst we appreciate that, in line with 69B of the CIL Regulations 2011, an instalment policy does not form part of the charging schedule and would not be subject to examination, we would welcome flexibility in the timing of CIL payments as on commencement would introduce an additional financial cost on the development prior to the receipt of any revenue from the proposed development. This would place an additional burden on the developer and would affect the viability of the development, and possibly in the case of residential development impinge upon the developer's ability to provide for affordable housing.

Viability Assumptions

Any CIL viability assessment should consider the effect of the imposition of CIL on a retirement apartment scheme and should be quantified using appraisal inputs specific to the retirement housing product. It is not correct to simply assume that a general needs apartment scheme is comparable to a retirement apartment scheme as there are a number of key differences which will affect the land value that can be produced by each. Table 1 (page 5) of the aforementioned joint position paper by McCarthy and Stone Retirement Lifestyles and Churchill Retirement Living provides a number of generic viability inputs for specialist accommodation for the elderly.

The remainder of this representation provides details of the appraisal inputs specific to retirement housing where they markedly differ from conventional housing.

Communal Areas

Many forms of specialist accommodation for the elderly, such as retirement housing, provide communal areas for residents at an additional cost to developers. Specialist housing providers also have additional financial requirements as opposed to other forms of development that will only pay on 100% saleable floorspace. This does not provide a level playing field for these types of specialist accommodation and a disproportionate charge in relation to saleable area and infrastructure need would be levied.

In comparison to open market flats the communal areas in specialist accommodation for the elderly are considerably larger in size, fulfil a more important function and are accordingly built to a higher specification in order to meet the needs of the elderly than those provided by open market flatted developments. Typically an open market flatted residential development will provide 16% non-saleable floorspace, whereas this increases to approximately 30% for sheltered accommodation and 35% for Extra Care accommodation.

This places providers of specialist accommodation for the elderly at a disadvantage in land acquisition as the ratio of CIL rate to net saleable area would be disproportionately high when compared to other forms of residential accommodation

Sales Rate

In the case of retirement housing for example there is also 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. This is particularly important with empty property costs, borrowing and finance costs and sales and marketing which extend typically for a longer time period. Currently the typical sales rate for a development is approximately one unit per month, not the 3 to 4 units per month as cited in the Viability Appraisal, so a 45 unit retirement scheme (i.e. an average sized scheme) can take 3-4 years to sell out.

As a result of this typical sales and marketing fees for specialist accommodation for the elderly are often closer to 6% of GDV.

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This issue is compounded in the case of specialist accommodation for the elderly, as developments need to be completed in their entirety before a single unit of accommodation can be sold. It is considered that at the earliest, part payment on ***first occupation*** would be fairer and would reduce unnecessary financial costs to the developer. This should then be ***phased depending upon occupation levels.*** For the foreseeable economic climate, such as currently being experienced, there is considerable merit in staged payments reflecting occupation levels throughout the sale of the development

Summary

Given the extent of projected housing need for older person's accommodation it is paramount that the Warwick District Council CIL schedule recognises the potential shortcomings of providing a uniform CIL rate for all forms of residential development. The additional costs associated with the construction and initial maintenance of this form of development, coupled with the slower sales rate, make it clear that the financial viability of such developments are more finely balanced than those of houses and apartments.

It is for the above reasons that we suggest either a bespoke CIL rate is prepared for sheltered housing and other forms of specialist accommodation, or, that the CIL levy is restricted to the saleable areas of these forms of development.

Thank you for the opportunity for comment.

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