COMMUNITY INFRASTRUCTURE LEVY
AND
SHELTERED HOUSING/EXTRA CARE DEVELOPMENTS

A BRIEFING NOTE ON VIABIILITY
PREPARED FOR RETIREMENT HOUSING GROUP BY
THREE DRAGONS

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RHG
Retirement Housing Group

Executive Summary

New provision of retirement housing (whether sheltered or extracare) is very patchy across the country and provision of sale housing in particular is focussed on the South East and South West with very limited delivery outside these locations.

In low to medium value areas it is already very difficult for retirement housing to compete with mainstream housing development. The introduction of CIL will have a negative impact on viability and further reduce supply. To date most local authorities have not carried out a viability appraisal of retirement housing as part of the evidence base which supports the CIL charging schedule. Those local authorities who have undertaken a viability appraisal have appraised extracare but not sheltered housing and have generally found that, like Care Homes and other C2 uses, newbuild sale extracare housing cannot support a CIL payment.

This paper seeks to provide evidence which will enable viability practitioners to appraise both types of retirement housing, even in those locations where no newbuild stock has recently been provided. It has been prepared by Three Dragons drawing on information provided by members of Retirement Housing Group.

Retirement housing schemes are generally less viable than general needs housing because of a range of factors including higher build costs per sq m, a higher proportion of communal space, lack of ability to phase development and longer selling periods. This will affect their ability to pay CIL and to provide affordable housing.

S106 obligations for retirement housing have generally been subject to negotiation to reflect both financial viability and the calls which the development makes on local facilities. CIL is a fixed charge which cannot take account of scheme viability. It is therefore important that CIL rates are set at a level which reflects the overall viability of particular types of development

Because retirement housing is higher density than general needs housing the introduction of CIL will increase the value of planning obligations sought from a development much more steeply for retirement housing than is the case for general needs family housing.

Local authorities and practitioners undertaking viability appraisal and assessing affordable housing need should therefore carry out specific case studies of older persons housing when setting CIL charging schedules and affordable housing targets. This will contribute to a robust analysis which will stand up at Enquiry.

This document deals specifically with viability appraisal and draws on general information provided by members of Retirement Housing Group (RHG) to provide broad guidelines on the costs and revenues associated with provision of sheltered and extra care housing. It will assist with viability appraisal where no locally specific information is available.

Three Dragons was commissioned by RHG to carry out specimen viability appraisals for high, medium and low value areas outside London using the cost and revenue data provided by RHG. The viability appraisal compared general needs family housing with specialist retirement housing, both sheltered and Extracare accommodation. The chosen specimen locations were

- Tunbridge Wells (high value area)
- Tewkesbury (medium value area)
- Coventry (low value area)

Schemes were modelled with the local authority's target percentage of affordable housing and no s106 obligations. In all locations general needs housing was more viable than retirement housing and sheltered housing was more viable than ExtraCare. In medium and low value areas it is not possible to provide retirement housing which meets the local authority affordable housing target even before the introduction of CIL. The introduction of CIL at £100 per sq m on market housing further reduces scheme viability when compared with general needs housing.

1. Recent delivery of retirement housing for sale and rent

We analysed unpublished data from the Elderly Accommodation Counsel which looks at provision of retirement housing by region. This shows that in the period from 2010 to 2012 207 schemes were developed of which 57% were for rent.

55% of all provision of retirement housing for sale was in the South East and 'South West (48 schemes). No other region had more than 9 schemes of retirement housing for sale.

	Sale schemes	**Rental schemes**	**All schemes**
EM	2	8	10
East	9	21	30
London	5	13	18
NE	3	0	3
NW	8	13	21
SE	27	29	56
SW	21	13	34
WM	8	10	18
Y+H	5	12	17
	88	119	**207**

2. Policy Context

This document is intended to provide background information to local planning authorities and their consultants when undertaking the viability analysis which informs a CIL Charging Schedule. It focuses specifically on retirement housing, including both sheltered and Extracare accommodation.

It draws on the experience of a wide range of retirement housing providers to summarise the key variables which determine viability and to demonstrate how these affect the viability of retirement housing provision compared with general needs housing.

Local planning authorities are required to make provision for all household types, including older people, when drawing up their Local Plan.

> *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, but not limited to, families with children, older people, people with disabilities, service families and people wishing to build their own homes);*
> *● identify the size, type, tenure and range of housing that is required in particular locations, reflecting local demand*
>
> ***NPPF para 50***

Ministers have repeated their support for this policy objective and it is a key feature of the National Housing Strategy

> Half of all households in England are older 'established homeowners'. Some 42 per cent are retired and 66 per cent own their own home outright. As life expectancy increases, more of these households will need support to remain in their homes in later life. Limited choice in the housing market makes it difficult for older households to find homes that fully meet their needs.
>
> ***Laying the foundations: a housing strategy for England p9***

> *"Imaginative housing schemes for older people can save money for the NHS and social services. They can also make it more attractive for older people to move out of their family homes, thereby helping to meet the pressing housing needs of young families"*
>
> ***Nick Boles 17 December 2012***

At present the majority of local planning authorities when setting their Community Infrastructure Levy do not differentiate specialist accommodation for older people from general needs housing and are applying the same CIL rate to both.

3. How retirement housing differs from general needs housing

There are several important differences between specialist retirement housing and general needs housing which make it inappropriate for a viability appraisal based on general needs housing to be applied to retirement housing.

Key differences between retirement housing and general needs housing include:

- Retirement housing is higher density than most general needs development: typically 100-120 dph compared with average densities of 30-70 dph for general needs housing
- Larger communal and non-saleable areas in retirement housing (eg common rooms, laundries, guest rooms, warden's office, dining room, special activity rooms)
- Higher build costs per sq metre for older persons housing than for general needs housing due to higher specifications of individual apartments and buildings.
- While revenue per unit is typically higher for specialist older person housing than for general needs flats, revenue per sq metre is not necessarily higher
- A slower return on investment as schemes need to be fully completed before sales are made as older people are less inclined to buy 'off plan' without seeing a dwelling, the communal facilities and/or meeting staff.
- Higher marketing costs to reach this older age group for whom a move is a discretionary choice often requiring consultation with extended family. Marketing costs are typically 6% of GDV compared to 3% of GDV for open market housing.
- Greater financial risk as phasing is not possible as with general needs housing as retirement developments are often built as a single block, meaning a development must be built out before any return is possible.
- Higher void costs as schemes take longer to sell than general needs housing and flats.
- Most schemes are on brownfield sites, which are often in short supply and have higher development costs.

- Higher land values as schemes work best when they are close to shops, services, GP practices and transport links, where older residents wish to live.

4. Standards of viability testing required by the CIL regulations

The Regulations that guide the setting of CIL allow charging authorities to set different rates for different **intended uses** of development. While the use class order[1] provides a useful reference point – CIL Charging Schedules do not have to be tied to it. The recent "Consultation Paper on Community Infrastructure Levy: further reforms" confirms that

Currently regulation 13 allows charging authorities to set different levy rates within their area. This can be done by reference to "zones" (regulation 13(1)(a)) and "different intended uses of development" (regulation 13(1)(b)). The revised Community Infrastructure Levy guidance has clarified that "uses" does not have the same meaning as "use class". (para 20)

Justification for setting different rates for different uses relies on a, "*comparative assessment of the economic viability of those categories of development*." [2]

While local authorities will want to avoid overly complex patterns of CIL charges, it is important that their charging schedule does not, "*impact disproportionately on particular sectors or specialist forms of development*".[3]

The Regulations therefore permit local authorities to carry out a viability assessment of all likely types of development. Just as different types of retail and leisure uses will have separate viability appraisals so too should different types of residential development including sheltered and ExtraCare housing.

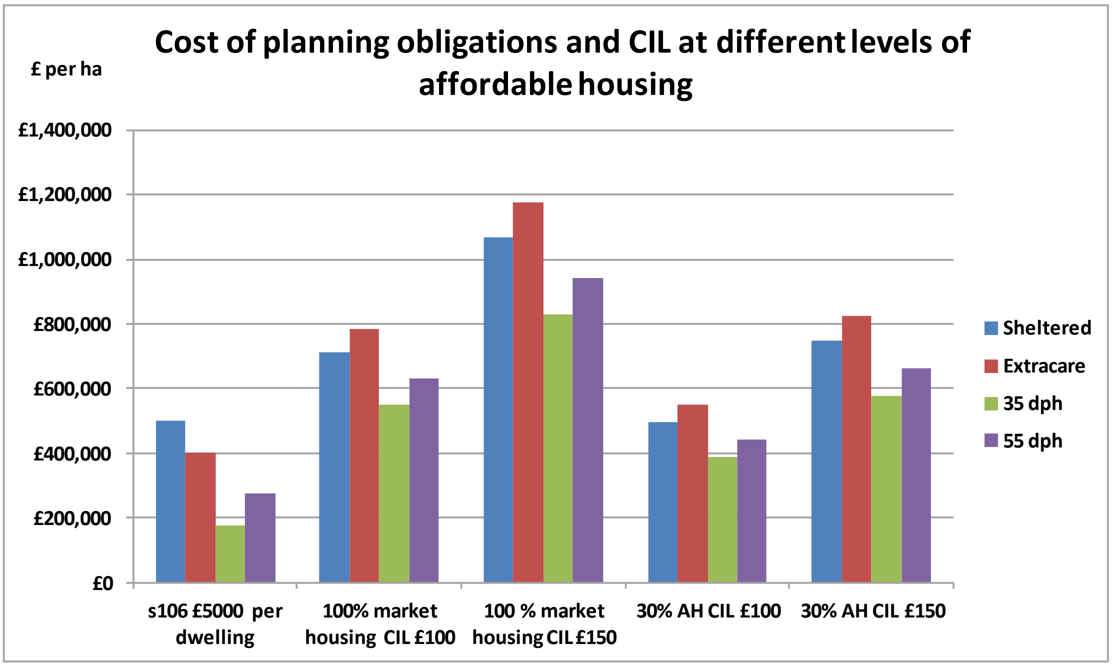
5. Density and its impact on CIL and S106 obligations

Both CIL and S106 obligations bear more heavily on specialist retirement housing than on general needs housing. This is because higher density development attracts higher levels of both CIL (based on £ per sq m of market housing) and S106 obligations (based on total number of dwellings). The chart below shows the relative costs per hectare of a standard S106 contribution of £5,000 per dwelling compared with CIL of £100 per sq m and £150 per sq m at both 100% market housing and 30% affordable housing.

[1] Town and Country Planning Act (Use Classes) Order 1987

[2] Community Infrastructure Levy Guidance, DCLG Dec. 2012 (para 35)

[3] Ibid – para 37



In all circumstances retirement housing pays a higher level of planning obligation than general needs housing. The difference between CIL and S106 is that S106 was negotiable and related to the needs arising from the scheme in many cases retirement housing did not contribute to certain S106 requirements (eg education) and hence paid a lower rate per dwelling than general needs housing. That flexibility is lost with CIL.

6. Key variables affecting the viability of specialist older persons housing provision

Local Planning Authorities and their consultants need robust information on which to base any viability appraisal of retirement housing as distinct from general needs housing. This can be difficult to obtain at local level if there has been no recent development of retirement housing. RHG has therefore prepared the following generic examples of typical sheltered and extracare schemes which included key variables which can be applied in any area of the country.

Typical scheme size (0.5 ha site)		
General Needs	15-20 family houses @ 30-40 dph	
	27-32 flats @ 55-65 dph	
Sheltered	50-60 units @ 100 -120 dph	
Extracare	40-50 units @ 80 -100 dph	

Typical mix retirement housing
Ranges from 60:40 1 bed : 2 bed to 40:60 1 bed : 2 bed apartments

House prices: Practitioners should use local market values for newbuild retirement housing where they exist. Where they do not exist the following formula is an indicative guide to the price of lower value units which are likely to be affordable by most local home owners.

Methods of price setting for retirement housing vary by location.
In medium and low value areas the price of a 1 bed sheltered property = approx 75% of price of existing 3 bed semi detached house. A 2 bed sheltered property = approx 100% of price of existing 3 bed semi detached
In high value areas with a high proportion of flats the price of a 1 bed sheltered property is linked to the price of high value flats, normally with a 10-15% premium

ExtraCare housing is 25% more expensive than sheltered: if a sheltered 1 bed flat sells for £100,000 then an extracare 1 bed flat will sell for £125,000

Unit sizes (sq m)	Sheltered	ExtraCare
1 bed	50	65
2 bed	75	80

Non-chargeable/communal space	
General needs houses	nil
General needs flats	10%
Sheltered	20-30%
ExtraCare	35-40%

Build cost per sq m (Source BCIS),
Sheltered typically 9% above build costs for 1-2 storey flats
Extracare typically 13% above build costs for 1-2 storey flats
(defined by BCIS as "sheltered housing with shops, restaurants and the like")

Marketing costs are typically 6% of revenue compared with 3% of revenue for general needs houses and flats.

Sales periods are typically longer for retirement housing than for general needs housing. A rough guide is that 40% of unit will be sold at the end of the first year of sales, 30% during the second yesr of sales and 30$ during the third year. There is typically an 18 month build period before sales commence.

The economics of schemes which provide higher value (and cost) units will differ in detail from the example quoted but are unlikely to be significantly more viable when compared with general needs housing. Where the local authority believes that such schemes are likely to play a role in meeting local housing need a specific viability appraisal of this type of retirement housing will need to be carried out as part of the overall CIL viability appraisal.

Based on the parameters set out above Three Dragons was commissioned by RHG to carry out a viability appraisal of older persons housing compared with general needs housing development. Specimen sheltered and ExtraCare developments were modelled on a half hectare site in three locations:

- Tunbridge Wells (high value area)
- Tewkesbury (medium value area)
- Coventry (low value area)

and compared with the most viable form of general needs housing which could have been provided on the same site, family housing at 35 dph.. The three locations were chosen as typical of high, medium and low value locations outside London.

The output was a residual land value per hectare (ha) for each form of development. It was assumed that for retirement housing to compete in the land market residual land value must be equal to the residual land value achieved for general needs housing

The table below shows residual land values for the three different types of development in each of the three locations. All schemes were modelled with the target percentage of affordable housing.

Affordable housing at the LA target %age **No S106 obligations**	**residual land value per hectare (£)**		
	general needs housing	**sheltered housing**	**ExtraCare**
Tunbridge Wells – 40% AH	£4,000,000	£3,250,000	£2,000,000
Tewkesbury – 30% AH	£1,000,000	-£1,375,000	-£3,000,000
Coventry – 25% AH	-£300,000	-£3,250,000	-£3,500,000
Add CIL @ £100 per sq m on market housing			
Tunbridge Wells *CIL*	*£205,000*	*£430,000*	*£470,000*
Residual land value	£3,795,000	£2,820,000	£1,530,000
Tewkesbury *CIL*	*£240,000*	*£500,000*	*£550,00*
Residual land value	£760,000	-£1,875,000	-£3,550,000
Coventry *CIL*	£255,000	£535,000	£600,000
Residual land value	-£555,000	-£3,785,000	-£4,100,000

- In all locations general needs housing was more viable than sheltered or ExtraCare housing.
- Sheltered housing was more viable than ExtraCare housing.

- In Tunbridge Wells (high value area) all three schemes produced a positive land value at the local authority affordable housing target even with CIL at £100 per sq m, but residual land value was higher for general needs housing than for retirement housing.
- In Tewkesbury (medium value area) retirement housing produced a negative land value at the local authority affordable housing target both with and without CIL
- In Coventry all three schemes produced a negative land value at the local authority affordable housing target both with and without CIL..

7. Conclusions

The introduction of CIL has a more significant impact on retirement housing than on general needs housing because of the greater density (and hence higher sq metres) of development.

S106 requirements were also potentially more onerous for retirement housing than for general needs housing but because these were negotiable dependent on financial viability and specific requirements related to the development there was more flexibility to ensure that the planning obligations sought were related to the specific viability of the development.

The viability of older persons housing provision when compared with that of general needs housing varies by location. Local authorities and practitioners undertaking viability appraisal should therefore carry out specific case studies of older persons housing when setting CIL charging schedules. This is permitted by the CIL regulations and will contribute to a robust analysis which will stand up at Enquiry. The information provided in this document will assist with viability appraisal where no locally specific information is available.