SUFFOLK COASTAL

COMMUNITY INFRASTRUCTURE LEVY

Response from Nest Development to The Preliminary Draft Charging Schedule

17th November 2014

As a local property development company working within Suffolk Coastal we would like to make the following comments and representations to the CIL Draft Charging Schedule.

In a climate where the government are trying to encourage housebuilding as a result of the national shortage it must be clearly understood that CIL is an untimely charge on house builders, the impact of which will be felt most pertinently with the smaller developers, such as ourselves.

The viability study has largely disregarded the smaller house builder and focused on volume developers. We do not feel that an environment where only the volume house builders can function viably is a healthy one for Suffolk Coastal.

Where it is stated at 2.5.2 in the SC CIL Viability Study "That we should not waste time and cost analysing types of development that will not have significant impacts, either on the total CIL receipts or on the overall development of the area as set out in the local plan". We would argue that collectively smaller housebuilders do have a relevance and should not be dismissed. When you look at the individual villages and towns that make up this region you will see that the large majority of housing in Suffolk Coastal has historically been erected by smaller house builders, to the benefit of the overall appearance of the area.

In 2.8.2 of the same document it is at least transparent when stated that "CIL may reduce development by making certain schemes which are not plan priorities unviable".

This would appear to be contrary to the NPPF Communities and Local Government, National Planning Policy Framework (March, 2012) which states that CIL "should support and incentivise new development". Furthermore the CIL Guidance Notes (Revision date 12th June 2014) clearly state that "a charging authority should directly sample an appropriate range of types of site across its area . . . should focus on. . . .and those sites where the impact of the levy on economic viability is likely to be most significant".

As an example of how we operate in the marketplace please take note of these figures – The average house in the area is sold at £2500/m. The developer sets out to make a 20% profit once land costs, build costs and professional fees are all taken into consideration. Forgetting the inevitable unforeseen costs that come as a result of the risks taken on one hopes to therefore achieve a profit of £500/m. Out of that profit we are now expected to pay a CIL charge of £150/m2. That represents a diminished return of 30% and an expectation that smaller developers should from here on operate with a margin of 14%.

You have used only examples of large volume housebuilder's schemes when testing sites and appraising costs. The figures therefore have little bearing on developers such as ourselves, generally building 1-5 units per scheme. All the figures you have used factor in an economy of scale that is obviously unachievable by smaller companies.

The smallest site explored in your Site Tests & Site Specific Appraisals is a scheme for 70 houses. This is not representative.

Land values within your Viability Study have correctly been based on Residual Land Values calculations. Whilst this is the starting point for all development land valuations it is more complex when looking at smaller plots. The reality is that demand is very high and supply is scarce therefore the true cost of smaller sites is inflated. Obviously one would hope that land values may diminish once CIL comes in and that a correction would help counteract the impact on developers. Given that the supply of sites is unlikely to change we are unconvinced that this will occur. The majority of land sold locally for development is owned by farmers. Agriculture has enjoyed a particularly successful period of business over the last ten years and therefore there is little requirement to sell land, especially as agricultural land values have risen dramatically in recent times.

Added to the forthcoming challenges, at our end of the market we will also have to compete with Self Builders, who are not charged a CIL.

The build costs you have used in your examples of Residential Scenarios Tested use the same build cost per m2 for 1 unit as it uses for 50 units. The real build costs of a single unit is obviously going to be far higher and in our own experience this can often be 50% higher than your figures.

This pattern of using volume house builder's figures for far smaller schemes has led to incorrect assumptions being made across the viability of smaller projects in your study. We are more than happy to share figures from our own schemes to prove that your figures are disproportionate.

We accept that we have used the £150/m High Band cost in our example above, of CIL's impact, but the vast majority of the region lies within your high band. When you look at the charging approach it is clearly excessive when measured against other CIL charges brought in by other District Councils, particularly when measured against the average house prices within those areas.

	High Band CIL	Av. House Price
Cambridge	£125/m2	£386,568
Chelmsford	£125/m2	£314,212
Norwich GNDP	£75/m2	£227,106
Winchester	£120/m2	£415,633
Richmond upon Thames	£250/m2	£632,090
Ealing, London	£100/m2	£443,926
Suffolk Coastal	£150/m2	£258,722

It should also be noted, and factored into the equation, that average house sizes in SCDC are larger than the national average and therefore the costs are proportionately higher when you look at a house-by-house comparison in different areas. Typically an average house in more urban areas would be below 80m2 whereas here in Suffolk they are generally 90m2 plus.

Given that sales prices of houses are ultimately dictated by the market, rather than a decision by developers, a house builder can not simply increase sales prices to accommodate CIL in the same way as other industries may be able to accommodate imposed charges.

The impact of the current situation is that there is an uneven playing ground within Suffolk Coastal. The large companies will survive and smaller companies are going to really struggle. The approach inevitably lends itself to a proportionately high density of housing estates and a very low ratio of smaller, individual developments being built over the coming years.

CIL is an uncontestable charge and comes before Section 106 payments. Given that Section 106 payments can be contested on the basis of project viability we foresee that more and more 106 payments will need to be contested given the increased viability challenges that housebuilders will have once CIL is factored in to the economics of individual schemes. Therefore the contributions towards social housing from developers have to be expected to drop.

We are a young company, just a couple of years old. We set up our business with the intention of building attractive, quality houses across this region. With CIL as it is right now we will need to explore alternatives in terms of the areas where we build in order to keep ourselves going. We are proud of our work and we would not be comfortable attempting to cut every conceivable corner of house building costs to pass on a compromised product to customers.

CIL is clearly coming in and we will need to adjust the business model accordingly. I would, however, really urge Suffolk Coastal to reconsider the charging scales that are currently being explored. I believe that only very small pockets of Suffolk Coastal can wear the £150/rate. I feel strongly that the majority of the region can not afford to take on board any rate beyond £100/m2 without having a detrimental impact on maintaining a sustainable mix of housebuilding over the coming years.

We strongly believe that local specific exemptions to CIL should be introduced where the viability of individual schemes can be examined and assessed on a case by case basis.

Over the next twelve months we project that our business will inject £1.4million into the local economy by utilising a healthy mixture of local employment, trades and suppliers. Whilst this might be a small sum when compared with figures from the larger volume house builders, companies such as ours deserve to be collectively considered.

We would be very happy to engage with Suffolk Coastal and enter into any dialogue that may prove constructive.

Nick & Camille Glendinning

E: nick@nestdevelopment.co.uk M: 07774 770 271

E: camille@nestdevelopment.co.uk M: 07887 771 060