

**Dave Mitchell**

**Conference Chair**

# Where we are today and the impact of Regulatory Burden

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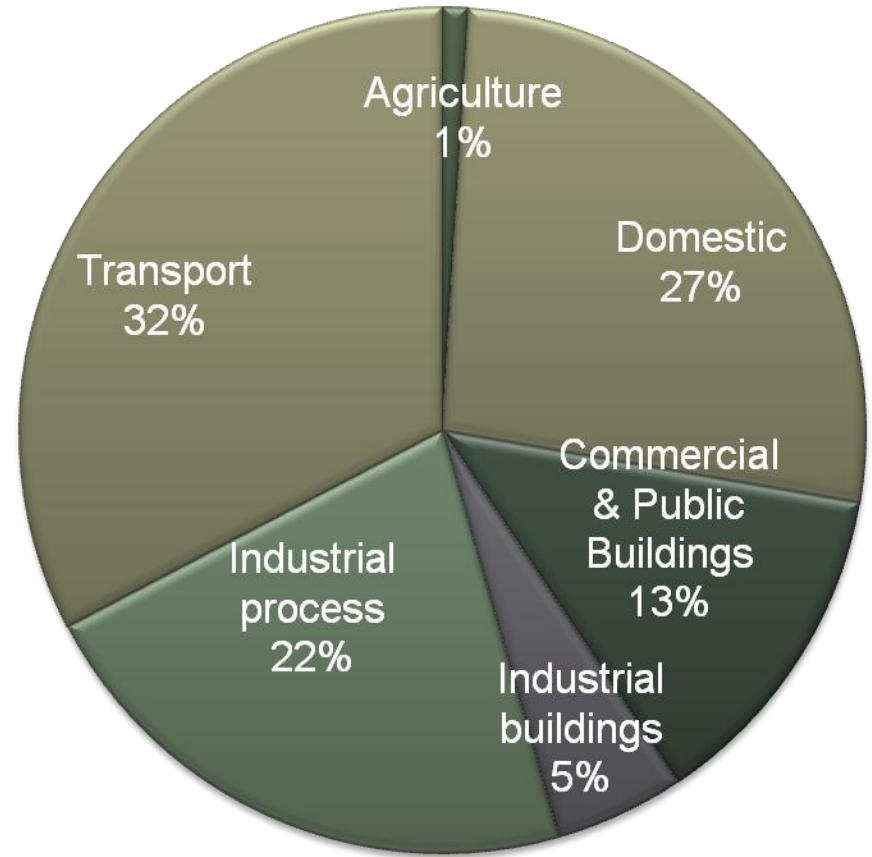
Wednesday 20<sup>th</sup> May 2009



# The challenge

- Climate Change Agenda
- Emissions reduction targets
- Emissions from buildings account for 45% of UK carbon emissions
- Energy White Paper 2007 sets out UK energy strategy
- Raising energy efficiency standards through Building Regulations
- Ensuring health standards are not compromised

In 2005, the UK emitted  
550m tonnes of CO<sub>2</sub>



# Introduction – Cost Impact

- The presentation appraised the cumulative cost impact of several key future policies, along with the current credit crunch, on land values and site viability.
- It appraised the impact of four policy scenarios.
- Five development sites were used.
- All base 2007 costs, revenues, policies, regulations and taxes are actuals from real sites.
- A site appraisal model was specifically developed.
- The future policy costs are the best available evidence from Government sources or the industry.
- Code 4 cost is fully included: although only Code 4 energy kicks in at 2013, this is the bulk (85% ish) of Code 4 cost.

Implications of Regulatory Burden			
SITE APPRAISAL XXXXX	Code Level:	Code Level 3	
House Price Fall (%)	0%	Building Regs	2016
CIL (per dwelling)	£0	Lifetime:	YES
Residual value private serviced BEFORE policy costs	£/net acre	1,870,433	
	£/gross acre	622,868	
Residual value blended unserviced AFTER policy costs	£/net acre	455,536	
	£/gross acre	151,690	
GENERAL INPUT DATA			
	2007 Q2 Sales Value	278.00	
Sales value per sq m PD	£2,992.37	House Price Fall (%)	0%
		£/sqft	278.00
Sales value per sq m AH	£1,912.12	£/sqft	177.64
BUILD COST ASSUMPTION			
Site roads, sewers and utility services (excl. reinforcement)	% of dwelling build cost	10.00%	
on and off site main infrastructure	per unit	22,000.00	
OTHER COSTS			
Margin (% of GDV. Approx 4% above PBIT)	% of GDV	22.00%	
Sales & Marketing costs	% of Q2 2007 GDV	3.00%	
Design and promotion fees	% of Q2 2007 GDV	2.50%	
Interest rate		6.00%	
Base cost of Land (eg agricultural)	£/ha	5,000.00	
POLICY COST ASSUMPTIONS			
Affordable Housing			
Affordable Housing Provision		20.00%	
"Discount" per affordable unit		36.10%	
s38 commuted sums per dwelling	£	0.00	
lifetime homes cost per dwelling	£	1,000.00	
S106 costs per unit (exc AH)	£	21,000.00	
CIL cost per unit / total cost	£	0.00	
Baseline dwellings	GIA	Build cost/m²	Baseline cost/unit
Detached house 2 storey	92.50	997.00	92,222.50
End Terrace/ Semi	79.00	911.00	71,969.00
Mid Terrace	109.00	798.00	86,982.00
Flat	59.26	1,260.00	74,667.60
3 Storey house mid terrace	153.4	750.00	115,050.00
CSH cost per dwelling	Code Level 3	Code Level 4	Code Level 5
Detached house 2 storey	4,991.00	11,733.00	22,197.00
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

		SI units		Imperial Units		
	Gross site area	ha	2.90	acres	7.16	
	Net developable area	ha	0.97	acres	2.38	
	Net to Gross (%)		33%		33.30%	
Site mix	Detached house 2 storey	92.50	4.00		4.00	
	End Terrace/ Semi	79.00	2.00		2.00	
	Mid Terrace	109.00	1.00		1.00	
	Flat	59.26	18.00		18.00	
	3 Storey house mid terrace	153.40	17.00		17.00	
	Total number of dwellings		42.00		42.00	
	Development floor area PD (GIA)	m2	3,449.18	sqft	37,127.92	
	Development floor area AH (sq m)	m2	862.30	sqft	9,281.98	
	Total Development floor area (m²)	m2	4,311.48	sqft	46,408.77	
		Dwellings/net				
	Dwelling density	ha	43.52	/acre	17.61	
	Coverage (m² per net Ha)	m2/ha	4,467.85	sqft/acre	19,462.56	
Revenue	Gross development value (before AH provision)		£12,901,530.89		£12,901,530.89	
Costs	Dwelling build cost		3,899,676.80		3,899,676.80	
	Site roads, sewers and utility sevicees (excl. reinforcement)		389,967.68		389,967.68	
	S38 commuted sums		0.00		0.00	
	Abnormals (total value) incl remediation		0.00		0.00	
	Sales & Marketing costs		387,045.93		387,045.93	
	Design and promotion fees		322,538.27		322,538.27	
	Interest		603,791.65		603,791.65	
	Development profit		2,838,336.80		2,838,336.80	
		Total		£4,460,173.77		£4,460,173.77
		Residual value private serviced (before policy costs)	£/net ha	4,621,942	£/net acre	1,870,433
		£/gross ha	1,539,107	£/gross acre	622,868	
AH	Affordable housing cost (S106) (total)		931,490.53		931,490.53	
		Total	£3,528,683.24		£3,528,683.24	
	Residual value blended serviced (before policy costs)	£/net ha	3,656,667	£/net acre	1,479,800	
		£/gross ha	1,217,674	£/gross acre	1,764,342	
	Off-site and on-site primary infrastructure costs		924,000.00		924,000.00	
		Total	£2,604,683.24		£2,604,683.24	
	Residual value unserviced blended (before policy costs)	£/net ha	2,699,154	£/net acre	1,092,309	
		£/gross ha	898,818	£/gross acre	363,735	
	Policy costs	S106 costs total cost (exc AH)		882,000.00		21,000.00
		CIL cost per unit / total cost		0.00		0.00
Building regs cost for site			554,874.14		554,874.14	
Lifetime Homes total cost			42,000.00		42,000.00	
Code cost for site (excl B regs uplift and LTH)			39,577.30		39,577.30	
		Total	£1,086,231.80		£1,086,231.80	
Residual value unserviced blended after policy costs		£/net ha	1,125,628	£/net acre	455,536	
		£/gross ha	374,834	£/gross acre	151,690	
CGT @ 18%		After deductions: total value	Total	893,318.18		893,318.18
		After deductions: per net ha	£/net ha	925,718.32	£/net acre	374,628
	After deductions: per gross ha	£/gross ha	308,264.20	£/gross acre	124,750	

# Case studies

- Phase of a strategic greenfield site in the South East, high value
- Phase of a strategic greenfield site 'moved' to the South West, lower value
- Regeneration scheme in the South East
- Urban brownfield site in the East Midlands
- Typical retirement housing development

# Policy Type Issues Included

- Code for Sustainable Homes
- Building Regulations
- Lifetime Homes
- Community Infrastructure Levy (CIL)
- Affordable Housing Provision

# Case study scenarios

- Site appraisal assumptions
- **Scenario 1** Base case: 2007 actual costs and revenue, including S106 & Affordable Housing, Building Regulations etc.
- **Scenario 2** *ADD* Code for Sustainable Homes Level 4\* and Lifetime Homes (direct cost only\*\*)
- **Scenario 3** *ADD* Community Infrastructure Levy (CIL): £5,000 per dwelling
- **Scenario 4** *ADD* 20% fall in house prices, 10% fall in construction costs

\*costs from CLG Cyril Sweett report 2007

\*\* direct costs only, excluding any impact on density/ numbers of units except Case Study 5



# Cumulative Burden of Regulation: Costs which have to be funded out of residential land value

- Affordable Housing (S106)
- Off-site infrastructure (S106)
- Other S106:
  - Hard: open space, environmental benefits, transport and travel, community works, leisure
  - Soft: education, health, police, fire, rescue services
- CIL (should be partly offset by reductions in S106 demands)
- Zero carbon (national targets Part L)
- Other Code categories, such as water efficiency standards
- Local authority sustainability demands (e.g. renewables)
- Space standards, (HCA, LA)
- Lifetime Homes
- Increased public open space (to the extent loss of revenue earning land outweighs any uplift in sales value from more open space)
- S38 commuted sums for future highways maintenance
- SUDS (Sustainable Urban Drainage Systems)
- Local authority bonding requirements for S106 items
- Local authorities seeking to use Section 106 agreements to secure new training commitments for local people

- Unnecessary/inefficient planning delay (as opposed to reasonable time to get a permission)
- Unnecessary planning application processes and paperwork (documents no one reads but are demanded because on a list of required documents, including environmental impact assessments and all sorts of other assessments/ consultants' reports required by local plan policies as well as national policies)
- Inefficiency and delay because of lack of knowledge and capacity in local authorities to operate effectively today's complex planning policies
- Cost from uncertainty of local planning demands and outcomes
- Building regulations (separate into necessary health and safety type regulations and the more aspirational policies to meet political objectives)
- Density and mix other than what the house builder would ideally build to meet local market demand (impact on sales values/land values)
- Urban design requirements
- Flood protection and mitigation measures and requirements for flood risk assessments
- Site waste management plans
- Rules on remediation and what constitutes waste in this connection
- A widening set of issues and requirements relating to climate change adaptation and mitigation
- Land fill tax
- Council tax on empty properties
- Business tax on show-houses and show-homes
- Stamp duty land tax ("SDLT")

## Code for Sustainable Homes:

### Code Energy Cost – based on medium case scenario

Code Level	3	4	5	6
Detached	3916	9868	17132	32752
End of Terrace	3692	7115	12353	24822
Flat	2622	5054	9962	18596

### Total Code Cost – based on medium case scenario

Detached	4991	11733	22197	38817
End of Terrace	5027	9490	18738	31747
Flat	2922	6059	12267	21251

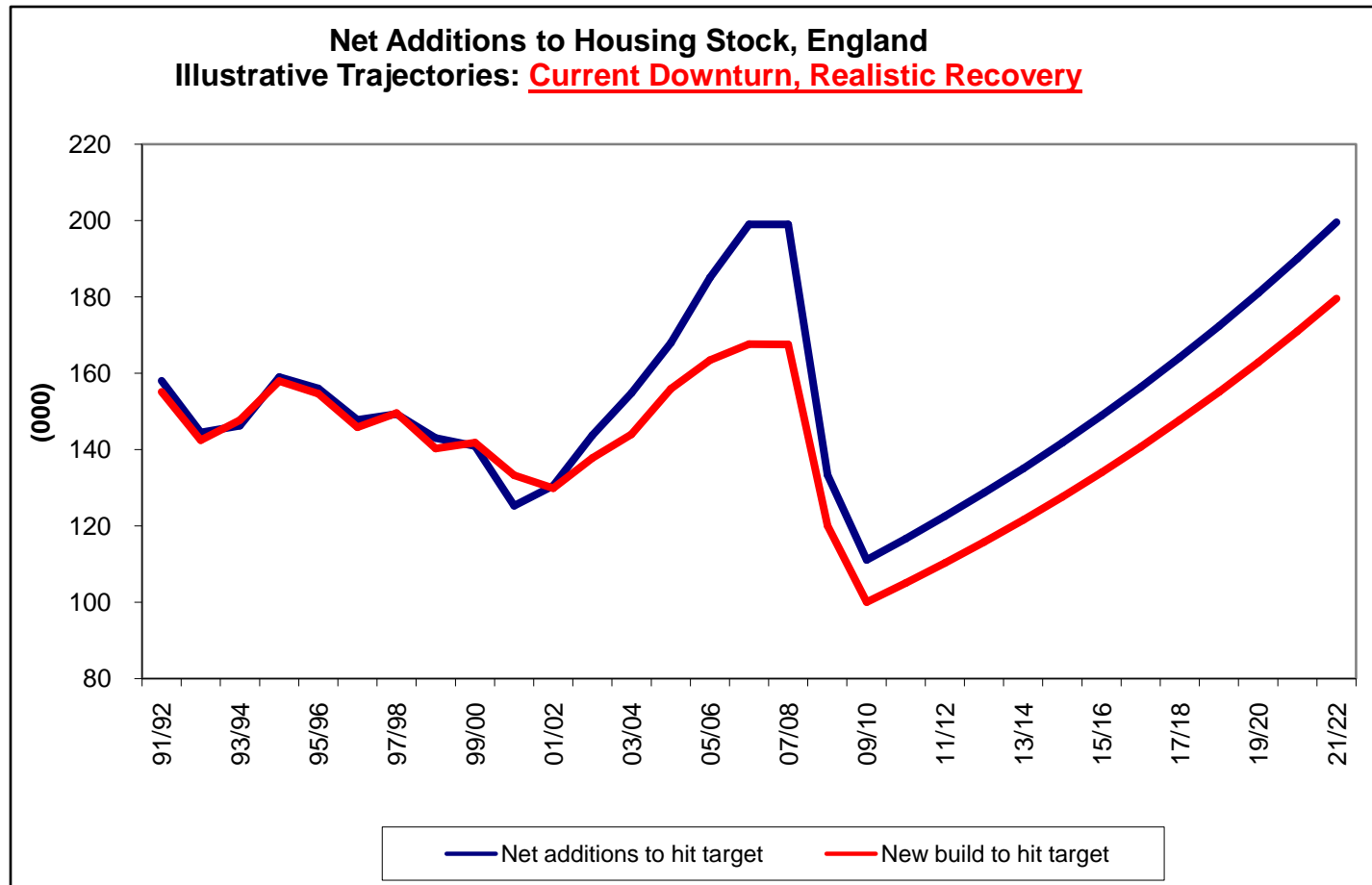
The Osborne Experience – 1<sup>st</sup> Code Level 5 Certificate issued (2 flats)

Actual E/O costs above B/Regs: **£40850 per flat**

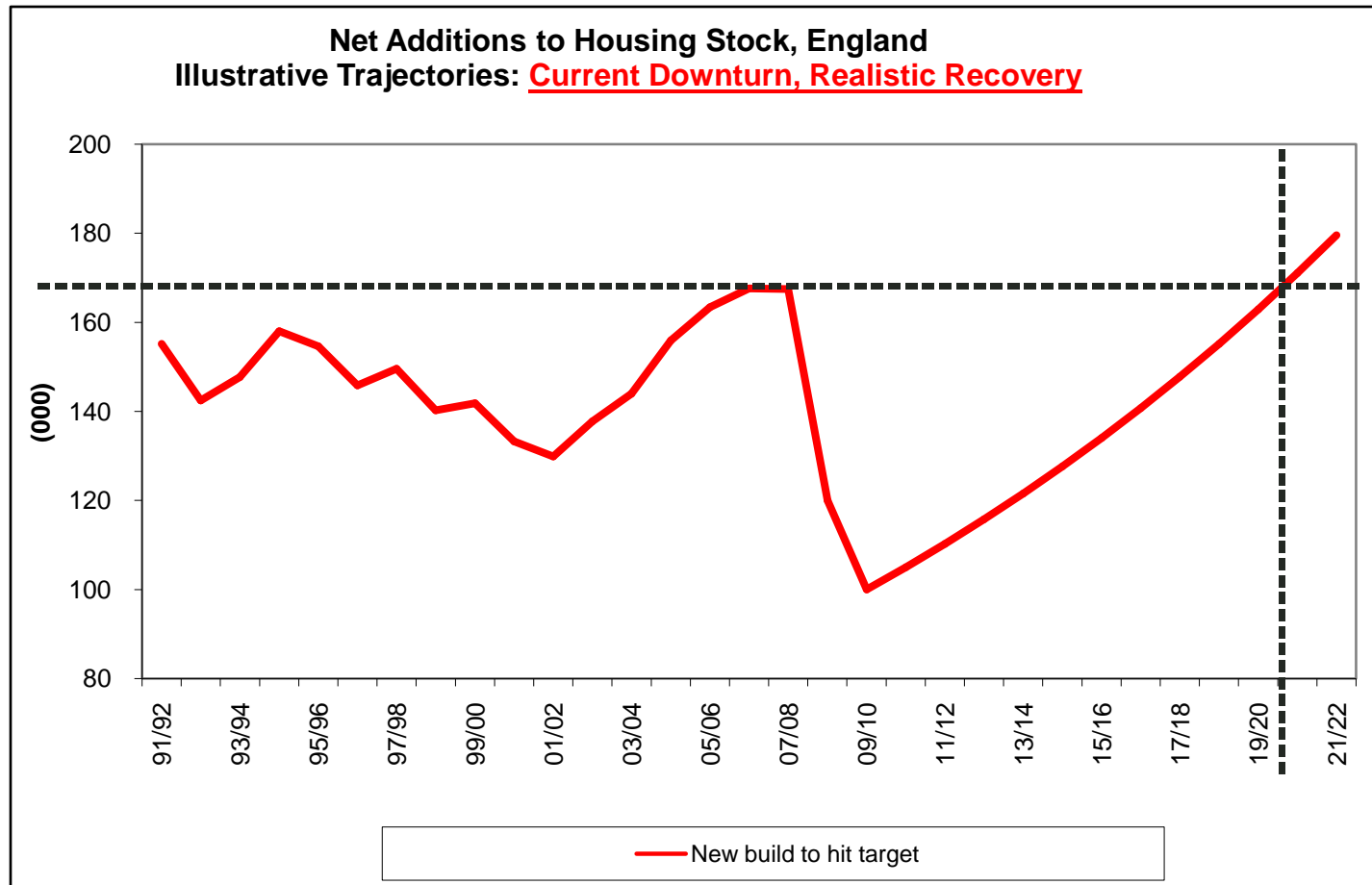
## Building Regulations etc:

Regulation Part/ Guidance		Last published	Next review	Implementation Date
Part A	Structure	27-Apr-06	2009	2010
Part B	Fire Safety	18-Dec-06		
Part C	Site preparation and resistance to contaminants and moisture	28-Apr-06	2009	2010
Part D	Toxic substances	27-Apr-06		
Part E	Resistance to the passage of sound	27-Apr-06		
Part F	Ventilation	03-May-06	Apr-09	Apr-10
Part G	Hygiene	02-May-06	Just completed	Oct-09
Part H	Drainage and waste disposal	02-May-06		
Part J	Combustion appliances and fuel storage systems	02-May-06	Probably 2009	2010
Part K	Protection from falling collision and impact	03-May-06		
Part L	Conservation of fuel and power	15-Mar-06	Apr-09	Apr-10
Part M	Access to and use of buildings	03-May-06		
Part N	Glazing - safety in relation to impact, opening and cleaning	03-May-06		
Part P	Electrical safety - dwellings	15-Mar-06		
Reg 7	Materials and workmanship	03-May-06		
CFSH	Code for Sustainable Homes	27-Feb-08	Apr-09	2010
DZC	Definition of Zero Carbon		Dec-08	

## Forward based projection based on 5% per year average



## Forward based projection based on 5% per year average



# Conclusions

- Government Policy - Zero Carbon 2016
- Most Economic way of saving CO2
- Impact of regulations
- Housing Targets will not be met
- Most economic way of saving CO2
- A need within the Zero Carbon agenda to be able to build (the much needed) new homes in the volumes required by Government

# Thank you

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