

Cumulative Impact of Taxation, Policy and Regulation

John Stewart

Director of Economic Affairs

Home Builders Federation

13 October 2009



Cumulative
Cost Impact
of
Taxation, Policy & Regulation
on
Land Value

Taxation, policy or regulation which
adds to development costs,
without a compensating increase in
development value

Taxation, Policy & Regulation

- **Affordable Housing (S106)**
- **Community infrastructure (S106)**
- Other S106
- **CIL (partly offset by reductions in S106 demands?)**
- **Zero carbon (national targets)**
- Other Code, e.g. water efficiency standards
- Local authority sustainability demands (e.g. renewables, Code 3)
- Higher space standards (cost > value gain)
- Lifetime Homes (direct and layout costs)
- Increased public open space
- S38 commuted sums
- Building for Life Award (BfL) standards

Taxation, Policy & Regulation

- SUDS (cost, adoption problems)
- Local authority bonding requirements for S106 items
- Excessive/inefficient planning delay
- Excessive planning application fees, processes and paperwork
- Building regulations higher standards and testing
- Density and mix requirements unrelated to local market demand
- Land fill tax
- Council tax on empty (unsold) properties
- Business tax on show homes
- Stamp duty land tax (SDLT)
- Cost of uncertainty of demands/outcomes

A major HBF policy initiative. What we
have done so far

2009 Budget

Report for the Pre-Budget Report:

“the Government will identify, working with industry and other partners, the best regulatory and policy framework to support the Government's long-term housing objectives”

6 months later...



Cumulative Impact of Taxation, Policy and Regulation

John Stewart

Director of Economic Affairs

Home Builders Federation

13 October 2009



The Cumulative Impact of Taxation, Policy and Regulation and its effect on Future Housing Delivery

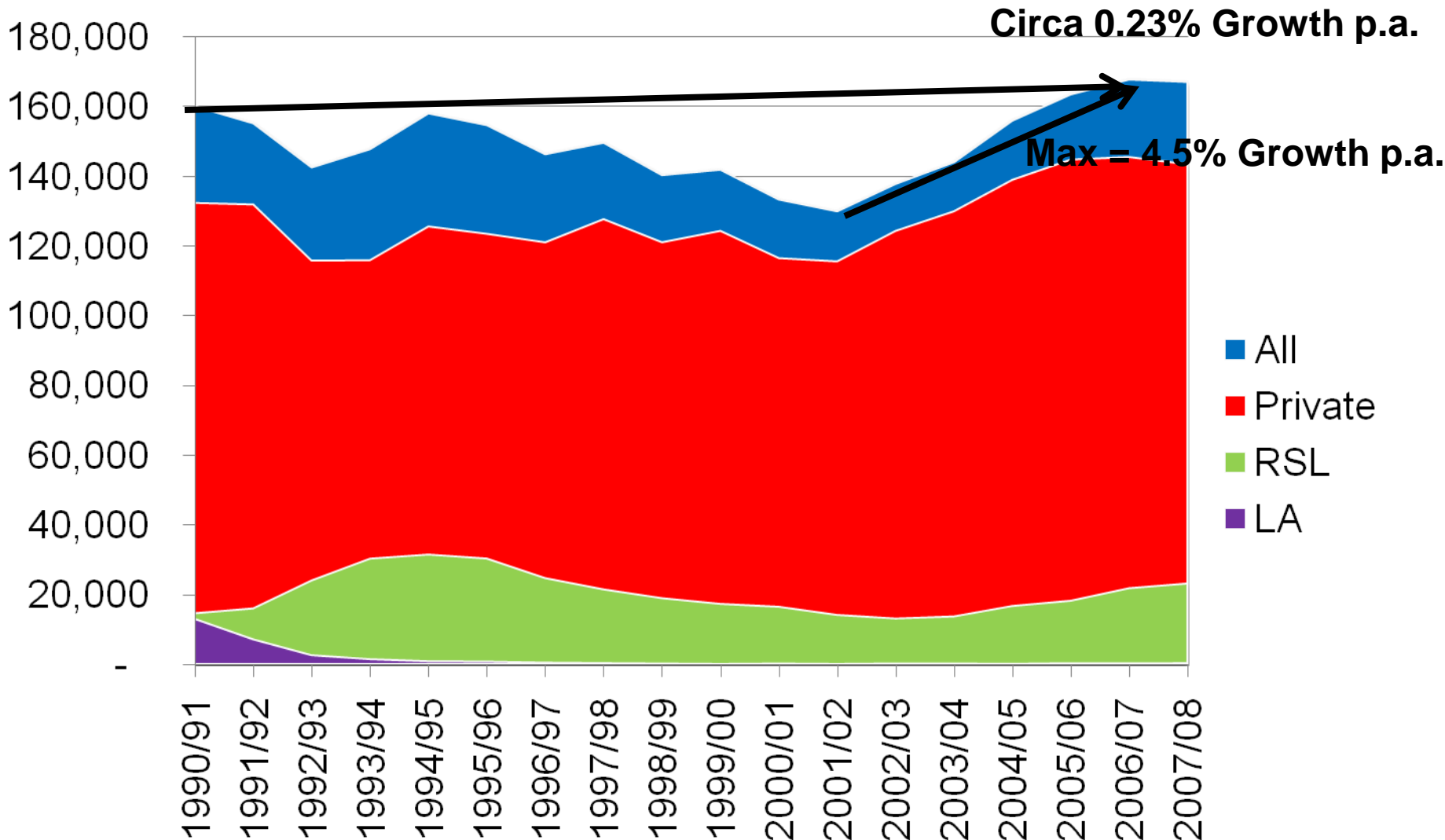
Tues 13th Oct 09

Delivery Context – Until Autumn 07

- Sustained Value Growth for 14+yrs
- Abundantly Available Cheap Credit
- Long Term Imbalance in Housing Supply & Demand
- Developers with Strong Growth Agendas

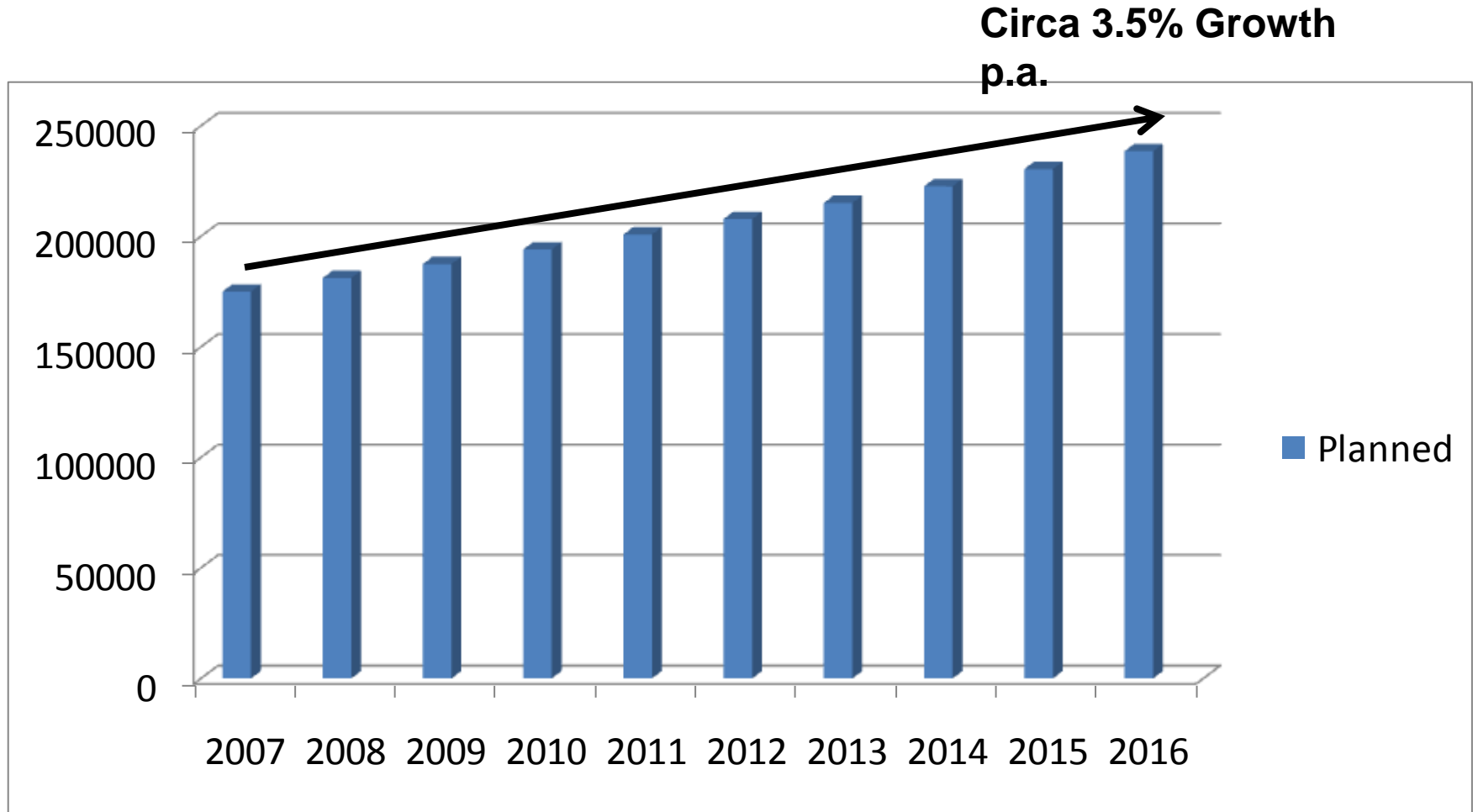
And yet;

Modest Growth over 17 Years



(source Office of National Statistics Nov 08)

Government Housing Target



IMPACT OF THE CREDIT CRUNCH ON DELIVERY

Industry Pre & Post Credit Crunch

Pre

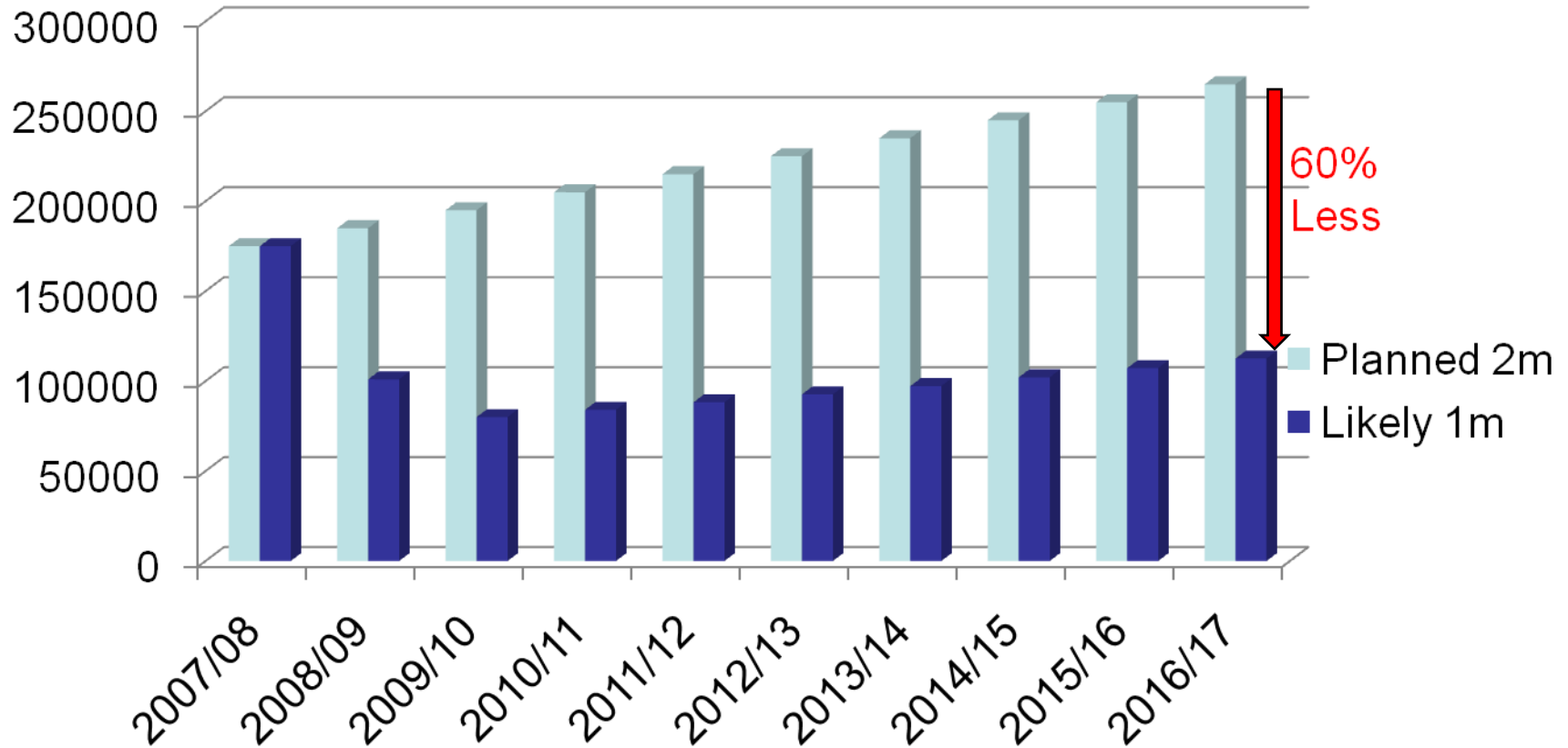
- Circa 4,500 Outlets
- Average 2006 SPOM* = 2.5
- Open Market Sales = 135,000

Post

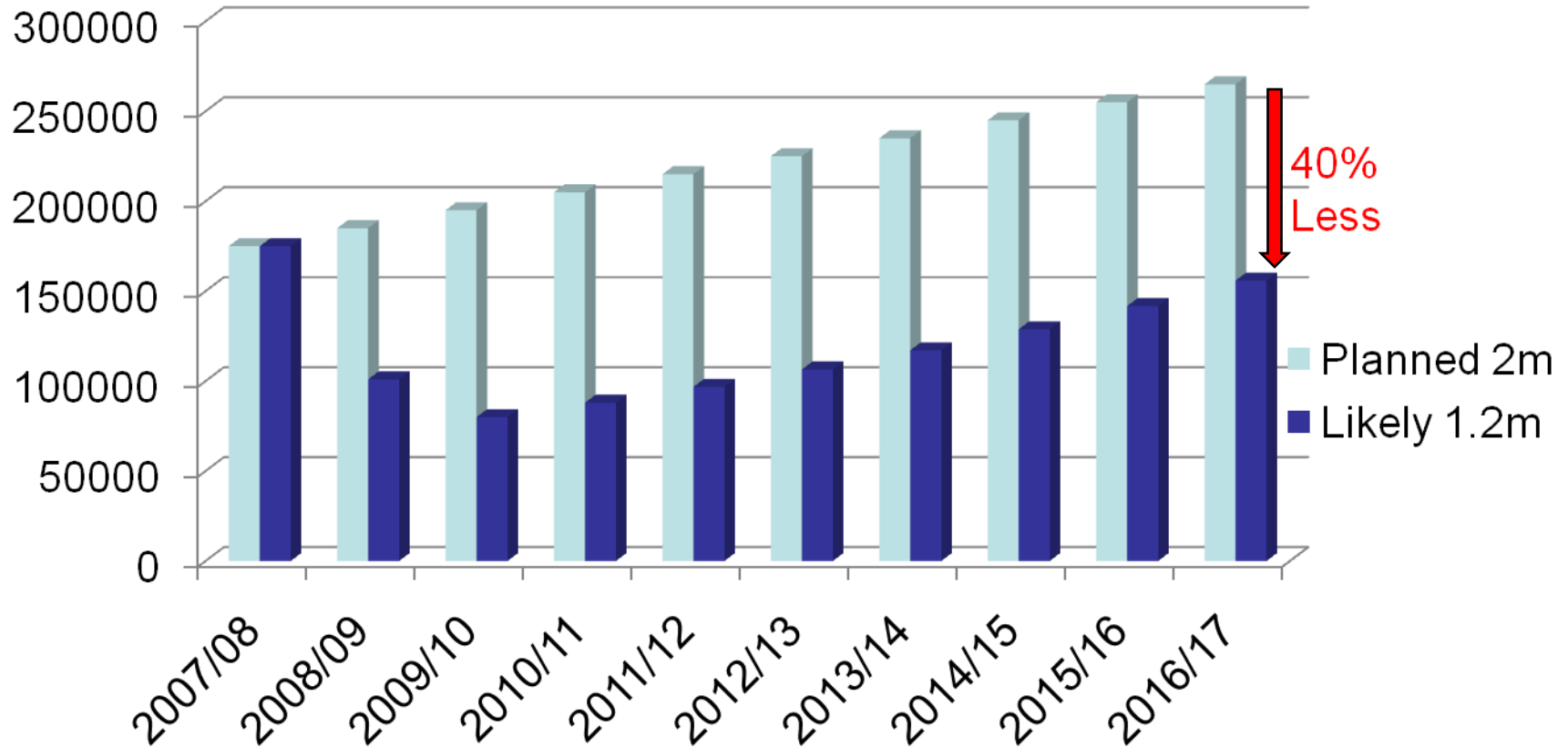
- Average 2008 SPOM = 1.4 (-55%)
- Outlet Numbers Fell Rapidly
- Open Market Starts Now = 65k to 70k/annum

* Sales Per Outlet per Month

2016 if 5% Growth P.A.

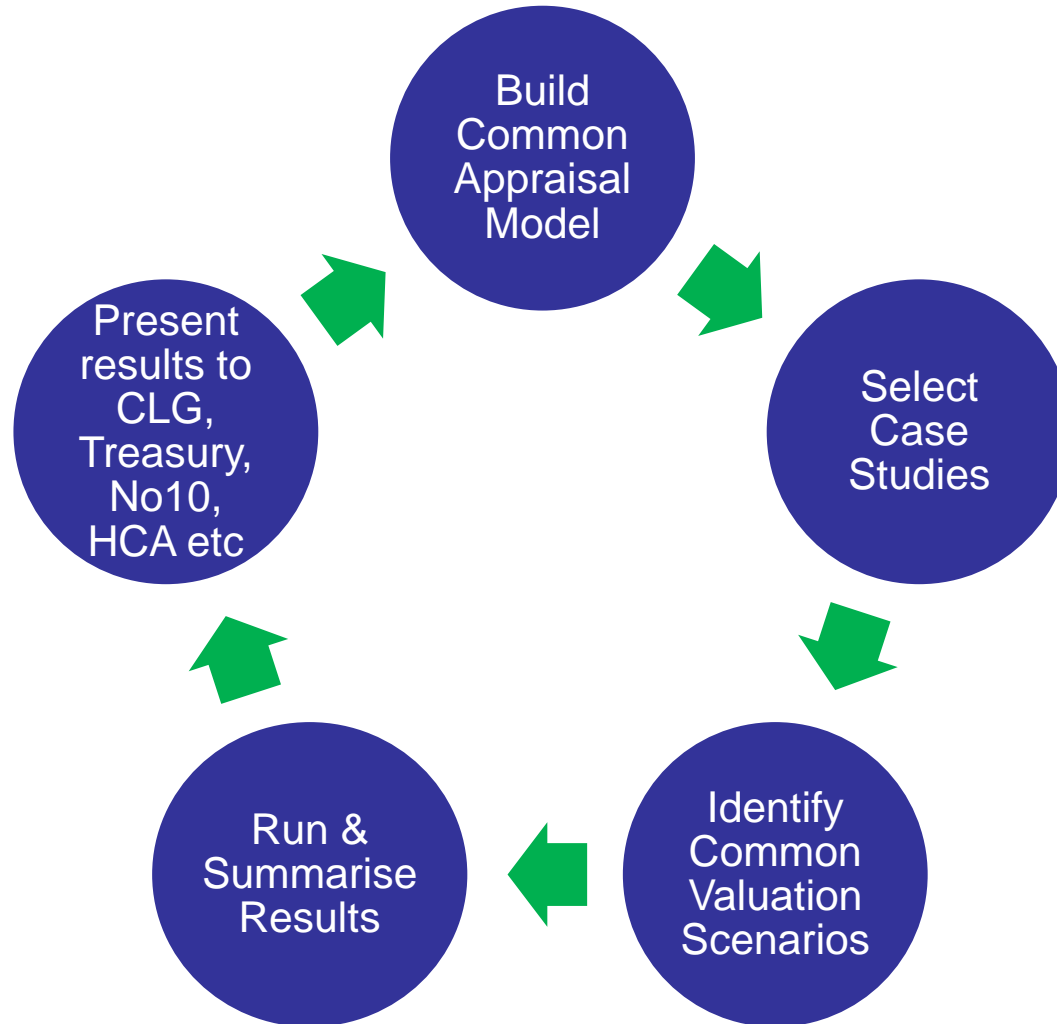


2016 if 10% Growth P.A.



THE CUMULATIVE COST BURDEN OF REGULATION

Study Methodology



The Financial Model

Implications of Regulatory Burden				SI units		Imperial Units	
SITE APPRAISAL: INSERT NAME/REF		Code Level:	Choose level	Gross site area	0.00	acres	0.00
House Price Fall (%)	0%	Building Regs	Choose revision	Net developable area	0.00	acres	0.00
CIL (per dwelling)	£0	lifetime:	Choose	Net to Gross (%)	0%		0.00%
Residual value private serviced BEFORE policy costs				Detached house 2 storey	0.00		0.00
	£/net acre			End Terrace/ Semi	0.00		0.00
	£/gross acre			Mid Terrace	0.00		0.00
Residual value blended unserviced AFTER policy costs				Flat	0.00		0.00
	£/net acre			3 Storey house mid terrace	0.00		0.00
	£/gross acre			Total number of dwellings	0		0
GENERAL INPUT DATA				Development floor area PD (GIA)	0	sqft	0
	2007 Q2 Sales Value			Development floor area AH (sq m)	0	sqft	0
Sales value per sq m PD	£0.00	House Price Fall (%)	0%	Total Development floor area (m ²)	0	sqft	0
Sales value per sq m AH	£0.00	£/sqft	0.00	Dwelling density		/acre	
		£/sqft	0.00	Coverage (m ² per net Ha)		sqft/acre	
BUILD COST ASSUMPTION				Gross development value (before AH provision)	0		0
Site roads, sewers and utility services (excl. reinforcement) on and off site primary infrastructure	% of dwelling build cost			Dwelling build cost	0		0
Dwelling Build Cost Fall (%) (exc CHS @ & Bldg Regs)	per unit			Site roads, sewers and utility services (excl. reinforcement)	0		0
				S38 commuted sums	0		0
				Abnormals (total value) incl remediation	0		0
OTHER COSTS				Sales & Marketing costs	0		0
Margin (% of GDV. Approx 4% above PBIT)	% of GDV		0.00%	Design and promotion fees	0		0
Sales & Marketing costs	% of Q2 2007 GDV		0.00%	Interest rate	0		0
Design and promotion fees	% of Q2 2007 GDV		0.00%	Base cost of Land (eg agricultural)	£/ha		0.00
Interest rate							
Base cost of Land (eg agricultural)	£/ha						
POLICY COST ASSUMPTIONS				Residual value private serviced (before policy costs)		£/net acre	0
Affordable Housing						£/gross acre	0
Affordable Housing Provision			0.00%	Affordable housing cost (S106) (total)	0		0
"Discount" per affordable unit			0.00%		0		0
s38 commuted sums per dwelling	£		0.00	Residual value blended serviced (before policy costs)		£/net acre	0
lifetime homes cost per dwelling	£		0.00			£/gross acre	0
S106 costs per PLOT (INC AH PLOTS)	£		0.00	Off site and on-site primary infrastructure costs	0.00		0.00
CIL cost per unit / total cost	£		0.00	Residual value unserviced blended (before policy costs)	£0.00	£/net acre	£0.00
						£/gross acre	0
Baseline dwellings				S106 costs total cost (exc AH)	0		0
	GIA	Build cost/m ²	Baseline cost/unit	CIL cost per unit / total cost	0		0
Detached house 2 storey	102.00	786.00	80,172.00	Building regs cost for site	0		0
End Terrace/ Semi	76.00	745.00	56,620.00	Lifetime Homes total cost	0		0
Mid Terrace	76.00	745.00	56,620.00	Code cost for site (excl B regs uplift and LTH)	0		0
Flat	60.00	1,342.00	80,520.00	Residual value unserviced blended after policy costs		£/net acre	0
3 Storey house mid terrace	113.00	750.00	84,750.00			£/gross acre	0
CSH cost per dwelling				After deductions: total value			0
	Code Level 3	Code Level 4	Code Level 5	After deductions: per net ha		£/net acre	0
Detached house 2 storey	4,991.00	11,733.00	22,197.00	After deductions: per gross ha		£/gross acre	0
End Terrace/ Semi	5,027.00	9,490.00	18,738.00				
Mid Terrace	5,227.00	10,090.00	20,238.00				
Flat	2,922.00	6,059.00	12,267.00				
3 Storey house mid terrace	5,958.78	11,502.60	23,071.32				
Building Regs cost per dwelling							
	2010	2013	2016				
Detached house 2 storey	3,916.00	9,868.00	17,132.00				
End Terrace/ Semi	3,692.00	7,115.00	12,353.00				
Mid Terrace	3,892.00	7,715.00	13,853.00				
Flat	2,622.00	5,054.00	9,962.00				
3 Storey house mid terrace	4,436.88	8,795.10	15,792.42				

The 4 Viability Scenarios

Land Value Calculated;

- 1: As Q3 2007 Reg's, Values & Costs
- 2: 20% off Q3 07 Values,
10% off Build Costs
- 3: Add Code Level 4 + Lifetime Homes
- 4: Add extra £5k/dwelling for CIL or
published tariff if greater

But first;

A comment upon design quality

Be it traditional rural



Innovative/contemporary



Urban or mixed use



We need to deliver quality housing



The cost of regulation should not be at the expense of high quality housing and our cost base should be allowed/encouraged to reflect the fact!

Back to the Impact of Regulation

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875

Plot Contribution =

Plot sale value-

Plot build cost-

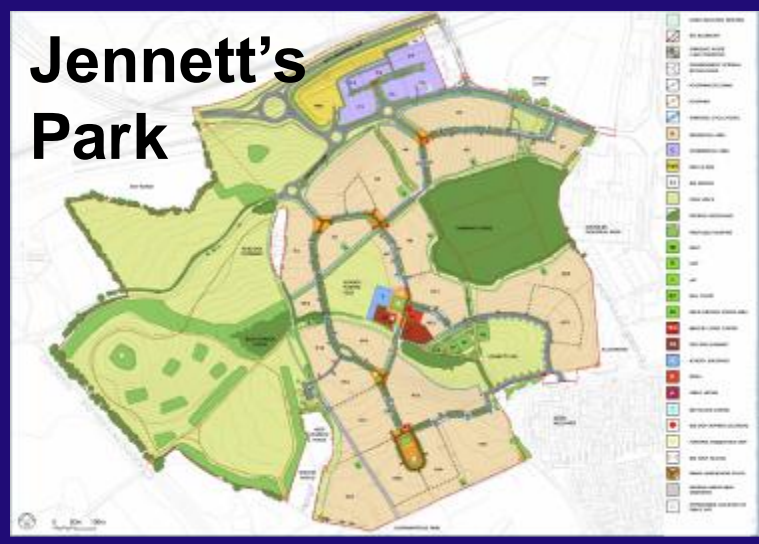
Sales & marketing cost-

Developers overhead & profit

The sum per plot available to pay for infrastructure, land, and policy/regulatory costs

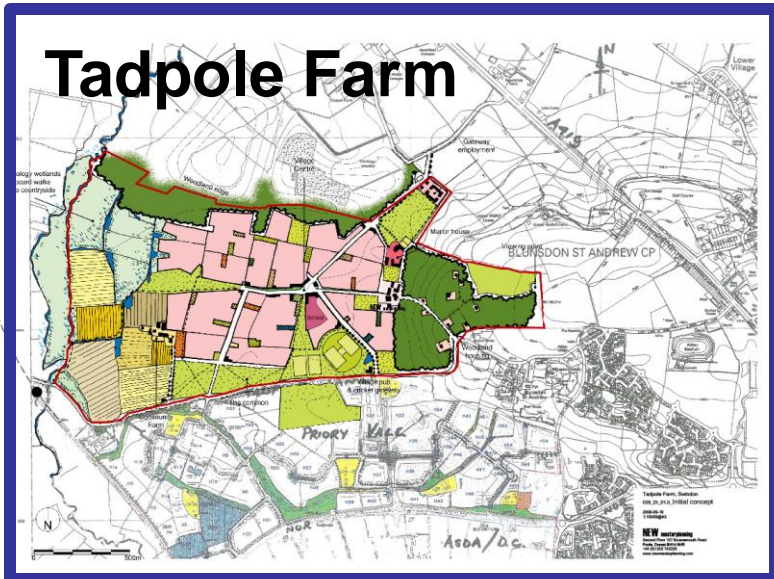
Deduct Common Infrastructure Cost

Jennett's Park



- Principal roads
- Landscaping / Public Realm
- Surface & foul water drainage
- Utilities (Diversions & Supplies)
- PR / professional design fees
- Project management costs

Tadpole Farm



EG;

**Jennett's Park/Tadpole Farm
=£22k per plot (including
affordable plots)**

Cumulative Impact of Regulation

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875
Less Infrastructure	(22,000)	(22,000)	(7,891)	(4,015)
Sub total	49,363	26,277	19,085	14,860

Next Deduct Minimum Land Value

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875
Less Infrastructure	(22,000)	(22,000)	(7,891)	(4,015)
Sub total	49,363	26,277	19,085	14,860
Less Min Land Cost	(25,593)	(17,739)	(6,547)	(18,018)

Assumed Minimum Land Value = £150k/gross acre for green field land*
= £500k/gross acre if alternative use value*

•Pre SDLT & Capital Gains Tax Deductions

Note – net to gross site efficiency very significant.

Cumulative Impact of Regulation

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875
Less Infrastructure	(22,000)	(22,000)	(7,891)	(4,015)
Sub total	49,363	26,277	19,085	14,860
Less Min Land Cost	(25,593)	(17,739)	(6,547)	(18,018)
Surplus prior to Regulation	23,770	8,538	12,538	(3,158)

Next Deduct cost of Affordable Housing

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875
Less Infrastructure	(22,000)	(22,000)	(7,891)	(4,015)
Sub total	49,363	26,277	19,085	14,860
Less Min Land Cost	(25,593)	(17,739)	(6,547)	(18,018)
Surplus prior to Regulation	23,770	8,538	12,538	(3,158)
Affordable Subsidy	(17,743)	(14,679)	(19,107)	(7,153)

Affordable Housing Costs - 1998



**In 1998
Average Cross Subsidy Circa
£10k/Open Market Dwelling**

2008: Increased % & Reducing Grant Levels



In 2008;
Average Cross
Subsidy Up
200+% to Circa
£15k-£30k/Open
Market Dwelling

Cumulative Impact of Regulation

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875
Less Infrastructure	(22,000)	(22,000)	(7,891)	(4,015)
Sub total	49,363	26,277	19,085	14,860
Less Min Land Cost	(25,593)	(17,739)	(6,547)	(18,018)
Surplus prior to Regulation	23,770	8,538	12,538	(3,158)
Affordable Subsidy	(17,743)	(14,679)	(19,107)	(7,153)
Sub total	6,028	(6,141)	(6,569)	(10,311)

Next Deduct S106 Costs

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875
Less Infrastructure	(22,000)	(22,000)	(7,891)	(4,015)
Sub total	49,363	26,277	19,085	14,860
Less Min Land Cost	(25,593)	(17,739)	(6,547)	(18,018)
Surplus prior to Regulation	23,770	8,538	12,538	(3,158)
Affordable Subsidy	(17,743)	(14,679)	(19,107)	(7,153)
Sub total	6,028	(6,141)	(6,569)	(10,311)
S106 Contribution/works	(21,000)	(21,000)	(8,580)	(2,349)

Section 106 Costs

- 1998 indicative S 106 cost
Elvetham Heath, Fleet
Portishead Quays, Bristol
= £4,000/plot (inc' affordable plots)

- 2005/6 Section 106 cost
Jennett's Park, Bracknell
MK Tariff
=£20k/ per plot (inc' affordable plots)

No Site Currently Viable

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875
Less Infrastructure	(22,000)	(22,000)	(7,891)	(4,015)
Sub total	49,363	26,277	19,085	14,860
Less Min Land Cost	(25,593)	(17,739)	(6,547)	(18,018)
Surplus prior to Regulation	23,770	8,538	12,538	(3,158)
Affordable Subsidy	(17,743)	(14,679)	(19,107)	(7,153)
Sub total	6,028	(6,141)	(6,569)	(10,311)
S106 Contribution/works	(21,000)	(21,000)	(8,580)	(2,349)
Sub total	(14,972)	(27,141)	(15,149)	(12,660)

Next Deduct Code4 & lifetime Homes Costs

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875
Less Infrastructure	(22,000)	(22,000)	(7,891)	(4,015)
Sub total	49,363	26,277	19,085	14,860
Less Min Land Cost	(25,593)	(17,739)	(6,547)	(18,018)
Surplus prior to Regulation	23,770	8,538	12,538	(3,158)
Affordable Subsidy	(17,743)	(14,679)	(19,107)	(7,153)
Sub total	6,028	(6,141)	(6,569)	(10,311)
S106 Contribution/works	(21,000)	(21,000)	(8,580)	(2,349)
Sub total	(14,972)	(27,141)	(15,149)	(12,660)
Code 4 Costs	(10,090)	(10,090)	(10,090)	(6,059)

CLG Code Cost Estimates

Code Level	Terraced Min £/Dw	Terraced Max £/Dw	Ave Cost/ Net Acre* £/acre	Flats Min £/Dw	Flats Max £/Dw	Ave Cost/ Net Acre** £/acre
3	5,000	6,000	93,500	3,000	3,000	180,000
4	9,000	12,000	178,500	6,000	6,000	360,000
5	19,000	23,000	357,000	12,000	13,000	750,000

- Based upon CLG Cost Analysis of CfSH Final Report:
- * Assumes 42 Dw/Net Ha (17Dw/acre)
- ** Assumes 150 Dw/Net Ha (60Dw/acre)

And Finally the E.O. Cost of CIL! ??

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875
Less Infrastructure	(22,000)	(22,000)	(7,891)	(4,015)
Sub total	49,363	26,277	19,085	14,860
Less Min Land Cost	(25,593)	(17,739)	(6,547)	(18,018)
Surplus prior to Regulation	23,770	8,538	12,538	(3,158)
Affordable Subsidy	(17,743)	(14,679)	(19,107)	(7,153)
Sub total	6,028	(6,141)	(6,569)	(10,311)
S106 Contribution/works	(21,000)	(21,000)	(8,580)	(2,349)
Sub total	(14,972)	(27,141)	(15,149)	(12,660)
Code 4 Costs	(10,090)	(10,090)	(10,090)	(6,059)
Sub total	(25,062)	(37,231)	(25,239)	(18,719)

Cumulative Impact of Regulation

	Case Study Scenario 2			
	Bracknell	Swindon	MK	Derby
	£/Plot	£/Plot	£/Plot	£/Plot
Gross Contribution/Plot	71,363	48,277	26,976	18,875
Less Infrastructure	(22,000)	(22,000)	(7,891)	(4,015)
Sub total	49,363	26,277	19,085	14,860
Less Min Land Cost	(25,593)	(17,739)	(6,547)	(18,018)
Surplus prior to Regulation	23,770	8,538	12,538	(3,158)
Affordable Subsidy	(17,743)	(14,679)	(19,107)	(7,153)
Sub total	6,028	(6,141)	(6,569)	(10,311)
S106 Contribution/works	(21,000)	(21,000)	(8,580)	(2,349)
Sub total	(14,972)	(27,141)	(15,149)	(12,660)
Code 4 Costs	(10,090)	(10,090)	(10,090)	(6,059)
Sub total	(25,062)	(37,231)	(25,239)	(18,719)
Extra Over CIL @ £5k	(5,000)	(5,000)	(5,000)	(5,000)
Deficit/Plot	(30,062)	(42,231)	(30,239)	(23,719)

Hard Choices Required

Bracknell Scenario 2		1
		£/Plot
Gross Contribution/Plot		71,363
Less Infrastructure		(22,000)
Sub total		49,363
Less Min Land Cost		(25,593)
Surplus prior to Regulation		23,770
Affordable Subsidy		(17,743)
Sub total		6,028
S106 Contribution/works		(21,000)
Sub total		(14,972)
Code 4 Costs		(10,090)
Sub total		(25,062)
Extra Over CIL @ £5k		(5,000)
Deficit/Plot		(30,062)

Must save £30k/Plot in Bracknell

Less Affordable Hsng/More grant?

– Up to £70k grant/dw?

S106:

– Direct Mitigation Only @ £6k/plot ish?

– Eg; No off site/ Education Contributions

Code 4+:

– Defer or Subsidise Delivery?

CIL? – How to pay the contributions??

**Government's Role is to Create a Climate of Certainty
Current Demands are Simply Not Deliverable**

Climate Change the Priority.....

Bracknell Scenario 2		1
		£/Plot
Gross Contribution/Plot		71,363
Less Infrastructure		(22,000)
	Sub total	49,363
Less Min Land Cost		(25,593)
Surplus prior to Regulation		23,770
Affordable Subsidy		(17,743)
	Sub total	6,028
S106 Contribution/works		(21,000)
	Sub total	(14,972)
Code 4 Costs		(10,090)
	Sub total	(25,062)
Extra Over CIL @ £5k		(5,000)
Deficit/Plot		(30,062)

If Code 4 mandatory from 2013 (2011 on Affordable Housing) then, in Bracknell, the most valuable of the case study sites, only £13k/plot available for S106/CIL and Affordable Housing???

What Will Give?

How long will it take to Legislate/Negotiate?

Thank you
Any Questions