

# Retirement Housing and the Community Infrastructure Levy

This paper has been prepared on behalf of McCarthy & Stone Retirement Lifestyles Ltd and Churchill Retirement Living Ltd. The purpose of this briefing note is to address the particular issues for Community Infrastructure Levy setting with specific regard to the need, benefits and economic viability of retirement apartments<sup>1</sup>. McCarthy & Stone and Churchill Retirement Living are concerned that many charging schedules published across the country to date could disproportionately affect the viability of their developments given that they fail to properly consider the impact of CIL on the retirement housing market, which in turn will mean that local older home-owners will be denied the opportunity to live in specialist housing that better meets their needs and aspirations in later life. The paper makes a number of recommendations that should be taken into account by CIL practitioners and decision makers in the formulation of the evidence base, draft charging schedule and decision making process.

Specifically, it is recommended that;

1. The viability appraisal inputs referred to in Table 1 represent, as far as is possible, a “typical” retirement apartment development and should therefore be used as a basis for a development typology in the CIL viability evidence base;
2. The viability assessment to inform the draft Charging Schedule should include a consideration of the relative viability of retirement housing when set against both existing site values, and a range of alternative values for the land on which a retirement development might be situated;
3. The draft Charging Schedule should pay heed to the effect of CIL on the supply of housing for the elderly, including the wider benefits that the provision of this tenure in sufficient numbers can bring, as per the NPPF paragraphs 50 and 159;

The effect of the imposition of CIL, if not given due consideration, may be to constrain land supply. This is a significant threat to land with a high existing use value and therefore to the delivery of retirement developments, which by nature are limited to urban, centrally located previously developed sites. By following these recommendations it is hoped that the CIL schedule can be adopted in a way that does not constrain the supply of retirement housing for the elderly. The consequences of ignoring this evidence is the risk of putting the delivery of the

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<sup>1</sup> Which can be referred to as Category II Sheltered Housing (less care) and use class C3, or Extra Care housing (Higher levels of care and therefore deemed use class C2).

development plan in jeopardy, a situation to be avoided, as Paragraph 29 of the 2012 CIL regulations published by DCLG makes it clear:

*'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 Developers**

McCarthy & Stone Retirement Lifestyles and Churchill Retirement Living are leading providers of specialist retirement housing for older home owners in the United Kingdom. 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 current supply between them. In response to the housing implications of the UK's ageing population, both companies have ambitious investment plans which rely on being able to secure sufficient land for development.

Retirement apartments offer accommodation for home owners aged over 60 years of age. Typical facilities within a development include a communal lounge for the use of all residents for socialising and events; a Manager working full time hours at the development; an emergency call system in every apartment; laundry facilities; a guest bedroom; communal landscaped gardens; plus electric scooter charging points, communal refuse areas and parking facilities. Given the nature of the resident, appropriately located retirement schemes are built within easy walking distance of town centre facilities to enable the resident to easily access all of their needs (public transport, shops, banks & post offices, cafes, community facilities, doctor, dentist etc) without reliance on a private car. Alongside companionship and security, this is one of the main reasons a purchaser of a retirement apartment will consider downsizing from properties that are less well located relative to the required facilities. It also allows a high development density to be achieved given the low requirements for parking on-site.

There is also an Extra Care model, which by including "care", (in not just staffing, but also within the design and specification including larger communal areas), is different from retirement housing both in its form and the costs associated with its delivery and occupation. Particularly where authorities seek to apply CIL charges to this form of development and where the Development Plan specifically seeks its delivery, it would be appropriate to specifically assess this form of development because of its different characteristics and consequent different viability factors associated with it.

Although the two companies are in direct competition with each other, the potentially serious implications to land supply of getting the CIL charging schedule wrong, and its potential for adverse impact on the delivery of retirement housing for which there is an acknowledged growing need, have spurred them into jointly preparing this paper.

## **A Growing Elderly Population**

By 2026 older people will account for almost half (48 per cent) of the increase in the total number of households, resulting in the addition of 2.4 million older person households than there are today. The number of people aged 85 or over will increase by 2.3 million by 2036, a 184 per cent increase. The ageing of society poses one of our greatest housing challenges.

The need to address this is reflected in the NPPF at paragraphs 50 and 159. The thrust of these paragraphs is to ensure that Local Plans properly account for the need for older persons housing (amongst other housing types). Paragraph 50 states 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].*

More recently, in March 2013, the House of Lords report entitled "Ready for Ageing?" concluded that;

*"The housing market is delivering much less specialist housing for older people than is needed. Central and local government, housing associations and house builders need urgently to plan how to ensure that the housing needs of the older population are better addressed and to give as much priority to promoting an adequate market and social housing for older people as is given to housing for younger people"*

## **The Role of CIL and setting an appropriate rate**

When setting a CIL rate, Regulation 14(1) of the 2010 Community Infrastructure Levy Regulations states that "an appropriate balance" between "a) the desirability of funding from CIL (in whole or in part)" and "b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development" should be found.

It is recognised that this does not require CIL to be set at a rate that ensures every scheme is viable. However, specific types of housing should not be rendered unviable by CIL generally and particularly where they address a need.

Paragraph 30 of the April 2013 DCLG CIL Guidance states that;

*"Charging authorities should avoid setting the charge right up to the margin of economic viability across the vast majority of sites in their area. Charging authorities should show, using appropriate available evidence, including existing published data, that their proposed rates will contribute positively towards and not threaten delivery of the relevant Plan as a whole at the time of charge setting and throughout the economic cycle"*

The CIL Guidance then 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”.***

Not properly considering the effect of CIL on this form of development where the provision of specialist accommodation for older people plays a clear role in meeting housing needs in the emerging or extant Development Plan, would result in the Council putting the objectives of the Development Plan at risk in direct contravention of Government Guidance.

Additionally, it is of vital importance that the emerging CIL does not prohibit the development of specialist accommodation for the elderly given the existing and growing need for this form of development.

It is therefore imperative that the emerging CIL rate properly and accurately assesses the viability implications of the development of specialist accommodation for the elderly

### **Viability**

With the onus on the CIL charging authority to set a rate that has regard to available evidence on the viability of development; it is considered that this paper represents just that type of evidence.

Any CIL viability assessment should consider the effect of the imposition of CIL on a retirement apartment scheme. This effect 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. There are a number of key differences which will affect the land value that can be produced by each. Table 1 below summarises the residual land appraisal inputs applicable to a typical scheme on a 0.4 hectare site, a 3 storey 40 unit retirement apartments scheme. These should be tested as a separate development typology by the CIL viability assessment. Also provided (for comparison purposes only) are the applicable inputs to a typical general needs apartment scheme on a similar size land plot, such that the differences can be noted and quantified. Whilst the retirement housing product is relatively standard (specification does not necessarily depend on location), a general needs scheme could of course offer various flat types and specifications, dependant on local markets and demand (e.g. commuter belt, first time buyers, buy to let, larger family size flats in urban locations).

Table 1 – Viability  
Appraisal Inputs for a  
typical retirement  
scheme, 0.4ha.

	40 unit Category II Retirement Apartment scheme	Typical General Needs Flatted Scheme at 35 units
<p><b>Housing Mix</b></p> <p>GIFA 1 Bed (m<sup>2</sup>)</p> <p>GIFA 2 Bed (m<sup>2</sup>)</p> <p>Site area (ha)</p> <p>Net to gross ratio (%) saleable/non saleable</p>	<p>1 bed @ 70% 2 bed @ 30%</p> <p>50-60 sq m</p> <p>70-80 sq m</p> <p>0.4</p> <p>70% saleable to 30 non-saleable/communal space</p>	<p>1 bed @ 30% 2 bed @ 70%</p> <p>45 sq m</p> <p>70 sq m</p> <p>0.4</p> <p>84% saleable to 16% non-saleable/ communal space</p>
<p><b>Residential Values (Revenue)</b></p> <p>Sales revenue 1BF (£/m<sup>2</sup>)</p> <p>Sales revenue 2BF (£/m<sup>2</sup>)</p> <p>Sales Rate</p> <p>Ground rent per 1 bed/pa</p> <p>Ground rent per 2 bed/pa</p> <p>Yield - capitalised ground rent</p>	<p>Local comparable rates</p> <p>Local comparable rates</p> <p>1 unit per month. Sales curve to front load a proportion of sales after build completion though final years sales less than 1 per month</p> <p>£425</p> <p>£495</p> <p>7.0%</p>	<p>Local comparable rates</p> <p>Local comparable rates</p> <p>2 per month, some sold off-plan to buy-to-let market</p> <p>£150</p> <p>£200</p> <p>7.0%</p>
<p><b>Building Costs</b></p> <p>Building costs New Build (£/m<sup>2</sup>)</p> <p>Abnormal/Extra overs</p> <p>External works</p> <p>Allowance for Sustainability/ B. Regs changes to Part L 2013</p> <p>Contingencies (%)</p> <p>Building cost fees (%)</p> <p>Empty property costs to cover Service Charge, Council tax, electricity</p>	<p>Current BCIS Mean Generally Retirement Housing rate with location factor applied</p> <p>Site by site</p> <p>10% of basic build cost</p> <p>Minimum 3% of basic build cost</p> <p>5%</p> <p>10%</p> <p>For a 40 unit site this is typically £ 220,000 over the sales period</p>	<p>Current BCIS rate for Mean Generally Flatted Development with location factor applied</p> <p>Site by site</p> <p>10% of basic build cost</p> <p>Minimum 3% of basic build cost</p> <p>5%</p> <p>10%</p> <p>Minimal</p>

<b>S106 Costs</b>	As per Local Plan policy as cross referred to in the Charging schedule (removing the requirement for education, sports facilities etc)	As per Local Plan policy as cross referred to in the charging schedule
<b>Affordable Housing Assumption</b>	As per Local Plan Policy – typically a financial contribution off-site	As per Local Plan Policy
<b>Sales &amp; Marketing Costs</b> Legal fees (per open market unit sale) Sales/marketing (% GDV)	£600 6%	£600 3%
<b>Finance and acquisition costs</b> Arrangement fee (loan) Interest rate (%) Agents fees (%) of land Legal fees (%) of land Stamp Duty (%)	1% of max loan 7% 1.50% 0.75% as per applicable rate	1% of max loan 7% 1.50% 0.75% as per applicable rate
<b>Developer's return for risk</b> Profit as % of sales revenue	20% - 25%	17.5%
<b>Site Benchmark land value</b>	Existing Use Values could be - Hotel; Residential Land Assembly of 3-4 detached properties; 30,000 sq ft office. Alternative Site Value - 75 bed Care Home; Lower Density Housing Development; General Needs flatted scheme; Retail led Scheme all within or close to town centre location with likely higher general values	Site Specific
<b>Timings</b> Planning permitted Construction period Construction start Construction end First sale Last sale (legal completion)	Month 0 12 months 7 19 19 58	Month 0 12 months 7 19 14 33

Selling rate	1 per month. Sales curve at 18 units in initial 12 months, 12 units in next 12 months, final 10 units sold in next 16 months	2 per month, sales curve as per local experience
Freehold sale (ground rent payment)	57	33
Overall scheme end date	57	33
Empty Property Cost Timing	Commensurate with Sales	-
S106 payments	on commencement	on commencement

It is also helpful to specifically consider those inputs that are significantly different:

#### 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 CIL based on 100% saleable floor space. 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, fulfill a more important function and are accordingly built to a higher specification in order to meet the needs of the elderly. Typically a mainstream open market flatted residential development will provide 16% non-saleable floor space, whereas this increases to 30% for sheltered accommodation and 40% 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 there is also a much longer sales period which reflects the specialist age restricted market and sales pattern of a typical retirement housing development. This has a significant knock on effect upon the financial return on investment. This is particularly important with Empty Property Costs, borrowing and finance costs, and with sales and marketing costs, all of which extend typically for a longer time period. Currently the typical sales rate for a development is approximately one unit per month, so a 40 unit retirement scheme (i.e. an average sized scheme) can take 3-4 years to sell out after the build phase is completed.

As a result of this, sales and marketing fees for specialist accommodation for the elderly are typically in excess of 6% of GDV, not 3% as ordinarily applied to conventional residential development.

#### 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 retirement 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 because, as previously mentioned, it usually takes a number of years to fully sell a development. For a typical 40 unit Retirement scheme, the Empty Property Costs are on average £225,000.

#### Build Costs

The Build Costs Information Services (BCIS) shows that the Mean Average Build Costs per m<sup>2</sup> 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.

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 mainstream apartments, and generally between 15 to 20 % more expensive than estate housing.

#### Land Value Considerations

A crucial element of the CIL viability appraisal will be to ensure the baseline land value against which the viability of the retirement scheme is assessed properly, reflecting the local conditions within which any retirement scheme will be located.

As such, the viability of retirement development should be assessed against both 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.

As retirement housing is an age restricted housing type, it is important that it is located within close proximity to the services that an elderly person may require. The average age of residents in this type of housing scheme is around 79 years. They are likely to have abandoned car ownership, be of lower mobility and/or rely



on close proximity to public transport. For this reason, the major retirement housing developers will not consider land more than half a mile level walk from a town centre or local centre that has a post office, pharmacy, doctor's surgery and a good array of shops for the elderly occupier's likely daily needs. This should be understood as housing for the active elderly – care homes can theoretically be sited further from town as the residents of these types of accommodation typically do not rely on their own mobility to access doctor/medical care and food shops. Care and services are bought in onto these sites to a greater degree. In coastal areas this effectively halves the available land within walking distance of the town centres of the district, and therefore means that sites suitable for retirement apartments are scarce.

The result is that the retirement housing product can only be built on a limited range of sites. If the CIL schedule sets the charging rate at a level that means retirement housing schemes cannot compete in land value terms with other uses for these sites (which by nature could be reasonably built elsewhere), then no retirement housing will come forward since no suitable sites will be secured – to the detriment of the housing needs and aspirations of local older people. It is worth noting that Paragraph 27 of the April 2013 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”*.

Any CIL Viability Assessment should therefore consider a development scenario for a typical flatted retirement housing scheme, located on a previously developed site within 0.5 miles of a town centre.

### **Emerging Practice**

In the context of Regulation 13 of the CIL regulations and paragraph 35 of the April 2013 Community Infrastructure Levy Guidance document produced by DCLG, this is an important point. Paragraph 35 states;

*“Regulation 13 also allows charging authorities to articulate differential rates by reference to different intended uses of development provided that the different rates can be justified by a comparative assessment of economic viability of those categories of development. The definition of ‘use’ for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987, although that Order does provide a useful reference point”*.

The Three Dragons consultancy is currently working with the Retirement Housing Group, (which represents a wide range of retirement housing providers, both public and private), on CIL appraisals and has also recognised this distinction.

We have seen a growing number of charging schedules that throw this into sharp relief. In Central Bedfordshire the authority set the charging rate for retirement housing at £nil in light of the non-viability of these schemes. In Dacorum Council, a

bespoke CIL Levy rate for retirement housing has been proposed in light of the differences between this form of housing and general needs residential. Dacorum Council also exempt Extra Care housing completely on the basis of non viability.

It is also important to recognise that retirement housing sites, due largely to their location near to town and local centres, are typically built on brownfield land which in most cases is in current use (i.e. not derelict or abandoned). Paragraph 27 of the Guidance recognises that brownfield sites are those where the CIL charge is likely to have most effect.

### **Conclusion**

It is a requirement of the CIL regulations that the imposition of CIL does not prejudice the delivery of the development plan. For this reason alone, it is of the utmost importance that charging authorities consider this form of housing when drafting charging schedules. Retirement housing brings with it many environmental, economic and social benefits. These attributes further embed the notion that retirement housing is a distinct housing market type deserving of special consideration within the Development Plan. These are set out at Appendix 1 to this letter.

The experience of McCarthy and Stone and Churchill Retirement Living on recent planning application schemes throughout the country is such that, at best, viability is challenging. There is a ready supply of evidence to prove this in a Development Control setting.

Below at Table 2 is a summary of the agreed affordable housing provision secured via off-site affordable housing and s106 payments at recent (2013) Churchill and McCarthy and Stone planning applications throughout the country. This reflects the viability of schemes against the most up to date housing market conditions at the time of writing. As is shown, in the vast majority of cases, the provision of the full policy requirement for affordable housing was not possible because of its effect on the economic viability of the scheme;

Table 2 – Planning application decisions made in 2013 on developments by Churchill Retirement Living and McCarthy & Stone

Site	Units	Local Authority	Affordable Housing & s106 contributions	Viability Issue? (Yes/No)	Date	Existing Land Use
CRL Bishop's Stortford	52	East Herts DC	£565,300	No	Mar '13	Redundant and vacant commercial centre. Low EUV
CRL Worthing	29	Worthing BC	£89,547	Yes	Mar '13	Existing Care Home use
CRL Caterham	35	Tandridge DC	Nil	Yes	Feb '13	Car showroom, workshop and under-utilised offices
CRL Orpington	50	LB Bromley	£255,500	Yes	Jan '13	Redundant Office Block
CRL Dorchester	39	West Dorset DC	£150,000	Yes	Jan '13	Fire Station and 2 residential properties
CRL Penzance	60	Cornwall	£300,000	Yes	Jan '13	Cleared development site, extant hotel permission.
M & S Kenilworth	22	Warwick BC	£250,000	Yes	Feb '13	2 houses
M & S Skipton	33	Craven DC	£73,350	Yes	Feb '13	Mill
M & S Folkestone	25	Shepway DC	£56,086	Yes	Feb '13	Nursing home
M & S Sidcup	50	LB Bexley	£78,979	Yes	Feb '13	6 storey office block
M & S Braintree	32	Braintree DC	£17,718	Yes	Mar '13	Govt offices
M & S Bembridge	40	IOW Council	£216,000	Yes	Mar '13	Garage and pfs
M & S Monton	48	Salford BC	Nil	Yes	Mar '13	Hotel
M & S Stroud	32	Stroud DC	Nil	Yes	Mar '13	Garage/car repairs

The table above shows that at the majority of planning applications for retirement apartments decided in 2013, an independently agreed assessment of viability has demonstrated to the satisfaction of decision makers that the imposition of the full affordable housing requirement would have rendered these schemes economically unviable. The logical conclusion to this is that the imposition of any CIL onto these schemes would have at best reduced the amount remaining for affordable housing (thereby putting the delivery of the development plan in jeopardy), or at worst rendered these schemes wholly economically unviable, even with no affordable housing contributions. Aggregate floor space of the developments above is some 45,000 square metres, whilst the total AH & s106 contributions are some £2.05m. This is scope to make some £45 per square metre of planning gain contributions. Therefore, had any CIL have been implemented then it cannot be said that these sites would have some forward as retirement housing developments.

Whilst only on an aggregate basis, the above figures demonstrate that even before affordable housing is taken into account, aggregate levels of CIL anywhere over £45 per sq m applied to these developments would have rendered them unviable, jeopardising retirement housing delivery. When taken in the context of affordable housing planning policy, any CIL whatsoever would likely have constrained supply significantly.

Without properly assessing a retirement housing scheme against a range of existing and competitor uses, the implication of adopting a CIL rate based on general needs housing is that supply will be constrained in this important market sector. Paragraph 37 of the CIL Guidance should be noted here. Furthermore, the examples provided of the schemes where planning decisions were made in 2013 show that any CIL requirement for a retirement housing scheme is not justified if affordable housing is to be delivered.

The paper recommends that any CIL evidence base should have regard to spatial variations in land use and the competitive nature of a constrained and rationed market for land in close to town centre settings.

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## Appendix I

### The Benefits of Retirement Housing

To further embed the notion that retirement housing is a distinct housing market type that deserves special consideration within the Development Plan, it is worth setting out the benefits of retirement housing to both residents and the wider community. Sheltered housing gives rise to many social benefits by providing specialized accommodation to meet a specific housing need. In summary, sheltered housing:

- provides purpose built specifically designed housing for local elderly people
- a recognised local housing need (according to the latest research by Churchill Retirement Living, of their existing sheltered housing developments, reinforcing previous findings of McCarthy & Stone, over 50% of occupants of sheltered housing move from within a 10 mile radius of the development);
- helps to reduce anxieties and worries experienced by many elderly people living in housing which does not best suit their needs in retirement by providing safety, security and reducing management and maintenance concerns;
- provides companionship and a community which helps to reduce isolation, loneliness and depression;
- provides a form of housing which addresses the onset and increasing problems of mobility/frailty;
- is very well located in relation to shops and other essential services, being within easy walking distance or readily accessible by public transport which can reduce isolation and reduce the worry of depending on a car;
- helps to maintain an independent lifestyle; and
- helps to maintain health and general well-being.

There are also many planning benefits which include:-

- sheltered housing releases under-occupied housing and plays a very important role in the recycling of stock in general;
- there is a 'knock-on' effect in terms of the whole housing chain enabling the more effective use of the existing housing stock;
- sheltered housing maximises the use of previously-developed land;
- because of its location, sheltered housing reduces the need to travel by car (the elderly living in more remote locations will remain far more dependent upon the private car); and
- helping to introduce mixed land uses in town centres, revitalising such areas.

Private sheltered housing is a 'good neighbour' in all respects. There is a very low traffic generation, and the general lack of peak hour traffic movement ensures that

conflict does not occur with other peak traffic movements such as school and work journeys. Residents tend to be relatively active in the local community, be a watchful eye on the local neighbourhood in terms of crime and safety, and are local shoppers/spenders.

In addition to the above retirement housing provides a number of key sustainability benefits including;

- Making more efficient use of land thereby reducing the need to use limited land resources for housing;
- Providing high density housing in close proximity to services and shops which can be easily accessed on foot thereby reducing the need for travel by means which consume energy and create emissions;
- Providing shared facilities for a large number of residents in a single building which makes more efficient use of material and energy resources.