## **Dave Mitchell** Conference Chair

## Where we are today and the impact of Regulatory Burden

Dave Mitchell

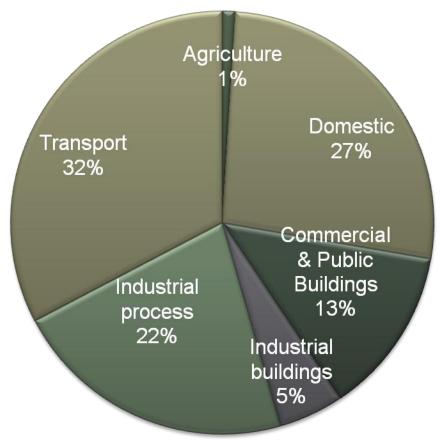
Wednesday 20<sup>th</sup> May 2009



## 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.



STFE APPRAISAL XXXX    Code Level 3 Bouse Price Fall (%)    Offen Series    Code Level 3 Building Regs    Soft    S	Implications of Regulatory Burden				
CIL (per dwelling)    £0    Lifetime:    YES      Residual value private serviced BEFORE policy costs    £/net acre    1.870.433    Site mix      Residual value blended unserviced AFTER policy costs    £/net acre    622.865    Site mix      Residual value blended unserviced AFTER policy costs    £/net acre    622.865    Site mix      Sales value per sq m PD    £2,992.37    £/sqft    278.00      Sales value per sq m AH    £1,912.12    £/sqft    278.00      Sulu D COST ASSUMPTION    Site main infrastructure    per unit    22,000.00      OTHER COSTS    % of Q2 2007 GDV    22.00%    Sales & Marketing costs    % of Q2 2007 GDV    22.00%      Sales & Marketing costs    % of Q2 2007 GDV    2.00%    Sales & Marketing costs    6.00%    6.00%      Sales & Marketing costs    % of Q2 2007 GDV    2.00%    Sales & Marketing costs    9.00    2.00%      POLICY COST ASSUMPTIONS    2.000%    2.00%    Sales & Marketing costs    9.00    2.00%      Affordable Housing Affordable Housing Affordable Housing Affordable Housing Affordable Housing Part Affordable Housing Affordable Housing Part	SITE APPRAISAL XXXXX				
Residual value private serviced BEFORE policy costs    £/net acre    1.870.433    Site mix      Residual value private serviced AFTER policy costs    £/gross acre    622.865      Residual value blended unserviced AFTER policy costs    £/net acre    622.865      SENERAL INPUT DATA    2007 Q2 Sales Value    278.00      House Price Fall (%)    0%    9%      Sales value per sq m PD    £2,992.37    £/sqft    278.00      Sales value per sq m AH    £1,912.12    £/sqft    177.64      SULD COST ASSUMPTION    cost    10.00%    2000.00      Site roads, sewers and utility sevices (excl.    % of dwelling bulk    cost    10.00%      Costs    0100 V    22.007 GDV    3.00%    2.500%      Sales & Marketing costs    % of Q2 2007 GDV    2.500%    2.500%      Sales cost of Land (eg agricultural)    £/hra    5.000.00    2.600%      POLICY COST ASSUMPTIONS    4% of Q2 2007 GDV    2.600%    2.600%      Affordable Housing Provision    20.00%    2.000%    2.600%      *10 iscourt* per dwelling    £    1.000.00    2.1000.00      S106 costs per unit (total cost    2.000					
£/gross acre      622,868        Residual value blended unserviced AFTER policy costs      £/net acre      455,536        £/gross acre      151,691        GENERAL INPUT DATA      2007 Q2 Sales Value      278.00        Sales value per sq m PD      £2,992.37      £/sqft      278.00        Sales value per sq m AH      £1,912.12      £/sqft      177.64        BUILD COST ASSUMPTION      Site roads, sewers and utility sevices (excl.      % of dwelling build cost      10.00%        OTHER COSTS      marin (% of GDV. Approx 4% above PBIT)      % of Q2 2007 GDV      3.00%        Oseign and promotion fees      % of Q2 2007 GDV      3.00%      22.00%        Sales & Marketing costs      % of Q2 2007 GDV      3.00%      2.000%        Oseign and promotion fees      % of Q2 2007 GDV      3.00%      2.00%        Affordable Housing      £/na      5.000.00      2.00%        Affordable Housing Provision      20.00%      2.00%      3.61%        Site coast per dwelling      £      0.000      78.98.00        Site coast per unit (rotal cost      £      0.000      78.98.00        Site coast per unit / total cost <t< td=""><td>CIL (per dwelling)</td><td>£0</td><td>Lifetime:</td><td>YES</td><td></td></t<>	CIL (per dwelling)	£0	Lifetime:	YES	
£/gross acre      151,691        SENERAL INPUT DATA      2007 Q2 Sales Value      278.00        Sales value per sq m PD      £2,992.37      £/sqti      278.00        Sales value per sq m AH      £1,912.12      £/sqti      278.00        SulLD COST ASSUMPTION      5      10.00%      10.00%      10.00%        Sales value per sq m AH      £1,912.12      £/sqti      177.64      10.00%      10	Residual value private serviced BEFORE	e policy costs			Site mix
House Price Fall (%      0?        Sales value per sq m PD      £2,992.37      £/sqit      276.00        Sales value per sq m AH      £1,912.12      £/sqit      276.00        Sales value per sq m AH      £1,912.12      £/sqit      177.64        SULD COST ASSUMPTION      Site roads, sewers and utility sevices (excl.      % of dwelling build cost      10.00%      Revenue        on and off site main infrastructure      per unit      22.000.00      Costs      0        OTHER COSTS      Marketing costs      % of Q2 2007 GDV      3.00%      2.50%      6.00%        Pasign (% of GDV. Approx 4% above PBIT)      % of Q2 2007 GDV      3.00%      2.50%      6.00%        Policy COST ASSUMPTIONS      % of Q2 2007 GDV      2.50%      6.00%      6.00%        Affordable Housing Provision      20.00%      3.6.0%      6.00%      6.00%        Sale cost of Land (eg agricultural)      £      1.000.00      7.000.00      6.00%      6.00%        Sale commuted sums per dwelling      £      0.00      7.000.00      22.000.00      6.00%        Sale cost per unit (exc AH)      £      1.000.00      7.9	Residual value blended unserviced AFT	ER policy costs			
Sales value per sq m PD      £2,992.37      £/sqft      278.00        Sales value per sq m AH      £1,912.12      £/sqft      177.64        SulLD COST ASSUMPTION      Site roads, sewers and utility sevices (excl.      % of dwelling build cost      10.00%        or and off site main infrastructure      per unit      22,000.00      Costs      Costs        OTHER COSTS      Wargin (% of GDV. Approx 4% above PBIT)      % of G2 2007 GDV      3.00%      Design and promotion fees      % of Q2 2007 GDV      2.50%        Design and promotion fees      % of Q2 2007 GDV      2.50%      6.00%      3.00%        POLICY COST ASSUMPTIONS      Affordable Housing      £/ha      5,000.00      AH        Affordable Housing Provision      20.00%      1,000.00      20.00%      AH        S38 commuted sums per dwelling      £      1,000.00      21.000.00      AH        S106 costs per unit (exc AH)      £      21,000.00      92,222.50      Policy co        C1L cost per unit / total cost      £      0.00      74,667.60      92,222.50      Policy co        S106 costs per unit (exc AH)      £      £      21,000.00      74,667.60	GENERAL INPUT DATA				
BUILD COST ASSUMPTION Site roads, sewers and utility sevices (excl. % of dwelling build cost 10.00% cost 10.00% Costs DTHER COSTS Margin (% of GDV. Approx 4% above PBIT) Sales & Marketing costs % of Q2 2007 GDV Sales & Marketing costs & Q2 000 000 000 Sales & Marketing costs & Q2 000 000 000 000 Sales & Marketing costs & Q2 000 000 000 000 000 000 Sales & Marketing costs & Q2 000 000 000 000 000 000 000 000 Sales & Marketing costs & Q2 000 000 000 000 000 000 000 000 000	Sales value per sq m PD	£2,992.37			
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DTHER COSTS Margin (% of GDV. Approx 4% above PBIT) Sales & Marketing costs % of Q2 2007 GDV 2.50% nterest rate Base cost of Land (eg agricultural) % of Q2 2007 GDV 2.50% nterest rate Base cost of Land (eg agricultural) % of Q2 2007 GDV 2.50% 6.00% 8 cost of Land (eg agricultural) \$ f/ha 5,000.00 \$ for Cable Housing Affordable Housing Provision * Discount" per affordable unit \$ 38 commuted sums per dwelling 1 fetime homes cost per dwelling \$ f 1,000.00 \$ 20.00% 1 Discount" per affordable unit \$ 38 commuted sums per dwelling \$ f 1,000.00 \$ 20.00% 1 Discount" per affordable unit \$ 20.00% 2 Discount" per affordable unit \$ 20.000 2 Discount" Baseline cost/unit Detached house 2 storey 2 Discount per affordable unit \$ 2.277.00 2 Discount Per affordable unit \$ 2.2197.00 2 Discount Per affordable unit \$ 2.210 2 Discount Per affordable unit 2 Discount Per affordable	Site roads, sewers and utility sevices (ex reinforcement)	kcl.	cost		Revenue
Affordable Housing Affordable Housing Provision 20.00% 20.00	Margin (% of GDV. Approx 4% above PE Sales & Marketing costs Design and promotion fees Interest rate	SIT)	% of Q2 2007 GDV % of Q2 2007 GDV	3.00% 2.50% 6.00%	Costs
Detached house 2 storey      92.50      997.00      92.222.50        End Terrace/ Semi      79.00      911.00      71,369.00        Wid Terrace/ Semi      109.00      798.00      86,892.00        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        Wid 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      7,715.00      13,853.00        Wid Terrace      3,892.00      7,715.00      13,853.00        Flat      2,622.00 </td <td>Affordable Housing Affordable Housing Provision 'Discount" per affordable unit s38 commuted sums per dwelling lifetime homes cost per dwelling S106 costs per unit (exc AH)</td> <td></td> <td>ਦ ਦ ਦ</td> <td>36.10% 0.00 1,000.00 21,000.00</td> <td>АН</td>	Affordable Housing Affordable Housing Provision 'Discount" per affordable unit s38 commuted sums per dwelling lifetime homes cost per dwelling S106 costs per unit (exc AH)		ਦ ਦ ਦ	36.10% 0.00 1,000.00 21,000.00	АН
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Mid Terrace      109.00      798.00      86,982.00        Flat      59.26      1,260.00      74,667.60      Policy c        3 Storey house mid terrace      153.4      750.00      115.050.00      Policy c        CSH cost per dwelling      Code Level 3      Code Level 4      Code Level 5      2,197.00      18,738.00        End Terrace/ Semi      5,027.00      9,490.00      18,738.00      12,267.00      3 Storey house mid terrace      5,958.78      11,502.60      23,071.32      CGT @        Building Regs cost per dwelling      2010      2013      2016      CGT @      CGT @        Nid Terrace/ Semi      3,692.00      7,715.00      13,853.00      17,132.00      12,353.00      Flat      2,622.00      5,054.00      9,962.00		92.50	997.00		
Flat      59.26      1,260.00      74,667.60      Policy c        3 Storey house mid terrace      153.4      750.00      115,050.00      Policy c        3 Storey house mid terrace      153.4      750.00      115,050.00      Policy c        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      9,499.00      18,738.00      Wid Terrace      5,227.00      10,090.00      20.238.00        Vid Terrace      5,258.78      11,502.60      23,071.32      CGT @        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      7,715.00      13,853.00        Wid Terrace      3,892.00      7,715.00      13,853.00        Flat      2,622.00      5,054.00      9,962.00					
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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        Wid Terrace      3,892.00      7,715.00      13,853.00        Flat      2,622.00      5,054.00      9,962.00	Building Regs cost per dwelling	2010	2013	2016	
End Terrace/ Semi      3,692.00      7,115.00      12,353.00        Wid Terrace      3,892.00      7,715.00      13,853.00        Flat      2,622.00      5,054.00      9,962.00		3,916.00	9,868.00	17,132.00	
Wid Terrace      3,892.00      7,715.00      13,853.00        Flat      2,622.00      5,054.00      9,962.00					
Flat 2,622.00 5,054.00 9,962.00	Mid Terrace	3,892.00			
	Flat	2,622.00		9,962.00	
	3 Storey house mid terrace	4,436.88	8,795.10	15,792.42	

Gross site area	ha	a units 2.90	acres	nperial Units
Net developable area	ha	0.97	acres	
Net to Gross (%)		33%		33.
Detached house 2 storey	92.50	4.00	_	
End Terrace/ Semi	79.00	2.00		:
Mid Terrace	109.00	1.00		
Flat	59.26	18.00		1
3 Storey house mid terrace	153.40	17.00		1
Total number of dwellings		42.00		4:
Development floor area PD (GIA)	m2	3,449.18	sqft	37,12
Development floor area AH (sq m)	m2	862.30	sqft	9,28
Total Development floor area (m <sup>2</sup> )	m2	4,311.48	sqft	46,40
	Dwellings/net			
Dwelling density	ha	43.52	/acre	1
Coverage (m <sup>2</sup> per net Ha)	m2/ha	4.467.85	sqft/acre	19,46
	1112/110	4,401.00	oqibaoio	10,40
Gross development value (before AH provision)		£12,901,530.89		£12,901,53
Dwelling build cost		3,899,676.80		3,899,67
Site roads, sewers and utility sevices (excl. reinforcement)		389,967.68		389,96
S38 commuted sums		0.00		(
Abnormals (total value) incl remediation		0.00		
Sales & Marketing costs	-	387,045.93		387,04
Design and promotion fees		322,538.27		322,53
Interest		603,791.65		603,79
Development profit		2,838,336.80		2,838,330
bevelopment pront	Total	£4,460,173.77		£4,460,173
Residual value private serviced (before policy costs)	£/net ha	4,621,942	£/net acre	1,870
	£/gross ha	1,539,107	£/gross acre	622,
Affordable housing cost (S106) (total)		931,490.53		931,49
	Total	£3,528,683.24		£3,528,68
Residual value blended serviced (before policy costs)	£/net ha	3,656,667	£/net acre	1,479.
	£/gross ha	1,217,670	£/gross acre	1,764,
Off-site and on-site primary infrastructure costs		924,000.00		924,00
	Total	£2,604,683.24		£2,604,68
Residual value unserviced blended (before policy costs)	£/net ha	2,699,154	£/net acre	1,092
	£/gross ha	898,818	£/gross acre	363
S106 costs total cost (exc AH)		882,000.00		21,00
CIL cost per unit / total cost		0.00		
Building regs cost for site		554,874.14		554,87
Lifetime Homes total cost		42,000.00		42,00
Code cost for site (excl B regs uplift and LTH)		39,577.30		39,57
	Total	£1,086,231.80		£1,086,23
Residual value unserviced blended after policy costs	£/net ha	1,125,629	£/net acre	455
	£/gross ha	374,834	£/gross acre	151,
After deductions: total value	Total	893,318.18		893,31
After deductions: per net ha	£/net ha	925,718.32	£/net acre	374.
				124
After deductions: per net na After deductions: per gross ha	£/net ha £/gross ha		£/net acre £/gross acre	



### **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 End of Terrace	3916 3692	9868 7115	17132 12353	32752 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 –  $1^{st}$  Code Level 5 Certificate issued (2 flats) Actual E/O costs above B/Regs: £40850 per flat

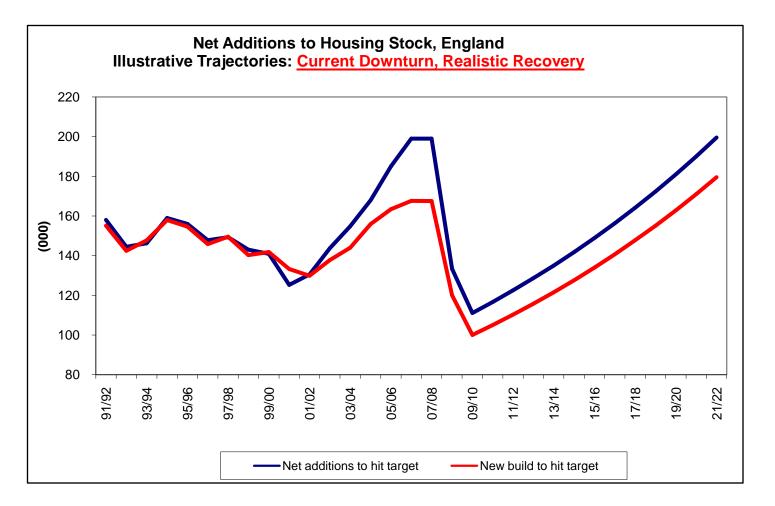


#### **Building Regulations etc:**

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	

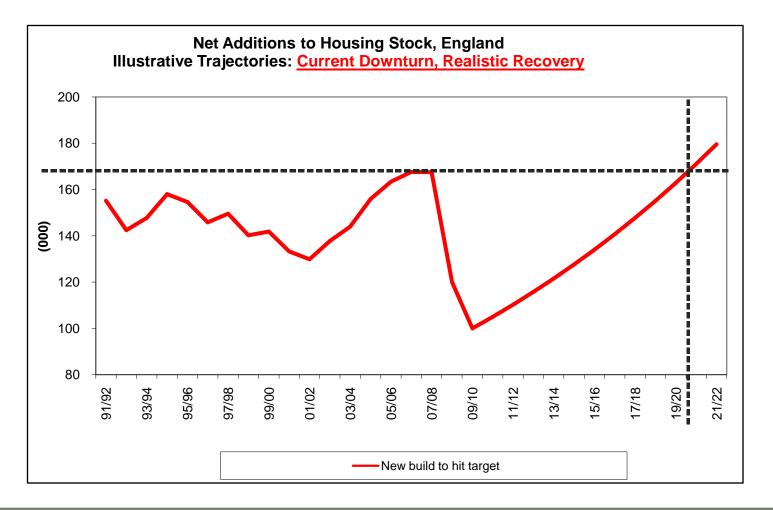


#### Forward based projection based on 5% per year average





#### 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

#### Dave Mitchell

