

## East Devon CIL Examination

### Further Evidence Paper of East Devon District Council – July 2015

#### Viability Study relevance

##### **1. Introduction**

- 1.1 The representation of the South West HARP Planning Consortium submitted by Tetlow King to the CIL changes consultation suggested that the CIL Viability Study (CIL05 and CIL06) is now out of date. The representation outlined that build costs (including the costs of individual construction materials) have increased since the Viability Study assumptions were agreed by a development industry workshop in 2012.
- 1.2 The Council acknowledges that build costs have indeed increased over this time, however, it is inappropriate to solely look at one element of the assumptions that went into the viability study in isolation. Paragraph 6.2.9 (p.31) of the Viability Study (CIL05) states that it is “important to consider changes to the market ‘in the round’ rather than taking any specific change on its own”.

##### **2. Double counting**

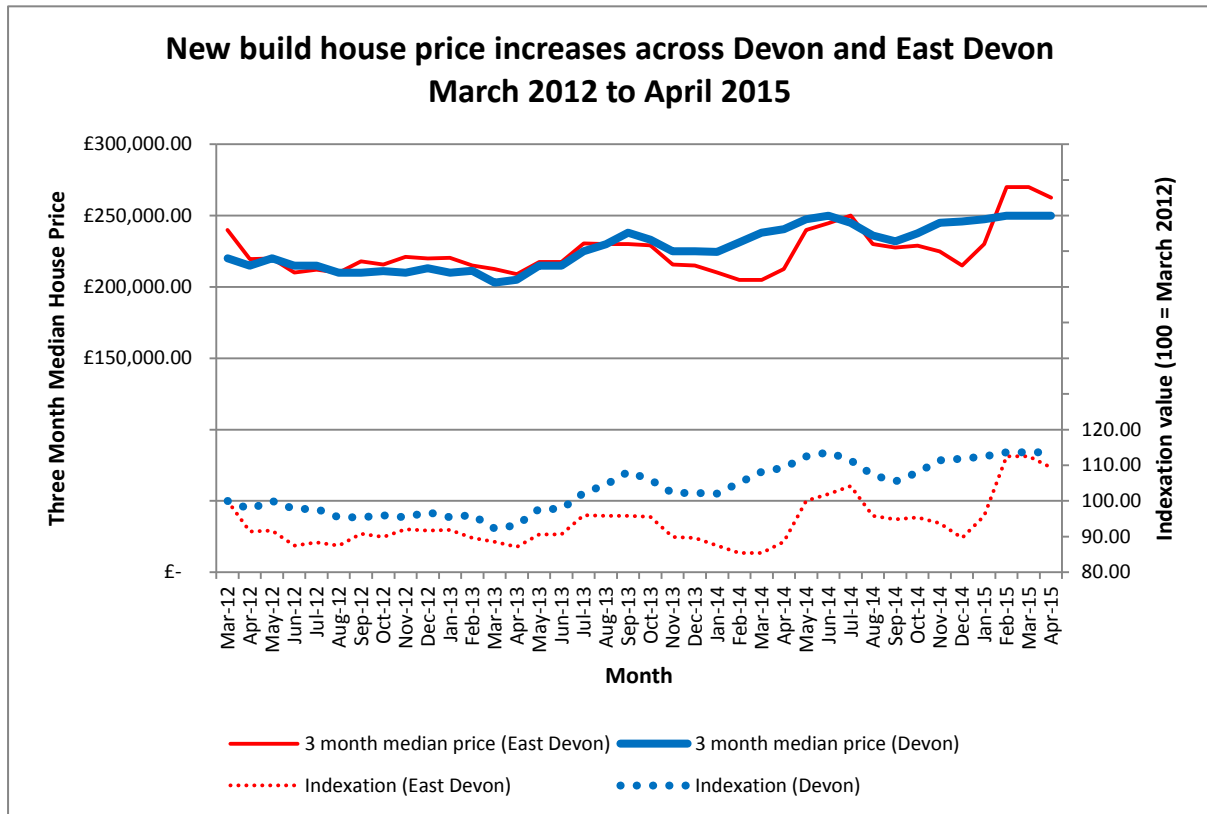
- 2.1 The build costs used by the Viability Study were based on 2010 building regulations but an additional £1,000 per dwelling was conservatively assumed for forthcoming 2013 changes to building regulations. In reality, some of the costs associated with updated building regulations are realised in current build costs. This being the case, an element of the increase in build costs is already accounted for in the study’s assumptions. Simply applying current build costs would not be appropriate and would result in a degree of double counting.

##### **3. Increases in new build house sales prices**

- 3.1 Whilst build costs have increased, so have sales values. Looking at new build values across all freehold property types; the three month median new build house sales price has increased by 13.6% across Devon between March 2012 and April 2015 as shown in the graph below. For East Devon it has increased by 9.4% across the same period. This assessment is based on Land Registry data obtained through their new Open Data website – Price Paid Data Report Builder (see <http://landregistry.data.gov.uk/app/ppd>). A three month median price has been used. Median figures are used so that anomalies such as bespoke £1million homes have less of an effect on the figures, and three month rolling figures are used to smooth and increase the sample and therefore accuracy of the assessment. This approach, like any other assessment of averages is more accurate the more data is contained within the sample so the Devon-wide assessment is perhaps more statistically robust than the East Devon figure. This can be seen in

the slightly more volatile line of the East Devon values on the graph below. The increase in values has the potential impact of negating the simultaneous rise in build costs.

Figure 1 - New build house price increases across Devon and East Devon



**4. Increase in values at Cranbrook**

4.1 The West End Viability Study addendum report (CIL14) submitted as supporting evidence alongside the Draft Charging Schedule in August 2013 contained a table indicating Cranbrook sales and potential sales values. This table was used to demonstrate how the sales values and potential sales values at Cranbrook were relatively similar to other towns in the district and therefore justify an £80/sqm CIL rate for the “existing” town.

4.2 Subsequently, further work has been done on values at Cranbrook which has refined the accuracy of the “Cranbrook average sales price as a percentage of market values used in the Viability Study” contained within that table. The assessment previously calculated the mean average of the individual percentages provided in the main table which is statistically invalid. A more appropriate assessment would have been to calculate the mean average sales / potential sales prices for the different house types, then calculate the mean average market value for each area (including for Cranbrook) so that all of the value areas had a mean average value calculated consistently, then calculate the Cranbrook value as a percentage of the other areas.

**Table 1 - Cranbrook values as a percentage of other market value areas**

	<b>Axminster</b>	<b>Honiton &amp; Ottery</b>	<b>Exmouth &amp; Seaton</b>	<b>Coast &amp; Sidmouth</b>	<b>Rural</b>
CIL 14 percentage	108.38%	113.24%	111.33%	73.00%	82.25%
Correct percentage	112.57%	115.86%	115.11%	75.76%	85.17%

4.3 Table 1, above shows the percentages provided in CIL14 and what these figures should have been if calculated correctly. The result is not too dissimilar but is now a statistically valid calculation.

4.4 A new assessment of values at Cranbrook has now been undertaken. This has looked at all new build homes at Cranbrook available on the market currently (as at 2 July 2015) using a range of online property finding websites. Table 2, below uses the same approach as used to calculate the correct percentage in Table 1 above but using current potential sales values. Potential sales values are the asking price moderated by the latest average percentage less than the asking price being achieved in the South West published by Hometrack. The latest published figure is from September 2014 which suggests that 95.3% of the asking price is being achieved on average in the South West (see <https://www.hometrack.com/media/84893/september-2014-hometrack-house-price-survey.pdf>), so a 4.7% discount from the asking price has been applied. The full data set can be found at Appendix 1 to this paper. Please note that no 1 bed flats were available on the market when this assessment was conducted, so the 1 bed sold price used in CIL14 has been used instead. Potentially, taking account of the increase in sales values alluded to previously this may be on the low side now but a figure is needed for statistical validity.

**Table 2 – New build market values**

<b>House type</b>	<b>Edge of Exeter</b>	<b>Axminster</b>	<b>Honiton &amp; Ottery</b>	<b>Exmouth &amp; Seaton</b>	<b>Coast &amp; Sidmouth</b>	<b>Rural</b>	<b>Cranbrook</b>
<b>1 bed flat</b>	£100,000	£100,000	£110,000	£105,000	£140,000	£125,000	£125,995*
<b>2 bed flat</b>	£130,000	£135,000	£145,000	£150,000	£200,000	£180,000	£176,300
<b>2 bed terrace</b>	£145,000	£155,000	£160,000	£145,000	£210,000	£180,000	£169,153
<b>3 bed terrace</b>	£160,000	£175,000	£175,000	£160,000	£230,000	£200,000	£230,241
<b>3 bed semi</b>	£200,000	£190,000	£200,000	£210,000	£280,000	£240,000	£219,984
<b>3 bed detached</b>	£225,000	£250,000	£225,000	£235,000	£390,000	£350,000	£237,929
<b>4 bed detached</b>	£250,000	£280,000	£250,000	£260,000	£430,000	£390,000	£332,674
<b>5 bed detached</b>	£275,000	£300,000	£275,000	£285,000	£475,000	£430,000	£439,570
<b>Average value</b>	<b>£185,625</b>	<b>£198,125</b>	<b>£192,500</b>	<b>£193,750</b>	<b>£294,375</b>	<b>£261,875</b>	<b>£241,481</b>
<b>Cranbrook average value as a percentage of other value area averages</b>	130%	122%	125%	125%	82%	92%	100%

4.5 Table 2, above shows that values at Cranbrook are now closer to those used for rural areas in the Viability Study. As already explained, house prices have increased across the district since the market values were agreed by the development industry workshop in March 2012, so it is not suggested that Cranbrook values are similar to current rural values, as these will also have increased. However, quite clearly, Cranbrook values have increased significantly even since the publication of CIL14 in August 2013. If values at Cranbrook are now 22% higher than values used

in the Viability Study for Axminster (an £80/sqm area), but East Devon house prices have only increased by 9.4%, then clearly house prices are rising faster at Cranbrook than in the rest of the district. This being the case, the fact that Cranbrook is considered by the Charging Schedule to be a similar value area to Axminster means that there is a significant buffer against increases in build costs and any other changes to assumptions used in calculating the moderated CIL rate for the expansion areas, potentially more than the 20% buffer stated.

## **5. Inherent conservatism**

5.1 As previously explained at the initial hearing sessions, the Viability Study has been compiled with inherently conservative assumptions, especially those relating to residual S106 and the use of a 20% buffer. This being the case, the study has flexibility built into it to allow for increases. The Council is confident that the Viability Study is still relevant and appropriate.

## **6. Linking the CIL rates to the BCIS All-in Tender Price Index**

6.1 Regulation 40 of the CIL Regs 2010 (as amended) states that upon adoption, CIL rates should be index linked to the BCIS national All-In Tender Price Index (TPI) as at 1 November for the preceding year.

6.2 The East Devon CIL Charging Schedule is not yet adopted, however, had it have been, charges would have increased in line with the TPI accordingly. According to the Planning Practice Guidance (PPG), the point of linking the charge to an index is to “keep the levy responsive to market conditions”.

6.3 The Draft Charging Schedule was submitted for Examination in August 2013 based on the Viability Study published in January 2013. The relevant index is for these dates is 1 November 2012. Therefore, it is relevant to understand by how much those charges might have increased to the present day.

6.4 Exeter City Council, which adopted its charging schedule in January 2013, has published the relevant indexes on its website at <http://www.exeter.gov.uk/index.aspx?articleid=15313> to explain how charges have increased in line with the index (screenshot below).

- For 2013 (when Exeter's charging schedule was adopted) the figure was 215.
- For planning permissions granted in 2014 the figure was 234. The indexation factor is therefore  $234 / 215 = 1.09$ .
- For planning permissions granted in 2015 the figure is 244. The indexation factor is therefore  $244 / 215 = 1.135$ .

Type of development	Rate in Charging Schedule	Rate for permission granted in 2014	Rate for permission granted in 2015
Residential	£80	£87.20	£90.80

6.5 The TPI has increased from 215 at 1 November 2012, to 234 at 1 November 2013, to 244 at 1 November 2014. The indexation factor is the amount the index has risen by since the point of introduction. In East Devon the charges would have increase as follows:

Charging Zone	As per charging schedule (indexation factor 0)	Index linked to 1 Nov 2013 for charge in 2014 (indexation factor 1.09)	Index linked to 1 Nov 2014 for charge in 2015 (indexation factor 1.135)
Residential (Towns etc)	£80	£87.20	£90.80
Residential (Sidmouth, Coastal and Rural)	£125	£136.25	£141.87
Residential (Cranbrook expansion areas)	£68	£74.12	£77.18
Retail (Rest of East Devon)	£150	£163.50	£170.25

6.6 The fact that these index linked charges are not being proposed gives additional confidence that there is an additional viability buffer within the calculated charges to allow for the change in market conditions.

Appendix 1 - Potential sales values at Cranbrook - July 2015

Address	Developer	Location	New Build?	Beds	Type	Asking Price	Sale / Potential Sales Price	Date of sale	Edge of Exeter	Axminster	Honiton & Ottery	Exmouth & Seaton	Coast & Sidmouth	Rural	Status
"The Lichfield"	TW	Cranbrook	Yes	4	Detached	£ 289,995	£ 276,365	For Sale	111%	99%	111%	106%	64%	71%	For Sale
"The Kennilworth Special"	TW	Cranbrook	Yes	5	Detached	£ 470,000	£ 447,910	For Sale	163%	149%	163%	157%	94%	104%	For Sale
"The Charlbury"	TW	Cranbrook	Yes	3	Terraced	£ 245,000	£ 233,485	For Sale	146%	133%	146%	146%	102%	117%	For Sale
"The Faraday"	Bovis	Cranbrook	Yes	4	Detached	£ 334,995	£ 319,250	For Sale	128%	114%	128%	123%	74%	82%	For Sale
"The Flatford"	TW	Cranbrook	Yes	3	Semi-Detached	£ 235,000	£ 223,955	For Sale	112%	118%	112%	107%	80%	93%	For Sale
"The Flatford - Cornflowers At Cranbrook"	TW	Cranbrook	Yes	3	Semi-Detached	£ 229,500	£ 218,714	For Sale	109%	115%	109%	104%	78%	91%	For Sale
"The Thornford - Cornflowers At Cranbrook"	TW	Cranbrook	Yes	4	Detached	£ 370,000	£ 352,610	For Sale	141%	126%	141%	136%	82%	90%	For Sale
"The Candleston"	TW	Cranbrook	Yes	4	Detached	£ 325,000	£ 309,725	For Sale	124%	111%	124%	119%	72%	79%	For Sale
"The Welford"	TW	Cranbrook	Yes	4	Detached	£ 370,000	£ 352,610	For Sale	141%	126%	141%	136%	82%	90%	For Sale
"The Locke"	CC	Cranbrook	Yes	4	Detached	£ 489,995	£ 466,965	For Sale	187%	167%	187%	180%	109%	120%	For Sale
"The Spencer"	CC	Cranbrook	Yes	5	Detached	£ 540,000	£ 514,620	For Sale	187%	172%	187%	181%	108%	120%	For Sale
"The Easdale"	TW	Cranbrook	Yes	3	Detached	£ 242,000	£ 230,626	For Sale	103%	92%	103%	98%	59%	66%	For Sale
"The Kennilworth"	TW	Cranbrook	Yes	5	Detached	£ 455,000	£ 433,615	For Sale	158%	145%	158%	152%	91%	101%	For Sale
"The Mordon"	Persimmon	Cranbrook	Yes	2	Terraced	£ 169,995	£ 162,005	For Sale	112%	105%	112%	112%	77%	90%	For Sale
"The Alnwick"	Persimmon	Cranbrook	Yes	2	Terraced	£ 184,995	£ 176,300	For Sale	122%	114%	110%	122%	84%	98%	For Sale
"The Cavendish"	Persimmon	Cranbrook	Yes	2	Flat	£ 184,995	£ 176,300	For Sale	136%	131%	122%	118%	88%	98%	For Sale
"The Souter"	Persimmon	Cranbrook	Yes	3	Terraced	£ 229,995	£ 219,185	For Sale	137%	125%	125%	137%	95%	110%	For Sale
"The Souter"	Persimmon	Cranbrook	Yes	3	Terraced	£ 234,995	£ 223,950	For Sale	140%	128%	128%	140%	97%	112%	For Sale
"The Clayton"	Persimmon	Cranbrook	Yes	3	Detached	£ 244,995	£ 233,480	For Sale	104%	93%	104%	99%	60%	67%	For Sale
"The Portman"	Bovis	Cranbrook	Yes	3	Terraced	£ 247,995	£ 236,339	For Sale	148%	135%	135%	148%	103%	118%	For Sale
"The Milne"	Bovis	Cranbrook	Yes	3	Terraced	£ 249,995	£ 238,245	For Sale	149%	136%	136%	149%	104%	119%	For Sale
"The Winstler"	Persimmon	Cranbrook	Yes	4	Detached	£ 309,995	£ 295,425	For Sale	118%	106%	118%	114%	69%	76%	For Sale
"The Elton"	Bovis	Cranbrook	Yes	4	Detached	£ 330,995	£ 315,438	For Sale	126%	113%	126%	121%	73%	81%	For Sale
"The Newton"	Persimmon	Cranbrook	Yes	5	Detached	£ 379,995	£ 362,135	For Sale	132%	121%	132%	127%	76%	84%	For Sale
4 bedroom detached house, London Road	?	Cranbrook	Yes	4	Detached	£ 380,000	£ 362,140	For Sale	145%	129%	145%	139%	84%	93%	For Sale
4 bedroom detached house, London Road	?	Cranbrook	Yes	4	Detached	£ 315,000	£ 300,195	For Sale	120%	107%	120%	115%	70%	77%	For Sale
3 bedroom detached house, Avocet Meadow	?	Cranbrook	Yes	3	Detached	£ 261,995	£ 249,681	For Sale	111%	100%	111%	106%	64%	71%	For Sale
4 bedroom detached house, Avocet Meadow	?	Cranbrook	Yes	4	Detached	£ 337,995	£ 322,109	For Sale	129%	115%	129%	124%	75%	83%	For Sale
4 bedroom detached house, Avocet Meadow	?	Cranbrook	Yes	4	Detached	£ 334,995	£ 319,250	For Sale	128%	114%	128%	123%	74%	82%	For Sale
3 bedroom semi-detached house, Mead Cross	?	Cranbrook	Yes	3	Semi-Detached	£ 228,000	£ 217,284	For Sale	109%	114%	109%	103%	78%	91%	For Sale

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Average value	£185,625	£198,125	£192,500	£193,750	£294,375	£261,875	£241,481
Cranbrook average value as a percent	130%	122%	125%	125%	82%	92%	100%