BIRMINGHAM DEVELOPMENT PLAN EXAMINATION

STATEMENT OF COMMON GROUND BETWEEN BIRMINGHAM CITY COUNCIL AND CITY AND PROVINCIAL PROPERTIES

Introduction

This paper provides supporting information justifying the proposed modifications to Policy TP30 and the supporting text to Policy TP29 in relation to private rented sector (PRS) schemes . These modifications set out the City Council's support for PRS, they acknowledge that the different characteristics of this type of development, which looks to longer term returns rather than short term "market" gains, should be taken into account when assessing the viability of schemes, and they make appropriate changes to the Plan to reflect this position.

The importance of PRS in Birmingham

The City Council supports the PRS model and is encouraging PRS development in the city. However with no immediate return on investment through the sale of completed properties the level of yield that a PRS investor can achieve on their portfolio of PRS properties in the city may not be sufficient to justify development. To encourage PRS, the City Council is seeking to reduce investor's initial risk and has agreed to make three sites available for development for PRS. If this approach is successful this approach will be replicated on other sites. This approach is set out in the Housing Growth Plan (H7).

However, to maximise the potential of PRS, which could deliver significant numbers of new homes and is well suited to delivering homes in the city centre, it is important that investors and developers are aware that the City Council will take account of the particular circumstances of this type of development with regards to viability and that the development plan clearly sets this out.

Viability in relation to PRS schemes

The PRS model is different from the short term profit return on capital expenditure expected from more traditional open market housing developments, and as a result development appraisals used to assess development viability are very different.

Funders in the PRS market, typically pension funds, private equity funds, banks and Government, are primarily interested in net yield from the development, and the return required by the investor will depend on the type of product and the location. In this respect the sector is expected to become a new facet of the commercial property sector.

This distinction is recognised in the National Planning Practice Guidance (NPPG) which at paragraph 009 states:

"Different types of residential development, such as those wanting to build their own homes and private rented sector housing, are funded and delivered in different ways. This should be reflected in viability assessments."

In addition, paragraph 018 of the NPPG states:

"For residential schemes, viability will vary with housing type. For example, in respect of developments of multiple units held in single ownership as private rented sector housing intended for long term rental, viability considerations in decision-taking should take account of the economics of such schemes, which will differ from build for sale. This may require a different approach to planning obligations or an adjustment of policy requirements."

The Royal Institute of Chartered Surveyors (RICS) has recently published specific research on the recommended approach to consideration of the valuation of PRS development within the RICS Information Paper *Valuing Residential Property Purpose Built for Renting 1st edition* (September 2014).

Valuation will be required to be assessed on the basis of the net income stream (Net Operating Income or 'NOI') generated by the asset over the lengthy investment period required by any investing fund. This investment appraisal method to valuation therefore seeks to generate returns from PRS development over a longer-term, operational, period, which differs from the residual approach to valuation (with developer profit treated as a development cost to be gained immediately upon completion and sale or throughout construction) within the traditional approach to residential development viability appraisal.

Valuation of PRS schemes in many respects will be similar to that for commercial developments.

The RICS paper will inform the approach taken by chartered surveyors in valuing development land and proposals for formal reporting to inform acquisition, sale, loan security, performance measurement or for financial accounting. Such advice falls under strict regulation by the RICS and must follow the appropriate guidelines and advice set out in the *RICS Valuation – Professional Standards* (the Red Book).

This evidence will therefore be utilised to inform, and be translated into, assessments of financial viability for the purposes of examining the implications of planning policies and obligations on development.

Viability assessments of PRS development proposals will not therefore reflect the traditional residential approach which assumes immediate disposal upon vacant possession in order to realise capital value growth derived through construction. The application of this methodology will create incorrect and misleading interpretations of viability when applied to planning applications for PRS development schemes.

For this reason it is essential that the BDP recognises that a different approach to planning obligations or a flexible approach to policy requirements should be taken when considering applications for PRS developments, with regard to matters of viability.

The Proposed Modifications

The lack of a suitable reference to PRS in the Plan is an omission which the City Council are seeking to rectify. The proposed modifications, which address the issues raised by Turley's in their Matter H hearing statement also ensure compliance with the PPG, referenced above.

Draft Modification 1: New paragraph for inclusion in the supporting text to Policy TP29

The private rented sector, where multiple units are developed and held in single ownership for long term rental, is supported by the City Council as making an important contribution to the supply of housing in the city, and meeting the needs of a mobile workforce, young professionals, households who have deferred house purchase or those who prefer to rent as a lifestyle choice. The City Council recognise the different characteristics of such developments (typically funded by large institutions or investors), including the lifetime development economics, which look to longer term returns rather than short term "market" gains (compared to more traditional open market schemes), and will have regard to its particular characteristics during the decision making process when assessing the acceptability and viability of schemes.

Draft Modification 2: Amendment to Policy TP30

Policy TP30 Affordable housing

The City Council will seek a developer contribution of 35% towards the provision of affordable housing on residential developments of 15 dwellings or more.

The level of developer subsidy will be established taking account of the above percentage and the types and sizes of dwellings proposed. The City Council may seek to negotiate with the developer in order to revise the mix of affordable dwellings (for instance to secure additional larger dwellings) or to adjust the level of subsidy on individual dwellings (a higher subsidy may be required in high value areas). Where such negotiations impact on the number of affordable dwellings secured the level of developer subsidy should be unchanged.

There will be a strong presumption in favour of the affordable homes being fully integrated within proposed development. However the City Council may consider off site provision, for instance to enable other policy objectives to be met, subject to an equivalent level of developer contribution being provided. Off site provision could be either by way of the developer directly providing affordable dwellings on an alternative site, or by making a financial contribution which would enable provision either through new build on an alternative site, by bringing vacant affordable dwellings back into use or through the conversion of existing affordable dwellings to enable them to better meet priority needs.

In addition to general needs housing, development proposals for housing of a specialist nature, such as housing for the elderly including extra care, supported housing and age restricted housing, will be expected to deliver affordable housing in accordance with this policy in order to assist in meeting the affordable housing needs of all members of the community.

In phased housing developments, developers will be expected to provide details of the affordable housing provision in each phase, including the number and type of affordable dwellings to be provided.

Where the applicant considers that a development proposal cannot provide affordable housing in accordance with the percentages set out above, either due to abnormal costs or changing economic conditions, the viability of the proposal will be assessed using a viability assessment tool as specified by the City Council. The use of a standard assessment tool* ~~**for all development proposals**~~ will ensure that viability is assessed in a transparent and consistent way. The level of provision will only be revised where viability has been assessed using ~~**the**~~ specified tool**s**. **The different characteristics of developments which look to longer term returns rather than short term "market" gains, such as multiple units of private rented sector housing in a single ownership intended for long term rental, will be taken into account when assessing viability.** Costs associated with assessing the viability of a proposal shall be borne by the applicant.

* Currently the Homes and Communities Agency's Economic Assessment Tool (EAT)