Newark & Sherwood District Council Whole Plan & CIL Viability Assessment

March 2017

NCS Nationwide CIL Service

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1 Executive Summary

Purpose of the Study

1.1 The purpose of the Whole Plan Viability Study is to appraise the viability of Newark and Sherwood District Council's Local Plan in terms of the impact of its policies on the economic viability of the development expected to be delivered during the Plan period. The study considers policies that might affect the cost and value of development (e.g. Affordable Housing and Design and Construction Standards) in addition to the potential to accommodate Community Infrastructure Levy Charges. The area covered by the study is the Newark and Sherwood District Council administrative area.

1.2 Section 173 of the National Planning Policy Framework requires that plans should be deliverable ensuring that obligations and policy burdens do not threaten the viability of the developments identified in the plan. An assessment of the costs and values of each category of development is therefore required to consider whether they will yield competitive returns to a willing land owner and willing developer thus enabling the identified development to proceed.

1.3 The study also includes an assessment of the ability of different categories of development within the Local Plan area to make infrastructure contributions via a Community Infrastructure Levy (having taken account of the cost impacts of Affordable Housing delivery and other relevant policies). If there is any additional return beyond these reasonable allowances then this is the margin available to make CIL contributions. This information is provided to enable the Council to make informed decisions on the scope for review of its existing Community Infrastructure Levy Charging Schedule.

Methodology

1.4 The viability assessment comprises a number of key stages as outlined below:

EVIDENCE BASE – LAND & PROPERTY VALUATION STUDY

1.5 Collation of an area-wide evidence base of land and property values for both residential and commercial property

EVIDENCE BASE – CONSTRUCTION COST STUDY

1.6 Collation of an area-wide evidence base of construction costs for both residential and commercial property

IDENTIFICATION OF SUB-MARKETS

1.7 Sub market identification informed by the valuation evidence gathered at stage one above, Large differences in values across a study area indicate the need to define independent sub areas

for viability testing purposes and in turn these will inform the potential review of the existing charging zones for Community Infrastructure Levy Purposes.

POLICY IMPACT ASSESSMENT

1.8 Identification of the policies within the plan, which will have a direct impact on the costs of development and hence the viability of development. Typical policy impacts include affordable housing requirements and sustainable construction requirements.

VIABILITY APPRAISAL

1.9 Viability assessment for both residential and commercial development scenarios based on a series of typologies which reflect the development likely to emerge over the plan period. The assessments are conducted for both greenfield and brownfield development as it is recognised this can result in significant difference in viability.

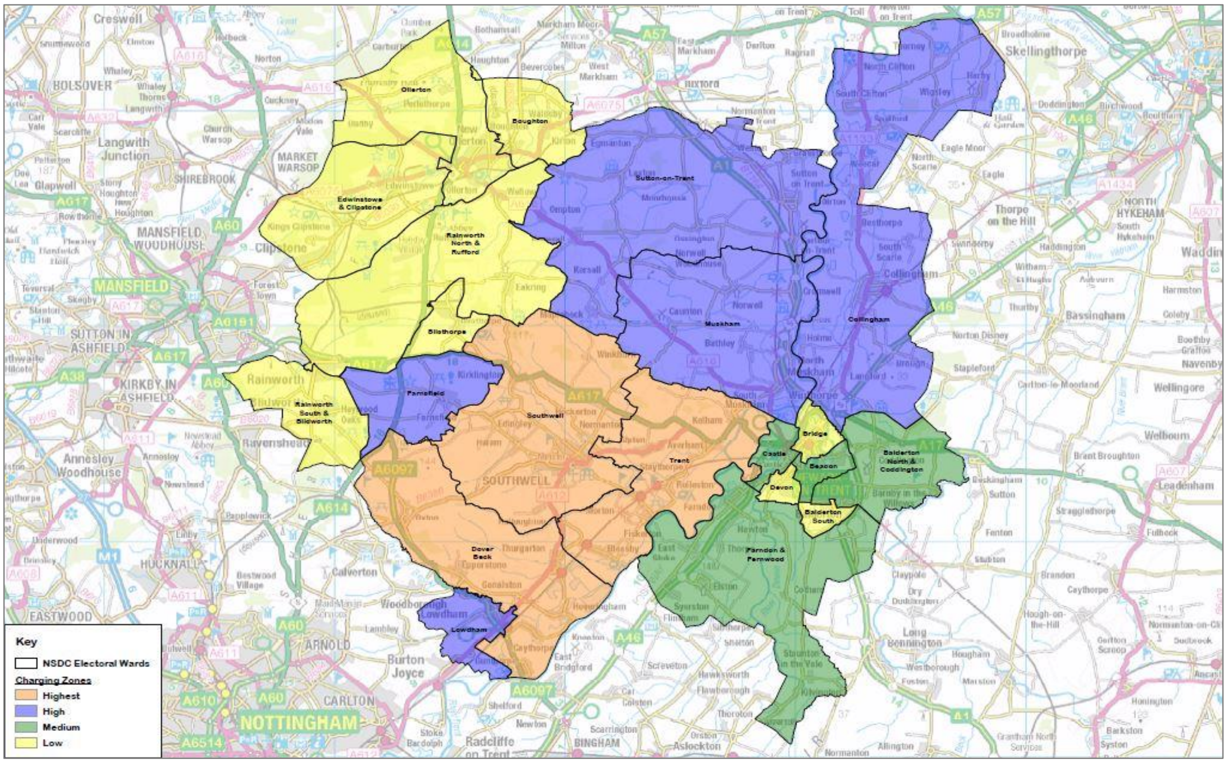
RESULTS

1.10 The viability results for both residential and commercial development typologies have been summarised below. The figures represent the margin of viability per square metre taking account of all development values and costs, plan policy impact costs and having made allowance for a competitive return to the landowner and developer. In essence a positive margin confirms whole plan viability.

RESIDENTIAL VIABILITY

1.11 The assessments of residential land and property values indicated that there were significant differences in value across the District and the existence of sub-markets requiring application of differential value assumptions in the viability appraisal and the continued operation of a differential CIL charging schedule with distinct charging zones. The zone map has been simplified from the previous 6 zone map to differentiate 4 residential charging zones as illustrated below.

1 Executive Summary



1.12 The following table shows the viability margins for the different residential typologies for greenfield and brownfield development

Charging Zone/Base Land Value	Mixed Residential Estate	Apartments	Starter Housing	Family Housing	Executive Housing
Maximum Residential CIL Rates per Sqm					
1 Low					
Greenfield	£85	-£241	£80	£94	£176
Brownfield	£1	-£265	-£9	£7	£106
2 Medium					
Greenfield	£88	-£185	£76	£94	£215
Brownfield	£1	-£228	-£18	£4	£56
3 High					
Greenfield	£152	-£126	£140	£159	£208
Brownfield	£68	-£169	£50	£73	£127
4 Very High					
Greenfield	£296	£44	£288	£305	£353
Brownfield	£212	£2	£191	£218	£266

1.13 The testing showed that the Newark and Sherwood District Local Plan Policies are viable for all forms of housing development and demonstrate that Affordable Housing delivery at the Council's policy target proposed by the Plan (set out at para 4.5) is deliverable. The results suggest that the viability of apartment development in all but the highest value area of the District is challenging under current economic conditions.

1.14 Greenfield housing development demonstrates viable CIL rate potential of £76-£353 per square metre dependent on the sub-market area. For brownfield housing, the CIL rate potential is lower at £0-£266 per square metre.

Commercial

1.15 The initial assessment of commercial land and property values indicate that there are no significant differences in values to justify differential sub-markets based on assumptions or differential CIL charging zones. The commercial category viability results are set out below but demonstrate that only food and non-food retail development categories are considered viable in terms of being able to viably accommodate CIL.

NCS	Maximum Commercial CIL Rates per sq. m	
	General Zone	
Charging Zone/Base Land Value	Greenfield	Brownfield
Industrial (B1b B1c B2 B8)	-£152	-£190
Office(B1a)	-£652	-£684
Hotel(C1)	-£462	-£661
Residential Institution (C2)	-£637	-£1,198
Community(D1)	-£1431	-£1460
Leisure (D2)	-£118	-£177
Agricultural	-£299	NA
Sui Generis	Car Sales -£269	Vehicle Repairs -£677
Food Supermarket Retail A1	£366	£306
General Retail A1-A5	£193	£164

1.16 It can be seen that only food supermarket retail, with CIL potential rate of £306-£366 per square metre, dependent on existing land use and general retail with potential rates of £164-£193 provide a margin to introduce CIL charges. It is therefore recommended on the existing evidence that only Class A1 -A5 food and non-food retail should be charged CIL and that all other non-residential categories be zero rated.

1.17 It should be stressed that whilst the generic appraisals showed that most forms of commercial and employment development are not viable based on the test assumptions, this does not mean that this type of development is not deliverable. For consistency a full developer's profit allowance was included in all the commercial appraisals. In reality many employment developments are undertaken direct by the operators. If the development profit allowance is removed from the calculations, then much employment development would be viable and deliverable. In addition, it is common practice in mixed use schemes for the viable residential element of a development to be used to cross subsidise the delivery of the commercial component of a scheme.

Conclusions

1.18 The study demonstrates that most of the development proposed by the Local Plan is viable and deliverable taking account of the cost impacts of the policies proposed by the plan and the requirements for viability assessment set out in the NPPF. It is further considered that significant additional margin exists, beyond a reasonable return to the landowner and developer to accommodate CIL charges.

1.19 In terms of CIL, it is recommended that there are sufficient variations in residential viability to justify a differential zone approach to setting residential CIL rates across the Newark and Sherwood District area and these should be simplified from the existing system to 4 charging zones.

1.20 Taking account of the viability results, the generic nature of the tests, a reasonable buffer to allow for additional site specific abnormal costs, we would recommend the following zonal rates. Newark and Sherwood District envisage a primarily greenfield delivery strategy and rates are therefore set well within the greenfield viability maximum potential rates with a substantial viability buffer in excess of the generally accepted margin of 30%. However, in the Low Value zone it will be a more mixed development delivery strategy on brownfield and greenfield sites and so the rates in this location take account of brownfield viability results.

Residential CIL	
Apartments (All Zones)	£0sqm
Housing Low Zone 1	£0sqm
Housing Medium Zone 2	£45sqm
Housing High Zone 3	£70sqm
Housing Very High Zone 4	£100sqm

1.21 It is recommended that a single zone approach is taken to setting commercial CIL rates. The viability assessment results indicate that all non-retail commercial uses should be zero rated.

1.22 The existing CIL does not distinguish between food and non-food retail and adopting a similar approach going forward, rates would need to be based on the general retail viability results. As such, and taking account of a reasonable viability buffer, the following Commercial CIL rates are recommended.

Non-Residential CIL	
Districtwide	
All Non-residential uses (excepting Retail)	**£0sqm**
Districtwide	
Retail A1-A5	**£100sqm**

1.23 The study is a strategic assessment of whole plan viability and as such is not intended to represent a detailed viability assessment of every individual site. The study applies the general assumptions in terms of affordable housing, planning policy costs impacts and identified site mitigation factors based on generic allowances. It is anticipated that more detailed mitigation cost and viability information may be required at planning application stage to determine the appropriate level of affordable housing and planning obligation contributions where viability issues are raised. The purpose of the study is to determine whether the development strategy proposed by the Plan is deliverable given the policy cost impacts of the Plan with sufficient additional viability margin for CIL.

1.24 In conclusion, the assessment of all proposed residential sites in Newark and Sherwood District has been undertaken with due regard to the requirements of the NPPF and the best practice advice contained in 'Viability Testing Local Plans'. It is considered that all sites are viable across the entire plan period taking account of the Affordable Housing/Starter Home requirements and all policy impacts of the Local Plan as well as the continued operation of CIL in the District.

1.25 It should be noted that this study should be seen as a strategic overview of plan level viability rather than as any specific interpretation of Newark and Sherwood District Council policy on the viability of any individual site or application of planning policy to affordable housing, CIL or developer contributions. Similarly the conclusions and recommendations in the report do not necessarily reflect the views of Newark and Sherwood District Council.

2.1 The purpose of the study is to assess the overall viability of the Newark and Sherwood District Local Plan and to review the viability of CIL charges by assessing the economic viability of development being promoted by the Plan.

2.2 In order to provide a robust assessment, the study uses generic development typologies to consider the cost and value impacts of the proposed plan policies and determine whether any additional viability margin exists to accommodate a Community Infrastructure Levy. The development viability assessments take account of policies in the plan, affordable housing and Starter Homes requirements, mandatory requirements to be introduced during the Plan period such as the National Housing Standards and Sustainable Construction requirements to determine whether the proposed plan policies including CIL are viable and will not hinder the delivery of development in the plan period.

The NPPF and Relevant Guidance

2.3 The National Planning Policy Framework 2012 introduces a new focus on viability assessment in considering appropriate Development Plan policy. Paras 173-177 provide guidance on 'Ensuring Viability and Deliverability' in plan making. They state:-

"173. 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 land owner and willing developer to enable the development to be deliverable.

174. 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 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. Evidence supporting the assessment should be proportionate, using only appropriate available evidence…………….

177. It is equally important to ensure that there is a reasonable prospect that planned infrastructure is deliverable in a timely fashion. To facilitate this, it is important that local planning authorities understand District-wide development costs at the time Local Plans are drawn up. For this reason, infrastructure and development policies should be planned at the same time, in the Local Plan. Any affordable housing or local standards requirements that may be applied to development should be assessed at the plan-making stage, where possible, and kept under review."

2.4 In response to the NPPF, the Local Housing Delivery Group, a cross industry group of residential property stakeholders including the House Builders Federation, Homes and Communities Agency and Local Government Association, has published more specific guidance entitled 'Viability Testing Local Plans' in June 2012.

2.5 The guidance states as an underlying principle, that:-

"An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered."

2.6 The guidance recommends the following stages be completed in testing Local Plan viability:-

1) Review Evidence Base and align existing assessment evidence

2) Establish Appraisal Methodology and Assumptions (including threshold land values, site and development typologies, costs of policy requirements and allowance for changes over time)

3) Evidence Collation and Viability Modelling (including development costs and revenues, land values, developers profit allowance)

4) Viability Testing and Appraisal

5) Review of Outputs

2.7 The guidance is not prescriptive about the use of particular financial assessment models but advises that a residual appraisal approach which tests the ability of development to yield a margin beyond all the test factors to determine viability or otherwise is widely used and accepted. The guidance sets out the key elements of viability appraisal and the factors that need to be considered to ensure robust assessment.

2.8 The current study adheres to the principles of the NPPF and 'Viability Testing Local Plans and sets out its methodology and assumptions in the following sections.

The Process

There are a number of key stages to Viability Assessment which may be set out as follows.

1) Evidence Base – Land & Property Valuation Study

3.1 Establish an area wide evidence base of land and property values for development in each sub-market area. The evidence base relies on the area wide valuation study undertaken by Heb Surveyors in 2016.

2) Evidence Base – Construction Cost Study

3.2 Establish an area wide evidence base of construction costs for each category of development relevant to the local area. The study will also indicate construction rates for professional fees, warranties, statutory fees and construction contingencies. The evidence base relies on the Construction Cost Study by Gleeds undertaken in 2016.

3) Identification of Sub Market Areas

3.3 The Heb Valuation Evidence considered the existence of potential sub-markets within the study area which might inform the application of differential value assumptions in the Whole Plan testing or inform the creation of differential Charging Zones as part of the progression of a revised Community Infrastructure Levy Charging Schedule.

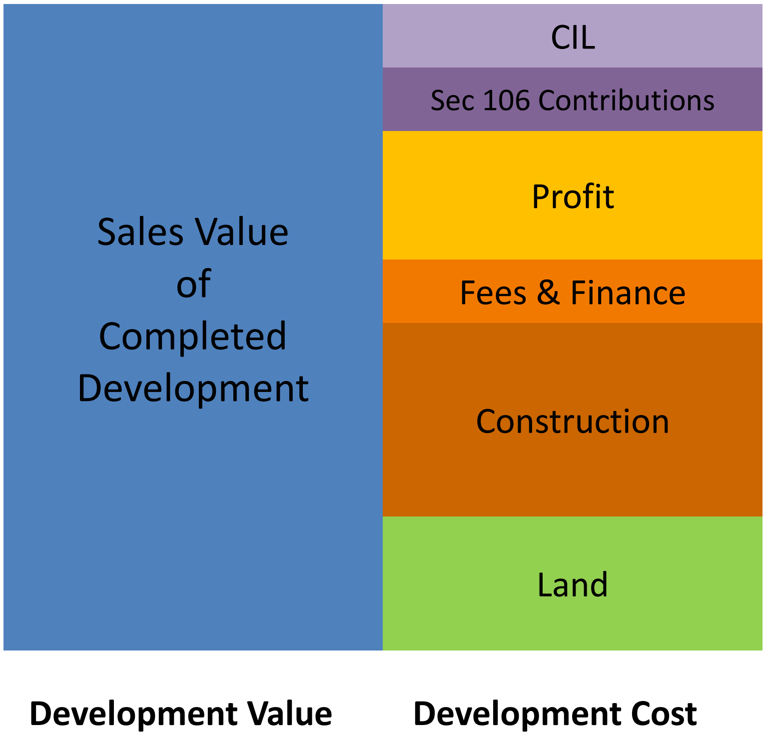
4) Policy Impact Assessment

3.4 The study will establish the policies proposed by the plan that have a direct impact on the cost of development and apportion appropriate allowances based on advice from cost consultants, Gleeds, to be factored in the viability assessment. Typically cost impacts will include sustainable construction requirements based on National Housing Standards an, BREEAM standards.

5) Viability Appraisal – Whole Plan Assessment & Generic CIL Tests

3.5 The study employs a bespoke model to assess Local Plan viability in accordance with best practice guidance (eg Local Housing Delivery group – Viability Testing Local Plans and the RICS – Financial Viability in Planning). The initial generic tests will be based on a series of development typologies to reflect the type of development likely to emerge over the plan period. The purpose of these tests is two-fold – it will firstly assess cumulative impact of the policies proposed by the plan to determine whether the overall development strategy is deliverable. Secondly the model will identify the level of additional margin, beyond a reasonable return for the landowner and developer, which may be available for the introduction of CIL.

The Development Equation



3.7 The appraisal model is illustrated by the above diagram and summarises the 'Development Equation'. On one side of the equation is the development value i.e. the sales value which will be determined by the market at any particular time. The variable element of the value in residential development appraisal will be determined by the proportion and mix of affordable housing applied to the scheme. Appropriate discounts for the relevant type of affordable housing will need to be factored into this part of the appraisal.

3.8 On the other side of the equation, the development cost includes the 'fixed elements' i.e. construction, fees, finance and developers profit. Developers profit is usually fixed as a minimum % return on gross development value generally set by the lending institution at the time. The flexible elements are the cost of land and the amount of developer contribution (CIL and Planning Obligations) sought by the Local Authority.

3.9 Economic viability is assessed using an industry standard Residual Model approach. The model subtracts the Land Value and the Fixed Development Costs from the Development Value to determine the viability or otherwise of the development and any additional margin available for CIL.

Viability Assessment Model

3.10 The NCS model is based on standard development appraisal methodology, comparing development value to development cost. The model factors in a reasonable return for the landowner with the established threshold value, a reasonable profit return to the developer and the assessed cost impacts of proposed planning policies to determine if there is a positive or negative residual output. Provided the margin is positive (i.e. Zero or above) then the development being assessed is deemed viable. The principles of the model are illustrated below.

Development Value (Based on Floor Area) **Eg 10 x 3 Bed 100sqm Houses x £2,200per Sqm**	**£2,200,000**
Development Costs	
Land Value	**£400,000**
Construction Costs	**£870,000**
Abnormal Construction Costs (Optional)	**£100,000**
Professional Fees (% Costs)	**£90,000**
Legal Fees (% Value)	**£30,000**
Statutory Fees (% Costs)	**£30,000**
Sales & Marketing Fees (% Value)	**£40,000**
Contingencies (% Costs)	**£50,000**
Section 106 Contributions/Policy Impact Cost Assumptions/CIL (Strategic Site Testing Only)	**£90,000**
Finance Costs (% Costs)	**£100,000**
Developers Profit (% Return on GDV)	**£350,000**
Total Costs	**£2,175,000**
Output	
Viability Margin	**£50,000**
Potential CIL Rate (CIL Appraisal only)	**£50 Sqm**

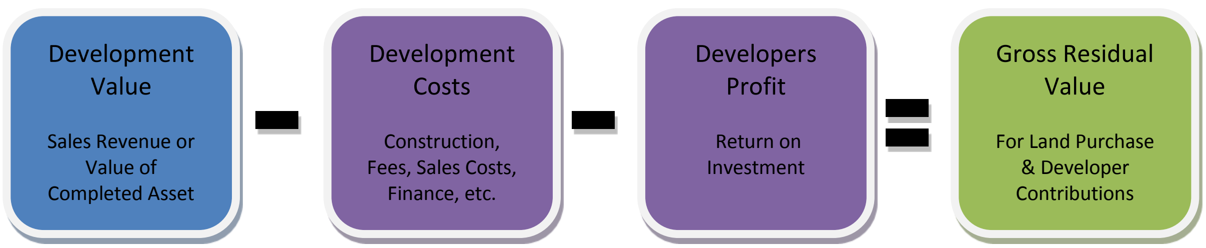
3.11 The model will calculate the gross margin available for developer contributions. The maximum rate of CIL that could be levied without rendering the development economically unviable is calculated by dividing the gross margin by the floorspace of the development being assessed.

3.12 It is important to note that the model applies % proportions and further % tenure splits to the housing scenarios to reflect affordable housing discounts which will generate fractional unit numbers. The model automatically rounds to the nearest whole number and therefore some results appear to attribute value proportions to houses which do not register in the appraisal. The fractional distribution of affordable housing discounts is considered to represent the most accurate illustration of the impact of affordable housing policy on viability.

Land Value Assumptions

3.13 It is generally accepted that developer contributions (Affordable Housing, CIL and S106), will be extracted from the residual land value (i.e. the margin between development value and development cost including a reasonable allowance for developers profit). Within this gross residual value will be a base land value (i.e. the minimum amount a landowner will accept to release a site) and a remaining margin for contributions.

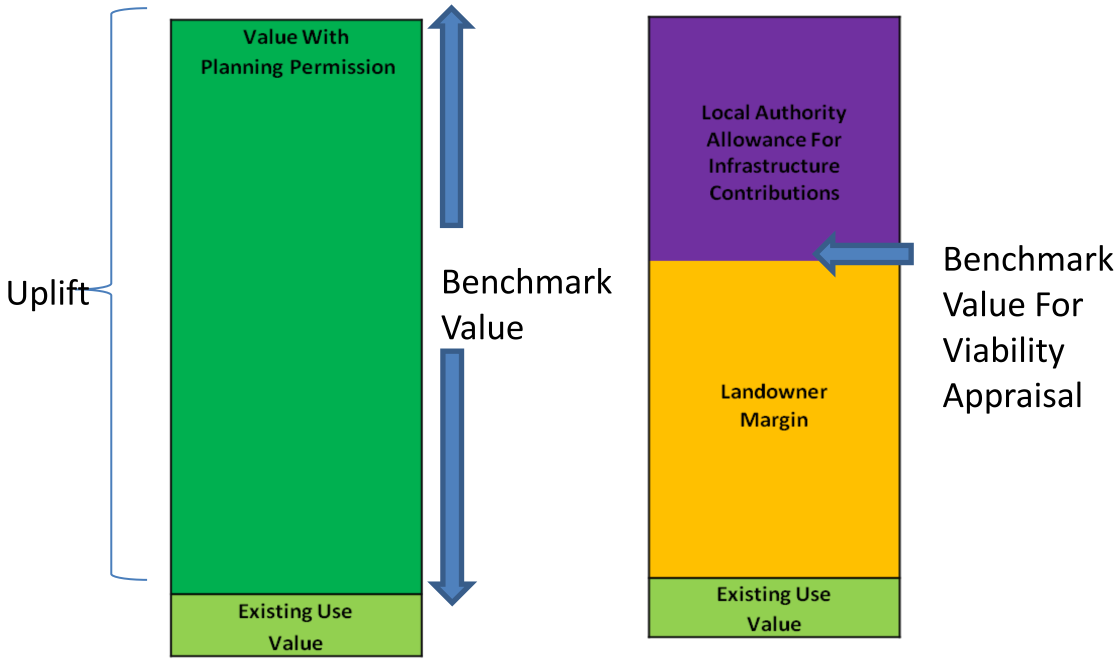
Stage 1 – Residual Valuation



3.14 The approach to assessing the land element of the gross residual value is therefore the key to the robustness of any viability appraisal. There is no single method of establishing threshold land values for the purpose of viability assessment in planning but the NPPF and emerging best practice guidance does provide a clear steer on the appropriate approach.

Stage 2 – Establishing Base Land Value

Land Value Benchmarking (Threshold Land Values)



3.15 The above diagram illustrates the principle involved in establishing a robust benchmark for land value. Land will have an existing use value (EUV) based on its market value. This is generally established by comparable evidence of the type of land being assessed (e.g. agricultural value for greenfield sites or perhaps industrial value for brownfield sites may be regarded as reasonable existing use value starting points and may be easily established from comparable market evidence)

3.16 The Alternative Use Value is established by assessing the gross residual value between development value and development cost after a reasonable allowance for development profit, assuming planning permission has been granted. The gross residual value does not make allowance for the impact of development plan policies on development cost and therefore represents the maximum potential value of land that landowners may aspire to.

3.17 In order to establish a benchmark land value for the purpose of CIL viability appraisal, it must be recognised that Local Authorities will have a reasonable expectation that, in granting planning permission, the resultant development will yield contributions towards infrastructure and affordable housing. The cost of these contributions will increase the development cost and therefore reduce the residual value available to pay for the land.

3.18 The appropriate benchmark value will therefore lie somewhere between existing use value and gross residual value based on alternative planning permission. This will of course vary significantly dependent on the category of development being assessed.

3.19 The key part of this process is establishing the point on this scale that balances a reasonable return to the landowner beyond existing use value and a reasonable margin to allow for infrastructure and affordable housing contributions to the Local Authority.

Benchmarking and Threshold Land Value Guidance

3.20 Benchmarking is an approach which the Homes and Communities Agency refer to in 'Investment and Planning Obligations: Responding to the Downturn'. This guide states: "*a viable development will support a residual land value at a level sufficiently above the site's existing use value (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner*".

3.21 The NPPF has introduced a more stringent focus on viability in planning considerations. In particular para 173 states:-

"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 land owner and willing developer to enable the development to be deliverable"

3.22 The NPPF recognises that, in assessing viability, unless a realistic return is allowed to a landowner to incentivise release of land, development sites are not going to be released and growth will be stifled. The most recent practical advice in establishing benchmark thresholds at which landowners will release land was produced by the Local Housing Delivery Group (comprising, inter alia, the Local Government Association, the Homes and Communities Agency and the House Builders Federation) in June 2012 in response to the NPPF. 'Viability Testing Local Plans' states:-

"Another key feature of a model and its assumptions that requires early discussion will be the Threshold Land Value that is used to determine the viability of a type of site. This Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development, before payment of taxes (such as capital gains tax)".

Different approaches to Threshold Land Value are currently used within models, including consideration of:

- *Current use value with or without a premium.*
- *Apportioned percentages of uplift from current use value to residual value.*
- *Proportion of the development value.*
- *Comparison with other similar sites (market value).*

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values. The precise figure that should be used as an appropriate premium above current use value should be determined locally. But it is important that there is evidence that it represents a sufficient premium to persuade landowners to sell".

NCS Approach to Land Value Benchmarking (Threshold Land Values)

3.23 NCS has given careful consideration to how the Threshold Land Value (i.e. the premium over existing use value) should be established.

3.24 We have concluded that adopting a fixed % over existing value is inappropriate because the premium is tied solely to existing value – which will often be very low - rather than balancing the reasonable return aspirations of the landowner to pursue a return based on alternative use as required by the NPPF. Landowners are generally aware of what their land is worth with the benefit of planning permission. Therefore a fixed % uplift over existing use value will not generally be reflective of market conditions and may not be a realistic method of establishing threshold land value.

3.25 We believe that the uplift in value resulting from planning permission should effectively be shared between the landowner (as a reasonable return to incentivise the release of land) and the Local Authority (as a margin to enable infrastructure and affordable housing contributions). The % share of the uplift will vary dependent on the particular approach of each Authority but based on our experience the landowner will expect a minimum of 50% of the uplift in order for sites to be released. Generally, if a landowner believes the Local Authority is gaining greater benefit than he is unlikely to release the site and will wait for a change in planning policy. We therefore consider that a 50:50 split is a reasonable benchmark and will generate base land values that are fair to both landowners and the Local Authority.

The Shinfield Appeal Decision Wokingham (APP/X0360/A/12/2179141) in January 2013 has provided clear support for this approach to establishing a 'reasonable return the landowner' under the requirements of the NPPF. The case revolved around the level of affordable housing and developer contributions that could be reasonably required and in turn the decision hinged on the land value allowed to the applicant as a 'reasonable return' to incentivise release of the site. The Inspector held that the appropriate approach to establishing the benchmark or threshold land value would be to split the uplift in value resulting from planning permission for the Alternative Use - 50:50 between landowner and the community.

The Threshold Land Value is established as follows:-

Existing Use Value + % Share Of Uplift from Planning Permission = Threshold Land Value

3.26 The resultant threshold values are then checked against market comparable evidence of land transactions in the Authority's area by our valuation team to ensure they are realistic. We believe this is a robust approach which is demonstrably fair to landowners and more importantly an approach which has been accepted at CIL and Local Plan Examinations we have undertaken.

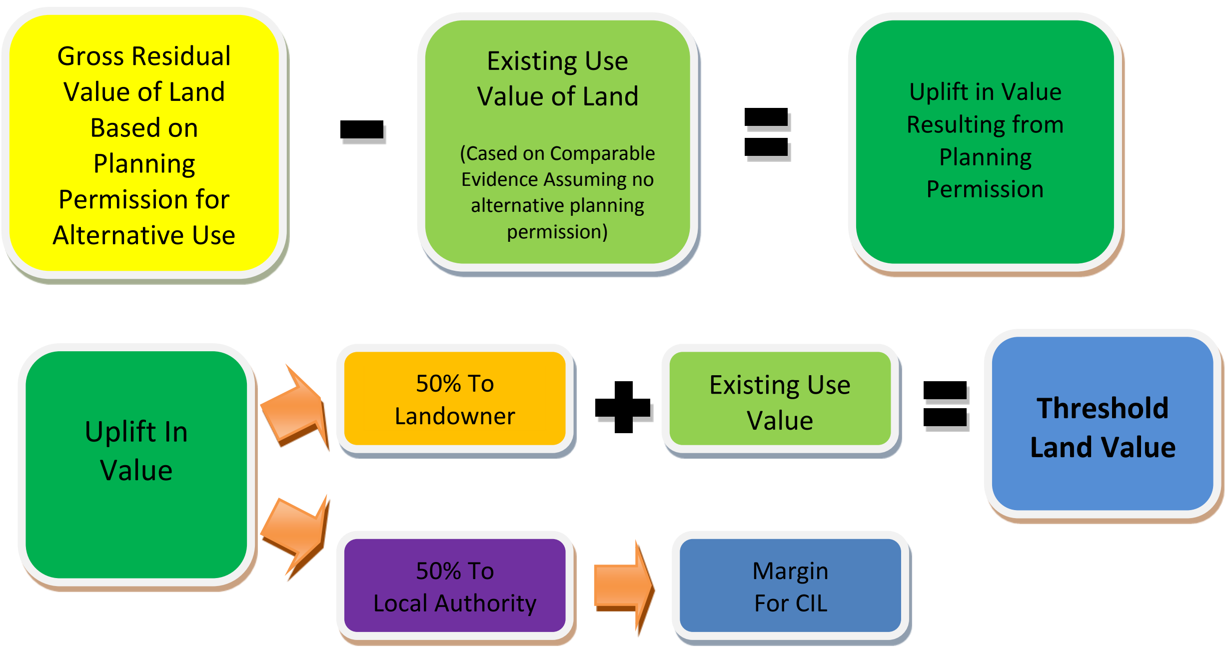
Worked Example Illustrating % over Existing Use vs % Share of Uplift

3.27 A landowner owns a 1 Hectare field at the edge of a settlement. The land is proposed to be allocated for residential development. Agricultural value is £20,000 per Ha. Residential land is being sold in this area for £1,000,000 per Ha. For the purposes of CIL viability assessment what should this Greenfield site be valued at?

Using Fixed % over EUV the land would be valued at £24,000 (£20,000 + 20%)

Using % Share of Uplift in Value the land would be valued at £510,000 (£20,000 + 50% of the uplift between £20,000 and £1,000,000) – realising a market return for the landowner but reserving a substantial proportion of the uplift for infrastructure contribution.

Benchmarking Based on % Share of Uplift in Land Value



Brownfield and Greenfield Land Value Benchmarks

3.28 In order to represent the likely range of benchmark scenarios that might emerge in the plan period for the appraisal it will be necessary to test alternative threshold land value scenarios. A greenfield scenario will represent the best case for CIL as it represents the highest uplift in value resulting from planning permission. The greenfield existing use is based on agricultural value

3.29 The median brownfield position recognises that existing commercial sites will have an established value. The existing use value is based on a low value brownfield use (industrial). The viability testing firstly assesses the gross residual value (the maximum potential value of land based on total development value less development cost with no allowance for affordable housing, sec 106 contributions or planning policy cost impacts). This is then used to apportion the share of the potential uplift in value to the greenfield and brownfield benchmarks. This is considered to represent a reasonable scope of land value scenarios in that change from a high value use (e.g. retail) to a low value use (e.g. industrial) is unlikely.

3.30 Actual market evidence will not always be available for all categories of development. In these circumstances the valuation team make reasoned assumptions.

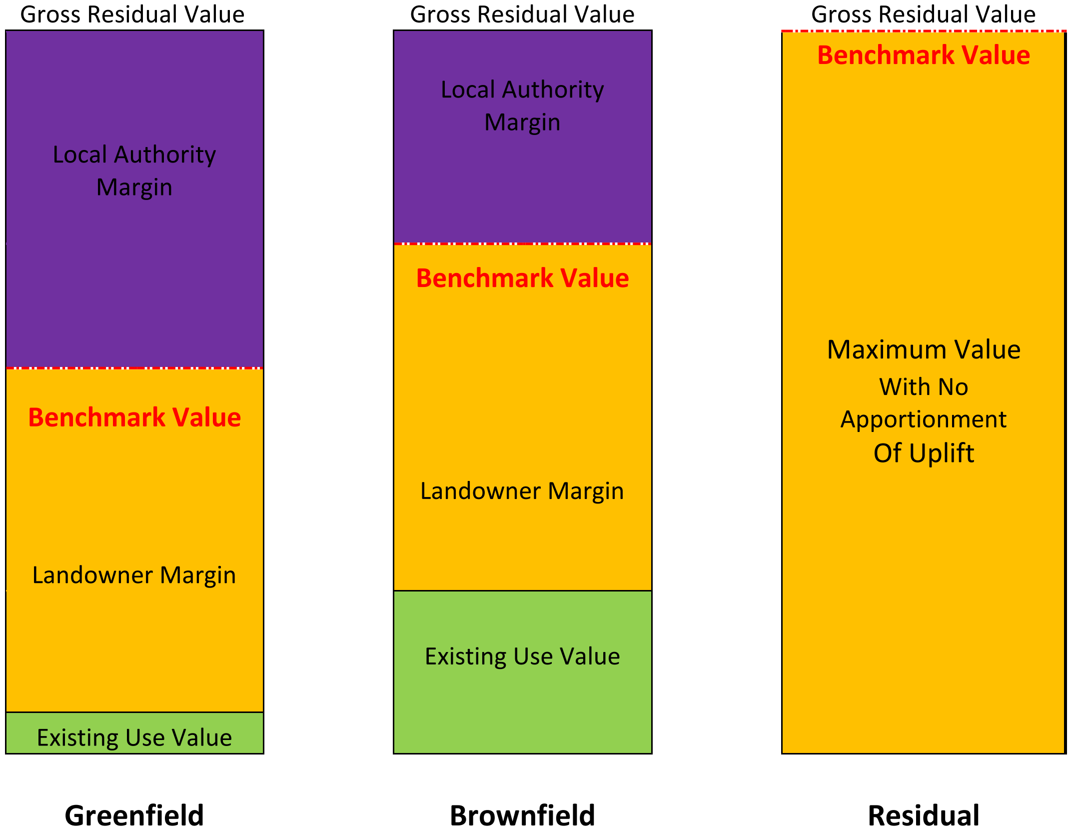
Residential

Benchmark 1	Greenfield	Agricultural – Residential (Maximum CIL Potential)
Benchmark 2	Brownfield	Industrial – Residential

Commercial

Benchmark 1	Greenfield	Agricultural – Proposed Use (Maximum CIL Potential)
Benchmark 2	Brownfield	Industrial – Proposed Use

3.31 The viability study assumes that affordable housing land has limited value as development costs form a very high proportion of the ultimate discounted sale value of the property. The appraisals apply a 30% proportion of the relevant market plot value to the affordable housing plots.



3.32 The above diagram illustrates the concept of Benchmark Land Value. The level of existing use value for the three benchmarks is illustrated by the green shading. The uplift in value from existing use value to proposed use value is illustrated by the blue and gold shading. The gold shading represents the proportion of the uplift allowed to the landowner for profit. The blue shading represents the allowance of the uplift for developer contributions to the Local Authority. The Residual Value assumes maximum value with planning permission with no allowance for planning policy cost impacts. This benchmark is used solely to generate the brownfield and greenfield threshold values.

3.33 Whilst brownfield land evaluation with a higher benchmark land value will necessarily indicate that less viability margin exists for CIL, it should be acknowledged that brownfield sites will often contain existing buildings which may be used to claim CIL relief in calculating the net CIL liability. This should be taken into account in setting CIL rates.

Development Categories

4.1 In order to ensure that the study is sufficiently comprehensive to inform a Differential Rate CIL system, all categories of development in the Use Classes Order will be considered, including a relevant sample of Sui Generis uses to reflect typical developments in the Newark and Sherwood District Local plan area, as follows :-

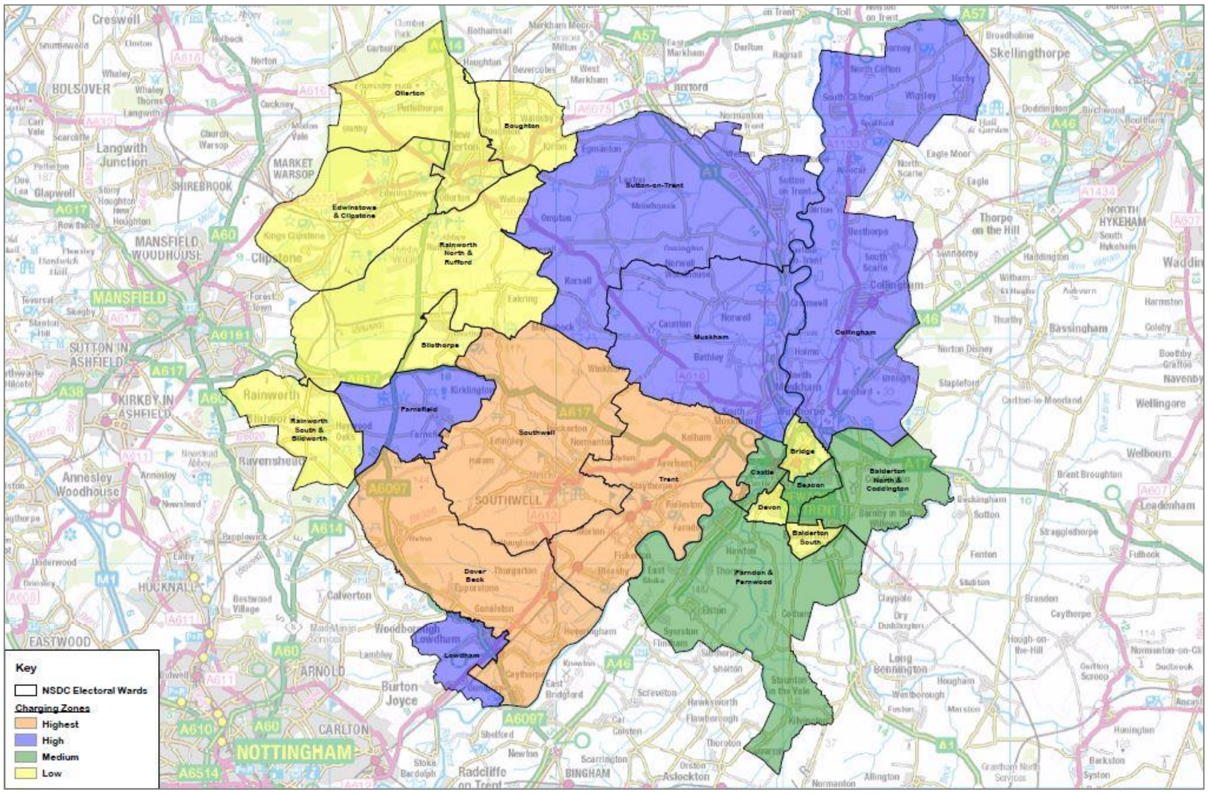
Residential (C3) - Based on varying residential development scenarios and factoring in the affordable housing requirements of the Authority. Land values are assessed based on house type plots. Sales values are assessed on per Sqm rates.

Commercial - The following categories are considered. Land Values and Gross Development Values are assessed on Sqm basis.

Industry (B1 (b) B1(c), B2, B8)
Offices (B1a)
Food Supermarket Retail (A1)
General Retail (A1, A2, A3, A4, A5)
Hotels (C1)
Residential Institutions (C2)
Institutional and Community (D1)
Leisure (D2)
Agricultural
Sui Generis - Vehicle Sales
Sui Generis – Car Repairs

Sub Market Areas and Potential Charging Zones

4.2 The Heb valuation study considered evidence of residential land and property values across Newark and Sherwood District and concluded that there were sufficient distinctions between sales prices to warrant differential value assumptions being made in the Whole Plan Viability Assessment and, potentially, a differential rate approach to CIL based on the geographical zones illustrated on the map below.



Residential CIL Charging Zone Map

4.3 The variations in commercial values were not considered significant enough across the District to justify the application of differential assumptions based on sub-market areas or to indicate a differential charging zone approach to CIL.

Affordable Housing

4.4 A series of residential viability tests have been undertaken, reflecting affordable housing delivery at the policy level of 30% but within this overall delivery level, taking account of the introduction of Starter Homes into the affordable tenure mix with a differential approach adopted dependent on sub-market areas. The following extract from a generic sample residential viability appraisal model illustrates how affordable housing is factored into the residential valuation assessment. The relevant variables (e.g. unit numbers, types, sizes, affordable proportion, tenure mix etc.) are inputted into the appropriate cells. The model will then calculate the overall value of the development taking account of the relevant affordable unit discounts.

DEVELOPMENT SCENARIO		Mixed Residential Development				Apartments	10
BASE LAND VALUE SCENARIO		Greenfield to Residential				2 bed houses	20
DEVELOPMENT LOCATION		Urban Zone 1				3 Bed houses	40
DEVELOPMENT DETAILS		100	Total Units			4 bed houses	20
Affordable Proportion	30%	30	Affordable Units			5 bed house	10
Affordable Mix	30%	Intermediate	40%	Social Rent	30%	Affordable Rent	
Development Floorspace		6489	Sqm Market Housing		2,163	Sqm Affordable Housing	
Development Value							
Market Houses							
7 Apartments	65	Sqm	2000	£ per Sqm			£910,000
14 2 bed houses	70	Sqm	2200	£ per Sqm			£2,156,000
28 3 Bed houses	88	Sqm	2200	£ per Sqm			£5,420,800
14 4 bed houses	115	Sqm	2200	£ per Sqm			£3,542,000
7 5 bed house	140	Sqm	2200	£ per Sqm			£2,156,000
Intermediate Houses	60%	Market Value					
3 Apartments	65	Sqm	1200	£ per Sqm			£210,600
5 2 Bed house	70	Sqm	1320	£ per Sqm			£415,800
2 3 Bed House	88	Sqm	1320	£ per Sqm			£209,088
Social Rent Houses	40%	Market Value					
4 Apartments	65	Sqm	800	£ per Sqm			£187,200
6 2 Bed house	70	Sqm	880	£ per Sqm			£369,600
2 3 Bed House	88	Sqm	880	£ per Sqm			£185,856
Affordable Rent Houses	50%	Market Value					
3 Apartments	65	Sqm	1000	£ per Sqm			£175,500
5 2 Bed house	70	Sqm	1100	£ per Sqm			£346,500
2 3 Bed House	88	Sqm	1100	£ per Sqm			£174,240
100 Total Units							
Development Value							**£16,459,184**

It is important to note that the model applies % proportions and further % tenure splits to the housing scenarios which will generate fractional unit numbers. The model automatically rounds to the nearest whole number and therefore some results appear to attribute value proportions to houses which do not register in the appraisal. The fractional distribution of affordable housing discounts is considered to represent the most accurate illustration of the impact of affordable housing policy on viability.

4.5 The following Affordable Housing Assumptions have been agreed for the purpose of the residential viability appraisals. The assumptions relate to the overall proportion of 'subsidised housing' including affordable housing and Starter Homes. Effectively Starter Homes are treated as a 'tenure type' along with Intermediate and Social Rent housing types. Finally the transfer values in terms of % of open market value are set out for each tenure type. The transfer value equates to the assumed price paid by the registered housing provider to the developer and is assessed as a discounted proportion of the open market value of the property in relation to the type (tenure) of affordable housing. For Starter homes it is assumed that units will be sold at 80% of Open Market Value.

Affordable Housing				
Sub Market/Charging Zone	Proportion %		Tenure Mix %	
		Intermediate	Affordable Rent	Starter Homes
1 Low	30%	15%	35%	50%
2 Medium	30%	22%	67%	11%
3 High	40%	22%	67%	11%
4 Very High	40%	22%	67%	11%
% Open Market Value		60%	50%	80%

4.6 The affordable assumptions were applied to all residential scenario testing. For the smaller unit number tests the proportional and tenure splits result in fractions of unit numbers. In these cases the discounts may be considered to equate to the impact of off-site contributions.

Development Density

4.7 Density is an important factor in determining gross development value and land value. Density assumptions for commercial development will be specific to the development category. For instance the floorplate for industrial development is generally around 50% of the site area to take account of external servicing, storage and parking, Offices will vary significantly dependent on location, town centre offices may take up 100% of the site area whereas out of town locations where car parking is a primary consideration, the floorplate may be only 25% of the site area. Food retailing generally has high car parking requirements and large site areas compared to floorplates.

The land: floorplate assumptions for commercial development are as follows:-

Industrial	2:1	
Offices	2:1	
General Retail	1.5:1	(shopping parades, local centres etc.)
Food retail	3:1	
Leisure	3:1	
Hotels	2:1	
Residential Institutions	1.5:1	
Community Uses	1.5:1	
Other Uses	2:1	

4.8 Residential densities vary significantly dependent on house type mix and location. Mixed housing developments may vary from 10-50 dwellings per Hectare. Town Centre apartment schemes may reach densities of over 150 units per Hectare. We generate plot values for residential viability assessment related to specific house types. The plot values allow for standard open space requirements per Hectare. The densities adopted in the study reflect the assumptions of the Local Authority on the type of development that is likely to emerge during the plan period.

4.9 The density assumptions for house types related to plot values are as follows:-

Apartment	100 units per Ha
2 Bed House	40 units per Ha
3 Bed House	35 units per Ha
4 Bed House	25 units per Ha
5 Bed House	20 units per Ha

House Types and Mix

4.10 The study uses the following standard house types as the basis for valuation and viability testing as unit types that are compliant with National Housing standards and meet minimum Local Plan policy requirements.

Apartment	60 Sqm
2 Bed House	75 Sqm
3 Bed House	90 Sqm
4 Bed House	120 Sqm
5 Bed House	150 Sqm

4.11 Housing values and costs are based on the same gross internal area. However apartments will contain circulation space (stairwells, lifts, access corridors) which will incur construction cost but which is not directly valued. We make an additional construction cost allowance of 15% to reflect the difference between gross and net floorspace.

Residential Development Scenarios

4.12 The study tests a series of residential development scenarios to reflect general types of development that are likely to emerge over the plan period.

4.13 For residential development, five scenarios were considered. The list does not attempt to cover every possible development in the District but provides an overview of residential development in the plan period.

1. Mixed Housing (Apartments, 2, 3, 4 & 5 Bed Housing)		100 Units
2. Apartments		25 Units
3. Starter Housing	(2 & 3 Bed Housing)	15 Units
4. Family Housing	(2, 3 & 4 Bed Housing)	25 Units
5. Executive Housing	(4 & 5 Bed Housing)	10 Units

Commercial Development Scenarios

4.14 The CIL appraisal tests all forms of commercial development broken down into use class order categories. For completeness the appraisal includes a sample of sui generis uses. A typical form of development that might emerge during the plan period is tested within each use class.

4.15 The density assumptions for commercial development will be specific to the development category. For instance the floorplate for industrial development is generally around 50% of the site area to take account of external servicing, storage and parking. Offices will vary significantly dependent on location, town centre offices may take up 100% of the site area whereas out of town locations where car parking is a primary consideration, the floorplate may be only 25% of the site area. Food retailing generally has high car parking requirements and large site areas compared to floorplates.

4.16 The viability model also makes allowance for net: gross floorspace. In many forms of commercial development such as industrial and retail, generally the entire internal floorspace is deemed lettable and therefore values per Sqm and construction costs per Sqm apply to the same area. However in some commercial categories (e.g. offices) some spaces are not considered lettable (corridors, stairwells, lifts etc.) and therefore the values and costs must be applied differentially. The net: gross floorspace ratio enables this adjustment to be taken into account.

4.17 The table below illustrates the commercial category and development sample testing as well as the density assumptions and net: gross floorspace ratio for each category. In acknowledgement of consultation responses to initial retail viability work more detailed assessment of retail viability has been undertaken in respect to use and scale of development to reflect the type of general retail (A1-A5) and food supermarket (A1) development considered likely to emerge over the plan period.

Commercial Development Sample Typology Unit Size & Land Plot Ratio					
		Unit Size Sqm	Plot Ratio %	Gross: Net	Sample
Industrial	B1b B1c B2 B8	1000	200%	1.0	Factory Unit
Office	B1a	1000	200%	1.2	Office Building
Food Retail	A1	3000	300%	1.0	Supermarket
General Retail	A 1 – A5	300	150%	1.0	Roadside Type Shop Unit
Residential Inst	C2	4000	150%	1.2	Care Facility
Hotels	C3	3000	200%	1.2	Mid-Range Hotel
Community	D1	200	150%	1.0	Community Centre
Leisure	D2	2500	300%	1.0	Bowling Alley
Agricultural		500	200%	1.0	Farm Store
Sui Generis	Car Sales	1000	200%	1.0	Car Showroom
Sui Generis	Vehicle Repairs	300	200%	1.0	Repair Garage

Sustainable Construction Standards

4.19 It is acknowledged that the Code for Sustainable Homes are being replaced by changes to the Building Regulations based on the National Housing Standards. The latest government guidance is that forthcoming Building Regulation changes will not impose standards beyond an equivalent of CoSH 4 and the cost rates adopted in the study reflect this.

4.20 The Commercial Viability assessments are based on BREEAM ‘Excellent’ construction rates.

Construction Costs

4.21 The construction rates will reflect allowances for external works, drainage, servicing preliminaries and contractor’s overhead and profit. The viability assessment will include a 5% allowance for construction contingencies.

4.22 The following residential construction rates are adopted in the study to reflect National Housing Standards, Category 2 Dwellings and the water and space standards of Newark and Sherwood District Council. Whilst the Code for Sustainable Homes standards have been withdrawn, the cost parameters that inform them remain a useful guide to the cost implications of the National Housing standards and are considered within the study. An additional cost allowance for accessible and adaptable dwellings has been made for all residential development.

Residential Construction Cost Sqm		
Apartments	1078	Sqm
2 bed houses	919	Sqm
3 Bed houses	919	Sqm
4 bed houses	919	Sqm
5 bed house	919	Sqm

Commercial Construction Cost Sqm	
558	Factory Unit
1274	Office Building
1146	Supermarket
784	Roadside Retail Unit
1221	Care Facility
1726	Mid-Range Hotel
1906	Community Centre
913	Bowling Alley
479	Farm Store
1092	Car Showroom
973	Repair Garage

Abnormal Construction Costs

4.23 Most development will involve some degree of exceptional or 'abnormal' construction cost. Brownfield development may have a range of issues to deal with to bring a site into a 'developable' state such as demolition, contamination, utilities diversion etc. Whole Plan and CIL Viability Assessment is based on generic tests and it would be unrealistic to make assumptions over average abnormal costs to cover such a wide range of scenarios. In reality abnormal cost issues like site contamination are reflected in reductions to land values so making additional generic abnormal cost assumptions would effectively be double counting costs unless the land value allowances were adjusted accordingly.

4.24 It is considered better to bear the unknown costs of development in mind when setting CIL rates and not fix rates at the absolute margin of viability.

Policy Cost Impacts & Planning Obligation Contributions

4.25 The study seeks to review Whole Plan Viability and therefore firstly assesses the potential cost impacts of the proposed policies in the plan to determine appropriate cost assumptions in the viability assessments and broadly determine if planned development is viable.

4.26 CIL may replace some if not all planning obligation contributions. The second purpose of the study is to test the maximum margin available for CIL that is available from various types of development. CIL, if adopted, will represent the first 'slice' of tax on development. Planning Obligations may be used to top up contributions on a site specific basis subject to viability appraisal at planning application stage. Nevertheless the CIL Guidance 2014 (contained in the National Planning Practice Guidance) indicates that Authorities should demonstrate that the development plan is deliverable by funding infrastructure through a mixture of CIL and planning obligation contributions in the event that the Authority does not intend to completely replace planning obligations with CIL.

4.27 Costs have been factored into the viability appraisals to reflect the impact of relevant development plan policy and the residual use of planning obligations for site specific mitigation. Based on historic evidence of planning obligation contributions over the last five years (excluding Affordable Housing which is factored in separately) the following cost allowances have been adopted in the study:-

Residual Planning Obligations for site specific mitigation	**£1000 per dwelling**
	£10 per Sqm commercial

4.28 CIL has been in operation in the District since 2011. Evidence of planning obligation contributions in this post CIL period demonstrates that an average of £1249 per dwelling. An ongoing allowance of £1000 per dwelling has been made to reflect ongoing potential future contributions for residential development. There is limited evidence of commercial sec 106 contribution over this period so a general allowance, adopted in a number of CIL studies of £10sqmhas been made for commercial development.

4.29 Costs have been factored into the viability appraisals to reflect the impact of relevant development plan policies and the residual use of planning obligations for site specific mitigation. The cost impact of these mitigation measures has been assessed by Gleeds and may be summarised as follows:-

ACESSIBILITY STANDARDS - 10% of Dwellings £2sqm

The appraisals test the impact of requiring 10% of homes to be built to Category 2 standard for accessibility. This is estimated to add £18sqm for housing and £22sqm for apartments over National Housing Standards equivalent build cost allowance. Assuming 10% of dwellings will meet these standards an overall additional cost allowance of £2sqm has been made.

WATER CONSERVATION STANDARDS

The higher optional water standard of 110 lpd is considered to be covered by the adopted construction cost rates (equivalent of CoSH Code 4) and do not require any additional allowance.

ENERGY

No additional allowance has been made for Zero Carbon costs in view of the Government's recent policy change on this issue.

BREAAM Standards

The construction costs for commercial development make allowance for BREAAM 'Excellent' rating including additional professional fees.

SPACE STANDARDS

The residential unit sizes adopted in the appraisals comply with National Space Standards.

Developers Profit

4.30 Developer's profit is generally fixed as a % return on gross development value or return on the cost of development to reflect the developer's risk. In current market conditions, and based on the assumed lending conditions of the financial institutions, a 17.5% return on GDV is used in the residential viability appraisals to reflect speculative risk on the market housing units. However it must be acknowledged that affordable housing does not carry the same speculative risk as it effectively pre-sold. There is significant evidence of this 'split profit' approach being accepted as a legitimate approach in Whole Plan Viability and Community Infrastructure Levy Examinations and Affordable Housing Sec 106 BC Appeals.

4.31 The profit allowance on the affordable housing element has been set at a 'contactor only' profit of 6% in line with HCA viability toolkit guidance. It should also be recognised that a 'competitive profit ' will vary in relation to prevailing economic conditions and will generally reduce as conditions improve, generally remaining within a 15-20% range for speculative property.

4.32 In the generic commercial development assessments, a 17.5% profit return is applied in recognition that most development will be pre-let or pre-sold with a reduced level of risk. If it is considered that industrial and other forms of commercial are likely to be operator rather than developer led, this allowance may be further reduced to a 5-10% allowance to reflect an allowance for operational/opportunity cost rather than a traditional development risk.

Property Sales Values

4.33 The sale value of the development category will be determined by the market at any particular time and will be influenced by a variety of locational, supply and demand factors as well as the availability of finance. The study uses up to date comparable evidence to give an accurate representation of market circumstances.

4.34 A valuation study of all categories of residential and commercial property has been undertaken by HEB Chartered Surveyors in June 2016. A copy of the report is attached at Appendix I.

Residential Sales Values					
Charging Zone	Sales Value £Sqm				
	Apartment	2 Bed	3 Bed	4 Bed	5 Bed
1 Low	1830	1935	1885	1885	1885
2 Medium	2000	2200	2100	2100	2100
3 High	2150	2375	2300	2300	2300
4 Very High	2600	2750	2690	2690	2690

Commercial Sales Values Sqm		
		Charging Zones
		Area Wide
Industrial		700
Office		1350
Food Retail		2750
Other Retail		1700
Residential Inst		1266
Hotels		2500
Community		1077
Leisure		1350
Agricultural		350
Sui Generis	Car Sales	1500
Sui Generis	Vehicle Repairs	700

Land Value Allowances - Residential

4.35 Following the land value benchmarking 'uplift split' methodology set out in Section 3 the following greenfield and brownfield existing residential land use value assumptions are applied to the study. The gross residual value (the maximum potential value of land assuming planning permission but with no planning policy, affordable housing sec 106 or CIL cost impacts). An example for Mixed Housing in the High Value zone is illustrated in the table below.

Land Value	£20000	Existing Greenfield (agricultural) Per Ha		
	£370,000	Brownfield (equivalent general commercial) Per Ha		
	£2,254,464	Gross Residual Residential Value per Ha	Uplift	50%

4.36 50% of the uplift in value between existing use and the gross residual value of alternative use with planning permission is applied to generate benchmarked land values per Ha. These land values are then divided by the assumed unit type densities to generate the individual greenfield and brownfield plot values to be applied to the appraisals.

	EUV	+	50% of Uplift in Value	=	Threshold Land Value
Greenfield	£20,000	+	50% (£2,254,464 - £20,000)	=	£1,137,232 per Ha
Brownfield	£370,000	+	50% (£2,254,464 - £370,000)	=	£1,312,232 per Ha

Density Assumptions	Apt	2 Bed	3 Bed	4 Bed	5 Bed
	100	40	35	25	20

LAND VALUES (Plot Values)

	Apt	2 Bed	3 Bed	4 Bed	5 Bed
Greenfield	£11372	£28431	£32492	£45489	£56682
Brownfield	£13122	£32806	£37492	£52489	£65612

4.37 The complete set of gross residual residential values for all the residential tests from which the benchmarked threshold land value allowances were derived, is set out in the table below. Apartments in the low zone demonstrated negative residual land values so a minimum allowance of £200,000 per Ha was applied.

Gross Residual Land Value per Ha	Zone 1	Zone 2	Zone 3	Zone 4
Mixed Residential Estate	1212767	1767467	2254464	3243532
Apartments	200000	740673	1519482	3855909
Starter Housing	1316047	1916874	2366732	3295421
Family Housing	1269625	1822845	2297748	3242555
Executive Housing	1217661	1732873	2212140	3146711

Land Value Allowances - Commercial

4.38 The approach to commercial land value allowances is the same in principle. Obviously there will be a broad spectrum of residual land values dependent on the commercial use. A number of residual land calculations for commercial categories actually demonstrate negative values – which is clearly unrealistic for the purpose of viability appraisal. Therefore where residual values are less than market comparable evidence the market comparable is used as the minimum gross residual figure. In the Newark and Sherwood District assessments only retail gross residual values exceeded these market comparable benchmarks.

4.39 The following provides example threshold land value allowances food supermarket retail

	EUV	+	50% of Uplift in Value	=	Threshold Land Value
Greenfield	£20,000	+	50% (£2,831,572 - £20,000)	=	£1,425,786 per Ha
Brownfield	£370,000	+	50% (£2,831,572 - £370,000)	=	£1,600,876 per Ha

4.40 The greenfield and brownfield land value threshold allowances are all set out within the commercial viability appraisals but in summary the gross residual values on which they are based may be summarised as follows :-

Commercial Residual Land Values	Area Wide
Industrial Land Values per Ha	
Residual Land Value per Ha	370000
Office Land Values per Ha	
Residual Land Value per Ha	370000
Food Retail Land Values per Ha	
Residual Land Value per Ha	2831572
General Retail Land Values per Ha	
Residual Land Value per Ha	2873998
Residential Institution Land Values per Ha	
Residual Land Value per Ha	370000
Hotel Land Values per Ha	
Residual Land Value per Ha	865000
Community Use Land Values per Ha	
Residual Land Value per Ha	370000
Leisure Land Values per Ha	
Residual Land Value per Ha	650000
Agricultural Land Values per Ha	
Comparable Land Value per Ha	20000

Fees, Finance and Other Cost Allowances

4.41 The following 'industry standard' fee and cost allowances are applied to the appraisals.

Residential Development Cost Assumptions					
Professional Fees		8.0%	Construction Cost		
Legal Fees		0.5%	GDV		
Statutory Fees		1.1%	Construction Cost		
Sales/Marketing Costs		2.0%	Market Units Value		
Contingencies		5.0%	Construction Cost		
Planning Obligations		1000	£ per Dwelling		
		10	£ per Sqm Commercial		
Interest	5.0%	12	Month Construction	3-6	Mth Sales Void
Arrangement Fee	1.0%	Cost			

5 Viability Appraisal Results

5.1 The results of the generic Viability Testing are set out in the tables below. In order to reflect the policy position of the Council the residential viability tests were undertaken on the assumption that schemes would deliver 30% Affordable Housing/Starter Homes and are based on a 17.5% profit allowance on the market housing element and a 6% profit allowance on the affordable element.

5.2 Any positive figures confirm that the category of development tested is economically viable in the context of Whole Plan viability and the impact of planning policies. The level of positive viability indicates the potential additional margin for CIL charges in £ per Sqm. The commercial table illustrates the potential CIL rates across the whole Authority area.

5.3 Each category of development produces a greenfield and brownfield result in each test area. These results reflect the benchmark land value scenario. The first result assumes greenfield development which generally represents the highest uplift in value from current use and therefore will produce the highest potential CIL Rate. The second result assumes that development will emerge from low value brownfield land.

Maximum Residential CIL Rates per Sqm

Charging Zone/Base Land Value	Mixed Residential Estate	Apartments	Starter Housing	Family Housing	Executive Housing
1 Low					
Greenfield	£85	-£241	£80	£94	£176
Brownfield	£1	-£265	-£9	£7	£106
2 Medium					
Greenfield	£88	-£185	£76	£94	£215
Brownfield	£1	-£228	-£18	£4	£56
3 High					
Greenfield	£152	-£126	£140	£159	£208
Brownfield	£68	-£169	£50	£73	£127
4 Very High					
Greenfield	£296	£44	£288	£305	£353
Brownfield	£212	£2	£191	£218	£266

5.4 It should be recognised that the CIL Rates that have emerged from the study are maximum potential rates, based on optimum development conditions. The viability tests are necessarily generic and do not factor in site specific abnormal costs that may be encountered on many development sites. The tests produce maximum contributions for infrastructure and therefore ultimate CIL charges should consider an appropriate 'viability buffer' to account for additional unforeseen costs and site specific abnormals.

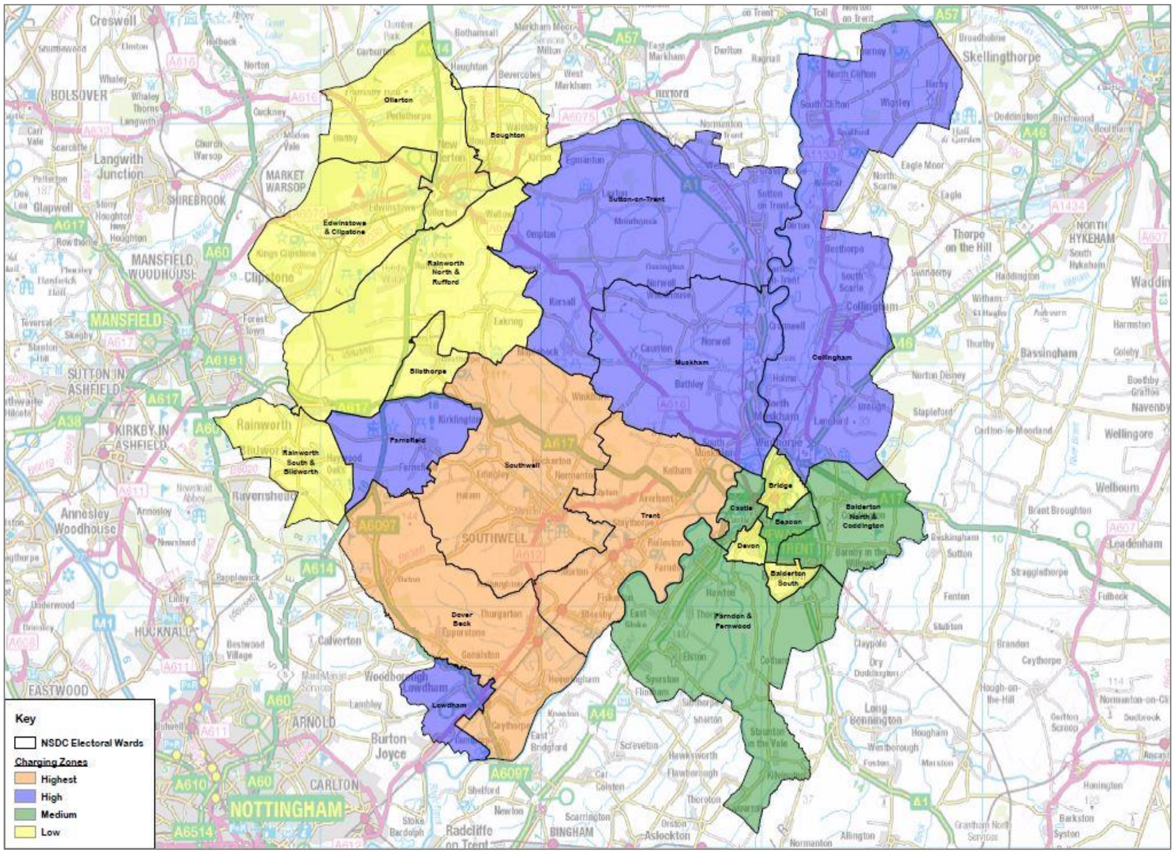
5.5 The results of the viability testing clearly demonstrate that Affordable Housing delivery at the Council's policy target of 30% enables delivery of all nearly all housing development proposed by the Plan across the District (excepting the marginal negative viability of a small number of brownfield sites in the low value zone) with a substantial viability margin for flexibility and potentially permitting a significant viability margin for CIL.

NCS	Maximum Commercial CIL Rates per sq. m	
	General Zone	
Charging Zone/Base Land Value	Greenfield	Brownfield
Industrial (B1b B1c B2 B8)	-£152	-£190
Office(B1a)	-£652	-£684
Hotel(C1)	-£462	-£661
Residential Institution (C2)	-£637	-£1,198
Community(D1)	-£1431	-£1460
Leisure (D2)	-£118	-£177
Agricultural	-£299	NA
Sui Generis	Car Sales -£269	Vehicle Repairs -£677
Food Supermarket Retail A1	£366	£306
General Retail A1-A5	£193	£164

5.6 Most of the above commercial use class appraisals indicated negative viability and therefore no margin to introduce CIL charges. Only food supermarket and general retail demonstrated significant positive viability. These results are typical of our experience of most Local Authorities' commercial viability assessments. In order for viability assessment to be consistent between residential and commercial development, full development profit allowances are contained within all appraisals (assuming all development is delivered by third party developers requiring a full risk return). In reality much commercial development is delivered direct by business operators who do not require the 'development profit' element. As such many commercial categories of development are broadly viable and deliverable despite the apparent negativity of the results. In addition, it is common practice in mixed use schemes for the viable residential element of a development to be used to cross subsidise the delivery of the commercial component of a scheme.

Residential Viability Assessment

6.1 The assessments of residential land and property values indicated that there were significant differences in value across the District and the existence of sub-markets requiring application of differential value assumptions in the viability appraisal and the continued operation of a differential CIL charging schedule with distinct charging zones. The zone map has been simplified from the previous 6 zone map to differentiate 4 residential charging zones as illustrated below.



Residential CIL Charging Zone Map

6.2 The following table shows the viability margins for the different residential typologies for greenfield and brownfield development.

6 Conclusions

Maximum Residential CIL Rates per Sqm

Charging Zone/Base Land Value	Mixed Residential Estate	Apartments	Starter Housing	Family Housing	Executive Housing
1 Low					
Greenfield	£85	-£241	£80	£94	£176
Brownfield	£1	-£265	-£9	£7	£106
2 Medium					
Greenfield	£88	-£185	£76	£94	£215
Brownfield	£1	-£228	-£18	£4	£56
3 High					
Greenfield	£152	-£126	£140	£159	£208
Brownfield	£68	-£169	£50	£73	£127
4 Very High					
Greenfield	£296	£44	£288	£305	£353
Brownfield	£212	£2	£191	£218	£266

6.3 The testing showed that the Newark and Sherwood District Local Plan Policies are viable for all forms of housing development and demonstrate that Affordable Housing delivery at the Council's policy target proposed by the Plan (as set out at para 4.5) is deliverable. The results suggest that the viability of apartment development in all but the highest value area of the District is challenging under current economic conditions.

6.4 Greenfield housing development demonstrates viable CIL rate potential of £76-£353 per square metre dependent on the sub-market area. For brownfield housing, the CIL rate potential is lower at £0-£266 per square metre.

Estimated Housing Delivery in Remaining Plan Period	Greenfield	Brownfield
1 Low Value	3342	1240
2 Medium Value	2095	0
3 High Value	195	0
4 Very High	215	15

6.5 The table above illustrates estimated greenfield and brownfield housing delivery in the differential charging in the remainder of the Plan period

6.6 Based on the primarily greenfield delivery strategy CIL rates in Zones 2-4 may rely on the greenfield viability results. However, in the Low Value zone it will be a more mixed development delivery strategy on brownfield and greenfield sites and so the rates in this location should take account of brownfield viability results.

Key Findings – Commercial Viability Assessment

6.7 The initial assessment of commercial land and property values indicate that there are no significant differences in values to justify differential sub-markets based on assumptions or differential CIL charging zones. The commercial category viability results are set out below but demonstrate that only food and non-food retail development categories are considered viable in terms of being able to viably accommodate CIL.

NCS	Maximum Commercial CIL Rates per sq. m	
	General Zone	
Charging Zone/Base Land Value	Greenfield	Brownfield
Industrial (B1b B1c B2 B8)	-£152	-£190
Office(B1a)	-£652	-£684
Hotel(C1)	-£462	-£661
Residential Institution (C2)	-£637	-£1,198
Community(D1)	-£1431	-£1460
Leisure (D2)	-£118	-£177
Agricultural	-£299	NA
Sui Generis	Car Sales -£269	Vehicle Repairs -£677
Food Supermarket Retail A1	£366	£306
General Retail A1-A5	£193	£164

6.8 It can be seen that only food supermarket retail, with CIL potential rate of £306-£366 per square metre, dependent on existing land use and general retail with potential rates of £164-£193 provide a margin to introduce CIL charges. It is therefore recommended on the existing evidence that only Class A1 -A5 food and non-food retail should be charged CIL and that all other non-residential categories be zero rated.

CIL Viability Appraisal Conclusions

6.9 The study demonstrates that most of the development proposed by the Local Plan is viable and deliverable taking account of the cost impacts of the policies proposed by the plan and the requirements for viability assessment set out in the NPPF. It is further considered that significant additional margin exists, beyond a reasonable return to the landowner and developer to accommodate CIL charges.

6.10 In terms of CIL, it is recommended that there are sufficient variations in residential viability to justify a differential zone approach to setting residential CIL rates across the Newark and Sherwood District area and these should be simplified from the existing system to 4 charging zones.

6.11 Taking account of the viability results, the generic nature of the tests, a reasonable buffer to allow for additional site specific abnormal costs, we would recommend the following zonal rates. Newark and Sherwood District envisage a primarily greenfield delivery strategy and rates are therefore set well within the greenfield viability maximum potential rates with a substantial viability buffer in excess of the generally accepted margin of 30%. However, in the Low Value zone it will be a more mixed development delivery strategy on brownfield and greenfield sites and so the rates in this location take account of brownfield viability results.

Residential CIL	
Apartments (All Zones)	£0sqm
Housing Low Zone 1	£0sqm
Housing Medium Zone 2	£45sqm
Housing High Zone 3	£70sqm
Housing Very High Zone 4	£100sqm

6.12 It is recommended that a single zone approach is taken to setting commercial CIL rates. The viability assessment results indicate that all non-retail commercial uses should be zero rated.

6.13 The existing CIL does not distinguish between food and non-food retail and adopting a similar approach going forward, rates would need to be based on the general retail viability results. As such, and taking account of a reasonable viability buffer, the following Commercial CIL rates are recommended.

Non-Residential CIL	
Districtwide	
All Non-residential uses (excepting Retail)	£0sqm
Districtwide	
Retail A1-A5	£100sqm

6.14 In order to estimate residential CIL over the plan period, the recommended CIL rate is applied to an average house size of 90 sq. metres for eligible dwellings. In Newark and Sherwood it is estimated that up to approximately 5756 dwellings do not currently have planning permission and would therefore potentially be liable for CIL. The following table excludes affordable housing units in accordance with the differential targets in the CIL zones.

6.15 The District Council has estimated that approximately 7,726 Sqm of comparison retail floorspace may be liable for CIL over the plan period. The projections are set out in the table below with total estimated CIL revenue of £16.1 Million.

Residential CIL Rate	CIL Rate	Total Units	CIL Affected Units	Floorspace (Sqm)	CIL Revenue
Retail	£100sqm			7726	£772,600
Housing Low Zone 1	£0sqm	440	396	35640	£0
Housing Medium Zone 2	£45sqm	3486	3137	282330	£12,704,850
Housing High Zone 3	£70sqm	195	156	14040	£982,800
Housing Very High Zone 4	£100sqm	230	184	16560	£1,656,,000
				Total	£16,116,250

6.16 The study is a strategic assessment of whole plan viability and as such is not intended to represent a detailed viability assessment of every individual site. The study applies the general assumptions in terms of affordable housing, planning policy costs impacts and identified site mitigation factors based on generic allowances. It is anticipated that more detailed mitigation cost and viability information may be required at planning application stage to determine the appropriate level of affordable housing and planning obligation contributions where viability issues are raised. The purpose of the study is to determine whether the development strategy proposed by the Plan is deliverable given the policy cost impacts of the Plan with sufficient additional viability margin for CIL.

6.17 In conclusion, the assessment of all proposed residential sites in Newark and Sherwood District has been undertaken with due regard to the requirements of the NPPF and the best practice advice contained in 'Viability Testing Local Plans'. It is considered that all sites are viable across the entire plan period taking account of the Affordable Housing/Starter Home requirements and all policy impacts of the Local Plan as well as the continued operation of CIL in the District.

6.18 It should be noted that this study should be seen as a strategic overview of plan level viability rather than as any specific interpretation of Newark and Sherwood District Council policy on the viability of any individual site or application of planning policy to affordable housing, CIL or developer contributions. Similarly the conclusions and recommendations in the report do not necessarily reflect the views of Newark and Sherwood District Council

Heb Surveyors
Valuation Report
June 2016

Gleeds
Construction Cost Study
March 2016