Newark & Sherwood District Council Whole Plan & Community Infrastructure Levy Viability Assessment

May 2021

NCS

Contents

1 Executive Summary

Purpose of the Study

1.1 The purpose of the Viability Study is to assess the impact of proposed policies in the Newark and Sherwood Local Plan to determine if there is scope to accommodate additional Community Infrastructure Charges, whilst taking account of the overall viability of the Plan and deliverability of new development over the plan period. The study considers policies that 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 Para 34 of the National Planning Policy Framework 2019 requires that plans should set out Affordable Housing and Infrastructure contributions expected from development but ensure that the level of these contributions does not undermine deliverability of development. An assessment of the costs and values of each category of development is therefore required to consider whether they will yield a reasonable incentive for a land owner to bring forward their land for development and a return to a developer, thus enabling the identified development to proceed.

1.3 The study includes specific assessment of the ability of different categories of development within the Local Plan area to accommodate policy cost impacts (e.g. Affordable Housing) and to determine if there is any additional viability margin available to make CIL contributions. This information is provided to enable the Council to make informed decisions on policies to be progressed in the Local Plan and to determine whether to progress the adoption of a 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 (see separate HEB report at Appendix 1)

EVIDENCE BASE – CONSTRUCTION COST STUDY

1.6 Collation of an area-wide evidence base of construction costs for both residential and commercial property (see separate Gleeds report at Appendix 2)

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

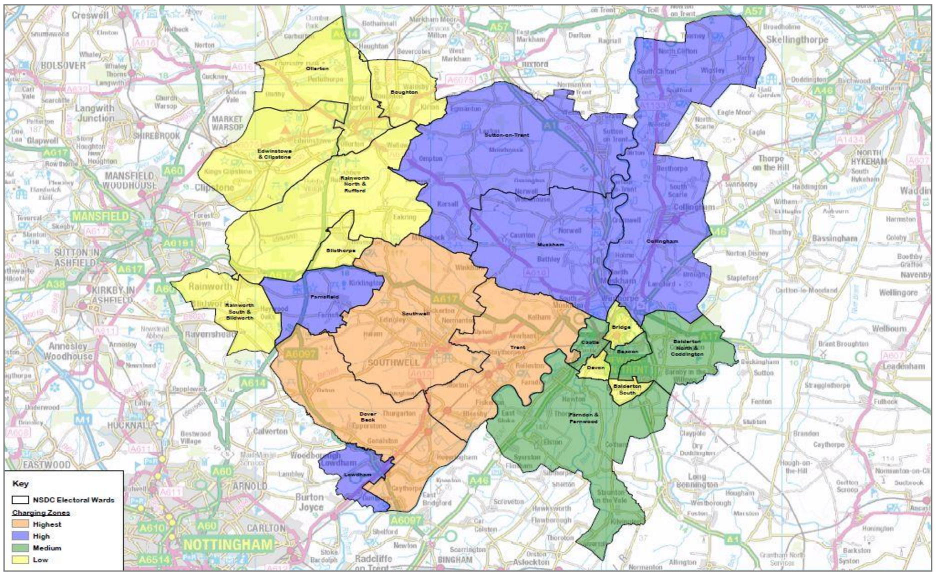
1.9 Viability assessment for both residential and commercial development scenarios based on a series of typologies which reflect the development likely to emerge over the plan period. The assessments are conducted for both greenfield and brownfield development as it is recognised this can result in significant 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 reasonable return to the landowner as well as a return to the developer (with an assumption of 15%-20% profit to be used as a guide for the purposes of plan making). In essence a positive margin confirms whole plan viability, the level of margin indicates the potential for additional CIL charges.

Residential Viability

1.11 The assessment of residential land and property values (see Appendix 1) indicate that there are differences in value across the District with the existence of four main sub-markets for new residential development that would require application of differential value assumptions in the viability appraisal which might potentially inform differential CIL charging zones. These are illustrated on the map below.



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

Maximum Residential CIL Rates per sqm

Charging Zone/Base Land Value	Mixed Residential Estate	Apartments	Starter Housing	Family Housing	Executive Housing
1 Low					
Greenfield	£3	-£724	£3	£20	£51
Brownfield	-£110	-£810	-£126	-£101	-£54
2 Medium					
Greenfield	£80	-£563	£80	£97	£128
Brownfield	-£34	-£649	-£44	-£22	£16
3 High					
Greenfield	£156	-£403	£163	£176	£199
Brownfield	£43	-£488	£38	£57	£92
4 Highest					
Greenfield	£423	£222	£443	£453	£452
Brownfield	£309	£136	£318	£334	£344

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 £11-£458sqm dependent on sub-market location and scale of development. Brownfield housing development demonstrates CIL charging potential of £0-£350sqm.

Commercial Viability

1.16 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 retail development is considered viable in the context of being able to accommodate CIL.

NCS	Maximum Commercial CIL Rates per sq m	
	General Zone	
Charging Zone/Base Land Value	Greenfield	Brownfield
Industrial	-£297	-£406
Office	-£1,169	-£1,212
Hotel	-£60	-£104
Residential Institution	-£997	-£1,031
Community	-£2,605	-£2,644
Leisure	-£321	-£401
Agricultural	-£694	
Food Supermarket Retail	£320	£239
General Retail	£31	-£8

1.17 It can be seen that only food supermarket retail, with CIL potential rate of £239-£320 per square metre, dependent on existing land use provides a significant enough margin to maintain CIL charges. Brownfield general retail demonstrates negative viability whilst greenfield development is marginal at only £31qm. It is therefore recommended on the existing evidence, that only Class A1 food supermarket retail should be charged CIL and that all other non-residential categories be zero rated.

1.18 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

1.19 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.

1.20 In terms of CIL, it is recommended that there are sufficient variations in residential viability to maintain the Council's existing differential zone approach to setting residential CIL rates across the Newark and Sherwood District area in the same Charging Zones.

1.21 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 that the following zonal rates, reflecting the Council's current Charging rates, should be maintained. 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%. In the Low Value zone it is acknowledged that there is negligible viability margin to accommodate CIL charges.

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. It is recommended going forward, that CIL charges should only apply to food supermarket retail use. 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	
Food Supermarket Retail E(a)	**£100sqm**

1.24 This study is not intended to represent a detailed viability assessment of every individual site. The study applies Local Plan policy requirements in respect of affordable housing and considers a number of more general planning policy cost impacts and identified site mitigation factors based on generic allowances. The purpose of the study is to determine the additional viability margin for CIL taking account of key Local Plan policies including the provision of affordable housing. In line with the Government's viability practice guidance, it will be for applicants to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.

1.25 In conclusion, this assessment has been undertaken with due regard to the requirements of the NPPF (2019) and the associated Viability Planning Practice Guidance (2019). It demonstrates that the viability of residential development in Newark and Sherwood is such that taking account of relevant Local Plan requirements such as affordable housing, there is a sufficient viability margin for CIL in three of the four sub-market areas and in this regard, it is relevant to note that the Local Plan strategy housing allocations are based primarily on Greenfield sites. For non-residential uses, this assessment demonstrates that only supermarket food retail is able to support a CIL contribution and that a single rate should be applied across the District.

1.26 It should be noted that this study should be seen as a strategic overview of 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. In line with the Government's viability practice guidance, it will be for applicants to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The conclusions and recommendations in the report do not necessarily reflect the views of Newark and Sherwood District Council.

2 Introduction

2.1 The purpose of the study is to assess the overall viability of residential and non-residential development in Newark and Sherwood and to determine the potential margin for CIL.

2.2 In order to provide a robust assessment, in line with the Government's viability practice guidance, the study uses generic development typologies to consider the cost and value impacts of the proposed local 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 requirements, National Housing Standards and current construction requirements to determine whether charging CIL is 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 2019 maintains the importance of viability assessment in considering appropriate Development Plan policy. Para 34 states :-

"Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.

2.4 Further advice is set out in paragraph 57 which states:

"Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available".

2.5 In tandem with the launch of the revised NPPF, the Government published new Planning Practice Guidance on Viability in July 2018 (updated May and September 2019). With respect to 'Viability and Plan Making', the guidance states :-

How should plan makers set policy requirements for contributions from development?

"Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure).

These policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106. Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types or location of site or types of development.

How should plan makers and site promoters ensure that policy requirements for contributions from development are deliverable?

The role for viability assessment is primarily at the plan making stage. Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan.

It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers.

Policy requirements, particularly for affordable housing, should be set at a level that takes account of affordable housing and infrastructure needs and allows for the planned types of sites and development to be deliverable, without the need for further viability assessment at the decision making stage.

It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant. Policy compliant means development which fully complies with up to date plan policies. A decision maker can give appropriate weight to emerging policies. The price paid for land is not a relevant justification for failing to accord with relevant policies in the plan. Landowners and site purchasers should consider this when agreeing land transactions"

Should every site be assessed for viability in plan making?

"Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability at the plan making stage. Assessment of samples of sites may be helpful to support evidence. In some circumstances more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies."

What is meant by a typology approach to viability?

"A typology approach is a process plan makers can follow to ensure that they are creating realistic, deliverable policies based on the type of sites that are likely to come forward for development over the plan period.

In following this process plan makers can first group sites by shared characteristics such as location, whether brownfield or greenfield, size of site and current and proposed use or type of development. The characteristics used to group sites should reflect the nature of typical sites that may be developed within the plan area and the type of development proposed for allocation in the plan.

Average costs and values can then be used to make assumptions about how the viability of each type of site would be affected by all relevant policies. Plan makers may wish to consider different potential policy requirements and assess the viability impacts of these. Plan makers can then come to a view on what might be an appropriate benchmark land value and policy requirement for each typology.

Plan makers will then engage with landowners, site promoters and developers and compare data from existing case study sites to help ensure assumptions of costs and values are realistic and broadly accurate. Market evidence can be used as a cross-check but it is important to disregard outliers. Information from other evidence informing the plan (such as Strategic Housing Land Availability Assessments) can also help to inform viability assessment. Plan makers may then revise their proposed policy requirements to ensure that they are creating realistic, deliverable policies."

Why should strategic sites be assessed for viability in plan making?

"It is important to consider the specific circumstances of strategic sites. Plan makers can undertake site specific viability assessment for sites that are critical to delivering the strategic priorities of the plan. This could include, for example, large sites, sites that provide a significant proportion of planned supply, sites that enable or unlock other development sites or sites within priority regeneration areas. Information from other evidence informing the plan (such as Strategic Housing Land Availability Assessments) can help inform viability assessment for strategic sites."

2.6 Further advice on the assessment of development viability is set out in the draft RICS guidance note 'Assessing financial viability in planning under the National Planning Policy Framework for England' which at the time of writing is the subject of stakeholder consultation until 9 February 2020. The note provides guidance for carrying out and interpreting the results of viability assessments under the NPPF and national planning practice guidance. It replaces the previous RICS guidance note published in 2012 – Financial Viability in Planning and addresses a number of the issues set out in the practice guidance including the standardised approach to key inputs such as gross development value, development costs and land values.

3 Methodology

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 2021.

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 2021.

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 Community Infrastructure Levy Charging Schedule.

4) Policy Impact Assessment

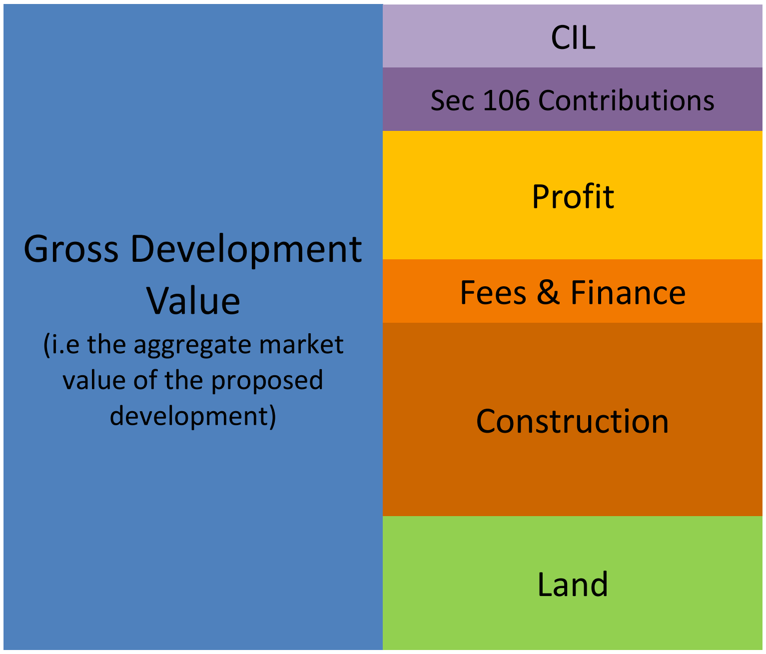
3.4 The study establishes the policies of the adopted Local Plan that have a direct impact on the cost of development and apportion appropriate allowances based on advice from cost consultants, Gleeds, to be factored in the viability assessment.

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

3.5 The study employs a bespoke model to assess development viability in accordance with best practice guidance . The generic tests are 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 the cumulative impact of the policies set out in the plan. 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. In addition to the generic typologies tested, the study indicates a more specific assessment of a number of strategic sites that are proposed by the draft Local Plan.

3 Methodology

The Development Equation



Development Value **Development Cost**

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 are 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 costs, fees, finance and developer's profit. Developer's profit is usually fixed as a minimum % return on gross development value generally set by the lending institution at the time. The Government's practice guidance on viability suggests that an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. The more flexible elements are the cost of land and the amount of developer contribution (CIL and Section 106 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. This is consistent with the Government's viability practice guidance which adopts a standardised approach to viability based on a residual land valuation approach.

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 planning policies to determine if there is a positive or negative residual output. Provided the margin is positive (ie 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	
Benchmark Land Value (BLV_	**£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	**£90,000**
Finance Costs (% Costs)	**£100,000**
Developers Profit (% Return on GDV)	**£350,000**
Total Costs	**£2,150,000**
Output	
Viability Margin	**£50,000**
Potential CIL Rate (CIL Appraisal only)	**£50 sqm**

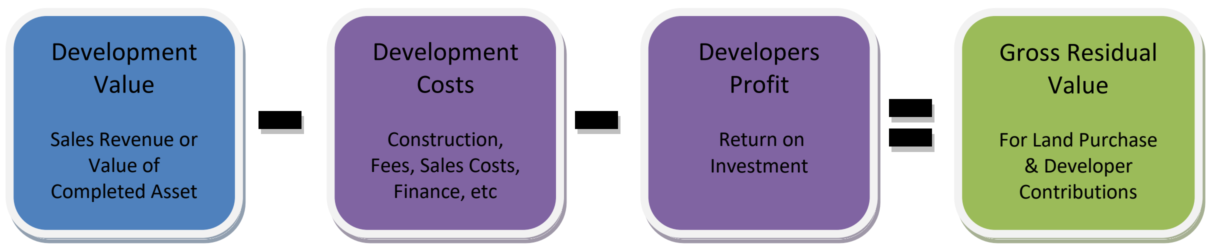
3.11 The model will calculate the gross margin available for CIL. The maximum rate of CIL that could be levied without rendering the development economically unviable is calculated by dividing the gross margin by the floorspace of the development being assessed.

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

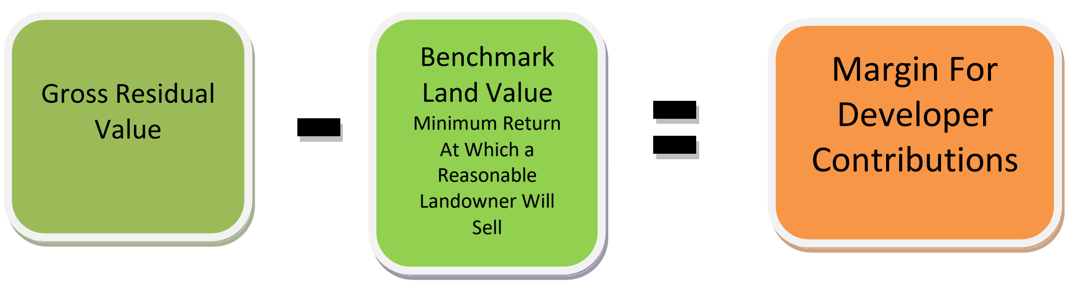
3.13 It is generally accepted that developer contributions (Affordable Housing, CIL and S106), will be extracted from the residual land value (i.e. the margin between development value and development cost including a reasonable allowance for developers profit). Within this gross residual value will be a benchmark land value (i.e. the minimum return at which a reasonable landowner would be willing to sell their land) and a remaining margin for contributions.

Stage 1 – Residual Valuation

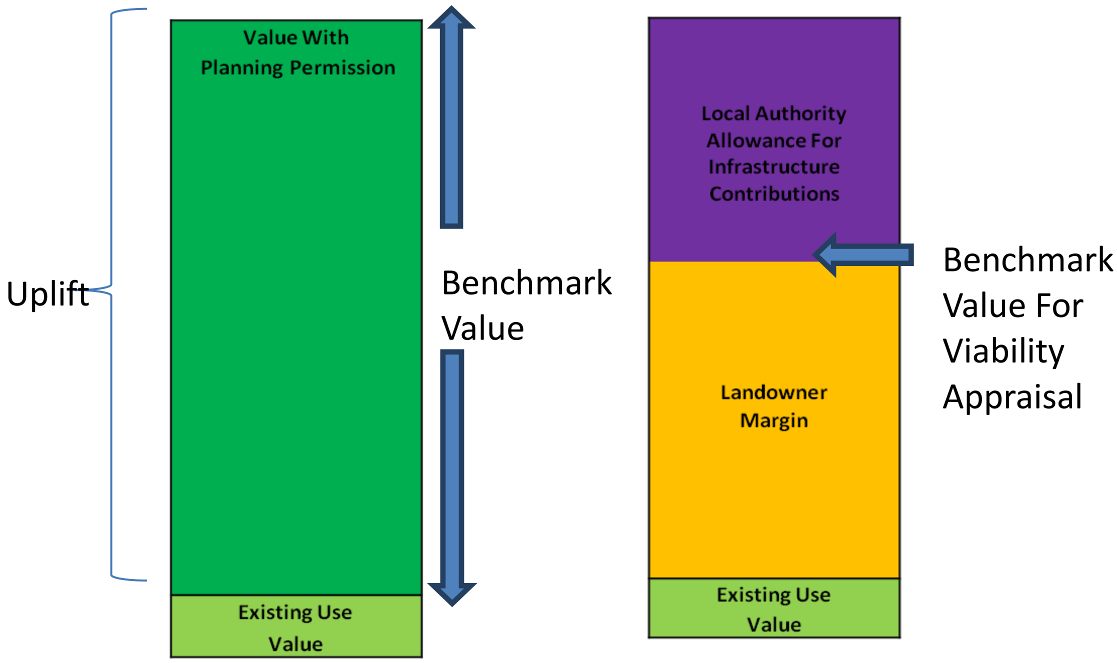


3.14 The approach to assessing the land element of the gross residual value is therefore the key to the robustness of any viability appraisal. There is no single method of establishing benchmark land values for the purpose of viability assessment in planning but the NPPF and CIL viability practice guidance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

Stage 2 – Establishing Benchmark Land Value



Land Value Benchmarking



3.15 The above diagram illustrates the principles involved in establishing a robust benchmark for land value. Land will have an existing use value (EUV) based on its market value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).

3.16 The Gross Residual Value of the land for an alternative use (e.g residential use) represents the difference 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 In July 2018 the Government published national planning practice guidance on viability (Planning Practice Guidance for Viability) which has since been updated in September 2019. The guidance states the following:

"***How should land value be defined for the purpose of viability assessment?***

To define land value for any viability assessment, a benchmark land value should be calculated on the basis of the existing use value (EUV) of the land, plus a premium for the landowner.

The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+).

In order to establish benchmark land value, plan makers, landowners, developers, infrastructure and affordable housing providers should engage and provide evidence to inform this iterative and collaborative process.

What factors should be considered to establish benchmark land value?

Benchmark land value should:

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees*

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where *this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.*

In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.

Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).

What is meant by existing use value in viability assessment?

Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).

Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.

How should the premium to the landowner be defined for viability assessment?

The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).

NCS Approach to Benchmark Land Values

3.21 NCS has given careful consideration to how the Benchmark Land Value (i.e. the premium over existing use value) should be established in the light of the NPPF 2019 and Viability Practice Guidance 2019.

3.22 We first adopt an appropriate existing use value (EUV) for either greenfield or brownfield land dependent on the type of site being assessed. These EUV's are obtained from comparable market evidence of land sales for the relevant land use in the local area.

3.23 In determining the appropriate premium to the landowner above existing use value in the 'Existing Use Value Plus' approach, 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 need for a reasonable incentive for a landowner to bring forward land for development as required by the NPPF.

3.24 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 (this became known as the 'Shinfield Approach' after the methodology adopted by the Inspector to establish benchmark land value in 2013 in an affordable housing appeal – ref. APP/X0360/A/12/2179141)

The Benchmark Land Value is established as follows :-

Existing Use Value + 50% Share Of Uplift from Planning Permission = Benchmark Land Value
EUV + Premium to Landowner = Benchmark Land Value

3.25 The resultant benchmark 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. This is consistent with the Government's viability practice guidance which confirms that market evidence can be used as a 'cross-check'. 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 of EUV+ Illustrating Fixed% over Existing Use vs % Share of Uplift

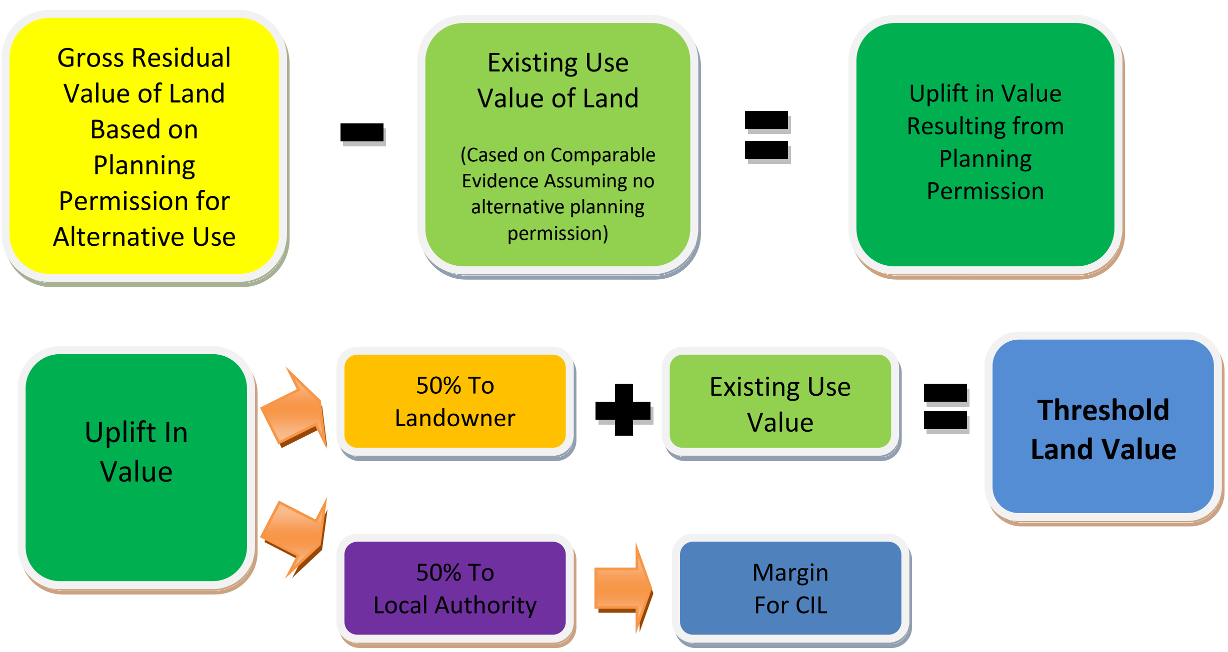
3.26 A landowner owns a 1 Hectare field at the edge of a settlement. The land is proposed to be allocated for residential development. Agricultural value is £20,000 per Ha. The Gross Residual Value of the land with residential planning permission is £1,000,000. Land sales in the area range from £400,000 per Ha to £1 Million per Ha. For the purposes of viability assessment what should this Greenfield site be valued at?

Using a fixed 20% 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.

In our view the % share of uplift method is more realistic to market circumstances than the application of a fixed premium over EUV.

Benchmarking Based on % Share of Uplift in Land Value



3.27 Whilst comparable evidence of policy compliant local land sales with planning permission is useful as a sense check, in our view it is difficult to find two sites that are directly comparable in view of the various factors that will influence the purchase price of land including precise location, abnormal site development cost, lower build cost rates enjoyed by volume housebuilders and the particular business decision of the purchaser.

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 benchmark land value scenarios. A greenfield scenario will represent the best case for development viability 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.

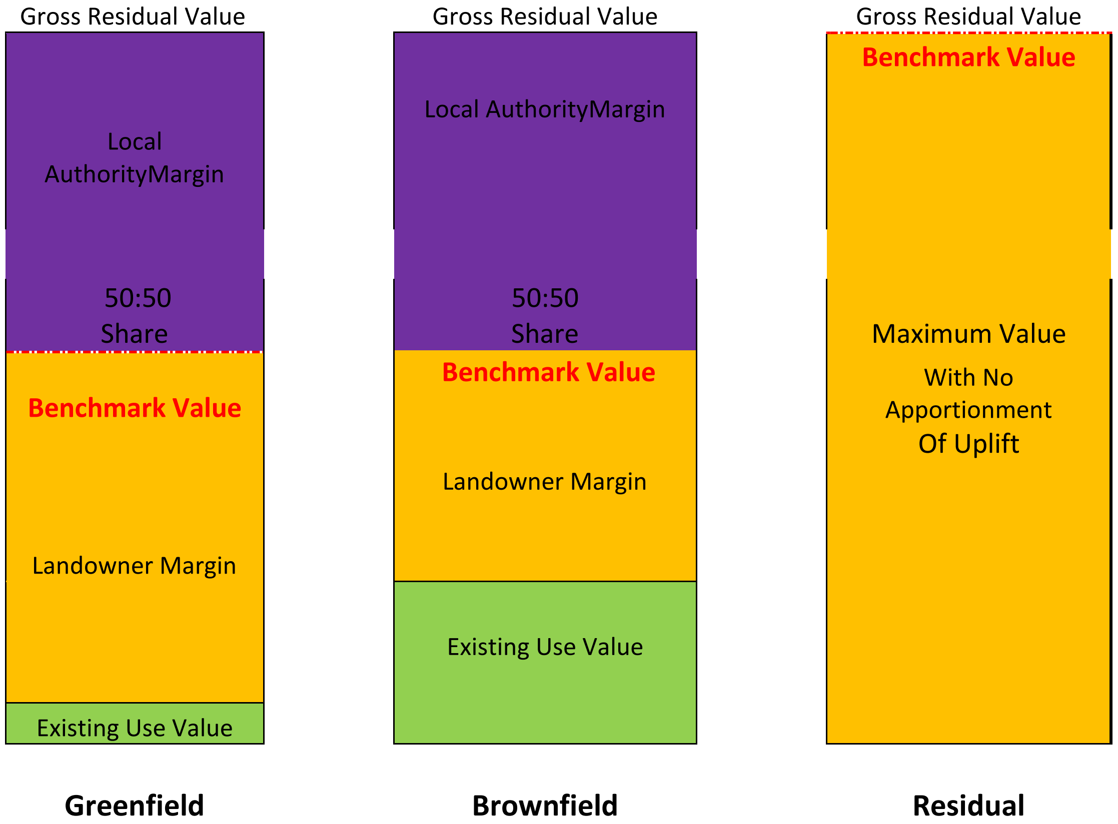
3.30 Actual market evidence will not always be available for all categories of development. In these circumstances the valuation team make reasoned assumptions.

Residential

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

Commercial

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



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 benchmark land values.

3.33 We have continued to adopt the EUV + Premium (%Uplift) approach at CIL and Local Plan Examination since the new NPPF and NPPG on Viability emerged in 2018. The Inspector in the Rushcliffe CIL Examination report in June 2019, commented :-

"The BLV rates used in the VA are criticised as being too low when compared with comparable actual land transactions. I note that the example transactions provided in the representations predate the issue of the revised Framework and Planning Practice Guidance on viability. The new guidance advocates the 'Existing Use Value plus Premium' approach. The VA adopts this approach and uses a 50% split in the uplifted land value to determine the appropriate premium. In my view this reflects the latest government guidance and is satisfactory. It is the case that CIL is intended to take value from the development process by encouraging land value to reflect the cost of infrastructure in development. That means that pressure must be brought to bear on the landowner's expectations."

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 have been considered to reflect typical developments in the Newark and Sherwood Local plan area, as follows :-

Residential - 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.

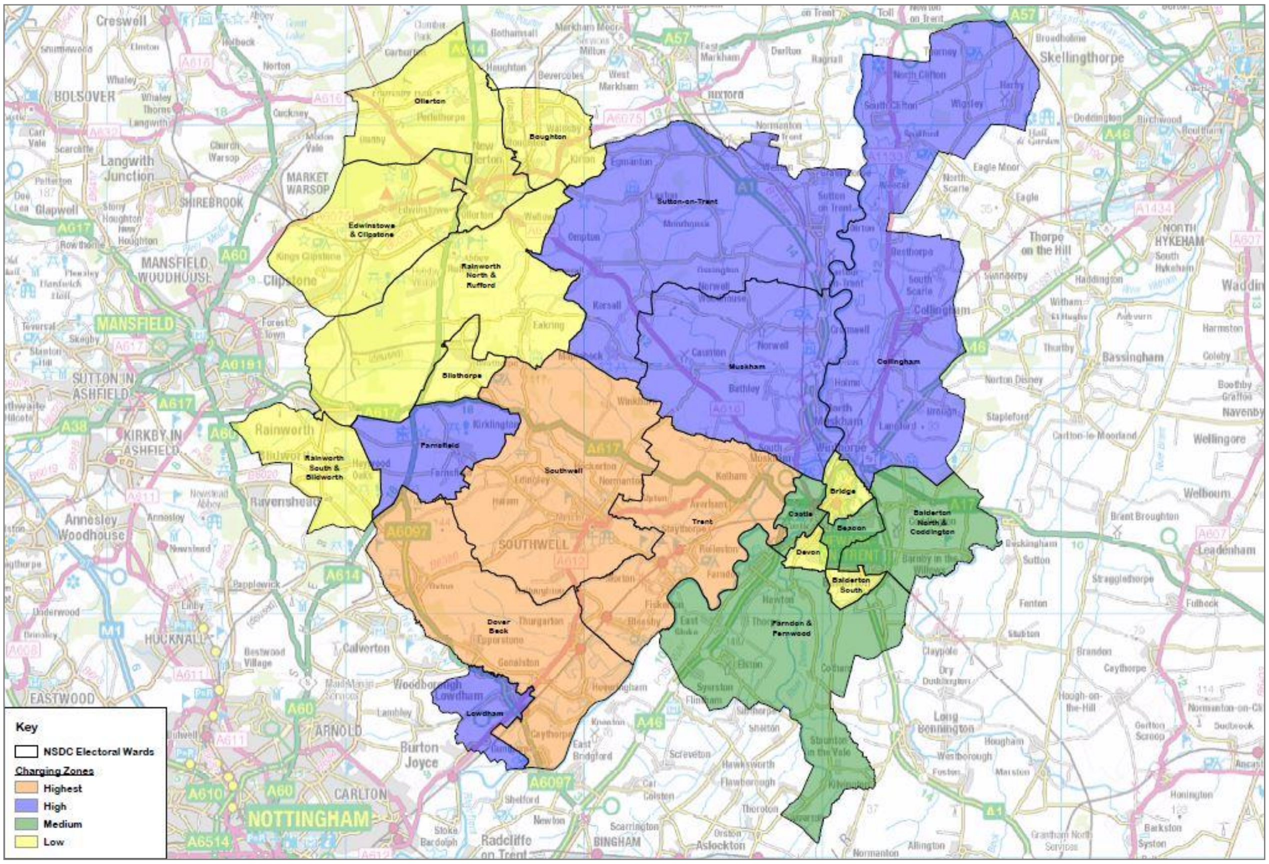
Commercial - The following categories are considered. Land Values and Gross Development Values are assessed on sqm basis.

Industry - B2, B8
Offices - E(c)
Food Supermarket Retail - E(a)
General Retail - E(a)
Hotels -C1
Residential Institutions -C2
Non Residential Institutions F1
Local Community - F2
Leisure – E(d)
Agricultural

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 and concluded that there were significant distinctions between sales prices to warrant differential value assumptions being made in the Viability Assessment and that a differential zone approach should be maintained for the Council's CIL Charging Schedule. The evidence indicated the existence of four distinct sub-market areas which have been nominated as low, medium, high and very high value zones and are illustrated on the map below.

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.


Ollerton
Boughton
Edwinstowe & Clipstone
Rainworth North & Rufford
Sutton-on-Trent
Bilsthorpe
Farnsfield
Rainworth South & Blidworth
Southwell
Muskham
Collingham
Trent
Dover Beck
Lowdham
Bridge
Castle
Beacon
Balderton North & Coddington
Devon
Balderton South
Farndon & Fernwood
Key
NSDC Electoral Wards
Charging Zones
Highest
High
Medium
Low

Affordable Housing

4.4 A series of residential viability tests have been undertaken, reflecting the affordable housing targets of the Local Plan. 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 to reflect the draft policy of the Council. 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.

Affordable Housing					
Affordable Housing Delivery		Proportion %		Tenure Mix %	
			Intermediate	Social Rent	Affordable Rent
Low		30%	60%		40%
Medium		30%	60%		40%
High		30%	60%		40%
Very High		30%	60%		40%
% Open Market Value			65%	40%	50%

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	

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 the minimum sized required by National Housing standards.

Apartment	65 sqm
2 Bed House	75 sqm
3 Bed House	90 sqm
4 Bed House	120 sqm
5 Bed House	164 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, eight principal 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 Residential Estate	(Apts, 2, 3, & 4 Bed Housing)	100 Units
2. Apartments	(Low Rise Apartments)	25 Units
3. Starter Housing	(2 & 3 Bed Housing)	15 Units
4. Family Housing	(2, 3, & 4 Bed Housing)	35 Units
5. Executive Housing	(3,4 & 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. 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.

Commercial Development Sample Typology Unit Size & Land Plot Ratio	Unit Size Sqm	Plot Ratio %	Gross:Net	Sample
Industrial	1000	200%	1.0	Factory Unit
Office	1000	200%	1.2	Office Building
Food Retail	3000	300%	1.0	Supermarket
General Retail	300	150%	1.0	Roadside Type Shop Unit
Residential Inst	4000	150%	1.2	Care Facility
Hotels	3000	200%	1.2	Mid Range Hotel
Community	200	150%	1.0	Community Centre
Leisure	2500	300%	1.0	Bowling Alley
Agricultural	500	200%	1.0	Farm Store

Sustainable Construction Standards

4.18 The former Code for Sustainable Homes has now been replaced by changes to the Building Regulations based on the National Housing Standards. The cost rates employed reflect current Building Regulation requirements.

4.19 The Commercial Viability assessments are based on BREEAM 'Excellent' construction rates.

Construction Costs

4.20 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.

4.21 The following residential construction rates are adopted in the study to reflect National Housing Standards and the water efficiency standards of Newark and Sherwood District Council. An additional cost allowance has been made for accessible and adaptable dwellings as set out in para 4.28.

Residential Construction Cost Sqm		
Apartments	1601	sqm
2 bed houses	1092	sqm
3 Bed houses	1092	sqm
4 bed houses	1092	sqm
5 bed houses	1092	sqm

Note The above rates include the additional cost allowance set out at para 4.28 to reflect the Council's policy on Adaptable & Accessible Dwellings

Commercial Construction Cost Sqm	
818	Factory Unit
1698	Office Building
1223	Supermarket
1074	Roadside Retail Unit
1479	Care Facility
1325	Sheltered Housing
1669	Mid Range Hotel
2883	Community Centre
1083	Bowling Alley
811	Farm Store

Abnormal Construction Costs

4.22 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. 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.

4.23 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

4.24 The study seeks to review the potential for CIL in the context of the overall viability of the Local Plan Viability as a whole and therefore firstly assesses the potential cost impacts of the policies in the plan to determine appropriate cost assumptions in the viability assessments and broadly determine if planned development is viable.

4.25 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. Nevertheless 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.

4.26 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 three 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 **£3000 per dwelling**
£10 per sqm commercial

4.27 CIL has been in operation in the District since 2011. Evidence of planning obligation contributions in this post CIL period demonstrates that in the last three years 1700 dwellings have delivered £5,256,973 of S106 contributions (excluding Affordable Housing) an average of £3,092 per dwelling. A rounded ongoing allowance of £3000 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 £10sqm has been made for commercial development.

4.28 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 :-

PART M ACESSIBILITY STANDARDS - Additional Cost for Category 3 £1sqm
Additional Cost for Category 2 £3sqm

The appraisals test the impact of requiring 1% of homes to be built to Buildings Regulations Part M (Access to and Use of Buildings) Category 3 standard for accessibility adding £1sqm and 24% of dwellings to be built to Category 2 adding £3sqm to cost rates. The adopted construction cost rates set out at para 4.21 above reflect these additional allowances.

BIODIVERSITY NET GAIN - £500 per Dwelling

An allowance of £500 per dwelling has been made for 10% biodiversity net gain. This is broadly based on the study undertaken by Defra in 2018 ‘Biodiversity Net Gain’ which estimates £17,757 of cost per Ha to achieve the requirement. This allowance is included in the overall per dwelling allowance for S106 contribution and Biodiversity Net gain.

WATER CONSERVATION STANDARDS

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

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. The Council has not set its own space standards within the adopted Local Plan.

4.29 It is considered that the Newark and Sherwood Plan does not contain any other policies which would have a significant impact on development cost.

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. The Government’s viability practice guidance suggests that an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. In current market conditions, and based on the assumed lending conditions of the financial institutions, a 20% 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.

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 to reflect reduced risk of development that is likely to be pre-let or pre-sold. 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 2021. A copy of the report is attached at Appendix I.

Residential Sales Values					
Sub-Market Area	Sales Value £sqm				
	Apartment	2 Bed	3 Bed	4 Bed	5 Bed
Low	2100	2300	2200	2200	2100
Medium	2250	2500	2400	2400	2300
High	2400	2700	2600	2600	2500
Very High	2950	3400	3300	3300	3150

Commercial Sales Values Sqm	
	Charging Zones
	Area Wide
Industrial	850
Office	1350
Food Retail	2750
Other Retail	1700
Residential Inst	1200
Hotels	3000
Community	1077
Leisure	1350
Agricultural	350

Land Value Allowances - Residential

4.36 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 Executive Housing in the Very High Value Sub-Market area is illustrated in the table below.

Land Value	£20000	Existing Greenfield (agricultural) Per Ha		
	£495,000	Brownfield (equivalent general commercial) Per Ha		
	£3,750,307	Gross Residual Residential Value per Ha	Uplift	50%

4.37 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% (£3,750,307 - £20,000)	=	£1,855,154 per Ha
Brownfield	£495,000	+	50% (£3,750,307 - £495,000)	=	£2,122,653 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	£18551	£47129	£53862	£74406	£94258
Brownfield	£21226	£53066	£60647	£84906	£106133

4.38 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.

Gross Residual Land Value per Ha	Zone 1	Zone 2	Zone 3	Zone 4
Mixed Residential Estatel	1060336	1548440	2036545	3728499
Apartments*	200,000	300000	400000	515163
Starter Housing	1355687	1828395	2301104	3955583
Family Housing	1263771	1737262	2210753	3867972
Executive Housing	1125926	1614149	2102371	3750307

*Apartment residual values were negative in Zones 1-3 so nominal values adopted

Land Value Allowances - Commercial

4.39 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 assessments only retail gross residual values exceeded these market comparable benchmarks.

4.40 The following provides an example threshold land value allowances food supermarket retail

	EUV	+	50% of Uplift in Value	=	Threshold Land Value
Greenfield	£20,000	+	50% (£2,561,002 - £20,000)	=	£1,290,501 per Ha
Brownfield	£495,000	+	50% (£2,561,002 - £495,000)	=	£1,528,001 per Ha

4.41 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	495000
Office Land Values per Ha	
Residual Land Value per Ha	495000
Food Retail Land Values per Ha	
Residual Land Value per Ha	2561002
General Retail Land Values per Ha	
Residual Land Value per Ha	640673
Residential Institution Land Values per Ha	
Residual Land Value per Ha	495000
Hotel Land Values per Ha	
Residual Land Value per Ha	900,000
Community Use Land Values per Ha	
Residual Land Value per Ha	495000
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

4.42 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			3000	£ per Dwelling		
			10	£ per sqm Commercial		
Interest	5.0%	12	Month Construction		3-6	Mth Sales Void

5 Viability Appraisal Results

5.1 The results of the Viability Testing are set out in the tables below. In order to test the impact of Affordable Housing provision the residential viability tests were undertaken on the assumption that, where applicable, schemes would deliver 35-50% Affordable Housing and are based on a 20% 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.

5.3 Each category of development produces a greenfield and brownfield result for each level of Affordable Housing tested. 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.

NCS	Maximum Residential CIL Rates per sqm				
Charging Zone/Base Land Value	Mixed Residential Estate	Apartments	Starter Housing	Family Housing	Executive Housing
1 Low					
Greenfield	£3	-£724	£3	£20	£51
Brownfield	-£110	-£810	-£126	-£101	-£54
2 Medium					
Greenfield	£80	-£563	£80	£97	£128
Brownfield	-£34	-£649	-£44	-£22	£16
3 High					
Greenfield	£156	-£403	£163	£176	£199
Brownfield	£43	-£488	£38	£57	£92
4 Very High					
Greenfield	£423	£222	£443	£453	£452
Brownfield	£309	£136	£318	£334	£344

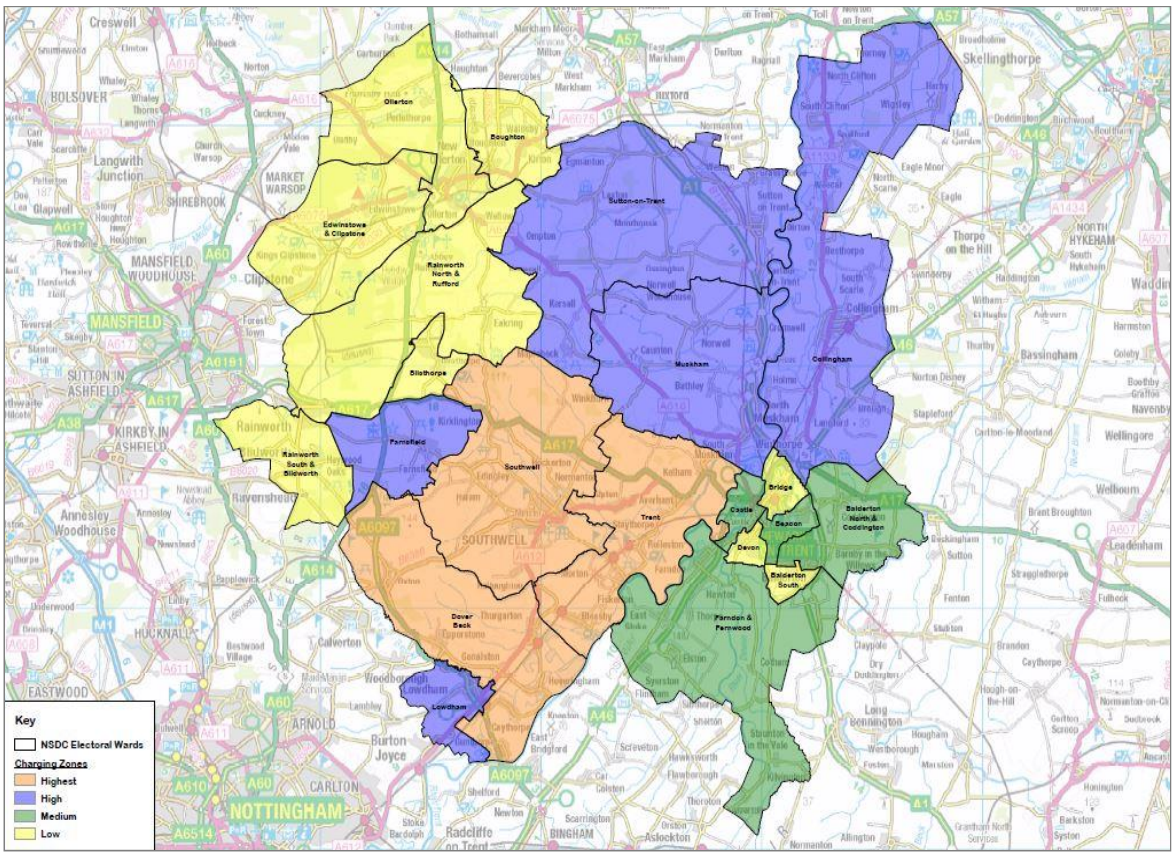
5.4 The results of the residential viability demonstrate that all greenfield housing is deliverable in Newark and Sherwood based on the policy impacts of the Local Plan with additional margin to accommodate CIL charges. The results demonstrate that the viability of brownfield development in the two lower value sub-market areas is marginal. Apartment development viability is challenging in all but the highest value sub-market area

Maximum Commercial CIL Rates per sq m		
	General Zone	
Charging Zone/Base Land Value	Greenfield	Brownfield
Industrial	-£297	-£406
Office	-£1,169	-£1,212
Hotel	-£60	-£104
Residential Institution	-£997	-£1,031
Community	-£2,605	-£2,644
Leisure	-£321	-£401
Agricultural	-£694	
Food Supermarket Retail	£320	£239
General Retail	£31	-£8

5.5 Most of the above commercial use class appraisals indicated negative viability and therefore no margin to introduce CIL charges. It can be seen that only food supermarket retail, with CIL potential rate of £239-£320 per square metre, dependent on existing land use provides a significant enough margin to maintain CIL charges. It is therefore recommended on the existing evidence, that only Class E food supermarket retail should be charged CIL and that all other non-residential categories be zero rated. 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 with the existence of four clear sub-markets for new residential development that would require application of differential value assumptions in the viability appraisal which might potentially inform differential CIL charging zones. These are illustrated as low, medium, high and very high value zones on the map below. This supports the findings of the Council's previous Local Plan/CIL viability evidence.



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

Charging Zone/Base Land Value	Mixed Residential Estate	Apartments	Starter Housing	Family Housing	Executive Housing
Maximum Residential CIL Rates per sqm					
1 Low					
Greenfield	£3	-£724	£3	£20	£51
Brownfield	-£110	-£810	-£126	-£101	-£54
2 Medium					
Greenfield	£80	-£563	£80	£97	£128
Brownfield	-£34	-£649	-£44	-£22	£16
3 High					
Greenfield	£156	-£403	£163	£176	£199
Brownfield	£43	-£488	£38	£57	£92
4 Very High					
Greenfield	£423	£222	£443	£453	£452
Brownfield	£309	£136	£318	£334	£344

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 £11-£458sqm dependent on sub-market location and scale/type of development. Brownfield housing development demonstrates lower CIL charging potential of £0-£350sqm.

Estimated Housing Delivery in Remaining Plan Period	Greenfield	Brownfield
1 Low Value	1746	1356
2 Medium Value	3851	397
3 High Value	125	86
4 Highest Value	202	84

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 There is a mixed development delivery strategy on brownfield and greenfield sites in the Low Value area, where no CIL viability exists. In the remaining zones there will be 88% overall greenfield delivery and CIL rate setting should take account of this.

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 supermarket retail development has a significant viability margin capable of accommodating CIL charges.

NCS	Maximum Commercial CIL Rates per sq m	
	General Zone	
Charging Zone/Base Land Value	Greenfield	Brownfield
Industrial	-£297	-£406
Office	-£1,169	-£1,212
Hotel	-£60	-£104
Residential Institution	-£997	-£1,031
Community	-£2,605	-£2,644
Leisure	-£321	-£401
Agricultural	-£694	
Food Supermarket Retail	£320	£239
General Retail	£31	-£8

6.8 It can be seen that only food supermarket retail, with CIL potential rate of £239-£320 per square metre, dependent on existing land use provides a significant enough margin to maintain CIL charges. Brownfield general retail demonstrates negative viability whilst greenfield development is marginal at only £31sqm. It is therefore recommended on the existing evidence, that only Class A1 food supermarket retail should be charged CIL and that all other non-residential categories be zero rated.

6.9 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.

CIL Viability Appraisal Conclusions

6.10 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.

6.11 In terms of CIL, it is recommended that there are sufficient variations in residential viability to maintain a four zone differential charging zone approach to setting residential CIL rates across the Newark and Sherwood District area.

6.12 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%. It is acknowledged that testing of apartments and development in the low value sub-market area demonstrated no margin for CIL charges and the suggested rates reflect this.

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

6.13 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.

6.14 It is recommended, based on the existing evidence, that only food supermarket retail development is capable of accommodating CIL charges and the following rates are recommended.

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

6.15 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, The purpose of the study is to determine the Whole Plan viability and the potential margin for CIL when taking account of the policy requirements of the adopted Local Plan. In line with the Government's viability practice guidance, it will be for applicants to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.

6.16 In conclusion, the assessment has been undertaken with due regard to the requirements of the NPPF and Viability Planning Practice Guidance. It is considered that the majority of development will be viable across the plan period, taking account of all policy impacts of the Local Plan and that sufficient additional viability exists to support the maintenance of a CIL Charging Schedule.

6.17 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
2021

Gleeds
Construction Cost Study
February 2021