

**For: Brighton & Hove City Council**

**Community Infrastructure Levy (CIL)  
Viability Study**

**Final Report**

August 2017

DSP16472

# Draft Report

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## Notes and Limitations

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1. This has been a desk-top exercise based on information provided by Brighton & Hove City Council (B&H CC) supplemented with information gathered by and assumptions made by DSP appropriate to the current stage of review and to inform the Council's preparation of a Community Infrastructure Levy (CIL) Charging Schedule for the city.
2. This review has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including whole plan viability, affordable housing and CIL economic viability as well as providing site-specific viability reviews and advice. In order to carry out this type of assessment a large number of assumptions are required alongside the consideration of a range of a large quantity of information which rarely fits all eventualities.
3. Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated – the indicative surpluses (or other outcomes) generated by the development appraisals for this review will not necessarily reflect site specific circumstances. Therefore, this assessment (as with similar studies of its type) is not intended to prescribe land values or other assumptions or otherwise substitute for the usual considerations and discussions that will continue to be needed as particular developments with varying characteristics come forward. Nevertheless, the assumptions used within this study reflect the policy requirements and strategy of the Council as known at the time of carrying out this review and therefore take into account the cumulative cost effects of policies where those are relevant in developing a CIL Charging Schedule.
4. It should be noted that every scheme is different and no review of this nature can reflect the variances seen in site specific cases. Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and further informing the Council's policy development.
5. This report sets out options to inform the Council's consideration of potential CIL charging rates from a viability perspective whilst taking into account adopted local and national policies that may impact on development viability.

6. The review of development viability is not an exact science. There can be no definite viability cut off point owing to variation in site specific circumstances. These include the land ownership situation. The National Planning Policy Framework (NPPF) states that *“To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable”*. It is not appropriate to assume that because a development appears to produce some land value (or in some cases even value equivalent to an existing / alternative use), the land will change hands and the development proceed. This principle will in some cases extend to land owners expecting or requiring the land price to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner’s enjoyment / use of the land, and a potential premium relative to existing use value or perhaps to an alternative use that the site may be put to. In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop. Overall, land value expectations will need to be realistic and reflective of the opportunities offered by, and constraints associated with, particular sites and schemes in the given circumstances and at the relevant delivery timing; with planning policies being reflected amongst these factors. The planning requirements including CIL will be necessarily reflected in the land values that are ultimately supportable.
7. This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership Ltd; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.
8. To the extent that the document is based on information supplied by others, Dixon Searle Partnership Ltd accepts no liability for any loss or damage suffered by the client or others who choose to rely on it.
9. In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the Council’s policies continue to be applied practically from case to case.

## Executive Summary

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### CIL background

1. The putting in place of a Community Infrastructure Levy (CIL) is optional. Currently, a local planning authority can decide whether or not it will set up a CIL; i.e. whether or not to become a charging authority.
2. A CIL is specifically linked to an up to date local development plan (LDP), such as is in place in the case of Brighton & Hove City Council (B&H CC). The LDP in this case comprises the Brighton & Hove City Plan Part One (adopted in 2016) and the Brighton & Hove Local Plan 2005 (retained policies March 2016), together with associated Waste & Minerals planning documents.
3. A CIL does not fund any backlog of infrastructure needs but specifically supports the LDP through securing contributions towards new infrastructure associated with the planned new housing and other development. The type or types of infrastructure that a CIL will support is not prescribed by the Regulations; its scope and rates are set locally. This may include provision for education, roads and transport, health, public protection/emergency services, community facilities and amenities. The scope may include a range of such provision or be narrower and focus on particular priorities to support the LDP. In any event the charging authority must set out what it will spend the CIL receipts on, known as the 'Regulation 123 List'.
4. The content of the R123 List must not overlap with any continued collection of contributions or requirements to carry out works under the established mechanism of section 106. However, the use of s.106 alongside CIL will continue to some degree in most areas, with s.106 often supporting some site-specific requirements (where a development could not proceed without those).
5. However, with a CIL in place, the use of s.106 will be significantly scaled-back. The use of s.106 for pooled contributions for infrastructure is currently greatly restricted, although at present s.106 also remains the key mechanism for securing planning policy required affordable housing. This will continue and a CIL has to be set up to allow also for those and all other policy requirements that have a development cost impact.

6. Generally, the main focus for the charging in most areas relates to residential development. This is because a CIL requires an assessment of development viability, providing clear financial scope to support the charges, which are made at fixed (non-negotiable) rates set by the charging authority. The viability of development varies by use type, location and scale of development, all matters considered by this assessment commissioned by B&HCC to inform and support the progression of its CIL proposals. Typically, residential development together with some limited forms of commercial / non-residential development support CIL charging in viability terms.
7. The viability assessment reviews and advises on the charging scope locally, including in respect of any necessary differentiation (variance) in the recommended charging rates related to the varying characteristics of development within the charging authority's area, and relevant to the LDP overall.
8. Although the CIL charging rates and related development types together with any differentiation and / or zoning are set out locally (within the Council's 'Charging Schedule'), the basis for the charging is prescribed through the regulations. The charge is levied per square metre (sq. m) of new development exceeding 100 sq. m in floor area, but including new dwellings of any size. However, existing floor space on a site being redeveloped may not be liable for the CIL, depending on its occupation status. There are also a number of set exemptions that are universally applicable through the regulations too, so that affordable housing, development by charities, self-build housing and domestic extensions are not charged.
9. Whilst the Council cannot vary these regulatory matters, informed by the viability and other evidence, in its Local Plan (HDPF) context, it decides which types of other development should be charged and at what rate(s). To recap, this means the Council considering the LDP relevance of and the viability of various forms of and locations for development in its area, given the local characteristics. Any differentials within its charging set-up (varied rates) should be based on viability evidence. Although it is not necessary for a prospective charging authority to follow exactly the viability assessment, it should be able to show how the assessment has informed its selected approach.
10. The CIL charging rates must not be set to the margins of viability, especially given that once implemented the rates will be fixed and impact alongside all other development costs and requirements. This involves appropriate assumptions setting, for the purpose,

within the viability assessment; and often the use of a “buffer” factor to pull-back the rates from the potential maximum levels that may look achievable.

11. The authority will also need to show how it considers that an appropriate balance has been struck between the infrastructure needs and the viability of development, overall. So, together with evidence on viability, the CIL proposals are also dependent on evidence of infrastructure needs, with the CIL aimed usually and realistically to respond to a portion of the overall requirements; based on an identified funding gap.

### **Viability and Assessment Review**

12. To provide the viability information and evidence associated with this, B&H CC sought advice from experienced viability consultants Dixon Searle Partnership (DSP) - in connection with the scope and level of proposed CIL charges for the City area. DSP has a strong track record of involvement with CIL viability from inception to examination stages, as well as long standing experience in other strategic level and site-specific viability assessment.
13. Viability assessment is a key part of the planning policy development process, as set out in the National Planning Policy Framework (the key source of the requirement to consider viability) and the Government’s Planning Practice Guidance (PPG) on-line resource. The PPG is now also the source of the national guidance on the CIL.
14. Under the CIL principles it is accepted that not all individual developments will necessarily be viable. However, the CIL charging should be set at levels where development across the area – i.e. the delivery of the LDP as a whole – is not placed at undue risk through the collective costs of policies and obligations (including CIL payments) being too high.

### **Assessment principles**

15. This assessment (the subject of this report – with full details within the main report body and Appendices) uses residual valuation principles. This is an established and common approach, consistent with all other Local Plan and CIL viability assessments by DSP; and also with the earlier LDP related viability work, together with most other similar studies.

16. This is all about the strength of the relationship between the development values and costs across a range of scenarios - based on appropriate available information and researched assumptions.
17. The methodology revolves around an appraisal structure that deducts all development costs (including build costs, finance, professional fees, sales costs, B&H CC LDP policy costs, etc.) from the estimated completed development (sales) value (i.e. the gross development value or 'GDV') so that we can explore whether there is a viability scope to support a CIL charge; and, if so, guide on the level(s) for it or parameters (range) within which it could be set, with respect to the viability testing. This is considered by reviewing whether a surplus exists for CIL, and if so how much, after realistic land value and developer's profit expectations have been taken into account too. Sufficient profit and land value are key ingredients of the market-led process of development, as the national policy and guidance outlines, and other guidance such as by the Royal Institution of Chartered Surveyors (RICS) also puts forward.
18. We test the potential capacity for CIL charging by starting with a nil (£0/sq. m) CIL scenario and then adding in and increasing the charge in small steps. The residual land value (RLV) outputs from the appraisal scenarios are seen to reduce as the CIL 'trial rates' increase.
19. A large number of appraisals (several thousand all together) are run, so that these effects can be considered across an appropriate range of development scenario types and new-build property sales values – all representative of the variety of development expected to come forward through the LDP here. For this strategic overview suitable for CIL informing purposes, however, it is not necessary or appropriate to appraise and review all conceivable development types and variations.

### **Findings & Recommendations**

20. Residential property values, the key driver of viability, are high across the City area. There is variation between localities, however, as is usually the case.
21. Following the review of available information and our independent assessment, we concluded that the mapped zones (value areas) used by the District Valuer Services (DVS) to form the basis of the Council's affordable housing financial contributions guidance should be followed for the purposes of a zoned approach to the CIL charging for

residential development in our view. This would provide a clear basis, consistent with established practice, and respecting appropriately the viability differentials likely to be seen in moving between the typically highest value areas (Zone 1), through mid-value areas (Zone 2) to the typically lower value areas (zone 3). The full report text includes the detail and mapping extract illustrating these.

22. Overall, for residential development, our findings for residential development are that the suitable parameters for CIL charging, overall lie in the range say £75 to £250/sq. m. The overview table below, taken from the final section of the full report text, sets out the suggested Zoning.
23. The parameters put forward for the charging rates in all cases allow for an explicit “buffer” factor of approximately 50% from our assessed maximum potential charging rate, although we note also that the maximum theoretical rates (before the halving for buffering) could in fact be higher in many cases than our starting point indications. This significantly buffered approach has been taken here, working further back from the prudently assessed starting indications (maximum potential rates), because the local development characteristics rely heavily on previously developed land (PFL – i.e. “brownfield”) where a range of existing uses and associated site values together with development / cost implications will often be relevant to take account of. As the assessment results show, in many cases it appears that in fact the charging rates scope could be significantly higher.
24. Together with the key findings for the viability assessed CIL charging rates scope for other forms of development, our overview is set out in the table below.

## CIL charging rates parameters - Recommendations Summary

Devt. Use Type / Location / comments		CIL rate (£/sq. m) scope	Comments – any alternative options?
<p><b>RESIDENTIAL</b></p> <p>A differential approach put forward for consideration – for consistency and clarity.</p> <p>Based on following or broadly reflecting the DVS sourced existing values areas (as used by B&amp;H CC in affordable housing financial contributions calculations). See 2.5.8 (Figure 6) above.</p> <p>Above applies to C3 and C2 uses</p> <p>Applies also to purpose-built students' housing</p>	<p><b>Zone 1 (Red)</b> – Typically highest property values.</p>	175 - 250	<p>Scope to consider in context of site supply and wider evidence in all respects.</p> <p>Information has also been provided on how both these and potential 'LIT' rates look and compare as %s GDV.</p> <p>Considered overall that a “one size fits all” (i.e. simple City-wide) approach would probably not respond to all variety and could need to be set at too a low a level overall.</p>
	<p><b>Zone 2 (Blue)</b> – Area exhibiting mid-range values.</p>	150 - 200	
	<p><b>Zone 3 (Green)</b> – Typically lowest property values.</p>	75 - 125	
<p><b>RESIDENTIAL – Larger scale comprehensive development</b></p>	Aligned to general residential	As per other C3/C2 as above – e.g. 75 – 175 if applying lower parameters within above overall range	Currently no clear viability differential overall – no justification apparent for significant differentiation
<b>RETAIL</b>			<p>Single retail rate not exceeding viability scope for smaller/other retail (@ £50 – 75/sq. m) considered a suitable approach in B&amp;H context.</p> <p>Alternatively, differential rates within parameters as indicated here could be justified on viability grounds depending on LDP relevance and other factors.</p>
<p><b>Larger format – Retail warehousing / Supermarkets</b></p>	City-wide	100 - 150	
<p><b>Other shopping units development</b></p>	City-wide	50 - 75	
<p><b>ALL OTHER DEVELOPMENT USES</b></p>	City-wide, at the current time	<p><b>£nil (£0/sq. m) but as with all other aspects, monitor to inform potential review over a relatively short timescale to renewed (2<sup>nd</sup>) charging schedule.</b></p>	

25. Recommended nil-rating in some cases / circumstances does not mean that developments of these types will not come forward or will consistently be undeliverable. Experience in practice shows that land owners and developers may be able to take particular decisions, reduce scheme costs or compromise in other ways (relative to our assumptions set for the assessment purpose) in order to progress developments. Whilst delivering some types of commercial floorspace will often remain relatively challenging with the still mixed economic backdrop, setting a nil-CIL is not a tool to aid economic development. However, the approach is the most that a charging authority can do in CIL terms, in recognition of what is at best going to continue to be a mixed viability picture for development types and schemes.

### **CIL review**

26. Finally, it is important to recognise that inevitably a CIL Charging Schedule will have a short lifespan relative to a LDP.
27. Currently there are no set criteria on review, but from emerging experience it is likely that Charging Authorities will review and potentially amend their Schedules at between say 2 to 4 years from inception (a rough guide only).
28. Rather than review at fixed points, monitoring will be necessary and it is envisaged that a range of factors including the LDP delivery progress, economic climate and property market, development costs, national policy positions, relationship with s.106 and the like would all need to be considered as a part of taking a further updated look at the context for CIL and at viability; one again to inform decisions about the setting of any revised Charging rates or amended forms of development / locations relevant to the local CIL regime.
29. DSP will be happy to assist B&H CC with any enquiries or further information required on any of these or other aspects, as further progress is made with its CIL.

**Executive Summary Ends**

**Main report follows**

**Final Report August 2017**

**DSP ref. 16472**

# 1. Introduction

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## 1.1 Introduction to the Study

- 1.1.1 The purpose of this report is to provide viability advice to support the preparation of a Community Infrastructure Levy (CIL) Charging Schedule for the Brighton & Hove City Council.
- 1.1.2 The National Planning Practice Guidance states that “Charging Authorities should set a rate which does not threaten the ability to develop viably the sites and scale of development identified in the relevant plan (Local Plan in England and London Plan in London)”.
- 1.1.3 Although the Council has previously had CIL viability work carried out<sup>1</sup>, work on the CIL was put on hold as the Council was progressing work on the Local Development Plan<sup>2</sup> (now adopted).
- 1.1.4 The Council is now in a position to continue building the evidence base towards the publication and consultation on a Preliminary Draft Charging Schedule. To that end, DSP were appointed by Brighton & Hove City Council to provide viability advice and evidence to support the Preliminary Draft Charging Schedule. To be clear, although appropriate and available evidence has been considered in compiling this study (including previous viability work undertaken by others) this CIL Viability Study is not an update of previous work but a new study to inform the Council’s consideration of the potential for CIL across the city.
- 1.1.5 The Council’s current Local Development Plan (LDP) comprises the Brighton & Hove City Plan Part One (adopted in 2016), the Brighton & Hove Local Plan 2005 (retained policies March 2016) as well as the East Sussex, South Downs and Brighton & Hove Waste and Minerals Plan (adopted February 2013) and East Sussex, South Downs and Brighton & Hove Waste and Minerals Sites Plan (to be adopted January 2017). The policies, where relevant, contained within the Local Development Plan have been taken into consideration in carrying out this study.

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<sup>1</sup> BNP Real Estate: Community Infrastructure Levy: Viability Study for Brighton & Hove City Council (December 2013)

<sup>2</sup> Brighton & Hove City Plan Part One (adopted 2016)

1.1.6 This study has been carried out between January and August 2017.

## 1.2 Background to the CIL

1.2.1 The Council has previously started work on the preparation of a CIL charge but did not get to the stage of consulting on a Preliminary Draft Charging Schedule – primarily through concerns about viability and deliverability of development in the city as a consequence of economic slowdown. Circumstances have now changed and the Council consider that there is a strong case to proceed with putting a CIL in place including the adoption of the City Plan Part One which provides a robust policy basis for CIL.

1.2.2 The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from developers undertaking new developments in their area. In this case, Brighton & Hove City Council would be the charging authority.

1.2.3 CIL takes the form of a charge that may be payable on ‘development which creates net additional floor space’<sup>3</sup>. The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, under the Community Infrastructure (Amendment) Regulations 2014, there will be a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.<sup>4</sup>

1.2.4 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority’s area.

1.2.5 The CIL regulations require charging authorities to allocate a ‘meaningful proportion’ of the levy revenue raised in each neighbourhood back to those local areas. In January 2013 it was announced that in areas where there is a neighbourhood development

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<sup>3</sup> <https://www.gov.uk/guidance/community-infrastructure-levy> (Paragraph: 002 Reference ID: 25-002-20140612  
Revision date: 12 06 2014)

<sup>4</sup> Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.

plan in place, the neighbourhood will be able to receive 25% of the revenues from the CIL arising from the development that they have chosen to accept. Under the Regulations the money would be paid directly to the neighbourhood planning bodies and could be used for community projects. Planning Practice Guidance provides further information on spending of Levy receipts including distribution to local neighbourhoods<sup>5</sup>.

- 1.2.6 Neighbourhoods without a neighbourhood development plan but where a CIL is still charged will receive a capped share of 15% of the levy revenue arising from development in their area.
- 1.2.7 Under the Government's regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority.
- 1.2.8 The CIL Guidance contained within the PPG goes on to state that the levy rate(s) need to be set so that they do not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan (Local Plan in England). *'Charging authorities will need to draw on the infrastructure planning evidence that underpins the development strategy for their area. Charging authorities should use that evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area.'*<sup>6</sup>
- 1.2.9 The Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the anticipated Local Plan level of growth to be accommodated across the city as a whole. This ensures that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It sets out key infrastructure and facility requirements for new development, taking account of existing provision and cumulative impact.
- 1.2.10 Infrastructure is taken to mean any service or facility that supports the Brighton & Hove City Council area and its population and includes (but is not limited to) facilities

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<sup>5</sup><https://www.gov.uk/guidance/community-infrastructure-levy> (Paragraph: 072 Reference ID: 25-072-20140612  
Revision date: 12 06 2014)

<sup>6</sup> <https://www.gov.uk/guidance/community-infrastructure-levy> (Paragraph: 008 Reference ID: 25-008-20140612  
Revision date: 12 06 2014)

for transport, education, health, social infrastructure, green infrastructure, public services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements. Within this study, an allowance has been made for the cost to developers of providing affordable housing and other costs of policy compliance in addition to testing potential CIL charging rates. In this sense, the collective planning obligations (including affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others. It follows that the extent to which s.106 will have an on-going role also needs to be considered in determining suitable CIL charging rates, bearing in mind that CIL is non-negotiable.

- 1.2.11 In most cases, where adopted, CIL replaces s.106 as the mechanism for securing developer contributions towards required infrastructure. Indeed, Government guidance on CIL states that it expects LPAs to work proactively with developers to ensure they are clear about infrastructure needs so that there is no actual or perceived “double dipping” – i.e. charging for infrastructure both through CIL and s.106. Therefore s.106 should be scaled back to those matters that are directly related to a specific site and are not set out in a Regulation 123 list (a list of infrastructure projects that the local planning authority intends to fund through the Levy). This could be a significant consideration, for example, in respect of large scale development associated with on-site provision of infrastructure, high site works costs and particularly where these characteristics may coincide with lower value areas.
- 1.2.12 The CIL rate or rates should be set at a level that ensures development within the authority’s area (as a whole, based on the plan provision) is not put at serious risk.
- 1.2.13 A key requirement of CIL and setting the charging rates is that an appropriate balance should be struck between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development (development viability).

*‘The levy is expected to have a positive economic effect on development across a local plan area. When deciding the levy rates, an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments.*

*This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see [Regulation 14\(1\)](#), as amended by the [2014 Regulations](#)), charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area.*

*As set out in the National Planning Policy Framework in England ([paragraphs 173 – 177](#)), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. The same principle applies in Wales.’<sup>7</sup>*

1.2.14 Later amendments to the CIL Regulations (The Community Infrastructure Levy (Amendment) Regulations 2014) came into force on 24<sup>th</sup> February 2014. These regulations introduced:

- new mandatory exemptions for self-build housing, and for residential annexes and extensions;
- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);
- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;
- a new ‘vacancy test’ - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months);
- a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to ‘aim to strike the appropriate balance’;

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<sup>7</sup> <https://www.gov.uk/guidance/community-infrastructure-levy> (Paragraph: 009 Reference ID: 25-009-20140612  
Revision date: 12 06 2014)

- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

1.2.15 The CIL Regulations (Amendment) have been taken into account in the preparation of this report and in our opinion the preparation of this study meets the requirements of all appropriate Guidance. However, the Council will be aware that the Government commissioned a review of the Community Infrastructure Levy<sup>8</sup> with the task of assessing the extent to which CIL *‘does or can provide an effective mechanism for funding infrastructure, and to recommend changes that would improve its operation in support of the Government’s wider housing and growth objectives’*. The CIL Review team’s report was published in October 2016 and in summary recommended that the Government should replace the CIL with a hybrid system of a broad and low level Local Infrastructure Tariff (LIT) and s106 for larger developments.

1.2.16 Through its Housing White Paper, the previous Government<sup>9</sup> stated that following the CIL Review Team’s report, it would *‘examine the options for reforming the system of developer contributions including ensuring direct benefit for communities, and will respond to the independent review and make an announcement at Autumn Budget 2017.’* Obviously at this stage we have not been able to take into account any potential future changes to the CIL other than through high level commentary within this report.

### 1.3 Brighton & Hove City Council Profile

1.3.1 The Brighton & Hove City Plan Part One identifies Brighton & Hove as a tightly constrained, compact city situated between the South Downs National Park and the sea. It has a population of approximately 272,000 as of 2011. The physical natural boundaries define and limit the outward expansion of the city. The built up area of the city accounts for approximately half of the city’s geographical area.

1.3.2 The City Plan Part One goes on to state that:

*‘the plan sets a minimum housing target of 13,200 new homes to be achieved by 2030 and this reflects the capacity and availability of land/sites in the city; the need to provide for a mix of homes to support the growth and maintenance of sustainable communities; the need to provide land for other essential uses (such as employment,*

<sup>8</sup> A Report by the CIL Review Team – A New Approach to Developer Contributions (submitted October 2016 but published February 2017)

<sup>9</sup> Note that a General Election was held during the process of finalising this report resulting in a hung parliament.

*retail, health and education facilities and other community and leisure facilities) and the need to respect the historic, built and natural environment of the city...*

*The City is expected to continue to function as an economic growth hub for the wider sub-region and the council with its partners share an ambition to improve the City's employment rate. Recent studies have consistently identified the shortage of employment premises and employment land supply as threats to business and employment growth in the city. The Employment Land Study Review 2012 forecasts employment land requirement of 112,240 sq m of office space (B1a and B1b) and 43,430 sq m industrial floorspace (B1c, B2 and B8) over the plan period to 2030. The spatial strategy therefore seeks to ensure that employment sites across the city are safeguarded and upgraded and through the regeneration of key sites new employment floorspace created...*

*Retail needs to 2030 have been estimated at 58,313 sq m of comparison floorspace and 2,967 sq m of convenience retail. New retail development will be directed to the city's existing retail centres in particular the Brighton centre to consolidate and enhance its role as a regional shopping centre...*

*Spatially the majority of new housing, employment and retail development will be located on brownfield (previously developed) sites within the city's built up area and directed to eight specific development areas*

*These are areas of the city which either already benefit from close proximity to good sustainable transport links or are areas where accessibility can be improved; are areas which offer significant capacity for new development and are areas where new development and/or regeneration will secure substantial benefits for the city*

*in light of the significant scale of the city's housing need, objectively assessed as 30,120 new homes to 2030; the requirement of the government's National Planning Policy Framework to plan positively to meet housing needs in full and; the need to adequately address the social dimension of sustainable development the potential for housing from the urban fringe has had to be reassessed. The strategy for accommodating growth in the city continues to maximise development opportunities from brownfield sites but also includes the urban fringe as broad source of potential for housing development.*

*The eight development areas are:*

- *DA1 - Brighton Centre and Churchill Square Area*
- *DA2 - Brighton Marina, Gas Works and Black Rock Area*
- *DA3 - Lewes Road Area*
- *DA4 - New England Quarter and London Road Area*
- *DA5 - Eastern Road and Edward Street Area*
- *DA6 - Hove Station Area*
- *DA7 - Toad's Hole Valley*
- *DA8 - Shoreham Harbour*

1.3.3 The Development Areas are proposed to accommodate a significant amount of development but the City Plan also encourages development to come forward across the rest of the city on sustainable brownfield site opportunities. The extract below shows the summary of development proposals for the city.

	<b>New Homes</b>	<b>New Employment Floorspace (sq m)</b>	<b>New Retail floorspace (sq m)</b>
DA1 Brighton Centre and Churchill Square	20		Minimum 20,000 comparison goods
DA2 Brighton Marina	1940	2,000	5,000
DA3 Lewes Road	875	15,600	
DA4 New England Quarter and London Road	1130	20,000	
DA5 Eastern Road and Edward Street	515	18,200 – 23,200	
DA6 Hove Station	525	1,000	
DA7 Toad's Hole Valley	700	25,000	
DA8 Shoreham Harbour	300	7,500	
Rest of the City:			
a) Within the built up area	4130	11,257 <sup>37</sup>	
b) Within the urban fringe	1060		
Small site development <sup>38</sup>	2015		
<b>Total</b>	<b>13210</b>	<b>100,500 to 105,500</b>	<b>25,000</b>

1.3.4 The Brighton & Hove Local Development Plan documents and associated information may be viewed on the Council's web-site at:

<https://www.brighton-hove.gov.uk/content/planning/planning-policy/development-plans>

## 1.4 Purpose of this Report

1.4.1 Viability testing is an important part of the plan-making process. The National Planning Policy Framework (NPPF) introduced a clear requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. The national Planning Practice Guidance (PPG) and other publications cover further guidance on this requirement. National Planning Practice Guidance (PPG) (CIL section Para 8) also states that '*Charging authorities should set a rate which does not threaten the ability to develop viably the sites and scale of development identified in*

*the relevant plan (Local Plan in England and London Plan in London)*'. As such the Council appointed Dixon Searle Partnership (DSP) to provide the viability evidence necessary to inform the development of the Council's new preliminary draft CIL charging schedule.

- 1.4.2 This study investigates the potential scope for CIL charging in Brighton & Hove, taking into account the adopted Local Development Plan policies. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the city. The review takes into account the range of normal development costs and obligations (including costs associated with local and national planning policies, as would be borne by developments as well the Community Infrastructure Levy payments and affordable housing provision). The aim is to provide the Council with advice as to the likely viability of seeking developer contributions towards infrastructure provision through the CIL. This includes the consideration of viability and the potential charging rate or rates appropriate in the local context; as part of a suitable and achievable overall package of likely planning obligations (including affordable housing) alongside other usual development costs.
- 1.4.3 The assessment takes into account the policies contained within the LDP document including those relating to affordable housing and other housing standards
- 1.4.4 This approach does not require a detailed viability appraisal of every site anticipated to come forward over the plan period but rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather potential policies that are likely to have a close bearing on development costs.
- 1.4.5 To this end, the study requires the policies and proposals in the LDP to be brought together to consider their cumulative impact on the viability of introducing a CIL. This means taking account of the LDP document requirements such as design standards, infrastructure and services, affordable housing, local transport policies and sustainability measures as well as the cost impact of national policies and regulatory requirements.

1.4.6 One of the key areas, always having a viability impact, will be the Council's approach to affordable housing. The adopted affordable housing policy (Policy CP20 of the adopted City Plan Part One) states that:

*'The Council will require the provision of affordable housing on all sites of 5 or more dwellings (net) and will negotiate to achieve the following affordable housing targets:*

- a) 40% onsite affordable housing provision on sites of 15 or more (net) dwellings;*
- b) 30% onsite affordable housing provision on sites of between 10 and 14 (net) dwellings or as an equivalent financial contribution;*
- c) 20% affordable housing as an equivalent financial contribution on sites of between 5 and 9 (net) dwellings'.*

1.4.7 Policy CP20 goes on to state *'Affordable housing provision should incorporate a mix of tenures. The exact tenure split on each site will be a matter for negotiation and should be informed by up to date assessments of local housing need and individual site and/or neighbourhood characteristics'.*

1.4.8 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect the wide range of highly variable site specifics.

1.4.9 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue (sales income) generated by the completed scheme (the gross development value – GDV).

1.4.10 The residual valuation technique has been used to run appraisals on sample residential, commercial and mixed-use scheme typologies representing development scenarios that are likely to come forward across the city under the adopted development strategy.

1.4.11 The study process produces a large range of results relating to the exploration of a range of potential ('trial') CIL charging rates. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform the CIL rate setting process.

- 1.4.12 The potential level of CIL charge viable in each scenario has been varied through an iterative process exploring trial charging rates over a range £0 to £1,000/m<sup>2</sup> at varying intervals dependent on the strength of the cost/value relationship in any given value zone or level tested. This was found to be a sufficient range for exploring the CIL charging scope locally and did not need to be extended following the review of initial results.
- 1.4.13 The results of each of the appraisals are compared to a range of potential benchmark land values or other guides relevant to the particular development scenarios. These are necessary to determine both a potentially viable level of CIL as it relates to development type and varying completed scheme value levels (GDVs). The results sets have been tabulated in summary form and those are included as Appendices IIa (residential) and IIb (non-residential / commercial).
- 1.4.14 A key element of the viability overview process is comparison of the RLVs generated by the development appraisals and the potential level of land value that may need to be reached to ensure development sites continue to come forward so that development across the area is not put at risk. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. Any surplus is then potentially available for CIL, with an appropriate level of affordable housing assumed (i.e. so that the review considers a viable combination of affordable housing requirements and CIL alongside all usual development costs).
- 1.4.15 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons will be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested.
- 1.4.16 In the background to considering the scale of the potential charging rates and their proportional level in the local context, we have also reviewed them alongside a variety of additional measures that are useful in considering the overall impact of a level of CIL on development viability. This includes reviewing the potential CIL charging rates in terms of percentage of development value and cost. This provides additional context for considering the relative level of the potential CIL charging rate(s) and their impact

compared with other factors that can affect development viability such as changes in property market conditions, build costs, inflation, affordable housing, etc.

1.4.17 This report sets out our findings and recommendations for the Council to consider in taking forward its further development work on the local implementation of a new CIL.

## 1.5 Policy & Guidance

1.5.1 This viability study has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance applicable to studies of this nature<sup>10</sup>. This study has also had regard to the national Planning Practice Guidance.

1.5.2 The NPPF was published in 2012 superseding previous Planning Policy Statements (PPSs). The NPPF sets out the overall approach to the preparation of Local Plans. It states that planning authorities should seek opportunities to achieve each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. Significant adverse impacts on any of these dimensions should be avoided and, wherever possible, alternative options that reduce or eliminate such impacts should be pursued. The NPPF also states that Local Plans should be aspirational but realistic - that is, to balance aspirational objectives with realistic and deliverable policies.

1.5.3 The NPPF provides specific guidance on ensuring Local Plan viability and deliverability, in particular, paragraphs 173-174 state:

*'Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable.'*

*Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely*

<sup>10</sup> Local Housing Delivery Group – Viability Testing Local Plans (June 2012) & Royal Institution of Chartered Surveyors (RICS) Guidance Note – Financial Viability in Planning (GN 94/2012).

*cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle’.*

- 1.5.4 Specific changes to the NPPF are currently under consultation as are potential changes to the Community Infrastructure Levy. This report cannot pre-judge the outcome of the consultation and any changes that may be made to the NPPF.
- 1.5.5 Further guidance is set out in the Planning Practice Guidance (PPG) which re-iterates these messages where it says *‘Plan makers should consider the range of costs on development. This can include costs imposed through national and local standards, local policies and the Community Infrastructure Levy, as well as a realistic understanding of the likely cost of Section 106 planning obligations and Section 278 agreements for highways works. Their cumulative cost should not cause development types or strategic sites to be unviable. Emerging policy requirements may need to be adjusted to ensure that the plan is able to deliver sustainable development’*<sup>11</sup>.
- 1.5.6 In addition, relevant information is contained in the publication ‘Viability Testing Local Plans – Advice for planning practitioners’ published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the ‘Harman’ guidance). That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in strategic level viability assessments such as CIL.
- 1.5.7 The government’s reform of the planning system has placed significant limitations on the Council’s ability to set locally-specific standard and policy requirements. Following consultation on the Housing Standards Review (August 2013), on 27th March 2015 in a written Ministerial Statement the Government formally announced a new approach to the setting of technical housing standards in England. This has been accompanied by a new set of streamlined standards.

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<sup>11</sup> Planning Practice Guidance (Ref. ID: 10-007-20140306).

1.5.8 The DCLG statement said: *'From the date the Deregulation Bill 2015 is given Royal Assent, local planning authorities and qualifying bodies preparing neighbourhood plans should not set in their emerging Local Plans, neighbourhood plans, or supplementary planning documents, any additional local technical standards or requirements relating to the construction, internal layout or performance of new dwellings. This includes any policy requiring any level of the Code for Sustainable Homes to be achieved by new development; the government has now withdrawn the code... For the specific issue of energy performance, local planning authorities will continue to be able to set and apply policies in their Local Plans which require compliance with energy performance standards that exceed the energy requirements of Building Regulations until commencement of amendments to the Planning and Energy Act 2008 in the Deregulation Bill 2015. This is expected to happen alongside the introduction of zero carbon homes policy in late 2016. The government has stated that, from then, the energy performance requirements in Building Regulations will be set at a level equivalent to the (outgoing) Code for Sustainable Homes Level 4. Until the amendment is commenced, we would expect local planning authorities to take this statement of the government's intention into account in applying existing policies and not set conditions with requirements above a Code level 4 equivalent'<sup>12</sup>.*

1.5.9 The new approach introduced optional Building Regulations requirements. Alongside optional increased water efficiency standards, the 2015 edition of Building Regulations (dwellings) - Approved Document M (Access to and use of buildings) - took effect on 1 October 2015 and contained updated guidance. In particular, it introduced three categories of dwellings:

- Category 1 - Visitable dwellings
- Category 2 - Accessible and adaptable dwellings
- Category 3 - Wheelchair user dwellings

(Note: Categories 2 and 3 apply only where required by planning permission – the optional element implementable by the Local Authority's approach subject to local justification).

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<sup>12</sup>DCLG - Rt Hon Eric Pickles Written Statement to Parliament "Steps the government are taking to streamline the planning system, protect the environment, support economic growth and assist locally-led decision-making".

- 1.5.10 In addition, a new security standard has now been included in the Building Regulations (Part Q).
- 1.5.11 The review also clarified statutory Building Regulations guidance on waste storage - to ensure that it is properly considered in new housing development.
- 1.5.12 The effectively optional regulations and space standards may only be applied where there is a local plan policy, based on evidenced local need for them; and where the viability of development is not unduly compromised as a result of their application. As far as we are aware, with the exception of policy on water usage efficiency (see 2.2.1 – 2.2.2 below) the optional standards have not been taken forward explicitly through the City Plan Part One. However, as part of this study and subsequent to our commission, DSP were asked by the Council to consider the potential impact on viability of introducing some or all of the optional standards. Further testing has therefore been carried out as part of this study to provide additional information for the Council.
- 1.5.13 For context and further background, in November 2014, following a Ministerial Statement, the Government revised national policy on s.106 thresholds as follows:
- *'contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1000sqm (gross internal area).*
  - *In designated rural areas, local planning authorities may choose to apply a lower threshold of 5-units or less. No affordable housing or tariff-style contributions should then be sought from these developments. In addition, in a rural area where the lower 5-unit or less threshold is applied, affordable housing and tariff style contributions should be sought from developments of between 6 and 10-units in the form of cash payments which are commuted until after completion of units within the development. This applies to rural areas described under section 157(1) of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty.*
  - *Affordable housing and tariff-style contributions should not be sought from any development consisting only of the construction of a residential annex or extension to an existing home.*

- *Additionally, local planning authorities should not seek section 106 affordable housing contributions, including any tariff-based contributions to general infrastructure plots, from developments of Starter Homes. Local planning authorities will still be able to seek other section 106 contributions to mitigate the impact of development to make it acceptable in planning terms, including addressing any necessary infrastructure’.*

1.5.14 The national policy changes also included a ‘vacant building credit’. This intended to incentivise the use of brownfield (previously developed) land, by reducing the affordable housing through a credit based on the floor area of any existing vacant buildings. This was intended to incentivise the use of brownfield (previously developed) land, and in many cases it would have had a positive effect on viability in such cases by reducing the affordable housing target through a credit based on the floor area of any existing vacant buildings. Whilst in operation, the effect was found to be variable and above all entirely site-specific.

1.5.15 The introduction of these policies via the Written Ministerial Statement and subsequent changes to the PPG were subject to a legal challenge by West Berkshire Council and Reading Borough Council. The legal challenge was successful and those policies quashed as of August 2015. This led to the re-introduction of lower affordable housing thresholds (where viable to do so) or allowed Councils to continue to adopt lower thresholds through the Local Plan process.

1.5.16 In May 2016, however, the Court of Appeal overturned that decision so that the s106 and affordable housing threshold based on a national minimum development size were re-introduced. In carrying out this viability assessment we have been asked to carry out testing both on the basis that the WMS applies (and therefore overrides B&HCC policy CP20) and also on the basis that Policy CP20 can be applied in full (i.e. to sites of <11 dwellings). This all potentially affects the level of CIL that could be charged as viability would be affected differentially with or without affordable housing in place on smaller sites; B&HCC will need to be able to consider the potential implications of variations to their approach to affordable housing. This is reflected in the breadth of information that DSP seeks to provide with this assessment. For the avoidance of doubt however, the recommendations of this study taken into account the local and national policies that exist at the time of producing this report. The additional testing is provided for wider information for the council; as requested.

1.5.17 Within the Glossary of the NPPF, the Government defines affordable housing as follows:

***'Affordable housing:** Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.*

***Social rented** housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.*

***Affordable rented** housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).*

***Intermediate housing** is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.*

*Homes that do not meet the above definition of affordable housing, such as "low cost market" housing, may not be considered as affordable housing for planning purposes.'*

1.5.18 The evolving area of housing mix is wide-ranging. Previously and through the introduction of the Housing and Planning Act 2016 (which became law in May 2016),

Government announcements have indicated that the last paragraph above may be changed in the near future so that low cost market homes may be treated as affordable homes for the purposes of planning. Indeed, Section 159 of the new Housing and Planning Act 2016 states:

*“(1) Regulations made by the Secretary of State may impose restrictions or conditions on the enforceability of planning obligations entered into with regard to the provision of—*

- 1. (a) affordable housing, or*
- 2. (b) prescribed descriptions of affordable housing.*

*(2) Regulations under this section—*

- 3. (a) may make consequential, supplementary, incidental, transitional or saving provision;*
- 4. (b) may impose different restrictions or conditions (or none) depending on the size, scale or nature of the site or the proposed development to which any planning obligations would relate.*

*(3) This section does not apply in relation to a planning obligation if—*

*(a) planning permission for the development was granted wholly or partly on the basis of a policy for the provision of housing on rural exception sites, or*

*(b) the obligation relates to development in a National Park or in an area designated under section 82 of the Countryside and Rights of Way Act 2000 as an area of outstanding natural beauty.*

*(4) In this section “affordable housing” means new dwellings in England that—*

*(a) are to be made available for people whose needs are not adequately served by the commercial housing market, or*

*(b) are starter homes within the meaning of Chapter 1 of Part 1 of the Housing and Planning Act 2016 (see section 2 of that Act)”<sup>13</sup>.*

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<sup>13</sup> Housing & Planning Act 2016

- 1.5.19 The Housing White Paper also references the potential to introduce a requirement for local authorities to provide a minimum of 10% affordable home ownership products (rather than adherence strictly to ‘starter homes’) and recent announcements suggest that affordable private rental products will also form part of the overall housing mix in the future. We are of course unable to reflect the ever changing potential nature and tenure of affordable housing within a study of this nature – intended to provide the evidence for a fixed level of CIL. The development assumptions are therefore based only on the adopted City Plan Part One policies and do not take into account potential future changes in affordable housing mix that may, or may not, come forward nationally or locally.
- 1.5.20 In addition to the above, the Chancellor announced in his Budget speech in 2015 that affordable housing providers will now have to cut social housing rents by 1 per cent each year for four years from April 2016; a reversal of the rental formula which previously allowed RPs to raise rents in line with the consumer prices index (CPI) plus 1 per cent. As part of this viability study, we have also reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes using unit to a developer).

## 2 Methodology

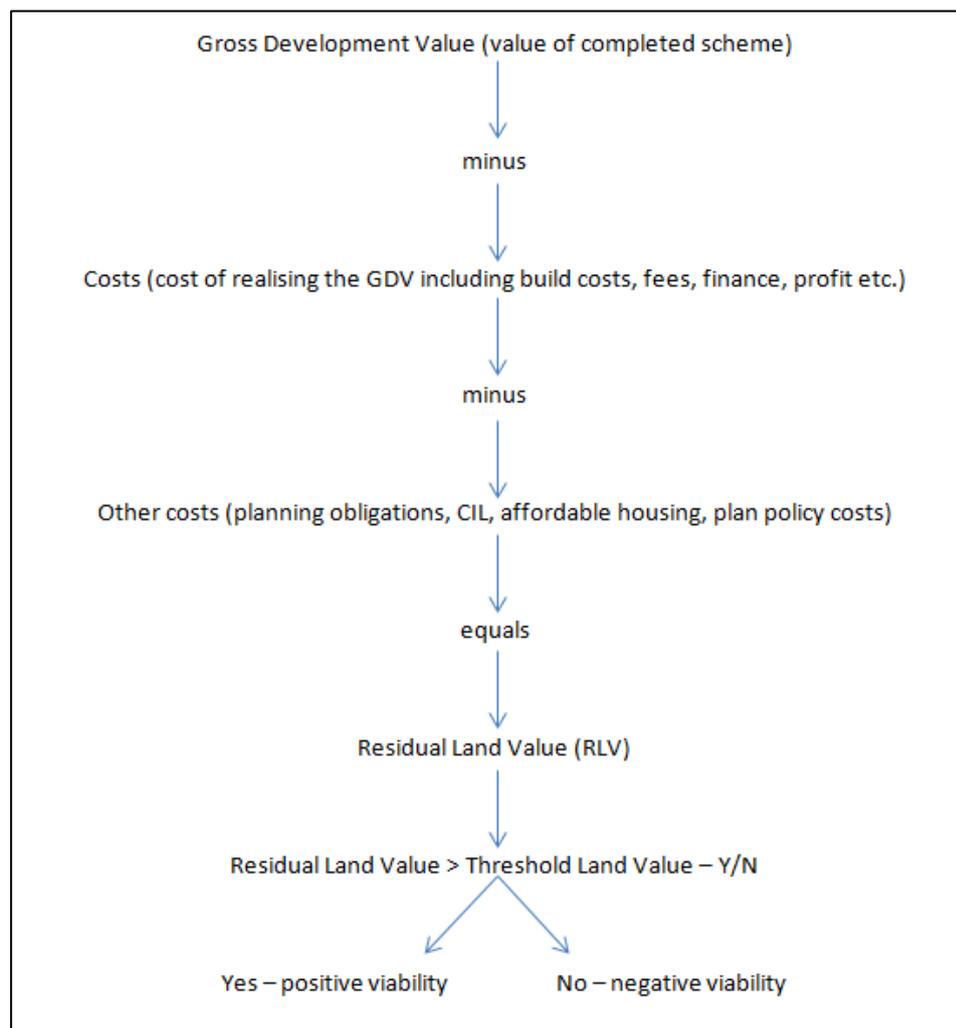
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### 2.1 Residual valuation principles

- 2.1.1 This study investigates the potential for a range of development types to contribute to infrastructure provision funding across the City Council's area through the collection of financial contributions charged via a Community Infrastructure Levy (CIL).
- 2.1.2 There are a number of policies that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on policies set out in the adopted LDP, in particular including affordable housing policy. This invariably tends to be one of the greatest influences on viability; secondary only to the market and local property price influences. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the cumulative impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.
- 2.1.3 Prior to fixing assumptions, necessarily at a point in time, and running appraisals using those (as outlined in the following paragraphs) we undertake an extensive information review, property market research and development industry stakeholders' survey. As a part of this, we undertake a review of the established policies – enabling an assessment of which are considered likely to have a particular development cost impact, or additional cost implications over and above the costs information used from established sources such as the Building Cost Information Service of the RICS (BCIS). More information is included as we discuss the assumptions. Appendix I provides a quick reference assumptions guide and also includes (following the assumptions overview sheets) a policy review schedule.
- 2.1.4 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme types, both residential and non-residential / commercial.

2.1.5 Residual valuation, as the term suggests, provides a “residual” value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 1) shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



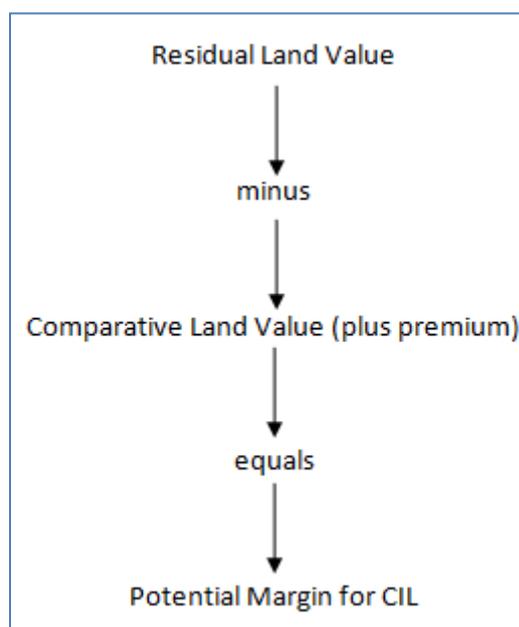
2.1.6 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

2.1.7 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the

potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.

- 2.1.8 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as from the DCLG, Valuation Office Agency (VOA) reporting, previous and current evidence held by the Council and its immediate neighbours and any available sales, or other evidence on value, are used for this purpose in making our assessment. There is a typically low level of activity on land deals and as in all areas, consequently the use of comparables to inform land value assumptions is difficult. In any event, any available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a level of land value need to be understood. As such a range of reporting as mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not a Brighton & Hove specific factor. In assessing the appraisal results, the surplus or excess residual (land value) remaining above these indicative land value comparisons is shown as the margin potentially available to fund CIL contributions from the particular appraisal result or results set that is under review once all other planning obligations and local and national policy costs have been taken into account.
- 2.1.9 The results show trends indicating deteriorating residual land values (and therefore reduced viability) as scheme value (GDV) decreases and / or costs rise – e.g. through increasing costs and increasing trial CIL rates.
- 2.1.10 Any potential margin (CIL funding scope) is then considered in the round so that charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs that could alter over time or with scheme specifics. In essence, the steps taken to consider that potential margin or surplus are as follows (see figure 2 below):

Figure 2: Relationship Between RLV & Potential Maximum CIL Rate (surplus or margin potentially available for CIL).



2.1.11 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I and III. They reflect the local markets through research on local values, costs and types of provision, etc. At various project stages we consulted with the Council's officers and sought soundings as far as were available from a range of local development industry stakeholders as we considered our assumptions. This included issuing a stakeholder questionnaire / pro-forma to key stakeholders (developers, house builders, landowners, agents, Registered Providers etc.) alongside e-mail exchanges and telephone discussions through which DSP sought to get feedback on study assumptions and to provide the opportunity for engagement and for provision of information to help inform the assessment. Appendix III provides more detail.

## 2.2 Key Policy Assumptions

### Energy & Water

2.2.1 B&HCC has specific policy (CP8) in regard to water consumption that requires new development achieves minimum standards for water usage. This is set at no less than

110 litres/person/day. For this assessment we have assumed that no additional cost allowance is required<sup>14</sup>.

- 2.2.2 This study assumes that the Sustainable Design / Construction standards (Policy CP8) are based on meeting the requirements of the building regulations in terms of energy use due to the Government's withdrawal of the Code for Sustainable Homes. Appendix I provides the detail but data taken from the DCLG Housing Standards Review Impact Assessment (average £ per unit E/O cost) for meeting the energy requirements for former Code for Sustainable Homes (CfSH) Level 4 equivalent has been used as a proxy for building regulations compliance.
- 2.2.3 No other sensitivity testing has been carried out in relation to higher levels of the CfSH or zero carbon as a result of the Government announcement to delay the introduction of national zero carbon policy and the scrapping of the allowable solutions element of national policy.

#### Affordable Housing

- 2.2.4 The introduction (via a Written Ministerial Statement ('WMS')) in 2014 of a national affordable housing threshold was quashed by the High Court after a legal challenge by Reading and West Berkshire Councils in July 2015. The Council's adopted affordable housing policies require affordable housing or financial contributions towards affordable housing from sites of more than 5 or more dwellings. Given the re-introduction, via the Court of Appeal, of a national minimum affordable housing threshold of 10 or fewer units, the Council would not normally be able to set a policy requiring affordable housing on sites of 10 dwellings or fewer although a number of Local Authorities continue to successfully argue that significant weight can be given to a reduced affordable housing threshold based on evidence of significant affordable housing need in an area.
- 2.2.5 Affordable housing has been included in this viability study based on a range of thresholds starting at 5 units or more to provide wider context for the Council should a sub-national level affordable housing threshold be pursued – as that impacts the level of CIL. More detail on the affordable housing assumptions is provided below and at Appendix I.

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<sup>14</sup> N.b. extra over costs of attaining water efficiency standards of 110lpppd are in the region of £6-£9 per dwelling according to the DCLG Housing Standards Review Cost Impacts Study (September 2014). In our opinion this would have such a marginal impact on scheme viability that it has not been included in this assessment.

### Nationally Described Space Standard

- 2.2.6 The Government's Technical Housing Standards have introduced national space standards for C3 housing which can be used in a Local Plan policy if there is sufficient evidence of need and viability.
- 2.2.7 City Plan Part One references the intention to introduce the nationally described space standard through the adoption of the City Plan Part Two. As such the national internal space standards have been included in the modelling for this viability assessment as a standard assumption. See Appendix I for detail.

### Access to and use of Buildings

- 2.2.8 The Government's Housing Standards Review has also resulted in changes being made with reference to Lifetime Homes and the Wheelchair Housing Design Standard. Accessibility is now incorporated into Part M of Building Regulations, applied by Local Planning Authorities as conditions and checked for implementation through the Building Control process.
- 2.2.9 Again, as with residential space standards and enhanced water consumption standards, there needs to be evidence for both need and viability.
- 2.2.10 Although we are aware that the City Plan Part One does not include specific policies on this area (we understand due to the timing of the adoption of the Plan), we were asked to consider the potential viability impacts of including policies on access to and use of buildings as the Council already requests new development to incorporate those standards; an area that will be addressed through the emerging City Plan Part Two. As such it was considered prudent to include allowances for this 'policy' in carrying out this CIL Viability Study. We set out below the likely additional costs for including policies that meet the optional Category 2 and 3 requirements of Part M4 of the Building Regulations and those have been used in all of our appraisals as a standard assumption.
- 2.2.11 As part of the Government's Housing Standards Review consultation, cost analysis was produced by EC Harris (and subsequently updated) relating to areas that included Access. Within the 2014 update to that review document, approximate costs of complying with the optional Category 2 requirements of Part M4 were included. This indicates various costs for different types of dwelling and on different forms of development. For the purposes of this report, the average extra over access cost per

dwelling is approximately total of £2,447 for houses and £1,646 for flats for meeting Part M4 (2) standards. This is based on an average extra over access cost per dwelling (£682/dwelling) alongside the average access related space cost per dwelling but without allowing for cost recovery (£1,444/ dwelling).

2.2.12 For Part M4 (3) the same report indicates average extra over (E/O) costs to be £15,691 for flats and £26,816 for houses.

### **2.3 Scheme Development Scenarios**

2.3.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and non-residential / commercial developments (development scenarios). The scenarios were developed and discussed with the Council following a review of the information it provided. Information included the adopted City Plan Part One, Preferred Options Local Plan, Strategic Housing Land Availability Assessment (SHLAA), details of viability reviews, previous studies, affordable housing and s106 performance monitoring, SPD and other information. For the purposes of CIL, it was necessary to determine scenario types reasonably representative of those likely to come forward across the city bearing in mind the probable life of any future CIL Charging Schedule.

#### Residential Development Scenarios

2.3.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings (see Figure 3 below, and Appendix I provides more detail):

Figure 3: Residential Scheme Types

<b>Scheme / Typology</b>	<b>Overall Scheme Mix</b>
1 House (Large)	1 x 4BH
2 Houses	2 x 4BH
5 Houses	2 x 2BH, 3 x 3BH
9 Flats (studio and 1BF only)	4 x SF, 5 x 1BF
9 Flats	5 x 1BF, 4 x 2BF
10 Houses	4 x 2BH, 6 x 3BH
11 Houses	5 x 2BH, 6 x 3BH
15 Flats	7 x 1BF, 8 x 2BF
15 Mixed	4 x 1BF, 4 x 2BF, 4 x 2BH, 3 x 3BH
25 Houses	8 x 2BH, 12 x 3BH, 5 x 4BH
25 Flats	9 x 1BF, 12 x 2BF, 4 x 3BF
30 Flats (Sheltered)	20 x 1BF, 10 x 2BF
50 Mixed	8 x 1BF, 8 x 2BF, 9 x 2BH, 18 x 3BH, 7 x 4BH
75 Flats (3-5 Storey)	27 x 1BF, 40 x 2BF, 8 x 3BF
100 Mixed	15 x 1BF, 17 x 2BF, 18 x 2BH, 35 x 3BH, 15 x 4BH
100 Flats (6+ Storey)	32 x 1BF, 52 x 2BF, 15 x 3BF
700 Mixed	100 x 1BF, 100 x 2BF, 100 x 2BH, 200 x 3BH, 200 x 4BH

Note: BH = bed house; BF = bed flat; Mixed = mix of houses and flats.

- 2.3.3 The assumed dwelling mixes are based on the range of information reviewed including Policy CP20 of the Council's adopted City Plan Part One, OAN and Council guidance. They reflect a range of different types of development that could come forward across the City area so as to ensure that viability has been tested with reference to the potential housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the city by scheme location / type whilst and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.
- 2.3.4 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types.
- 2.3.5 The residential scenarios were chosen to reflect and further test viability across a broad range of scenarios whilst also allowing us to test CIL in relation to PDL affordable housing policy thresholds. In all cases it should be noted that a “best fit” of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers. The

affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet.

- 2.3.6 For larger scale comprehensive development proposals much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount and type of housing that can actually be accommodated on site and the timing of its provision in relation to that of the accompanying infrastructure. At this stage, the finer details are not clear and, as such, the larger site appraisal testing for this viability assessment is based on a mixture of known requirements and costs (as available at the timing of appraisals), and typical assumptions informed by reference to sources such as the Harman Report (as mentioned above) and through experience - as is appropriate for this level of viability testing. Further commentary is provided within Chapter 3, so far as possible at this stage given the results indicated by the different appraisal sets using tailored assumptions for the appraisal testing representing larger scale development
- 2.3.7 The dwelling sizes assumed for the purposes of this study are as follows (see figure 4 below):

Figure 4: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
Studio Flat (SF)	n/a	39
1-bed flat	50	50
2-bed flat	70	70
3-bed flat	n/a	79
2-bed house	79	79
3-bed house	93	100
4-bed house	112	130

- 2.3.8 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend

to assess, compare and price schemes. It provides a more relevant context for considering the potential viability scope.

2.3.9 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m ‘Value levels’ basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

## **2.4 Commercial / Non-Residential Development Scenarios**

2.4.1 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council; following the basis issued in its brief. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 5 below sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from different types of commercial development considered potentially relevant in the city.

2.4.2 In essence, the commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. Figure 5 below summarises the scenarios appraised through a full residual land value approach; again Appendix I provides more information.

Figure 5: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m <sup>2</sup> )	Site Coverage	Site Size (Ha)
A1 Large Retail	Retail Warehousing	1250	40%	0.31
A1 Large Retail	Supermarket	2500	40%	0.63
Small Retail (City Centre)	Comparison shops (general/non-shopping centre) - City Centre	200	70%	0.03
Small Retail	Local convenience stores and local shops	300	50%	0.06
Business - Offices - City Centre	Office Building	500	60%	0.08
Business - Offices - Outside City Centre	Office Building	1000	40%	0.25
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	500	40%	0.13
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	2000	40%	0.50
Hotel (budget)	Hotel - edge of town centre / edge of town (60 beds)	2100	50%	0.42
Student Accommodation	100% Cluster type Accommodation with ensuite (150 rooms)	1800	50%	0.36
C2 - Residential Institution	40-bed Nursing home / care home	1900	60%	0.32

Note: 300 sq. m retail ('small retail') scenarios representative of smaller shop types also permitting Sunday Trading Act related trading hours (see also subsequent information in this report).

2.4.3 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the city and are as subsequently agreed with the Council. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from CoStar Commercial Real Estate Intelligence, the VOA Rating List and other web-based review as well as feedback from consultation. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of "sense check" to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.

- 2.4.4 In addition to testing the commercial uses of key relevance above, further consideration was given to other development forms that may potentially come forward locally. These include for example non-commercially driven facilities (community halls, medical facilities, schools, etc.) and other commercial uses such as motor sales / garages, depots, workshops, surgeries / similar, health / fitness, leisure uses (e.g. cinemas / bowling) and day nurseries.
- 2.4.5 Clearly there is potentially a very wide range of such schemes that could be developed over the life of a CIL charging schedule. Alongside their viability, it is also relevant for the Council to consider the likely frequency and distribution of these; and their role in the delivery of the development plan overall. For these scheme types, as a first step it was possible to review (in basic terms) the key relationship between their completed value per square metre and the cost of building. We say more about this in Chapter 3.
- 2.4.6 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale, etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the usual development sense being reviewed here and related to any CIL contributions scope. We are also able to consider these value / cost relationships alongside the range of main appraisal assumptions and the results that those provide (e.g. related to business development). This is an iterative process in addition to the main appraisals, whereby a further deteriorating relationship between values and costs provides a clear picture of further reducing prospects of viable schemes. This starts to indicate schemes that require other support rather than being able to produce a surplus capable of some level of contribution to CIL.
- 2.4.7 Through this process we were able to determine whether there were any further scenarios that warranted additional viability appraisals. Having explored the viability trends produced by examination of the cost/value relationships we found that in many other cases, completed scheme values were at levels insufficient to cover development costs and thus unlikely to support any level of CIL.

## **2.5 Gross Development Value (Scheme Value)**

### **Market housing (sale) values**

- 2.5.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of

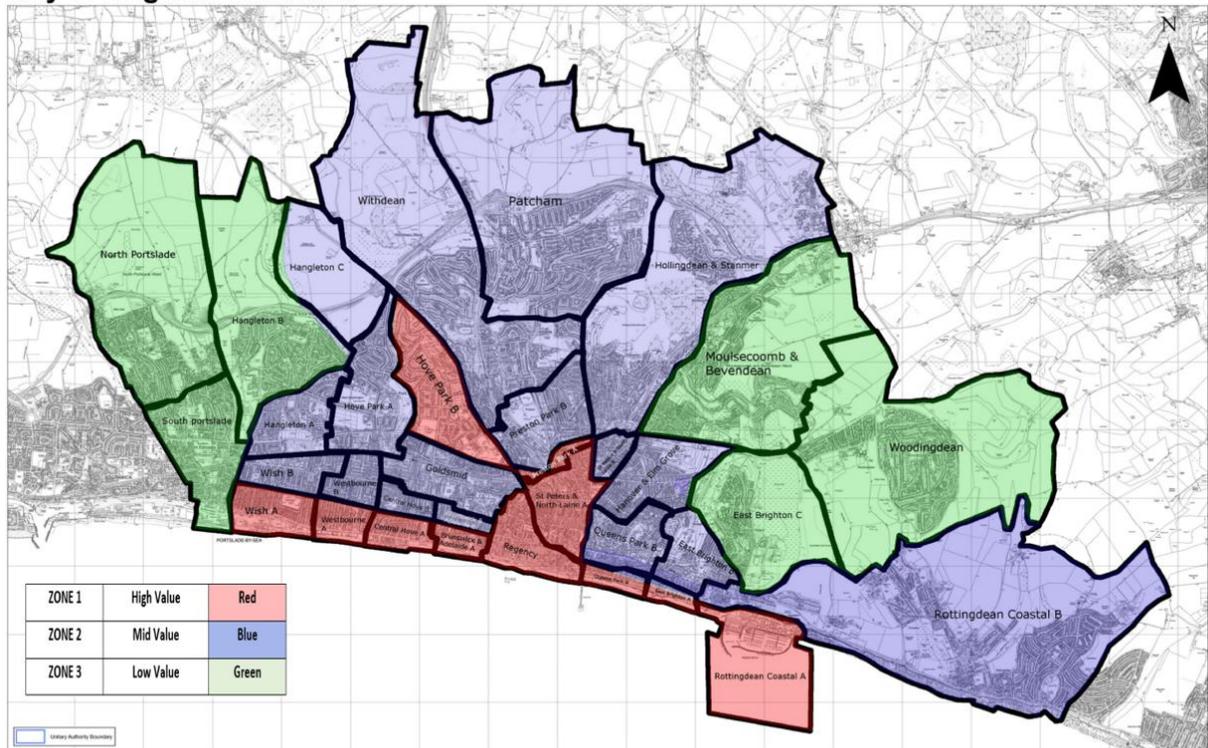
scheme viability to geographical values variations and / or with changing values as may be seen with further market variations.

- 2.5.2 It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we also considered existing information contained within previous research documents including previous viability studies forming the evidence base for preliminary CIL work; from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. This is in accordance with the CIL Regulations and Guidance which states that proposed CIL rates should be informed by ‘appropriate available’ evidence and that ‘a charging authority should draw on existing data wherever it is available’. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.
- 2.5.3 A framework needs to be established for gathering and reviewing property values data. The residential market review has been based on the Wards that make up the city so that the data could be aggregated and disaggregated to view values by Ward, settlement or across the city as a whole. Some of these wards were further subdivided into ‘A’ and ‘B’ sections where considered necessary to reflect significant variations in values within ward areas and also to enable us to analyse our data consistently with the Value Zones previously identified by the District Valuer (‘DVS’) as part of the Council’s currently adopted Affordable Housing Financial Contributions.
- 2.5.4 This provided the best and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen linked to the likely provision of development across the city. It was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.
- 2.5.5 Values patterns are often indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between areas where significant development may be occurring in the context of any potential variation in policy with regard to the potential CIL charging schedule. It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not

specific to Brighton & Hove. However these factors do not affect the scope to get a clear overview of how values vary typically, or otherwise, between the settlements and localities, given the varying characteristics of the city; as set out in these sections and as is suitable for the consideration of CIL viability and deliverability.

- 2.5.6 The values that are used within the development appraisals ultimately affect the consideration of viability of the level of CIL that can be charged without unduly affecting the viability of development.
- 2.5.7 In the case of Brighton & Hove and given the values variations seen in different parts of the city area through both the initial research stages and previous work undertaken by others, the VLs cover typical residential market values (average prices across a scheme) over the range £3,500/m<sup>2</sup> (approx. £325/sq. ft.) to £6,500/m<sup>2</sup> (approx. £604/sq. ft.) overall. These are set out by area at Appendix I and referred to as Value Levels – Lower Value (lowest sensitivity test) to Upper Value (highest for each area tested) with the ‘Base’ value representing what was considered to be representative of current new build values for each test zone. The test areas have been broken down into 3 zones covering Brighton & Hove so that we end up with sensitivity testing covering three value areas for each of the test areas. Appendix I provides the detail and Figure 6 below shows the values zones.
- 2.5.8 Figure 6: Value Zone Areas

City of Brighton and Hove



(A0) Scale: 1:15,000

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2.5.9 In summary the new-build values ranges used by area are as shown below - see Figure 7. Appendix III sets out the background to this.

Figure 7: New Build (Housing Sales) – Values Assumptions Summary

**Zone 1:** Wish A, Westbourne A, Central Hove A, Brunswick & Adelaide A, Regency, St Peters & North Laine A, Preston Park A, Hove Park B, Queens Park A, East Brighton A, Rottingdean Coastal A

Market Value Level	Lower Value	Base Value	Upper Value
1 Bed Flat	£108,000	£120,000	£132,000
2 Bed Flat	£151,200	£168,000	£184,800
2 Bed House	£170,640	£189,600	£208,560
3 Bed House	£216,000	£240,000	£264,000
4 Bed House	£280,800	£312,000	£343,200
<b>Value Level (£/m2)</b>	<b>£5,500</b>	<b>£6,000</b>	<b>£6,500</b>

**Zone 2:** Withdean, Patcham, Hangleton C, Hove Park A, Hangleton A, Wish B, Westbourne B, Central Hove B, Goldsmid, Brunswick & Adelaide B, Preston Park B, Hollingdean & Stanmer, St Peter's & North Lane B, Hanover & Elmgrove, Queens Park B, East Brighton B, Rottingdean Coastal B

Market Value Level	Lower Value	Base Value	Upper Value
1 Bed Flat	£112,500	£125,000	£137,500
2 Bed Flat	£157,500	£175,000	£192,500
2 Bed House	£177,750	£197,500	£217,250
3 Bed House	£225,000	£250,000	£275,000
4 Bed House	£292,500	£325,000	£357,500
<b>Value Level (£/m2)</b>	<b>£4,500</b>	<b>£5,000</b>	<b>£5,500</b>

**Zone 3:** North Portslade, South Portslade, Hangleton B, Moulsecomb & Bevendean, Woodingdean, East Brighton C

Market Value Level	Lower Value	Base Value	Upper Value
1 Bed Flat	£121,500	£135,000	£148,500
2 Bed Flat	£170,100	£189,000	£207,900
2 Bed House	£191,970	£213,300	£234,630
3 Bed House	£243,000	£270,000	£297,000
4 Bed House	£315,900	£351,000	£386,100
<b>Value Level (£/m2)</b>	<b>£3,500</b>	<b>£4,000</b>	<b>£5,000</b>

2.5.10 The CIL rates were trialled by increasing the rate applied to each scenario over a range of rates from £0 - £1,000/m<sup>2</sup> at varying intervals. Through initial stage assessment and from our wider experience of studying and considering development viability and given the balance also needed with other planning obligations including affordable housing, exploration beyond the upper end potential charging rate level trial was not considered relevant in the city. The CIL trial rates range would have been extended following initial testing outcomes, had this been considered necessary.

### **Affordable housing**

2.5.11 In addition to the market housing, the development appraisals also assume a requirement for affordable housing (AH). Brighton & Hove City Council's current approach is to seek affordable housing from sites of 5 or more units. The requirement is based on seeking 20% affordable housing via a financial contribution from sites of 5 to 9 units 30% on-site affordable housing on sites of 10-14 units and 40% on-site affordable housing on sites of 15 or more dwellings. As this study needs to include the LDP policies in full we have included the full, policy compliant affordable housing

requirement in each case. For the make-up of the affordable housing, we have assumed that approximately 55% is affordable rented tenure and 45% is 'intermediate' in the form of shared ownership.

- 2.5.12 In reality tenure will normally be decided based on an up to date Strategic Housing Market Assessment (SHMA) ensuring that properties meet local needs at the time of the application. In practice many tenure mix variations could be possible; as well as many differing rent levels derived from the affordable rented (AR) tenure approach - as affected by local markets and by affordability. The same applies to the intermediate (assumed shared ownership) affordable housing element in that the setting of the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) retained equity and the interaction of these two would usually be scheme specific considerations. Shared ownership (SO) is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.
- 2.5.13 At this stage there is some uncertainty over future changes to the definition of affordable housing for planning purposes including homes defined as starter homes or affordable home ownership product. These may well play a future role and in our opinion would lead to a smaller impact on development viability. The Government has yet to clarify whether Starter Homes / affordable home ownership / low cost market housing (if brought into the definition of affordable housing) would be in addition to affordable housing already sought or as part of the affordable housing policy requirement.
- 2.5.14 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant or equivalent subsidy input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant or other public subsidy / equivalent.

- 2.5.15 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the ‘payment to developer’, ‘RP payment price’, ‘transfer payment’ or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site-specific viability issues (including specific work on SPDs, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals – looking at the capitalised value of the estimated net rental flows (value of rental income after deduction for management and maintenance costs, voids allowances and the like). We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.
- 2.5.16 In broad terms, the transfer price assumed in this study varies between approximately 30% and 65% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties rents for the varying unit types were assumed to be capped by the Local Housing Allowance (LHA) for each unit type for the corresponding Broad Rental Market Area (BRMA).
- 2.5.17 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including an RP’s own development strategies, and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, external funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.
- 2.5.18 We have also reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes using unit to a developer) by making an allowance that reduces the calculated payment assuming housing providers will have to cut social housing rents by 1 per cent each year for the next four years from April 2016 - 2020. Research carried out on behalf of DSP indicates that the impact could lead to a reduction of around 10% compared to pre-April 2016 figures although again, the impact is highly variable and based on the willingness of RPs to take on affordable rented units – often influenced by internal policies and approach to risk management.

2.5.19 Again, it is worth noting that affordable housing will not be liable for CIL payments. This is the case under the regulations nationally; not just in the Brighton & Hove context. The market dwellings within each scenario will carry the CIL payments burden at the Council's specified rate(s).

## **2.6 Gross Development Value – Commercial / Non-residential**

2.6.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions are needed. Typically these are made with regard to the rental values and yields that would drive the value of completed schemes within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).

2.6.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, EGi, CoStar and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.

2.6.3 Figure 8 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.

2.6.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the city. This enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. This is consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions (unless floor-

space in excess of 100 sq. m is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). In many cases, however, limited or no new build information for use of comparables exists, particularly given recent and current market circumstances. Therefore, views have had to be formed from local prevailing rents / prices and information on existing property and past research carried out on behalf of the Council. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a Brighton & Hove only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.

- 2.6.5 These varying rental levels were capitalised by applying yields of between 5.0% and 7.5% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined were appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.
- 2.6.6 It is important to note here that small variations can have a significant impact on the GDV that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions in the local context (but envisaging new development and appropriate lease covenants etc. rather than older stock), could well act against finding that balance.
- 2.6.7 This approach enabled us to consider the sensitivity of the results to changes in the capital value of schemes and allowed us then to consider the most relevant results in determining the parameters for setting non-residential CIL rates across the city. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently

local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3.

Figure 8: Assumed rental Value for Commercial Schemes

Development Type		Value Level (Annual Rental Indication £/sq. m)		
		Low	Medium	High
A1 Large Retail	Retail Warehousing	£225	£275	£325
A1 Large Retail	Supermarket	£200	£225	£250
Small Retail (City Centre)	Comparison shops (general/non-shopping centre) - City Centre	£270	£325	£370
Small Retail	Local convenience stores and local shops*	£200	£225	£250
Business - Offices - City Centre	Office Building	£200	£230	£260
Business - Offices - Outside City Centre	Office Building	£180	£210	£240
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	£60	£80	£100
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	£55	£70	£85
Hotel (budget)**	Hotel - edge of town centre / edge of town (60 beds)	£4,000	£5,000	£6,000
Student Accommodation***	100% Cluster type Accommodation with ensuite (150 rooms)	£150	£180	£200
C2 - Residential Institution	40-bed Nursing home / care home	£250	£350	£400

\* Convenience stores with sales area of less than 3,000 sq. ft. (280 sq. m), assuming longer opening hours.

\*\*annual room rates

\*\*\* weekly room rates

2.6.8 As with residential development, consideration was given as to whether there should be any varying approach to CIL charging levels for commercial and other developments locally. On review, it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between general location (area) within the city so far as the likely location of such development is concerned. This was borne out on review of the commercial values data and results, as per the examples included at Appendix III.

2.6.9 As can be seen, there is variety in terms of values across the city. However, there were typical values that informed our rental and other assumptions for the appraisals, based on the upper end rental indications seen for business uses (offices and industrial / warehousing) as appropriate for high quality new build schemes and on the variety of indications seen for retail. In both cases these were taken from a combination of the

VOA Rating List, EGi, CoStar and other sources as far as were available whilst keeping the review depth proportionate and economic in the study overview context. In respect of other commercial / non-residential development types again a city-wide overview was considered appropriate.

2.6.10 Overall, we found that in the event of identifying scope to charge a CIL on commercial or non-residential development in viability terms, there is no clearly justifiable or readily definable approach to varying that through viability findings based on location / geography. Whilst certain specific scheme types could create more value in one location compared with another in the city, typically there was felt to be no clear or useful pattern which might be described for that. It must be accepted that there will always be variations and imperfections in any level of overview approach; with or without area based differentiation.

## **2.7 Development Costs – General**

2.7.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site specific cases can be. As with the scheme scenario building, an overview of the various available data sources is required.

2.7.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.

2.7.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in setting CIL charging rates and ensuring those are not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

## 2.8 Development Costs – Build Costs

2.8.1 The base build cost levels shown below are taken from the BCIS. In each case the figure has been rebased using the Brighton & Hove location. Costs assumed for each development type are provided in Appendix I. For the purposes of this exercise we have added an allowance for housing schemes of 10 units or less and made a deduction for flatted schemes of 10 units or less based on advice provided by the RICS BCIS within a report commissioned by the Federation of Small Businesses (FSB)<sup>15</sup>.

Figure 9: Build Cost Data – BCIS Data

(BCIS Median, Brighton & Hove location factor relevant at time of research)

Development Type		BCIS Build Cost (£/sq. m)*
Residential C3	Mixed Developments - generally (£/sq. m)	£1,236
	Estate Housing - generally (£/sq. m)	£1,207
	Flats - generally (£/sq. m)	£1,406
	Flats – 3-5 storey (£/sq. m)	£1,395
	Flats – 6+ storey (£/sq. m)	£1,817
	(Sheltered Housing - Generally) (£/sq.m)	£1,505
A1 Large Retail	Retail Warehousing	£788
A1 Large Retail	Supermarket	£1,416
Small Retail (City Centre)	Comparison shops (general/non-shopping centre) - City Centre	£1,040
Small Retail	Local convenience stores and local shops*	£1,040
Business - Offices - City Centre	Office Building	£1,751
Business - Offices - Outside City Centre	Office Building	£1,619
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	£1,250
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	£873
Hotel (budget)**	Hotel - edge of town centre / edge of town (60 beds)	£1,925
Student Accommodation***	100% Cluster type Accommodation with ensuite (150 rooms)	£1,576
C2 - Residential Institution	40-bed Nursing home / care home	£1,853

\*excludes external works, contingencies and any FSB cost allowance on small sites (these are added to the above base build costs)

<sup>15</sup> RICS BCIS Report for The Federation of Small Businesses – Housing development: the economies of small sites - the effect of project size on the cost of housing construction (August 2015)

- 2.8.2 Unless stated, the above build cost levels do not include for external works / site costs, contingencies or professional fees (added separately). An allowance for site infrastructure / external works has been allowed for on a variable basis within the appraisal depending on the scheme type. These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.
- 2.8.3 For this broad test of viability, it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.
- 2.8.4 In all cases further allowances have been added to the total build cost in respect of meeting optional technical housing standards as discussed earlier in this chapter.
- 2.8.5 An allowance of 5% of build cost has also been added in all cases, to cover contingencies (i.e. unforeseen variations in build costs compared with appraisal or initial stage estimates). This is a relatively standard assumption in our recent experience.
- 2.8.6 The interaction of costs and values levels will need to be considered again at future reviews of CIL. In this context it is important to bear in mind that the base build cost levels may vary over time. In the recent past recessionary period we saw build costs

fall, but moving ahead they have in many cases risen relatively sharply and seen readjustment.

2.8.7 At the time of reporting the latest available BCIS briefing (June 2017) stated on build cost trends:

*'There is a great deal of uncertainty over the terms that will be agreed when the UK leaves the European Union, however Prime Minister Theresa May's stance in calling an election makes it more likely that the UK will withdraw from the Single Market and the Customs Union.*

*While almost any outcome is still possible we will continue to produce forecasts based on three scenarios. These reflect the different political outcomes from the exit negotiations from the EU and are equally likely. However, the forecasts reflect the increased likelihood of restrictions on the movement of labour and pressures on Sterling that are likely to result from withdrawal from the Single Market and the Customs Union.*

- *an 'upside' scenario based on the assumption that we will remain in the European free trade area, but there are restrictions on the movement of labour*
- *a 'downside' scenario based on the assumption that we do not have favourable access to the European Union market and there are restrictions on the movement of labour; and*
- *a 'central' scenario based on some restrictions to trade and there are restrictions on the movement of labour.*

*The terms 'central', 'upside' and 'downside' reflect the impact of the scenarios on construction demand.*

*We are publishing the 'central' scenario as the forecast for the price and cost indices but it should be borne in mind that each forecast is equally possible.'*<sup>16</sup>

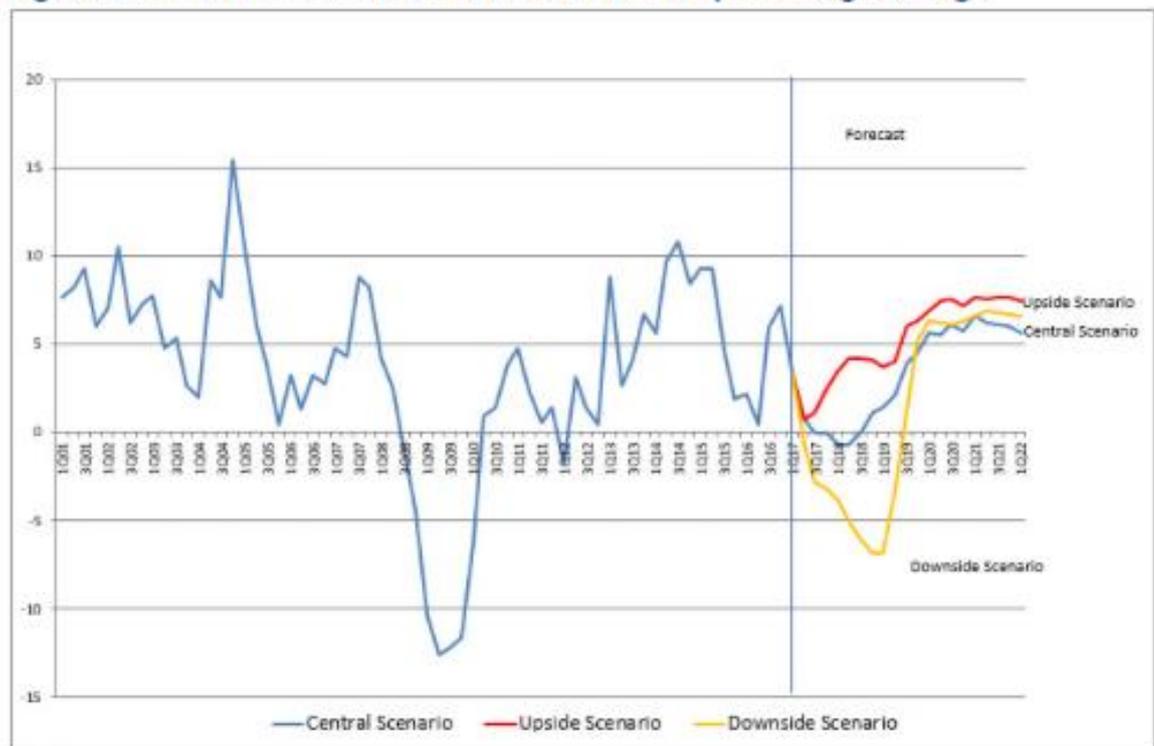
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<sup>16</sup> BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (December 2016)

	Percentage change				
	1Q17 to 1Q18	1Q18 to 1Q19	1Q19 to 1Q20	1Q20 to 1Q21	1Q21 to 1Q22
<b>'Central' scenario</b>					
TPI	-0.7	+1.4	+5.6	+6.6	+5.6
GBCI	+3.0	+2.9	+4.5	+5.1	+4.9
New work output*	0	-1.3	+2.3	+4.7	+5.7
<b>'Upside' scenario</b>					
TPI	+3.5	+3.7	+6.9	+7.6	+7.4
GBCI	+3.0	+2.9	+5.1	+5.9	+5.6
New work output*	+1.8	+5.3	+6.1	+6.3	+5.5
<b>'Downside' scenario</b>					
TPI	-3.9	-6.9	+6.3	+6.6	+6.6
GBCI	+3.0	+2.9	+4.0	+4.6	+4.7
New work output*	-7.3	-9.4	+2.9	+5.6	+8.2

\*Year on year (1Q17 to 1Q18 = 2016 to 2017), constant prices 2013

**Figure 1. BCIS All-in Tender Price Index – Annual percentage change**



Source: BCIS

## 2.9 Development Costs – Fees, Finance & Profit (Residential)

2.9.1 The following costs have been assumed for the purposes of this study alongside those discussed above and vary slightly depending on the scale and type of development (residential or commercial). Other key development cost allowances for residential

scenarios are as follows - for the purposes of this assessment only (Note: Appendix I also provides a summary):

<u>Professional fees:</u>	Total of 10% of build cost
<u>Site Acquisition Fees:</u>	1.5% agent's fees 0.75% legal fees Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).
<u>Finance:</u>	6.5% p.a. interest rate (assumes scheme is debt funded)
<u>Marketing costs:</u>	3.0% sales fees £750 per unit legal fees
<u>Developer Profit:</u>	Open Market Housing – 17.5% to 20% GDV Affordable Housing – 6% of GDV (affordable housing revenue).

## 2.10 Development Costs – Fees, Finance & Profit (Commercial)

2.10.1 Other development cost allowances for the commercial development scenarios are as follows:

<u>BREEAM:</u>	5% of build cost
<u>Professional and other fees:</u>	10% of build cost
<u>Site Acquisition Fees:</u>	1.5% agent's fees 0.75% legal fees Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)
<u>Finance:</u>	6.5% p.a. interest rate (assumes scheme is debt funded) Arrangement fee variable – 1-2% loan cost
<u>Marketing / other costs:</u>	(Cost allowances – scheme circumstances will vary)

*1% promotion / other costs (% of annual income)*  
*10% letting / management / other fees (% of assumed annual rental income)*  
*5.75% purchasers costs – where applicable*

Developer Profit:                      *20% of GDV*

## **2.11 Build Period**

2.11.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by examples where available. The build periods are for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme type and size, having the effect of increasing the periods over which finance costs are applied. Appendix I provides the detail.

## **2.12 Community Infrastructure Levy & Other Planning Obligations**

2.12.1 Current guidance states the following with regard to CIL: *‘At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions’<sup>17</sup>. The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.*

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<sup>17</sup> <https://www.gov.uk/guidance/community-infrastructure-levy#Community-Infrastructure-Levy-rates> (Paragraph: 017 Reference ID: 25-017-20140612 Revision date: 12 06 2014)

- 2.12.2 On discussion with the Council it was considered that a great majority of existing planning obligation requirements are likely to be taken up within the CIL proposals if adopted, but nevertheless sites are still required to contribute to site-specific mitigation measures (for example open space / highways / transport and similar requirements). The appraisals therefore include an additional notional sum of £3,000 per dwelling (for all dwellings – including affordable - and all schemes) on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements – effectively as an additional contingency in respect of any residual s.106 requirements. For the 700 dwellings test scenarios, the s.106 allowance has been removed and the appraisals run on the basis of a determining the total potential surplus that could be generated to fund on-site s106 requirements and / or CIL taking into account the policies contained within the City Plan Part One.
- 2.12.3 On larger scale comprehensive development, allowances would often need to be made for increased levels of infrastructure (through s.106) assuming the requirement for on-site provision frequently required in these cases. Larger scale development has been tested at an appropriately high level for the purposes of this study and based on available information, adding suitably to the results sets prepared for review and overall representing a broad range of development types.
- 2.12.4 Appraisals were run on the basis of scenario testing with a fixed land value input to allow a surplus to be generated after all other development costs had been accounted for. That sum could then be expressed as a sum per unit available for on-site s106 requirements and or CIL.
- 2.12.5 In addition to the costs mentioned above, a further allowance was included for site opening-up costs in the case of the largest example current scenario testing. In the absence of specific information at this stage, following advice within the Harman Report (Viability Testing Local Plans), an allowance of between £17,000 and £23,000 per unit was made with further allowances made for non-residential servicing costs at a level equivalent to £600,000 per ha.

## **2.13 Indicative land value comparisons and related discussion**

- 2.13.1 Land value in any given situation should reflect the specifics on existing use, planning potential and status / risk, development potential (usually subject to planning) and constraints, site conditions and necessary works, costs and obligations. It follows that the planning policies and obligations, including any site specific s106 requirements, will also have a bearing on land value; as has been recognised by Local Plan and CIL Examiners as well as Planning Inspectors.
- 2.13.2 As discussed previously, in order to consider the likely viability of any development scheme relevant to CIL, the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be somehow measured against a comparative level of land value. This is a key part of the context for reviewing the strength of the results as those change across the range of assumptions on sales values (GDVs) and other sensitivity tests (crucially including the effect of affordable housing policy targets applied fully in the case of the residential tests in relation to the level of CIL tested).
- 2.13.3 This comparison process is, as with much of strategic level viability assessment, not an exact science. It involves judgements and the well-established acknowledgements that, as with other appraisal aspects, land value circumstances and requirements will in practice vary from scheme to scheme as well as being dependent to some extent on timing in relation to market conditions and other wider influences such as Government policy. The levels of land values selected for this comparison context are often known as ‘benchmark’ land values, ‘viability tests’ or similar (as referred to in our results tables – Appendix II and within the following report Chapter 3). They are not fixed in terms of creating definite cut-offs or steps in viability, but in our experience they serve well in terms of adding a layer of filtering to the results, to help enable the review of those; they help to highlight the tone of the RLV results and therefore the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change – with key relevant assumptions (variables) in this case being the GDV level (value level – VL), affordable housing proportion and CIL.
- 2.13.4 As suitable context for a high level review of this nature, DSP’s practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons in this way. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the land supply picture that the Council expects to see.

- 2.13.5 The local housing requirement and strategy for growth that is responsive to the City Plan Part One indicates a likely overall supply role for a range of sites across the city, concentrated mainly on mixed use and residential sites, across a range of host sites from greenfield, industrial, former or current employment and commercial sites and sites in existing residential use.
- 2.13.6 The scale of the difference between the RLV and comparative land value level (i.e. surplus after all costs (including policy costs), profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to judge the potential scope across the various development circumstances to meet other policy costs / requirements. It follows that, in the event of little or no surplus or a negative outcome (deficit), we can see a poor viability relationship and vice versa. The land value comparison levels are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. In our experience, sites will obviously come forward based on very site specific circumstances – including in some cases beneath the levels assumed for this purpose.
- 2.13.7 This also needs to be viewed in the context that invariably (as we see across a range of CIL viability studies) the CIL rates are usually not the main factor in the overall viability outcome. Market conditions and whether a scheme is inherently viable or not (i.e. prior to CIL payment considerations) tend to be the key factors. Typically, small shifts in the CIL trial rate significantly affect viability only in the case of schemes that are already marginally viable (prior to considering CIL) and so at a tipping-point of moving to become non-viable once CIL is imposed or other relatively modest costs (in the context of overall development costs) are added. Sales values, land value expectation and policy costs such as affordable housing or the move towards zero carbon development will tend to create much larger viability impacts on schemes. As the inherent viability of schemes improves then even a larger increase in the CIL trial rate is often not seen to have a very significant impact on the RLV and therefore likely viability impact by itself. As the trial CIL rate increases it is usually more a matter of relatively small steps down in reducing viability and so also considering the added risk to developments and the balance that Councils need to find between funding local infrastructure and the viability of development in their area.
- 2.13.8 In order to inform the land value comparisons or benchmarks we have reviewed existing evidence, previous viability studies and sought to find examples of recent land transactions locally. Limited evidence of such was available from the various soundings

we took and sources we explored. In the usual and appropriate way for such a study, we reviewed information sourced as far as possible from the DCLG, VOA, previous research / local studies / advice provided by the Council, through seeking local soundings, EGi, Co-Star; and from a range of property and land marketing web-sites. Details, so far as available, are provided in Appendix III.

- 2.13.9 Each of the RLV results is compared to a range of land value levels representing potential values for sites of varying types; envisaging a potential spectrum of sites from greenfield through lower and then upper value commercial land and sites with existing residential use. Again, scheme specific scenarios and the particular influence of site owners' circumstances and requirements will be variable in practice.
- 2.13.10 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data. Nevertheless in areas where it is available, the data can provide useful indicators, certainly in terms of trends. The VOA however does publish residential land value estimates for policy appraisal on behalf of the DCLG. The data for Brighton & Hove (but taking into account the numerous caveats and basis for those values) has also been considered.
- 2.13.11 As can be seen in Appendix II (residential and commercial scenarios results), we have made indicative comparisons focusing on land value levels in a range between £0.5m/ha and £10m/ha so that we can see where our RLVs fall in relation to these levels (including both above and below) and the overall range between them. Higher land values, when viewed in £/ha terms, are also likely to be relevant in the case of some central urban area sites with significant existing use values and subject to high density development proposals and, as can be seen from the results, some scenarios will underpin higher land values. These benchmarks are based on a review of available information from site specific reviews, local research and research carried out by others in carrying out viability studies both for Brighton & Hove City Council and neighbouring authorities, alongside any responses from stakeholder surveys.
- 2.13.12 These benchmarks are based on a review of available information. For this assessment purpose, and not necessarily representing actual minimums that from experience we regularly see at lower levels down to say £250,000/ha (representing a general minimum option type figures based on gross site area), the figure that we

consider to represent the minimum land value likely to incentivise release for development under most circumstances in the Brighton & Hove context is around £500,000/ha, based on gross developable site area. Land values at those levels are likely to be relevant to development on greenfield sites only. RLVs falling short of that are considered to be indicative of marginally viable schemes at best, with results beyond that starting to indicate more confidence in delivery prospects across a wider range of mostly former commercial site types.

- 2.13.13 It is important to note that the land values shown within the results indicate the receipts available to landowners after allowing within the RLV appraisals for all development costs. This is to ensure no potential overlapping / double counting of development costs that might flow from assuming land values at levels associated with serviced / ready for development land with planning permission, etc. The RLVs and the indicative comparison levels ('viability tests') represent a "raw material" look at the land, with all development costs falling to the prospective developer (usually the site purchaser).
- 2.13.14 Land value judgements for the assessment purpose are based on seeking to ensure a competitive return to a willing landowner, as is recognised through the RICS guidance on 'Financial Viability in Planning' (RICS GN 94/2012 – as noted below), the NPPF requirements and other papers on viability assessment.
- 2.13.15 The consideration of land value – whether in the RICS' terms (see below) or more generally for this context, involves looking at any available examples ('comparables') to inform a view on market value and may well also involve considering land value relating to a current or alternative use ('CUV' or 'AUV'). In addition, there may be an element of premium (an over-bid or incentive) over 'CUV' or similar required to enable the release of land for development – i.e. to take a site out of its current use, but not necessarily applicable where a site has become redundant for that use.
- 2.13.16 The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggested that *'the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development'*. This benchmark is referred to as threshold land value in that example: *'Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that*

*premium, largely because land market circumstances vary widely'. Further it goes on to say that 'There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied'.*

2.13.17 RICS Guidance<sup>18</sup> refers to site value in the following *'Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan... The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations'.*

2.13.18 In the Local Housing Delivery Group report<sup>19</sup> chaired by Sir John Harman, it is noted that *'Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.*

*We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values'.*

2.13.19 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable rates which balance viability factors with the infrastructure needs side.

2.13.20 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the

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<sup>18</sup> Financial Viability in planning – RICS Guidance note (August 2012)

<sup>19</sup> Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered.

### 3 Findings and Recommendations

#### 3.1 Introduction, values patterns and relationship with the LDP and City area characteristics.

##### Values and implications - residential

3.1.1 As can be seen within Appendix I (and reflected also in the Appendix IIa tables) we have studied the effects of residential sales values varying across the overall range £3,500/sq. m to £6,500/sq. m (equivalent to approximately £325 to £604/sq. ft.).

3.1.2 This overall sales values range is represented by a scale of Value Levels (VLs) increasing 1 to 3 at £500/sq. m (approximately £47/sq. ft.) intervals – so that we can see the effect on the RLV outcomes (and therefore on viability) of value varying by scheme type / locality, or over time through varying market conditions.

3.1.3 As referred to at 2.5 above (including Figures 6 and 7), the indicative occurrence of the VLs by locality (essentially a ward based view and after review consistent with the area based (zones) annual work undertaken for the Council by the DVS) is as follows (Figure 10 – 3 tables – below):

Figure 10: Recapping on DSP Value Levels (VLs) scale by value zone as per DVS

Assumed Market Value Level (VL) range & indicative match with Zones & DSP ward areas based research	Zone 1		
	Wish A, Westbourne A, Central Hove A, Brunswick & Adelaide A, Regency, St Peters & North Laine A, Preston Park A, Hove Park B, Queens Park A, East Brighton A, Rottingdean Coastal A		
	VL1	VL2	VL3+
1 Bed Flat (Studio)	£214,500	£234,000	£253,500
1 Bed Flat	£275,000	£300,000	£325,000
2 Bed Flat	£385,000	£420,000	£455,000
3 Bed Flat	£434,500	£474,000	£513,500
2 Bed House	£434,500	£474,000	£513,500
3 Bed House	£550,000	£600,000	£650,000
4 Bed House	£715,000	£780,000	£845,000
<b>Value Level (£/m2)</b>	<b>£5,500</b>	<b>£6,000</b>	<b>£6,500</b>

Assumed Market Value Level (VL) range & indicative match with Zones & DSP ward areas based research	Zone 2		
	Withdean, Patcham, Hangleton C, Hove Park A, Hangleton A, Wish B, Westbourne B, Central Hove B, Goldsmid, Brunswick & Adelaide B, Preston Park B, Hollingdean & Stanmer, St Peter's & North Lane B, Hanover & Elmgrove, Queens Park B, East Brighton B, Rottingdean Coastal B		
	VL1	VL2	VL3+
1 Bed Flat (Studio)	£175,500	£195,000	£214,500
1 Bed Flat	£225,000	£250,000	£275,000
2 Bed Flat	£315,000	£350,000	£385,000
3 Bed Flat	£355,500	£395,000	£434,500
2 Bed House	£355,500	£395,000	£434,500
3 Bed House	£450,000	£500,000	£550,000
4 Bed House	£585,000	£650,000	£715,000
<b>Value Level (£/m2)</b>	<b>£4,500</b>	<b>£5,000</b>	<b>£5,500</b>

Assumed Market Value Level (VL) range & indicative match with Zones & DSP ward areas based research	Zone 3		
	North Portslade, South Portslade, Hangleton B, Moulsecomb & Bevendean, Woodingdean, East Brighton C		
	VL1	VL2	VL3+
1 Bed Flat (Studio)	£136,500	£156,000	£175,500
1 Bed Flat	£175,000	£200,000	£225,000
2 Bed Flat	£245,000	£280,000	£315,000
3 Bed Flat	£276,500	£316,000	£355,500
2 Bed House	£276,500	£316,000	£355,500
3 Bed House	£350,000	£400,000	£450,000
4 Bed House	£455,000	£520,000	£585,000
<b>Value Level (£/m2)</b>	<b>£3,500</b>	<b>£4,000</b>	<b>£4,500</b>

3.1.4 This is necessarily, but appropriately for the purpose of CIL setting, a broad area based approach used as a key part of the backdrop to reviewing, making recommendations and discussing those with the Council.

- 3.1.5 Ideally, a CIL should be as simply set up as possible. Whilst a single charging rate approach was considered, as typically considered by DSP with clarity and simplicity in mind, the range of characteristics and values available to support viability, overall, was considered too great to satisfactorily settle on such a route.
- 3.1.6 This is because workable rates in the lower value areas would from our findings and in our experience undercut the greater scope, without going near the margins of viability (see below), that is typically available in higher value localities in terms of overall balance between respecting viability at a high-level and the need to secure a reasonable level of funding to support infrastructure provision associated with the planned new development.
- 3.1.7 Viewed conversely, a suitable charging rate for the typically higher value areas could be too high to implement securely in at least some of the generally lower value zone localities; and particularly in respect of Zone 3, being the area regularly exhibiting values at or towards the lower-end of the overall range that is considered relevant for typical new-builds across the City Council's area.
- 3.1.8 It is important to note that the references to values variations relate to relativities; there are no truly "low value" areas here, and the Zone 3 (typically lowest) to Zone 1 (typically highest) VLs in practice represent a range that needs to be sub-divided and described by some means. As above, following our research, we concluded that consistency with the DVS zoning approach (for affordable housing financial contributions, as reviewed annually we understand) provides the most suitable framework for describing this general hierarchy of values.
- 3.1.9 In practice, values will vary from street to street, and within / across streets as well as potentially even within developments depending on aspect and adjoining uses, etc. The inevitable "real life" values and therefore viability variations that will be seen in a mixed way from scheme to scheme simply cannot be, and in any event do not need to be, reflected at this level of review – for the strategic overview purpose of informing judgements on CIL charging rate(s) setting.
- 3.1.10 As can be seen, the VLs overlap moving from one zone to the next, so overall the results can be considered as a part of a larger set and related to each other. However, for an indication of typical values applicable within each at this point, we use the mid-value

level in each case (VL2) as a base point in most instances for considering variable results between areas.

- 3.1.11 Any clear values patterns that influence viability, and are critical to the relationship between viability and housing (or other development) supply in terms of ensuring overall plan delivery, are to be respected. However, as noted above, it also needs to be understood that there are bound to be imperfections in defining any viability zones or similar (linked to any differential CIL charging rates). In practice values can change over very short distances (even within schemes, between different sides or ends of roads, with different aspects, particular surroundings, school catchments or other specific local influences). This, again, is not a Brighton & Hove CC area specific issue; it is a typical finding and where CIL is implemented the charging rates setting cannot be expected to fully respond to the multitude of local variances that are usually seen.
- 3.1.12 Further commentary and advice on these residential development themes and the potential CIL scope that arises from them is provided below.
- 3.1.13 In doing so, we also consider whether any further differentiation or particular treatment within the CIL is considered necessary in respect of larger scale, comprehensive development proposals within the LDP context. From the available information to date, it appears that in the context of the high values available to support viability here, such sites may not be likely to carry such a high-level of specific costs and obligations as we often see impacting viability to significantly reduce or remove the CIL charging scope in the case of larger development. In our view it appears most likely that this will influence the approach regarding the CIL charging potential and in this case probably link to a simpler approach not differentiated for such characteristics. From our previous experience of assessing both CIL viability and site-specific level viability for such developments we have found the level of specific development mitigation and works often to be such that no or very limited scope for fixed CIL charging is seen by the time the typically high level of s.106 and other particular costs are factored in. However, on the assessment commencement we were unclear that those more typical development characteristics were relevant, or fully relevant, in this case.
- 3.1.14 The themes from the above commentary will be developed in considering the further detail that follows.

### **Overall viability picture – residential**

- 3.1.15 Overall in the Brighton & Hove City area, we have observed a local property market having underlying strength and a viability picture that generally reflects that. While this also feeds into (supports) some high site values and expectations, this means that there is good scope to create land value uplift that will usually help support planning policies and related obligations (as should be reflected in site value) and deal with site-based issues; as well as ensuring sufficient and appropriate land values and developer's return levels (development profits). This picture also underpins scope to provide a good level of CIL income along with meeting other aims and creating high quality, sustainable development. Indeed, it is recognised that a CIL is one of the factors that will in itself influence land value.
- 3.1.16 It will be advisable for B&H CC to link its CIL work to further information on s.106 as the further consultation and then submission stages progress on CIL – towards the CIL examination. We recommend that the Council keeps up to date its monitoring information on s.106 collected and agreed to date, and particularly in the last few years. This will inform comparisons and also help to inform the approach to s.106 – alongside a CIL - moving forward.
- 3.1.17 However, it is important to note that a very positive local market overall does not mean unfettered scope regarding CIL alongside the adopted affordable housing and other policies.
- 3.1.18 In such a locality the typically high, and in recent times rising, house prices also tend to contribute to fueling some high land price expectations, so that the scenario RLVs need to reach suitable levels that will usually be higher than is necessary in lower value localities. Related to this, in B&H CC's case there will continue to be a variety of sites coming forward – including a significant reliance PDL (previously developed land – i.e. brownfield) based opportunities where an established or potential alternative use means that the scope for land value uplift as well as significant planning gain may well be more limited than in most greenfield enhancement scenarios.
- 3.1.19 Collective development costs potentially including the highly variable site specific occurrence of abnormal works or other costs may be another factor at individual site delivery level – design and construction constraints, high density development, land assembly and associated issues, heritage aspects and so on. Other more generally

applicable factors are relevant too in this type of area – for example BCIS sourced build costs figures are noted to be significantly higher than the national overview picture – as per the rebasing that we have allowed for; and these costs are on a steadily rising trend overall.

- 3.1.20 So, as we have found from experience of considering CIL viability and setting with prospective charging authority clients in other some areas, there are particular counteracting factors to take account of when looking beyond the high local house prices.
- 3.1.21 In the B&H CC context, these factors are considered likely to come together sufficiently frequently to significantly temper the CIL charging scope by looking at implementable rates that are well within the initially apparent very high CIL funding scope seen from first review of a great many of the results (Appendix IIa tables – see below). This applies in the typically lower density outer urban areas, where the sensitivity of viability outcomes to values reducing and / or particular site costs increasing can be seen. However, it applies equally – if not more - in the often higher density or heritage / townscape/ coastal development aspects affected areas that more often than not attract the highest values. In those areas (particularly Zone 1, but also Zone 2), the realistic parameters for CIL charging need to be looked at closely in our view.
- 3.1.22 This involves an approach that takes a reasonably prudent view in assessment assumptions setting, and in this case we have applied a 50% “buffer” to the upper CIL charging scope apparent in each situation. This adjustment – i.e. looking at 50% of the potential rate indicated by a results set – takes account of reasonable assumptions, including on potential land value requirements. All in all it represents a “highly buffered” approach, whereby a substantial viability cushion should exist between the possible levels and suggested parameters for the B&H CC CIL charging rates
- 3.1.23 As a part of the overall approach, the placing of land value benchmarks against which to compare the assessment appraisal RLVs is invariably a difficult matter. Ultimately it involves making judgements after the review of available information. This is because little usable evidence of land transactions typically exists. This type of information tends to be subject to commercial sensitivities and in any case great care is needed to make sure that any examples are genuinely comparable – e.g. in terms of planning status / assumptions, site conditions, opportunities and constraints, etc. In our view and experience, the key is to consider to what extent a “buffered” view of potential

CIL charges informs the rates proposals and setting, as above, i.e. by looking at the scope to create land value (and bear other development costs) rather than looking in a fixed way at benchmarks or relying only on maximum theoretical CIL rates by reference to the lowest potentially workable land values (and / or other pared-down assumptions).

3.1.24 Our approach is to use a range of sources for land value indications - so far as are available in accordance with the 'appropriate available evidence' tests relating to this necessarily high-level viability overview work. The sources include Valuation Office Agency (VOA) Reporting, previous assessment work carried out in the City (for example the earlier viability assessments) together with (in the background) site-specific experience locally and any stakeholder soundings received via our survey approach.

3.1.25 In considering the RLV results review and making judgements as above, we are making reference to 5 indicative levels of land values, used for comparison – i.e. to “filter” the results and enable trends to be seen:

- Greenfield enhancement (e.g. uplift / hope value received by owner of agricultural land after all development related expenses incurred by a developer) @ £500,000/Ha. Applied to the gross (i.e. total land area of a proposal). In our experience this represents a reasonably prudent assumption with CIL principles in mind, because as above our experience is that land value at circa £100,000/acre (c. £250,000/Ha) based on gross area tends to be more representative of a minimum value to secure its sale (release for development), based on a bulk land purchase for greenfield development.
- The above @ £500,000/Ha overall is considered the lowest benchmark purely for this study purpose, and could also represent other lower value land such as amenity / community or storage land, former allotments, etc.
- £500,000/Ha forms our 'Viability Test 1', therefore, as is seen within the coloured key to each results table set within Appendices IIa (residential) and IIb (commercial / non-residential).

- Taking land out of former / redundant commercial use (e.g. business use) or reuse of residential / mixed-use sites (including a level of incentive to release the land) is considered most likely in the local context across the range of land value benchmarks (our indicative 'Viability tests' 2 to 4) @ £1.5m/Ha to £5m/Ha.
- An upper test @ £10m/Ha represents the potential, as discussed above, to see some significantly higher value sites, and is therefore also included for context bearing in mind the great variety of potential development sites and scenarios here.
- In all cases, these levels are not indicative of firm cu-offs or land price guides; they help inform our review and judgements for consideration with B&H CC.

3.1.26 In the Appendix IIa table footnotes the above can be seen as part of a continuum of potentially relevant land values – as per the principles noted above. The same principles apply in respect of the Appendix IIb commercial / non-residential scenarios results review; again, as will be discussed below.

### **3.2 A guide to the results Appendices (IIa and IIb) tables and context for review**

#### **Overview**

3.2.1 All appraisal RLV results for the development typology testing are included within the overview tables at the Appendices to the rear of this report, as follows:

- Appendix IIa (residential scenarios – tables 1a to 1p). Sample DSP appraisal summary prints follow those tables;
- Appendix IIb (commercial / non-residential scenarios – tables 2a to 2f). Again, with corresponding example appraisal summaries – using Argus Developer – following those);

3.2.2 In each case these reflect the scenarios explained in Chapter 2 (assessment methodology) and summarised at Appendix I (assumptions overview).

- 3.2.3 For the larger site testing, (circa 700 dwellings plus a range of commercial/non-residential provision) we include to the rear of Appendix IIa the Argus appraisal summary prints. These results are prepared, and reviewed in different way, albeit using the same underlying principles involving residual appraisal. Therefore, these will be discussed specifically below, and the results are not included within the Appendix IIa tables.
- 3.2.4 Within Appendix IIa (together with equivalent IIb for commercial) the tables refer to the potential relevance / occurrence of the scenarios, on an overview basis and bearing in mind that in practice each site will be different. As noted previously, the process included consideration of the varying site types relevant to schemes on PDL and also greenfield land of varying types (e.g. from former commercial / non-residential existing uses to land with established residential use such as the redevelopment of existing housing). We have acknowledged that across this range of scheme and site types, inevitably varying land values will be relevant to some extent.
- 3.2.5 Development, overall, looks set to be predominantly PDL site based. However, in terms of overall LDP relevance and total planned new housing provision, greenfield development (and particularly that accommodating larger scale housing delivery, as above), also has a key role in terms of the LDP delivery picture. B&H CC will need to consider our findings in the context of the housing delivery pattern. Generally speaking, the mainly PDL development is expected to be spread broadly across the City area and across a range of site types. This means an opportunity to spread both the opportunities and gains as well as the focus risks associated with development.
- 3.2.6 A very significant contribution to overall new dwellings supply looks set to continue to be made by smaller sites that are likely to continue to come forward, and for which higher land values and build costs, pro-rata, may well be relevant to some degree. Those may include individual plots, although some of those at least will be treated in self-build terms for CIL, and small numbers of plots; and be more likely to occur on PDL. The ongoing provision of new housing from small sites aligns to the Council's continued emphasis on seeking affordable housing (AH) / contributions from a wide range of sites. It is possible under the CIL regulations to differentiate by scale and / or type of development (for example potentially differentiating with increased CIL charging for any very small sites not providing AH). However, in this local context, in our view the scope for and relevance of such an approach is likely to be minimal. A simpler, single approach to all sites, differentiated only in respect of the established

and re-tested DVS value zones, as above, is likely to be more appropriate for consideration by the Council.

3.2.7 The included assumption on affordable housing (AH), set according to the scenario type and its relationship with the existing HDPF policy thresholds, is shown in the grey column at the far left hand side of the Appendix IIa tables. To recap, the tests were conducted based on:

- 0% AH on sites providing fewer than 5 dwellings;
- 0% and 20% AH on sites of 5 to 9 dwellings;
- 0%, 20% and 30% AH at 10 dwellings;
- 30% AH at 11 dwellings;
- 40% AH at 15 or more dwellings.
- In all cases this means testing around the WMS based national threshold (as noted above), as well as reflecting the Council's policies. AH has been tested based on the assumption of the Council's fully applied policy - as adopted. That policy set, in general, forms the up to date basis for the viability testing for and consideration of the CIL.

3.2.8 Each of the Appendix IIa tables also shows for that development scenario (as titled at the top alongside the table number) the resulting RLVs (£) and RLVs/ha (£/ha). These are the outcomes from individual appraisals - from the tests reflecting the values range considered typical within each zone. So the RLVs are reported at each value level (VL) and across the range of trial CIL charging rates shown listed (£0 to £1,000/sq. m in respect of the residential sets; £0 to £250/sq. m for the commercial sets, moving from top to bottom within each set).

3.2.9 Owing to the picture described above on local characteristics, it was considered appropriate to test using trial CIL rates up to this high level in respect of residential development, but this provides context associated with the high values rather than a direct indication of the potential, in our view.

3.2.10 Following the main results tables sets within Appendix IIa and IIb (as described above), sample appraisal summaries are included. The aim of including these is to further explain the appraisal structure - help an understanding of how residual land valuation principles have been used here, for those readers wishing to review. Bearing in mind the study purpose and nature, these are not the full appraisals or sets, given the

volume and added complexity of information that would involve reproducing. The summaries included represent a selection of scheme / use types with a focus where, ultimately, positive CIL charging scope and recommendations have been made. This is consistent with DSP's established approach to such assessments. The appraisals are too numerous to include all summaries in such a way: or indeed a greater number that would still represent only a sample. This is also consistent with the need to provide an overview suitable for informing the CIL setting, as above, rather than attempting to treat the scenarios more as a very large number of examples of actual schemes. To reiterate, appraisal summaries are not included for the full range of scenarios that were considered non-viable or insufficiently viable to clearly support CIL, looking at this at the current time (again see the results tables).

- 3.2.11 Tables 2a to 2f at Appendix IIb include the equivalent information for the commercial / non-residential scenarios testing undertaken – only where full appraisals were carried out (retail, offices, industrial / warehousing, hotel, purpose-built students' housing and residential institution (nursing / care home) development uses.
- 3.2.12 These tables show in their heading the rental yield % assumed for each set. They are to be reviewed bearing in mind the potential relevance of each yield % sensitivity test according to the development use type. For example at the lower yield tests (5.0% and 6.0% - Appendix IIb, tables 2a to 2c), these were considered to best represent the end at which the assumptions would be most relevant to any larger format retail (supermarket and retail warehousing) developments, and also potentially to other forms of development – perhaps including prime industrial / commercial and students' housing as an investment scenario. This involves a prudent rather than optimistic view of assumptions. However, the RLV and therefore viability outcomes are highly sensitive to changes in this yield assumption, so that with deteriorating rental income certainty and investment prospects comes an increased yield % and the investment (capital) value i.e. GDV falls. As with residential, a lower GDV means less scope to support the development costs and a poorer value:cost relationship is quickly indicated through the reducing RLVs that are seen as the yield % increases moving from 5% at table 2a to 7.5% at table 2f.
- 3.2.13 Overall, the range of yield %s used assumes good quality, well-located new-build development as will be relevant to the LDP and to the associated CIL. It should be noted that in respect of some development uses in the local context (particularly the 'B' (business) Class uses) the yield % tests shown are, we consider, at the positive end

of the potential range that could be seen and are used so that we can see to what extent realistic assumptions support positive scheme viability and, from there, assess any scope for CIL payments.

- 3.2.14 For the development use types considered, where poor or only very marginal outcomes were seen generally (B Uses especially – business / employment space including offices and industrial, but also hotels and potentially other development forms where achievable values reduce), we can see that the results would deteriorate further with increased yield % trials.
- 3.2.15 For some forms of retail, and potentially students' housing, even our more positive assumptions might be considered to be on the conservative side. However, in our experience, for the study purpose we would not expect to rely on more positive assumptions than the combinations of lower yields and higher rents trialed amongst the ranges that we have explored through this testing.
- 3.2.16 Only the results relating to key commercial / non-residential development trials are included at Appendix IIb. This is because the early stages consideration of the strength of relationship between the values and build costs quickly showed there to be no point developing the full testing process beyond initial stages in the case of a wider range of development uses. This applied where certain scenarios were seen to be clearly unviable as development uses based on our high-level research and experience, leading to a value:cost comparison enabling likely non-viability for CIL to be seen. We will pick up this area with further commentary later in this chapter; e.g. see within section 3.6 below, including the table at Figure 12.
- 3.2.17 In terms of economics and commercial activity, Brighton & Hove appears to enjoy a complementary relationship with surrounding and nearby areas, both immediately adjoin and further afield, whereby it acts as a major draw in terms of retail, education and other sectors. The City area provides a range of employment but there are also relationships both complimentary and, effectively, also competitive with other parts of the wider region – for example Mid Sussex / Horsham / Worthing & Adur / A23 / Gatwick / Crawley.
- 3.2.18 The Council has a wide range of information and evidence relating to such aspects, but at this stage our observation is that the City area is not attracting a great deal of significant speculative type B Use development. Such schemes appear more likely to

be occupier-led in the main at the current time. As seen through available information on the general tone of rents and values (e.g. see Appendix III and Co-Star commercial property database extracts) we are not able to view it as a prime location for such development in a general sense that we consider would support CIL charging.

- 3.2.19 This certainly does not mean that development is not occurring or will not occur. Rather it means that according to our research, assumptions and findings, the current picture is at best of marginal or mixed viability prospects for development in that sector, and this in our view and experience leads to a fairly narrow scoping of CIL beyond residential development.
- 3.2.20 We will pick up this further below. However, it is possible that even some of the higher yield % tests used – i.e. those at 7%+ yield trials (results at Appendix IIb tables 2e and 2f) - may well represent too positive a scenario in at least some cases. However, as above, the wider trials served the purpose of exploring how positive the assumptions would need to become to support viability where poor initial outcomes were seen at what were considered to be the more realistic end of the assumptions ranges and, hence, potentially, how far they would need to move so as to provide scope for CIL charging. It follows that if those and other scenarios (including for hotels and similar uses) produce poor results with these assumptions then we can see that the results would deteriorate further (become increasingly negative) with a range of less favourable yield % (or other) assumptions that might be seen in practice at the time of review and also as an anticipated short term future position.
- 3.2.21 The Appendix IIb equivalent of the residential test value levels (VLs) is the use of ‘Low’ (L), ‘Medium’ (M) and ‘High’ (H) ‘Value level’ referring to the range of rent/revenue assumptions – as per the Appendix I ‘Commercial Assumptions Overview Sheet’.
- 3.2.22 The medium value levels were considered to be the key area regarding current balanced interpretation of results. ‘L’ and ‘H’ allow us to consider the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location; and / or market movements. As with the yield trials, in the case of poor viability outcomes, they provide context by helping us to gauge the extent to which the values would need to increase to provide viable scheme results where the medium level results are poor or marginal. Similarly, we can develop a feel for how sensitive the better viability indications are to a reduction in values as could be seen through any further weakening of commercial property market conditions.

3.2.23 For context here, in our wider work we are seeing that for prime sectors and locations the commercial market has been showing signs of picking-up from the previous recessionary period in some respects. We think, however, that this is going to be a market feature for ongoing monitoring and future review of CIL; rather than have a sufficiently positive effect on scheme viability so as to influence the CIL charging scope more positively than we have observed to be relevant for this current assessment.

### **Results – trends and interpretation**

3.2.24 The trial CIL rates – in £/sq. m are applied as a key part of the process of exploring the effect on likely viability. These trial rates are considered in combination with the key areas of potential policy that impact on viability. The noted affordable housing %s are the key factor in that respect, but also allowances were made for other Plan policies / wider requirements that at this stage are considered likely to have a direct development cost implication and therefore influence the CIL charging scope.

3.2.25 The overall trends show lower RLVs and therefore increased viability impact (reduced viability outcomes) as those trial CIL charging rates increase (moving from left to right within all Appendix IIa – and for commercial, IIb - tables). However, this is seen to be a very graduated effect – clear steps or points within the results are difficult to see as the trial rate changes.

3.2.26 Given this and the strength of values generally, as well as the range of other viability influences noted, rather than continue a linear scale of testing at £25/sq. m intervals for residential, we considered it appropriate to take a finer-grained look using those small steps across the likely more realistic charging scope of up to around £200/sq. m. For testing the potential impacts of higher trial rates, the intervals were expanded to £50/sq. m and then £100/sq. m beyond the £200/sq. m and £500/sq. trials respectively.

3.2.27 On the other hand, the emerging results for commercial / non-residential development uses did not warrant further exploration of higher potential CIL charging rates (i.e. higher than £250/sq. m) alongside the LDP policy considerations – see below.

- 3.2.28 It is important to note that the colour-coding shown on the tables at Appendices IIa and IIb provides only a rough guide – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science - this guide to the trends must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability. In practice, switch-points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable and therefore achieving the most appropriate points for finding balance between viable CIL rates and the high level of the local infrastructure needs.
- 3.2.29 The colours within the results tables therefore show trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from white (representing poor outcomes – negative RLVs clearly failing the lowest tests considered – i.e. clear non-viability on the basis of the necessary approach to CIL viability study assumptions) through shades of green (aligned to the viability tests as per the Key). So the boldest green-coloured results indicate the greatest level confidence in viability across a wider range of land value comparisons representing different host site types and locations. Again, there are no precise cut-offs or steps in terms of the results interpretation. In practice a range of outcomes within the lower results areas could prove viable depending on particular scheme and site circumstances.

### **General points and context for results review**

- 3.2.30 Government guidance states that CIL charging rates should not be set up to their potential limits (up to ‘the margins of viability’, or similar phrases). Marginal viability does not indicate support for clear CIL charging scope – viability should not be taken to the limits to support a Council’s selected CIL charging rate(s).
- 3.2.31 On reviewing the results and for the Council’s consideration of Preliminary Draft Charging Schedule (PDCS) CIL rate(s) proposals as is proposed for consultation later this year, a number of key principles have been and will need to be considered as set out below (at 3.2.32 to 3.2.54).

- 3.2.32 Costs will vary from these assumptions levels with site specifics and over time (particular build and related costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some scope may be needed where costs are higher through such factors as site-specific abnormalities and / or scheme-specific design / materials, etc. When viewed overall, the various assumptions made reasonably represent market norms from our wide experience of strategic and site-specific viability assessment work and from established information sources; but tailored to the B&H CC characteristics where more specific / local information pointed to particular assumptions or adjustments being used. Through applying our well established and tested approach the assessment is strategic in a way that is relevant to informing and supporting the development of CIL proposals by the Council.
- 3.2.33 Land owners' situations and requirements will vary. Expectations will need to be realistic and take account of policy and CIL requirements. As part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from some existing or alternative uses in the prevailing market. Nevertheless, land values could be outside the ranges that we indicate as benchmarks purely for the use of making our overview, including at higher levels. As can be seen, in many cases the results show the capacity of developments locally to produce land values in excess of the benchmarks, even at the higher levels.
- 3.2.34 The wider economic backdrop remains mixed and uncertain in the period following the June 2016 "Brexit" vote, although at the point of writing-up this study there appear to be increasing signs of a slowing and in some cases flattening-off of house price growth, being seen more so in higher value than lower value areas. At present there is no particular evidence of a general slow-down as such in generally buoyant market areas like this. Only time will tell how this continues to play out; a key area for monitoring by the Council. In the meantime, the buffered type approach that we consider here in looking well within the apparently very high looking CIL charging scope is considered responsive to this level of potential uncertainty moving ahead.
- 3.2.35 Certainly a significant factor for the residential scenarios, as is always the case, is the affordable housing (AH) provision to be secured from market developments based on the policy targets. Outside the operation of the market itself, as above, the effect of the AH requirement is typically one of the most significant impacts, if not the most significant, on development viability.

- 3.2.36 Although the HCA are directly investing for example through site purchase and other means in some instances, this or other funding for affordable housing remains limited and uncertain at best, and likely to continue being so in application to non s.106 provision for the foreseeable future. Again, appropriate revenue assumptions have been made so that no affordable housing grant / other similar subsidy sources have been factored-in. The reported outcomes are not reliant on grant or any other external subsidy. This is an established approach. Where available, added grant would improve the viability positions indicated, or could help to restore affordable housing proportions or tenure mixes to some extent where those would otherwise need to be below target requirements in order to maintain viability (e.g. in instances of higher site costs, significant development abnormalities or other requirements).
- 3.2.37 Nevertheless, related to the strong local housing market and resultant high house prices that we have discussed, there is significant local affordable need in Brighton & Hove City area and the Council is duty bound to continue to optimise AH provision (continuing its strong track record of delivery in this area). At this point, for first CIL charging schedule purposes, an appropriate overview has been taken on the level of AH revenue based on the mixture of circumstances and uncertainties prevailing at the current time. These include the impact on affordable rented provision, some potential “switching” to other tenure forms such as shared ownership and the emergence of alternative tenure forms.
- 3.2.38 As a starting point B&H CC is necessarily continuing to seek what has been a typical mix of affordable rented and shared ownership / equivalent tenure. However, in practice the Council has operated this approach flexibly - according to a mix of factors including the site / scheme type, location, local needs and financial circumstances. This is currently a fairly typical approach in our experience. We are now seeing the emergence of a potential added / alternative “affordable” tenure in the form of low cost housing (assumed for sale at a discount to market price, similar to the Government’s previous announcements on ‘starter homes’ or similar. At the time of preparing this assessment there are many unknowns on affordable housing, and judgements have to be made based on the existing, known, LDP related approach.

- 3.2.39 Moving ahead, we could see that any replacement of some or all of the traditional AH tenure housing within scheme mixes could produce quite different viability influences. So, on future review of its CIL charging schedule, the Council could well find different viability impacts from any updated housing and / or affordable housing mix. These influences should be monitored. This area of appraisal assumptions could have implications for both CIL levels and policy/SPD etc. and may need to be revisited as part of any review in future.
- 3.2.40 Developer's profit level requirements (and in some cases related funders' stipulations) could well vary; including profits supporting workable schemes at a lower proportion of GDV (% GDV) or a similar proportion of development cost. In our recent experience of scheme specifics and on reviewing appeal outcomes etc. we are seeing a range of profit levels. Whilst for CIL setting purposes only this observation may be particularly relevant in the case of commercial schemes, where we could see lower profit level requirements than those we have assumed (potentially significantly lower than 20% GDV) this may also be the case for residential.
- 3.2.41 However, for the study purpose (rather than any guide to site-specifics) we considered it appropriate overall to acknowledge that there may need to be some scope in this regard on commercial / mixed-use developments; or in respect of other commercial scheme costs / risks.
- 3.2.42 This, again, is part of setting assumptions which fit with arriving at a balanced approach overall and do not mean that the consideration of CIL charging rates involves pushing to the margins of viability; part of the "buffered" type approach. It is important to avoid removing cost from collective assumptions that are set on this basis, so that scheme prospects become too dependent on those particular assumptions proving absolutely correct in practice. When it comes to site specifics, all individual appraisal inputs will vary and, therefore, how they interact will vary too.
- 3.2.43 This means that whilst for CIL informing / setting purposes for this assessment we regard a profit based on 20% GDV across the board on all scenarios to be part of a prudent assumptions approach overall, B&H CC need not expect to see this as a consistent assumption or expectation on site-specifics at the delivery level where viability is being discussed.

- 3.2.44 This approach runs through the assumptions setting process. This is an important point, as the assumptions are made for the purpose of considering the CIL funding scope at the current time; and not for any wider purpose such as site-specific or affordable housing viability. For the study purpose we cannot consider for example the extent to which land and build costs etc. may be negotiated, savings may be identified against earlier stage assumptions as schemes are progressed built-out, profit margins may be flexed, contingencies reduced; or any gain on the values side. In balance with this, we have acknowledged also that rising costs tend to produce further pressure on overall viability if they not supported by positive values changes.
- 3.2.45 Any potential CIL charging rates need to be considered alongside other factors relevant to the locality and the development plan delivery; i.e. not based on viability only.
- 3.2.46 Amongst these other factors, the location and frequency of site and scheme types forming key parts of the local growth planning options is always key to a prospective CIL charging authorities considerations – i.e. considering where in the main development will be coming forward (in relation to the site types and values patterns explored for example). The viability work should inform a Council’s approach to CIL, but its approach need not follow the viability assessment exactly – the other influences discussed here, and wider evidence, will also be in play as part of the Council striking its local balance for the particular area characteristics.
- 3.2.47 The types and frequency of schemes likely to be relevant under the next phase of the LDP delivery relevant to the lifespan of any first CIL charging schedule will be a primary influence in the selection of the Council’s approach to planning obligations for infrastructure; and may subsequently vary at any future review points when market, government policy or other influences together with review of the Council’s monitoring information point to a refreshed check and view of the CIL scope being appropriate. In practice, the variation of schemes types could be very wide – including for commercial / non-residential development, where schemes could be seen in many shapes and sizes, widely varying uses and combinations of uses. However, it is necessary to consider the local relevance of those in terms of the plan delivery as a whole alongside their likely typical scope to support viability. Focus needs to be on the main relevant types, given that plan delivery and the Council’s proposals for new housing and economic development based schemes across its administrative area as a whole are of greatest importance.

- 3.2.48 The modelling does not need to be sufficient to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the expected Plan delivery.
- 3.2.49 Some individual schemes (residential and commercial) may not be able to support the collective requirements in any event; they may not be viable either prior to or following the imposition of any CIL (alongside other costs and requirements). Such viability outcomes are unlikely to be solely due to CIL charging, however. They are more likely to be associated with market conditions (arguably the biggest single factor) as impact a particular scheme, affordable housing, scheme design / construction / specification requirements (including but not limited to sustainable construction) and wider planning objectives. Usually, the collective costs impact on schemes will be relevant for consideration where issues arise, so that some level of prioritisation may be required – but, as noted above, bearing in mind that if implemented a CIL would be non-negotiable.
- 3.2.50 Therefore, whilst even a modest CIL charge may well not be solely responsible for any lack or insufficient level of viability (that may be inherent in the nature of the site, scheme timing or other matter), it certainly has the potential to further restrict the delivery scope where viability is limited. As a fixed “top-slice” from any overall optimal planning obligations funding scope, potentially it has a restricting effect on considering and delivering local / scheme priorities; other aspects may come under additional pressure subject to site-specifics.
- 3.2.51 Whilst this is accepted under the CIL principles, so that the inevitable non-viability of some individual schemes need not prejudice the plan delivery and the approach to CIL, this also means, however, that the viability of schemes that are critical to overall plan delivery needs to be assured. This is relevant to the extent that the approach to CIL as it affects such sites must not have too significant an effect on their viability so as to place their delivery at risk.
- 3.2.52 The latter points here tie in with the Government’s latest CIL Guidance (as has been incorporated into the PPG, as noted earlier) because they relate also to local authorities putting in place a CIL regime that will not only avoid prejudicing the plan delivery as a whole, but will contribute positively to the development of the area. In any event the Council will need to be able to show that it has struck an appropriate

balance between infrastructure needs and viability / delivery considerations in any re-setting of its CIL charging rates.

3.2.53 Local authorities (the charging authorities, including B&H CC) have significant scope to consider exactly how they will assess what the right balance is given the particular characteristics of their area.

3.2.54 A common theme running through all of the results (residential and commercial) is that they are highly sensitive to varied appraisal inputs – particularly the values - and to the land value comparisons considered as potential benchmark ranges. A relatively small adjustment, particularly in some assumptions areas, can have a significant effect on the outcome.

### **3.3 CIL charging scope – results review – residential**

3.3.1 In this section, we will provide an overview of the potential for CIL charging, based on the scenario appraisal RLVs compared with the range of viability tests, following the principles set out above.

3.3.2 This follows the Zoned approach informed by the typically varying values and strength of viability, overall, on that basis. The approach leads to our suggesting adopting of this framework as a likely most suitable basis for a level of differentiation in the CIL charging rates that in our view should be considered across the Brighton & Hove City area – for residential development.

3.3.3 On this basis, we use the wide range findings to set out what we refer to as the suggested ‘parameters’ for CIL charging rates in various circumstances (informing and leading to a presented view with reference to these Zones – 1, 2 and 3). The aim here is to narrow-down the great range of indications overall to these parameters (i.e. suggested lower to upper figures) within which, from our analysis and experience, we consider B&H CC could consider setting realistic CIL charging rates.

3.3.4 This is on the basis of the “buffered”/”cushioned” approach to making our viability based recommendations as also discussed above. The buffering is made up of two layers; firstly, prudent assumptions setting and, secondly, in this assessment for B&H CC an extension of the prudent approach by reducing these indications to get to suggested realistic charging rates.

- 3.3.5 The maximum theoretical charging rates (suggesting rates taken to the margins of viability), would, in many cases here, be higher than the starting point indications referred to below. The indications before the added buffer factor (reduction) are, in many cases in our view, beneath what might be called maximum theoretical CIL charging rates, or similar.
- 3.3.6 Invariably, where applied, a “buffer factor” such as this is essentially arbitrary, and simply a way of pulling-back the suggested rates to realistic, readily implementable parameters - as discussed. However, given the local characteristics considered, in this case we have used a halving-back of the CIL charging rates scope (‘indications’) seen in various scenarios to inform these parameters.
- 3.3.7 So, in this particular case a significant 50% buffer (reduction) is introduced for this assessment purpose, with that adjustment made from starting point indications that are considered to be within maximum theoretical charging levels. In many cases. i.e. a matter of judgement depending on typical sites and their complexity etc. This prudent approach relates back to the predominantly PDL sourced housing supply and the varied nature of site characteristics, as above.
- 3.3.8 Smaller reductions for buffering (and indeed no explicit buffering reduction) are also used and accepted through the Examination of proposed CIL Charging Schedules. In our view and experience, the nature of sites and development in B&H is such that a good degree of cushioning from the view on the prudently assessed maximum CIL rates is going to be appropriate and likely to be necessary or at least a very positive approach ensuring a CIL set up that will support rather than place under pressure the delivery of the planned new homes.
- 3.3.9 Back to the very nature of this, however, the viability assessment recommendations inform rather than direct the prospective charging authority’s scope, and here this certainly leads to more flexibility being possible in considering the rates for selection. This is useful and important if a clear and relatively simple approach is to be achieved, consistent with the CIL principles; an overly complex approach that seeks (but can never truly reflect) all variations should be avoided.
- 3.3.10 Consistent with our use of the VLs and looking at VL2 in each case as being a mid-range / typical value level for each Zone, that value level in the main informed our thinking

here. Sometimes a wider view is also relevant, however – e.g. where mixed or poor results from base values (VL2) suggest either likely non-viable scenarios; or that those might only progress at higher than VL2 values in combination with our development costs assumptions. Throughout, we can see just how sensitive to the assumed sales values the outcomes are.

3.3.11 Examples are not provided for all test scenarios here. The following are illustrations including:

- The maximum CIL charging scope in particular scenarios based on our approach and assumptions; and as above not considered absolute / theoretical maximums in many cases;
- Worked back from those, the ‘buffered’ i.e. less 50% (halved) indications for charging rates;
- Where appropriate, a mid-range or other judgement based charging rate indication – overview, where possible to provide this based on the halved-back (adjusted for 50% buffer) figures or figures as per above.

3.3.12 Looking at the RLV results, considering the viability tests and plot values, overviewing this range of indications – as below - informs the parameters within which we consider appropriate CIL charging (residential) rates to lie. Readers wishing to go to our overview informed by the following (remainder of 3.3 and 3.4) may wish to move on to section 3.5.

## **2 Houses**

### **Zone 1**

3.3.13 The RLV reaches £10m/Ha equivalent only with VL3 values. At VL3 it reaches £200,000/plot with max CIL c.£550/sq. m, leading to c. £275/sq. m indication.

3.3.14 At VL2 it reaches £5m/Ha equivalent, or plots at c. £118,000 each with max. CIL at c. £900/sq. m leads to c. £450/sq. m indication.

3.3.15 However, plot values of c. £200,000 each would squeeze this back to a max. CIL of circa £175/sq. m, which leads to c. £88/sq. m indication.

3.3.16 This leads to a mid-range indication of c. £269/sq. m.

## **Zone 2**

- 3.3.17 RLV reaches £5m/Ha equivalent (c. £115,000/plot) with VL2 values and c. £165/sq. m max CIL, which leads to a c. £83/sq. m indication.
- 3.3.18 With VL3 values it reaches £5m/Ha or c. £120,000/plot with max. c. £500/sq. m CIL and leads to c. £250/sq. m indication.
- 3.3.19 This leads to a mid-range indication of c. £167/sq. m.

## **Zone 3**

- 3.3.20 Provisional outcomes suggest in theory virtually nil CIL scope at VL2; with plots @ c. £50,000 each c. £330/sq. m max at VL3 leads to c. £165/sq. m indication.
- 3.3.21 This leads to a mid-range indication of c. £83/sq. m.

## **5 Houses**

### ***First, With 0% AH:***

#### **Zone 1**

- 3.3.22 The RLVs do not reach £10m/Ha equivalent except with VL3 values at max. c. £150/sq. m and then leading to c. £75/sq. m indication.
- 3.3.23 Reaches more than £5m/Ha with more than the maximum tested rate.
- 3.3.24 Reaches c.£175,000/plot i.e. RLV £875,000 with max. c. £500/sq. m CIL and leads to an indication at c. £250/sq. m.
- 3.3.25 At c. £150,000/plot i.e. with RLV £750,000 reached, a max. c. £800/sq. m CIL and leads to an indication at c. £400/sq. m.
- 3.3.26 This leads to a mid-range indication of c. £238/sq. m.

#### **Zone 2**

- 3.3.27 Reaches £5m/Ha (plot values c. £115,000) with the max. CIL at VL2 being circa £500/sq. m which leads to a c. £250/sq. m indication.
- 3.3.28 At VL3 similar plot values (RLV c. £575,000) with max. CIL scope of almost £900/sq. m is generated, leading to c. £450/sq. m indication.
- 3.3.29 Higher plot values squeeze this down, unless supported by higher sales values – e.g. at VL3 c. £150,000/plot is supported with CIL max. c. £450/sq. m and so an indication at c. £225/sq. m.
- 3.3.30 This leads to a mid-range indication of c. £238/sq. m.

#### **Zone 3**

- 3.3.31 Plots at c. £75,000 each i.e. RLV c. £375,000 at VL2 suggests max. CIL scope of c. £250/sq. m and leads to an indication c. £125/sq. m.
- 3.3.32 Plots at c. £100,000 each i.e. RLV £500,000 suggests max. CIL scope of c. £300/sq. m and so an indication c. £150/sq. m.

3.3.33 This leads to a mid-range indication of c. £138/sq. m.

***Alternative tests - with 20% AH (£FC):***

**Zone 1**

3.3.34 RLVs do not reach £10m/HA equivalent.

3.3.35 It reaches more than £5m/Ha with max. c. £750/sq. m CIL and so an indication at c. £375/sq. m.

3.3.36 Reaches c.£175,000/plot i.e. RLV £875,000 with max. CIL rate of £0/sq. m at VL2; c.£350/sq. m at VL3, and therefore an indication at c. £175/sq. m.

3.3.37 Reliant on VL2, plot values at c. £150,000 each i.e. RLV £750,000 would see a max. CIL rate of c. £300/sq. m i.e. an indication at c. £150/sq. m.

3.3.38 This leads to a mid-range indication of c. £188/sq. m.

**Zone 2**

3.3.39 Reaches £5m/Ha (plot values c. £116,000) with max. at VL2 £100/sq. m CIL i.e. c. £50/sq. m indication.

3.3.40 Higher plot values squeeze this down, unless supported by higher sales value so e.g. at VL3 similar plot values are supported with CIL max. c. £475/sq. m and on the above basis an indication of c. £238/sq. m.

3.3.41 This leads to a mid-range indication c. £ 144/sq. m.

**Zone 3**

3.3.42 Plots at c. £75,000 each i.e. RLV c. £375,000 suggests max. CIL scope of c. £0/sq. m at VL2; at VL3 max c. £300/sq. m and so an indication at c. £150/sq. m.

3.3.43 Plots at c. £100,000 each i.e. RLV £500,000 workable only with £0/sq. m CIL at VL3 with the AH £FC included.

3.3.44 This leads to a mid-range indication of c. £75/sq. m.

**9 flats** (incl. studios)

***First, With 0% AH:***

**Zone 1**

3.3.45 Reaches £10m/Ha equivalent only at VL3 at max. c. £75/sq. m suggesting a c. £38/sq. m indication.

3.3.46 Reaches greater than £5m/Ha, however, with around or more than the maximum tested rate.

3.3.47 At VL2 reaches c.£75,000/plot i.e. RLV £675,000 with max. c. £750/sq. m CIL and so an indication at c. £375/sq. m.

3.3.48 Based on VL2 at c. £100,000/plot i.e. RLV £900,000 reaches max. c. £100/sq. m CIL and therefore an indication at c. £50/sq. m.

3.3.49 This leads to a mid-range indication of c. £207/sq. m.

**Zone 2**

3.3.50 Reaches £5m/Ha (plot values c. £57,000) with max. at VL2 £450/sq. m CIL and so a c. £225/sq. m indication.

3.3.51 At VL3 plot values of c. £75,000 (RLV c. £675,000) max. CIL scope of c. £375/sq. m is generated and so a c. £188/sq. m indication.

3.3.52 This leads to a mid-range indication c. £207/sq. m.

**Zone 3**

3.3.53 Plots at c. £50,000 each i.e. RLV c. £450,000 only supportable with VL3 values and a max. CIL at c. £250/sq. m meaning a c. £125/sq. m indication in the above terms.

3.3.54 Reaching the £3.3m/Ha benchmark (plots at c. £38,400 each) would mean max. CIL scope at c. £175/sq. m and so an indication at c. £88/sq. m.

3.3.55 This leads to a mid-range indication c. £107/sq. m.

***Alternative tests - with 20% AH (EFC):***

**Zone 1**

3.3.56 Does not reach £10m/HA equivalent.

3.3.57 Reaches in excess of £5m/Ha (RLV c. £520,000 meaning plot values at c. £47,000 each) at VL2 with max CIL at c. £260/sq. m i.e. c. £130/sq. m indication.

3.3.58 At VL3 does not reach c.£75,000/plot i.e. RLV £675,000 even with £0/sq. m CIL.

3.3.59 This leads to a mid-range indication c. £65/sq. m.

**Zone 2**

3.3.60 At VL2 reaches £3.3m/Ha equivalent (RLV c. £340,000 or c. £38,000/plot) with max. c. £275/sq. m CIL i.e. an indication at c. £138/sq. m.

3.3.61 Reaches £5m/Ha (plot values c. £58,000) only at VL3 with max. CIL c. £150/sq. m CIL i.e. c. £75/sq. m indication.

3.3.62 This leads to a mid-range indication c. £107/sq. m

**Zone 3**

3.3.63 Reaches a likely minimum acceptable looking RLV / plot value - £3.3m/Ha equivalent - with VL3 values and not more than £75 – 100/sq. m maximum CIL i.e. an indication c. £38 – 50/sq. m

3.3.64 This leads to a mid-range indication c. £44/sq. m

**9 flats** (assumes none as studios)

3.3.65 Markedly improved results of the scenarios including studios, meaning these support higher plot/land values where space permits.

***First, With 0% AH:***

**Zone 1**

- 3.3.66 Reaches £10m/Ha equivalent (plot values c. £115,000 each) at VL2 with max. c. £425/sq. m CIL i.e. c. £213/sq. m indication.
- 3.3.67 Reaches over £5/Ha equivalent with CIL at more than the max. tested rate and so a £500+/sq. m indication on the above described basis.
- 3.3.68 This leads to a mid-range indication c. £357/sq. m.

**Zone 2**

- 3.3.69 RLVs do not reach £10m/Ha equivalent.
- 3.3.70 They reach c. £100,000/plot i.e. RLV c. £900,000 only at VL3 with a max. CIL at c. £125/sq. m and so an indication at c. £63/sq. m.
- 3.3.71 However, RLVs reach c. £75,000/plot i.e. c. £675,000 equivalent at VL2 with max. CIL scope of c. £500/sq. m providing a c. £250/sq. m indication.
- 3.3.72 This leads to a mid-range indication c. £157/sq. m.

**Zone 3**

- 3.3.73 Plots at c. £50,000 each i.e. RLV c. £450,000 only supportable with VL2 values and a max. CIL at c. £200/sq. m leading to a c. £100/sq. m indication.
- 3.3.74 Reaching the £3.3m/Ha benchmark (plots at c. £40,000 each) would mean max. CIL scope at c. £400/sq. m and so an indication at c. £200/sq. m.
- 3.3.75 Leading to a mid-range indication of c. £150/sq. m.

***Alternative tests - with 20% AH (EFC):***

**Zone 1**

- 3.3.76 RLVs reach £10m/HA equivalent only at VL3 with £0/sq. m CIL.
- 3.3.77 However, they reach more than £5m/Ha (RLV c. £520,000 meaning plot values at c. £57,000 each – i.e. around half the above 0% AH derived level) at VL2 albeit with max CIL at c. £775/sq. m i.e. £385/sq. m CIL indication.
- 3.3.78 With plots at say £75,000 each, the max. CIL rate at VL2 is about £410/sq. m i.e. £205/sq. m indication.
- 3.3.79 VL2 does not support plots at say £100,000 each – that is supportable only at VL3 with a max. CIL of c. £300/sq. m and in that case an indication at c. £150/sq. m.
- 3.3.80 Leading to a mid-range indication of c. £268/sq. m.

**Zone 2**

- 3.3.81 AT VL2 reaches £5m/Ha equivalent (RLV c. £515,000 or c. £57,000/plot) with max. c. £225/sq. m CIL i.e. an indication of c. £113/sq. m.
- 3.3.82 Plot values c. £75,000 (RLV at £675,000) are not reached at VL2, and reached only at VL3 with max. CIL c. £250/sq. m CIL, providing a c.£125/sq. m indication.

3.3.83 This leads to a mid-range indication c. £119/sq. m .

**Zone 3**

3.3.84 A likely minimum acceptable looking RLV / plot value – at say £3.3m/Ha equivalent – is reached only at VL2 with max c. £25/sq. m (and so a nominal CIL indication).

3.3.85 With VL3 values and not more than £400/sq. m maximum CIL and so an indication c. £200/sq. m, £3.3m/Ha equivalent is reached, but relies on plot values of c. £39,000.

3.3.86 The indications are that in some instances such schemes may be unworkable if bearing a combination of AH and CIL at the lower values.

**10 Houses**

3.3.87 View taken at this stage for the purposes of this assessment and additional results reviewing – potentially min. £150k/plot Zone 1; £125k plot Zone 2; £100k/plot Zone 3 – indicative only.

3.3.88 So, indicatively, RLVs needing to reach say £1.5m in Zone 1; £1.25m Zone 2; £1m Zone 3. As a guide, based on VL2 values for each zone, except for where other VL related notes included.

On this basis:

***First, With 0% AH:***

**Zone 1**

3.3.89 Max. CIL scope approx. £750/sq. m i.e. indication c. £375/sq. m.

**Zone 2**

3.3.90 Max. CIL scope c. £350/sq. m i.e. indication c. £175/sq. m.

**Zone 3**

3.3.91 Max. CIL scope n/a at VL2; £300/sq. m at VL3 i.e. indication c. £150/sq. m.

3.3.92 £75,000/plot is reached with max. CIL c. £250/sq. m i.e. indication c. £125/sq. m.

3.3.93 £3.3m/Ha benchmark exceeded with max. CIL c.£200/sq. m and so ,say, c. £100/sq. m.

3.3.94 This leads to a mid-range indication of CIL scope at c. £125/sq. m.

***Tests with 20% AH (£FC):***

**Zone 1**

3.3.95 Max. CIL scope approx. £450/sq. m i.e. indication c.£225/sq. m.

**Zone 2**

3.3.96 Max. CIL scope approx. £38/sq. m i.e. indication of up to c. £20/sq. m.

**Zone 3**

3.3.97 £100,000/plot only reached at VL3 with max. c. £50/sq. m CIL i.e. indication c. £25/sq. m.

3.3.98 £3.3m/Ha reached at VL2 with max. CIL c. £25/sq. m only and so an indication of nominal CIL scope only.

3.3.99 £3.3m/Ha reached at VL3 with max. CIL c. £475/sq. m i.e. indication c. £238/sq. m but supports plot values at c. £79,000 each; not more.

3.3.100 Overall these pointers lead to an indication of nil / nominal CIL supporting scope.

**Tests with 30% AH (on-site):**

**Zone 1**

3.3.101 Max. CIL scope approx. £250/sq. m i.e. indication c. £125/sq. m.

**Zone 2**

3.3.102 VL2 reaches £5m/Ha only with max. CIL at c. £25/sq. m i.e. indicative of nominal CIL only.

3.3.103 VL2 reaches £3.3m/Ha with max. CIL around £750/sq. m i.e. indication c. £375/sq. m.

3.3.104 £125,000/plot only reached at VL3 max. c. £300/sq. m CIL i.e. indication c. £150/sq. m.

3.3.105 VL3 reaches £5m/Ha with max. c. £475/sq. m CIL and so an indication at c. £238/sq. m.

**Zone 3**

3.3.106 £100,000/plot not reached with any test.

3.3.107 £3.3m CIL reached at VL3 with max. CIL approx. £325/sq. m i.e. indication £163/sq. m.

3.3.108 c. £60,000/plot is reached at VL2 with a max. CIL of c. £175/sq. m i.e. indication c. £88/sq. m.

**3.4 Continued review of Larger scenarios / tests – Schemes exceeding WMS Threshold  
11 Houses (30% AH)**

3.4.1 Moving beyond the range of smallest scenarios, consideration of the viability tests (benchmark land value indications (BLVs) alone becomes more relevant. However, a reliance on the use only of land values expressed in £/HA terms can still be misleading or judgements also benefit from supplementing with views on potential plot values – i.e. looking at the £RLV indications too, as above.

3.4.2 So, a wider view was also taken for the purposes of this assessment and results overiewing – looking at indicative plot values of say £150k/plot Zone 1; £125k plot Zone 2; £100k/plot Zone 3.

3.4.3 So, RLVs at say £1.5m in Zone 1; £1.25m Zone 2; £1m Zone 3. As a guide, based on VL2 values for each zone, except for where other VL related notes included.

On this basis:

**Zone 1**

3.4.4 Max. CIL scope c. £550/sq. m i.e. indication c. £275/sq. m, again after the same as above 50% “buffer” deduction.

### **Zone 2**

3.4.5 Max. CIL scope c. £150/sq. m i.e. indication c. £75/sq. m.

### **Zone 3**

3.4.6 £100,000/plot not reached with any VL2 test i.e. indication nil or very low CIL scope.

3.4.7 £100,000/plot reached at VL3 with max. c. £150/sq. m CIL i.e. indication c. £75/sq. m.

3.4.8 £3.3m/Ha not reached at VL2; reached only at VL3 but then with up to around £425/sq. m CIL max. and so an indication at c. £213/sq. m.

3.4.9 c. £60,000/plot is reached at VL2 with a max. CIL of c. £375/sq. m and so an indication of CIL chargeable at c. £188/sq. m.

3.4.10 This leads to a mid-range indication c. £94/sq. m.

### **15 Flats**

3.4.11 All scenario appraisals and therefore results reflect the inclusion of 40% AH from this point on – as included within as per B&H CC adopted policy; and this being also beyond the WMS Threshold, with no other relevant policy position or potential alternative approach relevant currently.

3.4.12 Following the above, in addition to looking at the BLV indications, a view was also taken for the purposes of this assessment and results reviewing at say £75k/plot Zone 1; £50k plot Zone 2; £25k/plot Zone 3. So, RLVs needing to reach say £1.125m in Zone 1; £0.75m Zone 2; £0.375m Zone 3. VL2 values for each zone as a main basis, again except for where other VL related indications are included.

### **Zone 1**

3.4.13 RLV £1.125m reached at VL2 with max CIL c. £550/sq. m i.e. indication c. £275/sq. m.

3.4.14 RLV £1.5m not reached at VL2 but reached at VL3 with max. c. £190/sq. m CIL i.e. indication £95/sq. m.

3.4.15 RLV equivalent to £10m/Ha not reached by any scenario; RLV > £5m/Ha reached by almost all tests.

3.4.16 This leads to a mid-range indication for CIL at c. £185/sq. m.

### **Zone 2**

3.4.17 RLV £0.75m reached at VL2 with c. £425/sq. m max CIL i.e. indication £213/sq. m.

3.4.18 £5m/Ha is reached at VL2 with max. CIL c. £190/sq. m i.e. indication c. £95/sq. m.

3.4.19 Leading to a mid-range indication at c. £154/sq. m.

### **Zone 3**

3.4.20 RLV £0.375m (plots at £25,000) is reached at VL2 with max. CIL c. £280/sq. m i.e. indication at c. £140/sq. m.

3.4.21 RLV equivalent to £3.3m/Ha is reached only at VL3, with max. CIL of c. £340/sq. m i.e. indication at c. £170/sq. m.

- 3.4.22 Reaching an RLV of say £450,000 (plots at £30,000 each) is workable at VL2 with max. CIL at up to c. £125/sq. m i.e. indication c. £65/sq. m.
- 3.4.23 So here we see a mid-range indication at c. £103/sq. m.

### **15 dwellings** (mixed – houses & flats)

- 3.4.24 The same aspects and principles inform this continued overviewing. From this point on, the results review context continues to be primarily the BLVs ('viability tests'), with tests 3, 4 & 5 of most relevance – i.e. land values @ £3.3m - £10m/ Ha – predominantly PDL sites). Plot values also continue to be considered, however, given the large range of potential circumstance and indications provided by the results.

#### **Zone 1**

- 3.4.25 £10m/Ha RLV not reached by any test.
- 3.4.26 £5m/Ha reached across almost all tests.
- 3.4.27 At VL2 an ave. plot value of £125,000 leaves scope for max. CIL c. £900/sq. m i.e. indication c. £450/sq. m.
- 3.4.28 At VL2 an ave. plot value of £150,000 leaves scope for max. CIL c. £300/sq. m i.e. indication c. £150/sq. m.
- 3.4.29 Leading to a mid-range indication at c. £300/sq. m.

#### **Zone 2**

- 3.4.30 £10m/Ha not reached by any test.
- 3.4.31 £5m/Ha reached at VL2 with max. CIL c. £125/sq. m i.e. indication c. £63/sq. m.
- 3.4.32 At VL2 an ave. plot value of £100,000 leaves scope for max. CIL c. £425/sq. m i.e. indication c. £213/sq. m.
- 3.4.33 At VL2 an ave. plot value of £125,000 leaves scope for max. CIL c. £0/sq. m.
- 3.4.34 This leads to a mid-range indication at c. £138/sq. m.

#### **Zone 3**

- 3.4.34 £5m/Ha not reached by any test.
- 3.4.35 £3.3m/Ha (equivalent to c. £52,000/plot ave.) reached only at VL3, with max. CIL at c. £425/sq. m i.e. indication £213/sq. m.
- 3.4.36 At VL2 reaching an ave. of say £40k/plot i.e. RLV £600,000 would leave scope for a max. CIL of c. £230/sq. m i.e. indication c. £115/sq. m.

### **25 Houses**

#### **Zone 1**

- 3.4.37 £10m/Ha not reached in any scenario.
- 3.4.38 £5m/Ha reached across most – e.g. indicating max. CIL at c. £875/sq. m i.e. after "buffer" indication of c. £438/sq. m.

- 3.4.39 However, based on VL2 and plots at ave. £150,000max. CIL scope c. £150/sq. m i.e. indication c. £75/sq. m.
- 3.4.40 Plots at c. £125,000 ave. (RLV £3.125m) produces max. CIL scope of circa £650/sq. m i.e. indication c. £325/sq. m.
- 3.4.41 Leading to a mid-range indication of c. £257/sq. m.

### **Zone 2**

- 3.4.42 £5m/Ha reached only at VL3, with max. CIL c. £400/sq. m i.e. indication £200/sq. m.
- 3.4.43 £3.3m/Ha reached with VL2 at around £975/sq. m CIL i.e. indication c. £488/sq. m.

### **Zone 3**

- 3.4.44 £3.3m/Ha (equates to around £77,000/plot) reached only at VL3 with max. CIL c. £325/sq. m i.e. indication c. £163/sq. m.
- 3.4.45 £100,000/plot is not reached.
- 3.4.46 Around £61,000/plot (RLV c. £1.52m) is reached at VL2 with max. CIL c. £175/sq. m i.e. indication at c. £88/sq. m.
- 3.4.47 This leads to a mid-range indication c. £126/sq. m.

### **25 Flats**

- 3.4.48 The tests applied and, as expected, the results seen, are very similar to those for 15 flats – see above.

### **Zone 1**

- 3.4.49 Plots at £75,000 i.e. RLV of c. £1.875m is reached at VL2 with max. CIL £400/sq. m i.e. an indication at c. £200/sq. m.
- 3.4.50 RLVs do not reach £10m/Ha equivalent in any scenario, but reach greater than £5m/Ha across nearly all.
- 3.4.51 At VL2 £5m/Ha is reached with max. CIL of around £975/sq. m i.e. indication c. £488/sq. m.
- 3.4.52 This leads to a mid-range indication at c. £344/sq. m.

### **Zone 2**

- 3.4.53 Plots at £50,000 i.e. RLV of c. £1.25m is reached at VL2 with max. CIL £300/sq. m i.e. indication c. £150/sq. m.
- 3.4.54 At VL2 £5m/Ha is reached only with max. CIL around £65/sq. i.e. indication c. £33/sq. m.
- 3.4.55 At VL3 £5m/Ha is reached with max. CIL around £550/sq. m i.e. indication at c. £275/sq. m.

3.4.56 Leading to a mid-range indication at c. £92/sq. m.

**Zone 3**

3.4.57 Plots at £25,000 i.e. RLV of c. £625,000 is reached at VL2 with max. CIL c. £200/sq. m i.e. indication c. £100/sq. m.

**30 Flats – sheltered**

3.4.58 These scenarios may be usefully compared with those representing the 25 flats general market scenario (non-age restricted, as above). From wider experience, typically such schemes achieve premium values (such that we consider the Zone 1 VL3 values are likely to be most relevant here) and similar or higher densities.

3.4.59 Making this comparison, the results are stronger in Zone 1, similar overall in Zone 2 and weaker in Zone 3. The effect of higher build costs (largely due to the increased non-saleable floor area) is counteracted by the values where those are strong enough, as will more often than not be the case, but with falling values (e.g. in Zone 3 here) viability once again looks challenging after 40% AH is factored in.

**Zone 1**

3.4.60 RLV £10m/Ha is reached with almost £200/sq. m max. CIL i.e. indication c. £100/sq. m.

3.4.61 RLV £5m/Ha is reached at VL1 with c. £750/sq. m max. CIL i.e. indication £375/sq. m.

3.4.62 RLV £5m/Ha is reached at VL2 with in excess of the max. CIL trial i.e. indication c. £500+/sq. m.

3.4.63 This leads to a mid-range indication c. £300/sq. m.

**Zone 2**

3.4.64 RLV £10m/Ha is not reached.

3.4.65 RLV £5m/Ha is reached at VL2 with c. £225/sq. m max. CIL and so an indication at c. £113/sq. m.

3.4.66 RLV £5m/Ha reached at VL3 with c. £700/sq. m max. i.e. indication c. £350/sq. m.

3.4.67 This leads to a mid-range indication c. £231/sq. m.

**Zone 3**

3.4.68 RLV £5m/Ha is not reached, indicating nil CIL scope on this basis.

3.4.69 RLV £3.3m/Ha is reached with max. CIL c. £275/sq. m and so an indication of c. £138/sq. m.

3.4.70 As per 25 flats, plots at c. £25,000 so RLV at c. £700,000 is reached with max. CIL c. £350/sq. m i.e. indication c. £175/ sq. m.

3.4.71 So this leads to a mid-range indication at c. £ 88/sq. m.

**50 dwellings** (mixed – houses & flats)

**Zone 1**

3.4.72 £10m/Ha is not reached.

- 3.4.73 £5m/Ha is exceeded by almost all tests.
- 3.4.74 Useful to consider also against an ave. plot value of say £100,000 i.e. RLV of £5m. At VL2 this suggests max. CIL of c. £600/sq. m i.e. indication c. £300/sq. m.
- 3.4.75 Ave. plot value of say £125,000 i.e. RLV of £6.25m. At VL2 that would reduce the CIL scope to £0/sq. m – indicates sensitivity of outcomes to land values and sales values.
- 3.4.76 On the latter point, with VL3 an RLV of £6.25m is reached with max. CIL c. £450/sq. m and so an indication at c. £225/sq. m.
- 3.4.77 This provides a mid-range indication of c. £263/sq. m.

### **Zone 2**

- 3.4.78 £5m/Ha is reached at VL2 with max. CIL at almost £300/sq. m and so an indication at c. £150/sq. m.

### **Zone 3**

- 3.4.79 £5m/Ha is not reached.
- 3.4.80 £3.3m/Ha is reached at VL2 with max. CIL just £50/sq. m and so an indication at c. £25/sq. m.
- 3.4.81 £3.3m/Ha is reached at VL3 with max. CIL at £500/sq. m i.e. an indication at c. £250/sq. m.

### **75 Flats**

- 3.4.82 The tests applied and, as expected, the results trends seen are very similar to those for 15 & 25 flats – see above.
- 3.4.83 However, lower £/plot values appears supportable.
- 3.4.84 At VL2 £75k/£50k/£25k per plot are not achieved across Zones 1 to 3 respectively. The RLVs approach those levels, but at the £0/sq. m CIL tests.
- 3.4.85 The following examples are based on £60k/plot zone 1; £40k/plot zone 2; £20k/plot zone 3.

### **Zone 1**

- 3.4.86 No tests reach £10m/Ha; most pass £5m/Ha, but at that level the max. CIL scope does not go beyond c. £400/sq. m at VL1 and so providing an indication at c. £200/sq. m.
- 3.4.87 RLV £4.5m is reached at VL2 with c. £475/sq. m max. CIL i.e. indication £288/sq. m.
- 3.4.88 So a mid-range indication on this basis is c. £244/sq. m.

### **Zone 2**

- 3.4.89 RLV £5m/Ha is reached only at VL3 with max. c. £400/sq. m CIL i.e. indication c. £200/sq. m.
- 3.4.90 RLV £3m is reached at VL2 with max. c. £300/sq. m CIL i.e. indication c. £150/sq. m.
- 3.4.91 This leads to a mid-range indication at c. £175/sq. m.

### **Zone 3**

3.4.92 RLV £5m/Ha is not reached.

3.4.93 RLV £3.3m/Ha is reached at VL3 only, with max. CIL c. £150/sq. m i.e. indication c. £75/sq. m.

3.4.94 RLV at £1.5m (£20,000/plot) reached at VL2 with max. CIL c. £160/sq. m i.e. indication c. £80/sq. m.

3.4.95 This provides a mid-range indication at c. £77/sq. m.

#### **100 dwellings** (mixed – houses & flats)

3.4.96 This set of scenario findings were reviewed based on the same considerations as viewed likely relevant for the 50 mixed dwellings.

### **Zone 1**

3.4.97 £10m/Ha is not reached.

3.4.98 £5m/Ha is exceeded by almost all tests.

3.4.99 Useful to consider against an ave. plot value of say £100,000 i.e. RLV of £10m. At VL2 this suggests max. CIL of c. £450/sq. m i.e. indication c. £225/sq. m.

3.4.100 With an ave. plot value of say £125,000 i.e. RLV of £12.5m, at VL2 the CIL scope would reduce to £0/sq. m which, again, indicates the sensitivity of outcomes to land values and sales values.

3.4.101 On the latter point, with VL3 an RLV of £12.5m is reached with max. CIL just beneath £300/sq. m and so an indication c. £150/sq. m.

3.4.102 This leads to a mid-range indication of c. £188/sq. m

### **Zone 2**

3.4.103 £5m/Ha is reached at VL2 with max. CIL £300/sq. m i.e. indication c. £150/sq. m.

### **Zone 3**

3.4.104 £5m/Ha is not reached.

3.4.105 £3.3m/Ha is reached at VL2 with max. CIL c. £85/sq. m i.e. indication c. £43/sq. m.

3.4.106 £3.3m/Ha is reached at VL3 with max. CIL £500/sq. m and so an indication at c. £250/sq. m.

#### **100 Flats** (higher density)

### **Zone 1**

3.4.107 RLV £10m/Ha equivalent is reached at VL2 with max. CIL £125/sq. m i.e. indication c. £63/sq. m

3.4.108 RLV £10m/Ha equivalent is reached at VL3 with max. CIL c. £550/sq. m i.e. indication c. £275/sq. m.

3.4.109 RLV £5m/Ha equivalent is reached at VL1 with max. CIL c. £500/sq. m i.e. indication at c. £250/sq. m.

3.4.110 This suggests a mid-range indication of c. £169/sq. m.

#### **Zone 2**

3.4.111 The results are seen to fall away very quickly, essentially because the higher values are likely to be necessary to support the higher development costs.

3.4.112 RLV £10m/Ha is not reached, indicating nil CIL scope on that assumption only.

3.4.113 However, an RLV equivalent to £5m/Ha (but plots values down to around £23,000) is reached at VL2 with max. CIL just £50/sq. m i.e. indication c. £25/sq. m.

3.4.114 RLV £5m/Ha is reached at VL3 (again plot values at around £23,000) with greater headroom & max. CIL c. £500/sq. m i.e. indication c. £250/sq. m

3.4.115 This suggests after significant buffering amid-range indication at c. £125/sq. m

#### **Zone 3**

3.4.116 The poor results, many in negative territory, indicate this to be a form of development that we would not expect to be supported per se using the assumptions applied, once values reached even the higher end tested for Zone 3 i.e. indication of nil CIL scope.

### **3.5 City area residential findings and recommendations - Summary**

3.5.1 The making of recommendations is primarily about judgements informed by the assessment results range and considered in the context of both the local characteristics and considerable wider CIL viability assessment experience. There is no exact science involved in this, as the above bears out.

3.5.2 CIL by itself is seen to have a graduated impact, barely detectable with small step increases in the trial rates. However, the details and inherent viability of schemes will be highly variable, again as the results show - a range of potential outcomes and resulting CIL scope is seen per scenario, let alone across the B&H picture relevant as a whole to the prospective CIL.

3.5.3 Nevertheless, the overviewing above permits some analysis and, as noted, informs a narrowing-down to the suggested CIL charging rates scope – i.e. the parameters within which we consider suitable (residential development) CIL charging rates lie.

3.5.4 So, the overviewing in this way is considered consistent with the need to pick through available information and findings; and inform the rates setting at a suitable, strategic level.

3.5.5 The mapping basis for the suggested differential CIL charging rates ‘by Zone’ on this basis would be informed by the DVS Affordable Housing Contributions value zones – in general terms. We have acknowledged that imperfections are likely in any mapped scenario for this purpose, however. Therefore this basis need not be followed precisely if, for example, the Council considers that slightly adjusted zone boundaries for the CIL purposes may better represent on the ground features – be clearer (more defined) and defensible.

3.5.6 **Overall, we consider that to respond to the local circumstances and support the LDP, particularly as relates to the likely life of a first charging schedule prepared by B&H CC, this assessment points to realistic CIL charging scope (for residential development) by Zone – recommended for consideration by B&H CC within the following parameters:**

**Zone 1:           £175 – 250/sq. m;**

**Zone 2:           £150 – 200/sq. m;**

**Zone 3:           £75 - £125/sq. m**

### **3.6 Purpose-built students’ housing**

3.6.1 As a matter of relevant local context, this is another form of development that has been reviewed at an appropriate level for the consideration of a CIL, given the presence of important Higher Education Institutions based and having significant student populations in need of accommodation in the City area.

3.6.2 As can be seen from the Appendix IIb tables, the assessment outcomes indicate generally strong viability associated with such developments. The RLVs are considered to be capable of supporting development across a range of sites and scenarios, with the graduated CIL trial rates testing shown to have a non-critical impact on viability bearing in mind they have not been tested beyond the level of £250/sq. m following an early overview of initial commercial / non-residential appraisal results and also the shaping up the residential findings, as above. Our understanding, and assessment assumption, is that such schemes do not carry affordable housing requirements.

- 3.6.3 This work is underpinned by our locally based information review and research, and it also appears to be borne out by the information that we regularly pick up in terms of market reporting on the strength of this sector as an investment opportunity and focus.
- 3.6.4 For clarity and consistency, we recommend that the Council could consider CIL charging rates aligned to its selection of rates within the above noted recommended parameters for residential (C3) development. This would appear to present an appropriate and equitable scenario in our view.
- 3.7 Housing for the elderly – retirement living/sheltered (C3) and Care based development provision (C2)**
- 3.7.1 Consistent with our wide experience of CIL viability, rates setting and site-specific viability review workload to date, we would recommend that no differentiation be made for market provided sheltered housing or similar developments. Whilst such schemes involve the costly construction of much larger non-saleable proportions of overall floor area (communal space) and need to be reviewed with particular assumptions (appraisal adjustments) that we have reflected, they also have some balancing viability characteristics. These including typically achieving premium sales values, having higher densities and reduced external works.
- 3.7.2 These schemes are in our view part of the wide spectrum of market housing. In our experience, both where a CIL is operational and without CIL, commercial negotiations tend to take place in respect of affordable housing contributions on such developments. As with all other schemes, that and other aspects of negotiation have the capacity to deal with viability issues where the collective costs cannot all be carried by a scheme, and a site-specific viability appraisal (planning applicant submission) and review investigates that.
- 3.7.3 Affordable sheltered housing (within C3) and nursing / care homes (C2 uses) will be exempt from CIL charging through the regulations.
- 3.7.4 Within the wide range of potential formats of accommodation for the elderly, there is very likely to be a range of scheme types coming forward. These may fall within C3 (e.g. an 'Extra-Care' scheme that is primarily residential, but where varying degrees of

support may be additionally available); or C2 such as care / nursing homes and other facilities where the occupants are residents but the primary function and reason for development is the provision of care; a care-led rather than residential-led scenario. It is possible that the determination of the relevant planning Use Class may be difficult in some situations, and likely that this will need to be considered on a scheme-by-scheme basis.

- 3.7.5 However, in the case of C2 development our understanding is that this would not carry the usual affordable housing policy requirements. This in itself provides a significant viability boost compared with a scheme that may share at least some other characteristics and be broadly similar in development and construction terms, but also need to support affordable housing.
- 3.7.6 We have appraised a care home (C2) scenario – see ‘commercial’ results Appendix IIb, tables 2a to 2f. Using values and assumptions considered to be relevant in the B&H CC local context, our findings are that this is indicated to be a generally viable and potentially highly viable form of development.
- 3.7.7 On this basis, our viability assessment based suggestion for the Council’s consideration, for clarity and consistency, is to consider CIL charging potential for market C2 development at a level within the overall parameters put forward above for the residential rates. The Council may wish to consider a single rate charge bearing in mind that specialist schemes such as these may not vary greatly in nature or value within the area. We consider that it would be within the scope of our findings and recommendations to either align the relevant rates to the selected residential rates, or consider a single charging rate not exceeding the parameters set out at 3.5.6 above.
- 3.7.8 The charging schedule should, however, seek to make clear the Council’s intentions in treating these various forms of development, described for clarity.
- 3.7.9 As is relevant in the case of all of the viability reporting here, the selection of a rate or rates beneath our suggestions would be within the scope of our findings too. The Council would in any event need to satisfy the principle of finding an appropriate balance between contributing to infrastructure needs and the opposing tension (effective limiting factor) of viability.

### **3.8 Larger scale residential / residential-led development**

- 3.8.1 As above, the scenario test of circa 700 dwellings plus other uses is considered reasonably representative of the larger comprehensive development locally.
- 3.8.2 However, from the early stages indicative headlines provided by the Council to date, it appears that the nature of such larger scenarios in the LDP context, and the need to consider viability more specifically for the CIL rates setting scope, relates to the scale of delivery likely, rather than necessarily to other large scale site characteristics (for example in respect of scale of related infrastructure requirements).
- 3.8.3 By this, we mean that to date the level of site-specific development mitigation needing to be secured through s.106 is understood not to go beyond the characteristics more usually associated with a smaller scale of development.
- 3.8.4 This reflects the unknowns, and on this basis the appraisals adopt an approach of estimating the potential surplus that could be available to support s.106 and / or CIL, following the allowances made for all other typical development costs.
- 3.8.5 Prints of the appraisal summaries (appraisals using Argus Developer software) are also included to the rear of Appendix IIa, based on the Argus standard reporting format.
- 3.8.6 Those also include reporting on the sensitivity of the potential surplus level outcomes to construction costs altering (rising or falling in 5% steps from the bases assumption) and/or sales values (residential GDVs) increasing or decreasing in £500/sq. m steps.
- 3.8.7 The appraisals were run assuming what may be relatively conservative base GDVs at £4,000 and £4,500/sq. m, with likely sales values difficult to estimate but scale of development and potentially variable location considered as such. Only time will tell how these and other viability influencing assumptions come together here, as in all other scenarios looking to represent a range of proposed housing provision under the LDP.
- 3.8.8 With a GDV based on sales at £4,000/sq. m, the indicative potential surplus is seen to be approximately £11.3m or £16,000/dwelling equivalent based on the assumptions set used currently. This is after allowing for enabling and site works accounted for at

the upper range of the Harman Report indication of £23,000/dwelling. From what we can see at this stage, a sum indicated at up to £16,000/dwelling could cater for costs currently not included, if any, and in our experience may be expected to cover a sufficient level of planning obligations. We cannot verify this as such, however, based on current information made available for this assessment. Assumed sales at £4,000/sq. m overall aligns to the mid (VL 2) level assumed for the general development typologies within typically lower value Zone 2.

- 3.8.9 On otherwise the same basis, increasing the GDV to a level based on market residential sales at £4,500/sq. m overall, i.e. aligned to our lower VL (VL 1) for Zone 2 and to the higher test (VL 3) for Zone 3, produces a greatly increased potential surplus indication of approximately £28.7m. This indication is equivalent to approximately £40,000/dwelling.
- 3.8.10 These are positive outcomes indicative of relatively wide scope to support appropriate land owner returns, developer's profit and the usual development costs as well as any additional development costs.
- 3.8.11 With the likely level of values available to support viability here, used in combination with this appraisal approach, it appears that the necessary planning obligations scope (whether through CIL and / or s.106) should also be supportable.
- 3.8.12 Based on this approach and with current information suggesting, as far as we can see, a relatively low or not greater than typical s.106 requirements package, this site presents stronger looking overall viability prospects than many we consider – both through similar assessments and planning application stage site-specific viability reviews.
- 3.8.13 Therefore, subject to considering a level of appraisal detail that would be required to inform site-specific delivery discussions / negotiations (e.g. over any necessary prioritising of works and contributions) taking full account of the potential level of site-specific costs, it appears that there is sufficient viability capacity to bear CIL charging based on the residential parameters as set out above and without needing to go to the margins of viability; also avoiding any undue prejudicing of overall viability of the site or LDP on this basis.

- 3.8.14 Accordingly, and subject to the Council's further work on establishing as closely as possible the site-specific mitigation requirements (s.106 – works and/or financial contributions) and their costs, based on the available information there does not appear to be a viability justification for a differential (e.g. reduced) CIL charging rate treatment for this site proposal. This could of course be kept under review as the Council's CIL preparations progress, with DSP advising further if / as necessary, but in the meantime on this basis we make no other recommendations in respect of CIL viability on this.
- 3.8.15 So, in the case of the range of positive overall viability indications here, the Council will wish to consider any further emerging information available or to become available on development costs / any abnormalities, s.106 package requirements and other matters. This will be essential and will assist it in looking within the above generally recommended CIL charging rates scope; and seeking to make sure that in adding non-negotiable CIL to the collective costs there remains sufficient flexibility (contingency) overall.
- 3.8.16 On the above basis, we would expect to see the CIL charging rate applicable to such scenarios aligned to the general residential development approach, i.e. within the overall parameters expressed above. A lower rather than higher charging rate within this overall range represents a rate set with the balance more towards viability; higher rate more towards infrastructure needs.
- 3.8.17 Section 3.9 below sets out further information in relation to presenting the potential CIL rates as a percentage of GDV, also bearing in mind the DCLG's recent CIL Review Panel recommendations. This recommends the overhaul of the CIL system in the form of a 'Local Infrastructure Tariff' ('LIT'), as a low level charge potentially set across a wider range of development use types, with fewer exemptions / reliefs and so perhaps closer in format to the mayoral (Cross-Rail funding) CIL in London.
- 3.8.18 The CIL Review Panel indicated that a LIT might be set at around 1.75% to 2.5% GDV.
- 3.8.19 Over several years of preparing CIL viability assessments, informing and supporting Charging Schedules through the consultation and examination stages, DSP's practice has been to provide prospective charging authorities with information on potential CIL rates expressed as %s GDV in any event. We have formed the view that rates exceeding the range say 3% to 5% GDV are likely to be excessive in practical (implementable,

realistic) terms, bearing in mind again the fixed nature of a CIL. Used in this way, whilst not viability testing, our experience has been that this helps provide a further guide and a form of “health-check” on the rates potential being considered.

3.8.20 The information provided below expands on this in the B&H CC area and proposed CIL context.

### **3.9 Further guides on residential CIL charging rates setting.**

3.9.1 Figure 11 below shows highlighted the areas within which our 3-5% GDV CIL guide (i.e. the range usually not to be exceeded, we suggest) and a potential LIT, as above would place the residential charging rates. This can be viewed across the VLs range, by Zone.

3.9.2 This general picture (see below, including the key on the page following the Figure 11 table) has been discussed with B&H CC officers. It is possible to see how this looks alongside the suggested viability tested, “buffered’ parameters for considering appropriate CIL charging rates here, as per the recommendations above.

Figure 11: Additional information to viability testing / context for results review

CIL Trial Rates as % GDV									
Zone 1			Zone 2			Zone 3			
VL1	VL2	VL3	VL1	VL2	VL3	VL1	VL2	VL3	
£5,500	£6,000	£6,500	£4,500	£5,000	£5,500	£3,500	£4,000	£4,500	
CIL Trial Rate £/m <sup>2</sup>	5500	6000	6500	4500	5000	5500	3500	4000	4500
0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
25	0.45%	0.42%	0.38%	0.56%	0.50%	0.45%	0.71%	0.63%	0.56%
50	0.91%	0.83%	0.77%	1.00%	1.00%	0.91%	1.43%	1.25%	1.11%
75	1.36%	1.25%	1.15%	1.67%	1.50%	1.36%	2.14%	1.88%	1.67%
100	1.82%	1.67%	1.54%	2.22%	2.00%	1.82%	2.86%	2.50%	2.22%
125	2.27%	2.08%	1.92%	2.78%	2.50%	2.27%	3.57%	3.13%	2.78%
150	2.73%	2.50%	2.31%	3.33%	3.00%	2.73%	4.29%	3.75%	3.33%
175	3.18%	2.92%	2.69%	3.89%	3.50%	3.18%	5.00%	4.38%	3.89%
200	3.64%	3.33%	3.08%	4.44%	4.00%	3.64%	5.71%	5.00%	4.44%
250	4.55%	4.17%	3.85%	5.56%	5.00%	4.55%	7.14%	6.25%	5.56%
300	5.45%	5.00%	4.62%	6.67%	6.00%	5.45%	8.57%	7.50%	6.67%
350	6.36%	5.83%	5.38%	7.78%	7.00%	6.36%	10.00%	8.75%	7.78%
400	7.27%	6.67%	6.15%	8.89%	8.00%	7.27%	11.43%	10.00%	8.89%
450	8.18%	7.50%	6.92%	10.00%	9.00%	8.18%	12.86%	11.25%	10.00%
500	9.09%	8.33%	7.69%	11.11%	10.00%	9.09%	14.29%	12.50%	11.11%
600	10.91%	10.00%	9.23%	13.33%	12.00%	10.91%	17.14%	15.00%	13.33%
700	14.55%	11.67%	10.77%	15.56%	14.00%	12.73%	20.00%	17.50%	15.56%
800	14.55%	13.33%	12.31%	17.78%	16.00%	14.55%	22.86%	20.00%	17.78%
900	16.36%	16.36%	13.85%	20.00%	18.00%	16.36%	25.71%	22.50%	20.00%
1,000	18.18%	16.67%	15.38%	22.22%	20.00%	18.18%	28.57%	25.00%	22.22%

DSP 2017

**KEY to  
Figure 11  
as above:**



DSP background / secondary guide - potential CIL rates usually not exceeding 3-5% GDV max.



Potential 'LIT' @ c. 1.75 - 2.5% GDV (as per CIL Review Panel preliminary indications)

3.9.3 Similarly, in our experience, so as to aid consideration of the funding receipts scope (guides/potential), see the potential charges in context, consider comparisons with s.106 and aid review by stakeholders it is always worth looking at the potential CIL rates in terms of what they could mean for liability levels due from typical new build dwellings. This tends to put in context the significance of the charges, particularly if they are looking too high, and so it may also act as a further form of check. For example, looking at the £75 - £250/sq. m overall potential charging rate(s) area as above (see following table, Figure 12). Sample points within these overall recommended parameters are provided below. By viewing between the levels shown it will be possible to estimate the CIL equivalent sums per chargeable dwelling, based on other dwelling sizes and / or intermediate CIL rates as may be relevant. The Council could develop this in order to help guide with a feel to what its selected rates will mean in broad terms, in £s/dwelling.

Figure 12: Indicative CIL charges (based on rates findings parameters and assumed dwelling sizes)

Unit Sizes (sq. m)	CIL chargeable (market sale) dwelling size (GIA - sq. m)	CIL/market sale dwelling @ £75/sq. m	CIL/market sale dwelling @ £150/sq. m	CIL/market sale dwelling @ £250/sq. m
Studio	39	£2,925	£5,850	£9,750
1-bed flat	50	£3,750	£7,500	£12,500
2-bed flat	70	£5,250	£10,500	£17,500
2-bed house	79	£5,925	£11,850	£19,750
3-bed house	100	£7,500	£15,000	£25,000
4-bed house	130	£9,750	£19,500	£32,500

DSP 2017 (based on assessment assumed market dwelling sizes, for illustration)

### **3.10 Other aspects of a Brighton & Hove City Council CIL – Commercial / non-residential – Findings**

3.10.1 The draft tables (numbered 2a to 2f) within **Appendix IIb** set out the RLV results generated for the other development use scenarios explored through full appraisals.

3.10.2 **From the assessment research and findings, based on realistic current assumptions for the City area, this report needs to acknowledge viability challenges or at best potential / marginal viability outcomes viewed in the context of appropriate CIL viability assessment approach and assumptions sets. This overview relates to most forms of non-residential development at this time, and looking to the short term associated with the likely life of a first CIL Charging Schedule.** The assessment findings on this are not unusual at all in our wide experience of these matters (and are considered consistent with others' findings in general), although activity within the local commercial property market should also be monitored by B&H CC so that any further information and signals from local market activity could help to inform a review of the CIL in due course.

3.10.3 **A key exception in terms of mainstream development types usually considered for CIL viability, and again a consistent assessment finding in our experience, is retail development, and particularly larger format retail (meaning any further supermarkets, superstores and retail warehousing units that are to come forward). In common with most other viability studies that we have undertaken, these were found to be the one clearly viable form of commercial development** when viewed in the way that this evidence needs to be put together (using appropriate assumptions that do not lead to judgements at the margins of viability).

3.10.4 In this instance, the results indicate that potentially the most viable form of retail development is retail warehousing, should that take place, although it may attract not quite such a favourable yield assumption to underpin the investment and so the best results seen here (at 5% rental yield assumption for capitalisation) may be less applicable than those using a slightly higher yield %.

## Retail

- 3.10.5 **Looking within rather than at the margins of viability, and allowing for potentially high site buy in costs, overall the viability scope for the larger format retail rate is likely to be in the range not exceeding say £100 - £150/sq. m.**
- 3.10.6 For the supermarket scenario using the 5% yield, the RLV exceeds £3.3m/Ha with the medium rental value assumption and approx. £225/sq. m CIL; and reaches in excess of £5m/Ha using the higher rental value assumption. Although the RLVs are seen to reduce with increasing yield % assumption, at 5.5% the results still indicate some strength, and it is considered that a higher yield would be less relevant to those. A higher / more variable yield % assumption might be appropriate in considering the retail warehouse scenario results, however, having an effect of potentially reducing the apparently greater viability of those to levels closer to the supermarket scenarios.
- 3.10.7 Following review of the findings, in our opinion and experience any City / town centre or other local centre shops of other types, including smaller shops / local neighbourhood centres type development, if occurring as new-build, is unlikely to support such a positive picture in terms CIL charging potential. Whilst we can see that a range of these wider, mixed forms of retail development appear potentially less sensitive to small adjustments in the yield assumptions, their viability is likely to be highly site-specific – i.e. sensitive to particular assumptions and therefore to specific location / setting, type and investment details.
- 3.10.8 **We suggest that a rate more responsive to the wider range of retail development, and potentially with the ongoing vitality of a wide spectrum of location, scheme and occupier types in mind, would not exceed around half that suggested above for the larger format retail that appears likely to be more clearly and consistently viable. This would place an “other retail” type CIL charge at a rate not exceeding say £50 – 75/sq. m, but again based on judgements, experience and overviewing, rather than precise workings.**
- 3.10.9 We also have experience of some other forms of retail development being nil-rated, for example where low rents or high regeneration related costs or other characteristics point more clearly to the need to consider that in viability terms. However, our reading of the local context is that generally scenarios will be likely to provide scope to support a modest level of CIL, so that any non-viability would not be as a result of the CIL charging; in itself it would not be a cause of any instances of inherent non-viability.

3.10.10 Overall, in looking at retail and perhaps seeking to avoid over-complexity, we consider there are options available for the Council to consider in this context. So, either a differential (dual) rates set-up – as above - or a single lower “all retail” charging rate necessarily set respecting the typically less strong viability of the generally smaller format “other retail” would be within the scope of our findings and recommendations. The latter may be considered relevant especially if the larger format types are no longer considered centrally relevant to the plan overall in a significant way in the coming period (again looking initially, or primarily, at the likely lifespan of a first CIL Charging Schedule). Consistent with considering all CIL charging rates proposals, relevance to the development plan that the CIL will support is key, rather than necessarily directly following the viability findings in isolation.

### **3.11 Further background – Retail**

3.11.1 In the event that the Council decides, on balance, to run with a differential approach to setting CIL charging rates for retail development, there are particular considerations to be aware of, because it is necessary to set out clearly how the differentiation is set up and described. A differential approach needs to be based on viability evidence, as included within this report and appendices.

3.11.2 DSP has experience of both single and differential CIL charging rates approaches for retail development. However, as a high-level outcome the general viability variation between larger (retail warehousing and supermarket type) and smaller retail formats identified here is consistent with most of our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work in many cases.

3.11.3 Developing the outline above, the further information on retail in this section is provided for completeness and background at this stage; it provides further insight for use by B&H CC if a differential approach is considered relevant, bearing in mind the LDP context around the types of development planned, in particular, and coming forward more generally in ways that support the plan policies.

3.11.4 This applies to all retail scenarios (across Use Classes A1 – A5; i.e. also covering food and drink, financial services, etc.).

3.11.5 In practice, the “churn” of and adjustments to existing shop units or conversions from other uses may provide much of the new smaller shops provision. B&H CC may wish to consider the extent to which CIL liable new builds may occur.

3.11.6 The tone of results referred to here is shown by the range of white and paler green shaded ‘small retail’ results areas at the Appendix IIb tables.

3.11.7 To re-cap on the plan relevance of the various retail types, potentially the following factors are to be considered:

- The extent to which retail of any form is overall plan relevant. If certain or all forms are likely to be coming forward on an ad-hoc basis only (i.e. outside the plan policies scope) then potentially it may be considered that any non-viability of individual schemes is not critical under the CIL principles;
- No or limited / uncertain overall plan relevance would also suggest the prospect of a low level of increase in CIL receipts compared with either setting a nil CIL or not pursuing CIL at the current stage; or a low level of receipts impact compared with setting a higher, more viability impacting charging rate for certain development uses;
- In any event, as part of considering the impacts of any CIL proposals (both positive and negative), the Council may also wish to consider the relevance of any unintended consequences for other forms of development, such as smaller shops in the larger centre and other individual or small groups of shops. Overall, our understanding with regard to this City Council area is that this range of retail uses is probably the key factor to which any approach to CIL and / or s.106 planning obligations needs to respond – in order to support the more general LDP positions on retail, perhaps, rather than particular higher value proposals.

3.11.8 Following adjustments made to the regulations, charging authorities have for some time been able to set differential CIL rates by reference to varying scale of development as well as varying development use (as has been noted above, for example, in relation to residential development). DSP’s experience is that differentiation has been possible as well as most clearly justified and described based on scale where that relates to varying development use (i.e. retail offer, site and unit type, site etc. associated with that). The difference between larger and smaller format

retail can be clearly defined for these purpose, as has been successfully done across a range of assessments and charging schedules in the last 5 years since the early period of CIL viability assessment; with type the key differential and size a secondary factor relating to scale but acting as a further way of clarifying the differentiating factors.

- 3.11.9 Looking at size of unit only (i.e. an approach led by or relying solely on different scales of development) can be problematic or lead to inequities in our view. DSP's experience is such that a retail use does not necessarily change characteristics in any readily determinable way at any specific floor area point other than that determined by the Sunday Trading provisions. We consider that unless a prospective charging authority has particular planning policies that influence viability (i.e. cause switch points in viability) either side of a certain floor area, the floor area based provisions relating to Sunday trading continue to provide the only clear unit size linked switch in viability, bearing in mind that a particular floor area figure needs to be in place to create a viability threshold.
- 3.11.10 Since altering the assumed floor area to any point between say 200 and 500 sq. m would not trigger varying values or costs at this level of review, basically the reported values / costs relationship stays constant; so that we do not see altering viability prospects as we alter the specific floor area assumption over that range but assume development for the same use type (same type of retail offer). This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit alone.
- 3.11.11 We find the same at other unit size assumptions. In essence, to support a CIL differential at an alternative threshold point it is necessary to show a distinct change in viability, which would come from different appraisal inputs applying at a particular point – whether at 500, 1,000, 2,000 or indeed any particular unit size. So the same applies on altering the high level testing for floor area variations on supermarkets or similar; the use type does not switch at particular points so that selection of thresholds for the varying scale of development could be arbitrary. This in itself could create inequity. In each case, unless viability were found to be different either side of any such point (a particular floor area figure), in our view and experience it would not be appropriate to differentiate.
- 3.11.12 The key factor differentiating the smaller types of retail scenarios that we refer to from the larger ones is the value / cost relationship related to the type of premises and

the use of them; they are simply different scenarios where that relationship is not as positive as it is in respect of larger, generally out of town / edge of town stores. Specific floor area will not in itself produce a different nature of use and value / cost relationship unless applied in relation to the Sunday Trading provisions so far as we can see. Related to the opening hours available to an operator, these provisions create a clear threshold and at that a clear differentiator – based on sales area of less than 3,000 sq. ft. (approx. 280 sq. m).

3.11.13 To reiterate, in our view any differentiation is more about the distinct development use – i.e. the different retail offer that it creates and the particular site type that it requires, etc. The description of the use and its characteristics may therefore be more critical than relying simply on a floor area threshold or similar. The latter could also be set out to add clarity to the definition and therefore to the operation of a charging schedule in due course, however.

3.11.14 In case of assistance in this respect, DSP has worked with a number of authorities on the details of these aspects. As an example that considered and established this principle, the adopted Wycombe DC CIL Charging schedule included wording clarifications, in the form of footnotes to assist with the definitions of the chargeable retail use types, put forward by that Council and accepted by the Inspector at Examination, as follows:

<sup>1</sup> Superstores/supermarkets are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit.

<sup>2</sup> Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for mainly car-borne customers.

3.11.15 So, to recap, only if differentiating between these smaller and larger retail formats, we consider that creating a link with the size of sales floor space associated with the Sunday Trading provisions (3,000 sq. ft. / approx. 280 sq. m) may provide the most appropriate threshold as a secondary measure to the development use description that is the most relevant factor in both creating and describing the viability differential. Such an approach may not be relevant in Brighton and Hove. However, drivers towards this approach in some locations may be the overall plan relevance of different types (as new builds or larger extensions of over 100 sq. m triggering CIL liability) and any concerns over added development risk to smaller shops provision associated with adopting a single rate at too high a level. This approach to setting up a differential

approach to CIL charging for retail development assumes the threshold being used for clarity and to further explain the nature of the development use that the viability and a charging rate differential is linked to if CIL is pursued.

3.11.16 There are a range of retail related uses, such as motor sales units, wholesale type clubs / businesses, which may also be seen locally, although not regularly as new builds because these uses often occupy existing premises. Whilst it is not possible to cover all eventualities for ad hoc development, and that is not the intention of the CIL principles, we consider that it would be appropriate in viability terms to also link these to the retail approach that is selected based on the main themes of plan delivery, all as above.

3.11.17 Similarly, we assume that where relevant any new fast food outlets, petrol station shops, etc., provided for example as part of large retail developments, would be treated as part of the retail scheme.

3.11.18 Other uses under the umbrella of retail would be treated similarly too. Individual units or extensions would be charged according to their size applied to the selected rate as per the regulations and standard charging calculation approach.

### **3.12 Hotels (C1)**

3.12.1 We have found that using the approach and assumptions that are suitable for the exploration of CIL charging scope through this viability overview, development uses such as hotels are non-viable development forms. This must be noted to be related to the particular study purpose as reviewed at this point in time.

3.12.2 We can confirm, therefore, that this does not necessarily mean that such schemes are non-deliverable per se. It means that at the present time clear scope for CIL charging cannot be evidenced in viability terms.

### **3.13 Business (Use Class B – employment offices and industrial/warehousing)**

3.13.1 The same applies in respect of the current and short term prospects for all likely relevant forms of business development (meaning 'B' class uses) locally, as the viability work to date clearly shows very poor (often negative) or at best positive but low RLV outcomes in terms of scope to support CIL from these. This is clearly seen in the Appendix IIb tables.

3.13.2 Whilst only of more general relevance given the assessment purpose, and this should be kept under review in future, the findings on business development suggest an ongoing level of challenge locally in promoting development opportunities. Associated with this there will continue to be a need to look to the most accessible, most valuable locations and to work with other agencies as well as with the private sector; to help facilitate delivery as the market appetite develops for it given the current more positive and gradually spreading sentiment within the commercial property sector.

### **3.14 Other development uses**

3.14.1 In common with most of our other CIL studies, we have also carried out some initial high-level consideration of other development uses such as leisure (e.g. bowling / fitness / gym) or other D class elements such as health / clinics / nurseries etc.

3.14.2 Bearing in mind the key development value / cost relationship that we are examining here, we find that it is not necessary to carry out full appraisals of these because a simple comparison of the completed value with the build cost indications from BCIS (before consideration of other development costs) points to poor to (at best) marginal development viability. This one of the key reasons why these forms of development are generally not seen stand-alone, but tend to be provided as part of mixed use schemes that are financially driven by the residential and /or retail development.

3.14.3 Much the same applies to elements such as health / clinics and other similar, more community oriented development.

3.14.4 Following our extensive iterative review process, throughout this assessment we can see that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before CIL scope is considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).

3.14.5 In such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability. Such scenarios are generally unviable in the sense we are studying here – as a starting point. This is because they have either a very low or no real commercial value and yet the

development costs are often similar to equivalent types of commercial builds. We regularly see that even the build costs, and certainly the total costs, exceed levels that can be supported based on any usual view of development viability. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them.

- 3.14.6 As will be seen below, there are a wide range of potential development types which could come forward as new builds, but even collectively these are not likely to be significant in terms of “lost opportunity” as regards CIL funding scope. We consider that many of these uses would more frequently occupy existing / refurbished / adapted premises.
- 3.14.7 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in the main they are likely to be a long way from producing any meaningful CIL funding scope.
- 3.14.8 There are of course a range of other arguments in support of a distinct approach for such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure. They may even be the very types of facilities that the pooled CIL contributions will ultimately support to some degree. For all this, so far as we can see the guiding principle in considering the CIL regime as may be applied to these types of scenarios remains their viability as new build scenarios.
- 3.14.9 As a part of reviewing the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from entries in the VOA’s Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS. As has been discussed above, where the relationship between these two key appraisal ingredients is not favourable (i.e. where costs exceed or are not sufficiently outweighed by values) then we can quickly see that we are not dealing with viable development scenarios. The lack of positive relationship is often such that, even with low land costs assumed, schemes will not be viable. Some of these types of new developments may in any event be promoted / owned by charitable organisations and thereby be exempt from CIL charging (as affordable housing is).

3.14.10 On this basis, Figure 13 below provides examples of this review of the relationship between values and costs - in a range of these other scenarios. This is not an exhaustive list by any means, but it enables us to gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and further complication within any local CIL regime. These types of value / cost relationships are not unique to the Brighton and Hove City area at all. Very similar information is applicable in a wide range of locations in our experience, although the largely urban nature of this authority area increases the relevance of certain types of development uses and therefore the potential need to ensure that any essential delivery is not undermined. (See Figure 13 below).

Figure 13: Other development uses – example guide value / cost ranges and relationships

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.*	Base build cost indications – BCIS**	Viability prospects and Notes
Cafés	£150 - £350 per sq. m.	£1,500 - £3,500 per sq. m.	Approx. £2,200 - £2,900	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	£30 - £60/ per sq. m.	£300 - £600 per sq. m.	Approx. £1,600 - £2,500	Clear lack of development viability
Day Nurseries (Nursery School / Creches)	£75 - £250 per sq. m.	£750 - £2,500 per sq. m.	Approx. £1,900 - £2,650	Insufficient viability to clearly and reliably outweigh the costs
Garages and Premises	£50 - £100 per sq. m.	£500 - £1,000 per sq. m.	Approx. £700 - £1,250	Low grade industrial (B uses) - costs generally exceed values
Halls	£20 - £40 per sq. m.	£200 - £400 per sq. m.	Approx. £1,500 - £2,200	Clear lack of development viability – subsidy needed
- Community Halls				
Leisure Centre - Health and Fitness (Sports Centres/ recreational centres) generally	£40 - £80 per sq. m.	£400 - £800 per sq. m.	Approx. £1,400 - £1,900	Likely marginal development viability at best - probably need to be supported within a mixed-use scheme; or to occupy existing premises

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.*	Base build cost indications – BCIS**	Viability prospects and Notes
Leisure Centre Other - Bowling / Cinema	No information available		Approx. £1,450 - £2,000	Likely marginal development viability at best - probably need to be supported within a mixed-use scheme; or to occupy existing premises
Museums	No information available		Approx. £1,100 - £2,000	Likely clear lack of development viability – subsidy needed
Storage Depot and Premises	£10 - £70 per sq. m.	£100 - £700 per sq. m.	Approx. £500 - £1,300 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	£80 - £275 per sq. m	£800 - £2,750 per sq. m.	Approx. £1,650 -£2,150 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs based on other than high-end looking value assumptions.

\*£/sq. m rough guide prior to all cost allowance (based on assumed 10% yield for illustrative purposes - unless stated otherwise).

\*\*Approximations excluding external works, fees, contingencies, sustainability additions etc.

3.14.11 Our recommendation is for the Council to consider a zero (£0/sq. m) rate in respect of a range of other uses such as the above (Figure 13). As in other cases, this could be reviewed in future - in response to monitoring information. Our overriding view at the current time is that the frequency of these other new build scenarios (i.e. aside from the retail, students' housing and care home development uses as considered above) that could reliably support meaningful CIL scope in the City area is likely to be very limited.

### 3.15 Additional considerations – general information

#### Differentiation and mapping

- 3.15.1 If B&H CC decides to pursue differentiated CIL charging rates, as has been put forward here linked to the DVS value areas, mapping will need to be prepared by the Council to accompany the consultation stages in order to clearly show the extent of the Zones associated with the various rates. The CIL Regulations are quite specific about mapping requirements, including detailed criteria on the nature of the maps themselves. This appears to be an aspect of detail picked up on quite relatively regularly by examiners.
- 3.15.2 The CIL principles are such that, where it is implemented, ideally Charging Schedules should be as simple as possible; i.e. as simple as the main twin drivers of the viability overview and finding the right balance locally will permit.
- 3.15.3 Whilst a more differential approach in theory has the potential to reflect more closely the changing values and viability scenarios moving around the City area, variety always occurs and in fact the effects will be highly localised or even site and scheme specific in many cases. We reiterate that this need to look at high level value and viability patterns, rather than an expectation of being able to reflect highly localised effects, is consistent with CIL principles.
- 3.15.4 Again to reiterate, there may continue to be instances of schemes (of a range of types) that struggle for viability in any event (i.e. that may be marginal prior to the consideration of CIL). This may be due to lower than typical values, high scheme costs or a combination of factors. It is important to stress that this could occur even without any CIL or s.106 contribution / obligation, so it is not necessarily a result of such obligations. Wider scheme details, costs and obligations or abnormal costs can render schemes marginally viable or unviable before factoring-in CIL. As a common finding across our studies, no lower level set for CIL (i.e. even if at £0/sq. m) could ensure the deliverability of all these individual schemes on a guaranteed basis. CIL is unlikely to be solely responsible for poor or non-viability, but it should not be added as a fixed scheme cost where such schemes support the overall delivery and must not be placed under further viability pressure. These are not just local factors to B&H CC; such principles apply throughout our wide-ranging viability work.

- 3.15.5 The key test in terms of the CIL principles is that the rates selected do not put at undue risk the overall plan delivery; it always has to be accepted that some schemes may not work and that those do not in themselves necessarily prejudice the bigger picture on overall plan delivery.
- 3.15.6 Associated with this, and regardless of whether a CIL is pursued now or the levels at which it is set, it will be necessary for the Council to track the detail of development delivery and planning obligations outcomes as part of its normal monitoring processes. This should be with a view to informing any potential / necessary review of its approach to planning obligations and / or CIL in perhaps 2 to 3 years' time or so, as other Government or local policy developments may take place; and / or potentially in response to market and costs movements, or indeed any other key viability influences over time. There is no fixed or universally recommended approach to the timing of review; this depends on the way the wider and more local market and other viability influences (e.g. national and local policy approaches) develop. The passage of a period of time alone need not mean review is necessary.
- 3.15.7 It has been necessary for us to acknowledge the various viability sensitivities, which are likely to mean that actual scheme outcomes move around given the many variables. We have acknowledged the affordable housing and wider policy agenda impacts for example.
- 3.15.8 The Council will need to continue with an adaptable approach to delivery; as is currently applied in respect of the affordable housing policy targets operation for example.
- 3.15.9 There is a high level of residential development activity locally. This should be a key indicator of the potential and a vital continued aspect of the planning and delivery processes across the range of development types relevant to the LDP.
- 3.15.10 The CIL viability scoping outcomes need to be considered for the intended purpose only, in the context of the appropriate review, assumptions placing and judgements process - as is necessary to robustly and inform and support a CIL charging schedule under the regulations as well as the formal (PPG) and other guidance. This means that the viability findings here are not expected to be representative of the full range of individual site discussions and outcomes. This is because, at the delivery level, an alternative view may be appropriate or sufficient on assumptions, land value and/or

other matters as part of a particular viability scenario. The assumptions used for this purpose should not be relied on for site-specifics, for example.

3.15.11 The carrying out of this assessment and review of its findings is a fully independent exercise by DSP on behalf of B&H CC, undertaken from the perspective of a fresh look at the local characteristics and market. This is informed and supported also through our wider CIL related and other significant viability assessment experience.

3.15.12 As part of the assumptions building and information overview that informed the review of results however, an important part of the process is the seeking of information / examples and soundings from locally involved parties – for example including a range of Council officers, property agents and developer interests - where possible. As found here, the response rate to this process is usually limited, for a range of reasons including the sensitivities / confidentialities that are involved.

3.15.13 Equivalent guides to the CIL / LIT (% GDV) guides provided above at Figure 11 can be provided to the Council in respect of the commercial / non-residential trial CIL charging rates if beneficial in due course, but are not provided here.

### **3.16 Summary – Brighton and Hove City Council CIL – Viability informed charging scope – Overview**

3.16.1 Figure 14 below seeks to provide a quick reference outline of the viability assessment based parameters (with alternatives / options where available) as have been set out above.

Figure 14: CIL charging rates parameters - Recommendations Summary

Dev't. Use Type / Location / comments		CIL rate (£/sq. m) scope	Comments – any alternative options?
<b>RESIDENTIAL</b>  <b>A differential approach put forward for consideration – for consistency and clarity.</b>  <b>Based on following or broadly reflecting the DVS sourced existing values areas (as used by B&amp;H CC in affordable housing financial contributions calculations). See 2.5.8 (Figure 6) above.</b>  <b>Applies to C3 and C2</b>  <b>Applies also to purpose-built students' housing</b>	<b>Zone 1 (Red) –</b> Typically highest property values.	<b>175 - 250</b>	Scope to consider in context of site supply and wider evidence in all respects.
	<b>Zone 2 (Blue) –</b> Area exhibiting mid-range values.	<b>150 - 200</b>	Information has also been provided on how both these and potential 'LIT' rates look and compare as %s GDV.
	<b>Zone 3 (Green) –</b> Typically lowest property values.	<b>75 - 125</b>	Considered overall that a “one size fits all” (i.e. simple City-wide) approach would probably not respond to all variety and could need to be set at too a low a level overall.
<b>RESIDENTIAL – Larger scale comprehensive development</b>	Aligned to general residential	<b>As per other C3/C2 as above – e.g. 75 – 175 if applying lower parameters within above overall range</b>	Currently no clear viability differential overall – no justification apparent for significant differentiation
<b>RETAIL</b>			Single retail rate not exceeding viability scope for smaller/other retail ( <b>@ £50 – 75/sq. m</b> ) considered a suitable approach in B&H context.
<b>Larger format – Retail warehousing / Supermarkets</b>	City-wide	<b>100 - 150</b>	
<b>Other shopping units development</b>	City-wide	<b>50 - 75</b>	Alternatively, differential rates within parameters as indicated here could be justified on viability grounds depending on LDP relevance and other factors.
<b>ALL OTHER DEVELOPMENT USES</b>	City-wide, at the current time	<b>£nil (£0/sq. m) but as with all other aspects, monitor to inform potential review over a relatively short timescale to renewed (2<sup>nd</sup>) charging schedule.</b>	

**Final Report Ends (August 2017)**

**DSP v10**

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