LA.6

Community Infrastructure Levy: Gosport Draft Charging Schedule

Statement on Issues and Questions

Question 6: *Does the evidence support the following? :*

- *the assumed sales and marketing costs and professional fee percentages;*
- *the mix of house types used in the appraisals*
- *the assumed level of developer's profit for affordable housing.*

Date: 23rd February 2015

GOSPORT
Borough Council

1. The assumed sales and marketing costs and professional fee percentages

1.1 In its addendum report of July 2014 (Document CIL - 6.), paragraph 4.3, Adams Integra set out the fees that had been assumed for the appraisals. These fee levels were also compared to assumed levels from other local CIL viability assessments. For this response, the evidence from other viability assessments has been expanded, as set out in the table attached as appendix 1 of that document.

1.2 The sales and marketing costs, adopted by Adams Integra, were 3% of the total sales revenue, including revenue from affordable housing. If we consider the example appraisal, referred to at paragraph 4.3.6 of the addendum report, specifically at value point 3, the sales and marketing fees are £127,871, being 3% of the total revenue of £4,262,362. The revenue from the market units is £3,330,000.

1.3 It could be argued that sales and marketing costs do not need to be levied on the affordable housing revenue, since the affordable units are simply transferred from the developer to a registered provider, upon their completion, with no sales risk attaching to the developer. If this approach were adopted in the above example, then the fee of £127,871 would equate to 3.8% of the market housing revenue.

1.4 It should be noted, however, that a sales and marketing fee of 5% was tested as part of the addendum report of July 2014 (Document CIL - 6) where, at appendix 2, it will be seen that the higher fee was tested alongside the £80 CIL rate, with affordable housing at 40%, resulting in an average land value per hectare of £748,770 per hectare. This land value exceeds the Greenfield, garage court and MOD existing use values and the Council believes, therefore, that the application of a 5% marketing fee will not put its strategic land supply at risk.

1.5 The total professional fee allowances were illustrated at paragraphs 4.3.6 and 4.3.7 of the addendum report, July 2014 (Document CIL - 6). From these examples it can be seen that the total fee percentages, when taking into account architects, consultants, surveys and insurances, is between 10.3% and 11.2% of the build cost. From the table at appendix 1, it will be seen that Adams Integra's adopted fee percentages are in line with the evidence from other local CIL viability assessments.

2. The mix of house types used in the appraisals

2.1 The mix of housetypes used in the appraisals was shown at appendices 1A and 1B of the Adams Integra CIL viability report, dated July 2013 (Document CIL - 5.). The housetype mixes derived from a) discussion with the Council at the inception meeting, b) the agreed densities to be tested and c) a reasonable level of accommodation per hectare (see paragraph B3.7 of the July 2013 report).

2.3 In looking at evidence to support the adopted housing mixes, we have considered the mixes from a number of recently consented sites, as set out in the table attached as appendix 2. This table shows a range of mixes, from 100% flats to 100% 3 and 4 bedroom houses. From appendices 1A and 1B of the July 2013 report, it will be seen that the option of 100% flats is covered at the 80 and 100 dwellings per hectare (dph) level, while pure housing options are covered at 35 and 45 dph. We believe, therefore, that the evidence supports the assumed housing mixes.

3. The assumed level of developer's profit for affordable housing

3.1 The assumed affordable housing profit level is 6% in the Adams Integra viability assessments. The table at appendix 1 shows the affordable housing profit assumptions, as assumed for other CIL viability assessments. From this it will be seen that 6% is a common profit level for affordable housing. This is also supported by the Homes and Communities Agency, whose development appraisal toolkit states that the return should be “moderate” to reflect the low level of risk attached to the development of affordable housing.

3.2 Profit reflects the risk attached to revenue, once the development costs of a project have been incurred. In the context of affordable housing, there is usually a contract between a developer and registered provider (RP), whereby the RP agrees to buy the completed affordable units at a pre-agreed price. In this instance, the risk attached to the developer’s revenue is small. The market housing, on the other hand, is subject to the willingness of individuals to purchase the product at an acceptable price, over a period of time. There is a risk that the price might not be acceptable to buyers and that the housing market might decline.

3.3 The Council believes, therefore, that the proposed affordable housing profit is supported by evidence.