



Gedling Borough Council
Community Infrastructure Levy
Viability Assessment

2013

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1.0 Introduction

This document forms part of the evidence base to inform Gedling Borough Council's Draft Charging Schedule as required by Regulation 15 of the CIL Regulations April 2010 (as amended in 2011). One of the key elements of charge setting for CIL purposes is the assessment of the viability of development across a charging area. Regulation 14 requires that an authority strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development.

This report therefore seeks to examine the viability of development across the Borough for differing property types to inform the development of the Council's draft CIL charging schedule in viability terms. This document supersedes the previous version (August 2012) issued with the Preliminary Draft charging Schedule. It has taken into account the latest CIL guidance issued by the Department for communities and Local Government in December 2012.

2.0 Supporting Work

Section 211(7A) of the Planning Act 2008 requires a charging authority to use appropriate available evidence to inform the draft charging schedule.

Therefore, in order to undertake the assessments, a vast amount of data has been collated which underpins the work and informs many of the assumptions used to undertake the viability appraisals. The sources for the data are cross referenced throughout the report. These include a valuation report carried out by local agents heb (examining both land and property values) and a construction cost study undertaken by Gleeds Cost Consultants. Both documents can be downloaded by going to the CIL section of the Gedling Borough website (Documents Evidence Base).

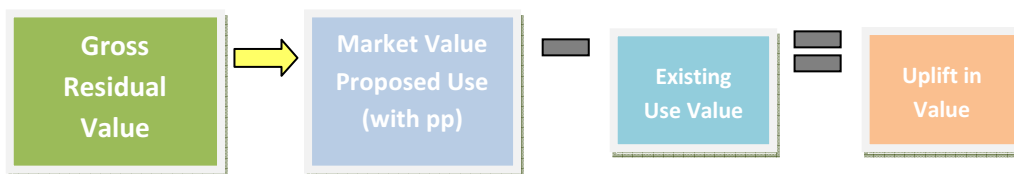
3.0 Approach to Viability Appraisals

Development viability appraisals are in essence relatively straightforward and can be illustrated by the following equation:

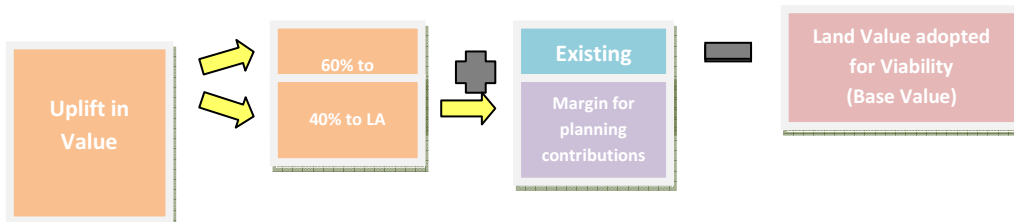
Completed Development Value
Less
Development Costs (Construction + Fees + Finance+ Developer's Profit)
Equals
Gross Residual Value (Land + Planning Contributions)

The elements which make up the development costs part of the equation are considered as 'fixed costs'. For example the interest rate will be set by the lending organisation. These costs can alter over the period of a development but there are common industry standards which are adopted which provide some degree of certainty. Establishing land value is more difficult and it follows that the lower the land value applied the greater the amount available to the Local Authority for planning contributions; in this case CIL and S.106 contributions. Economic viability for the purposes of CIL calculations has been assessed according to an industry standard Residual Valuation Model. In determining the amount available for CIL it is important to establish a realistic land value i.e. one that reflects the reasonable contribution expectations of a local authority but which provides sufficient return to persuade landowners to release sites for development.

In order to establish the base land value the appraisals assume that the landowner will receive the existing use plus a proportion of any uplift in value attributable to the proposed land use. The land value of the proposed use is established by reference to comparable evidence of land sales with planning permission.



The proportions of the uplift split between the landowner and the Local Authority will be different in each case. For the purposes of the CIL calculations and based on experience of land transactions, it is assumed that the greater share will go to the landowner. Generally a landowner will be unwilling to sell if he feels that the Local Authority is gaining greater benefit from the land than he is. Bearing this in mind a 60:40 split in favour of the landowner is considered reasonable.



3.1 Existing Use Base Values

Given that development occurs on a range of land types, a series of different development scenarios have been tested for both residential and commercial development throughout the Borough. For example residential development could occur on: a greenfield site in agricultural use; a brownfield site in a variety of existing uses (industrial, office etc) or an existing residential site. Consequently the base land value adopted in the appraisals alters according to the assumed existing use and future use for each scenario. The evidence for the land values adopted is set out in the heb Valuation Report (Refer to the CIL Documents Evidence Base).

4.0 Development Scenarios

For each use type a range of typical development scenarios have been selected for Gedling as follows

4.1 Residential

- 100 unit housing scheme with a range of unit types
- 40 unit starter housing scheme with a range of unit types
- 25 unit low rise apartment block
- 25 unit executive housing scheme
- Single Plot development

Each type of development has then been tested for viability according to its location (refer to the development zone maps below), and the existing use of the land. Three types of existing land use have been tested:

- Greenfield
- Brownfield
- Existing Residential

4.2 Commercial

• Industrial	B1b B1c B2 B8	Factory Unit
• Office	B1a	Office Building
• Food Retail	A1	Supermarket
• General Retail	A1 A2 A3 A4 A5	Roadside Retail Unit
• Hotels	C1	Care Facility
• Residential Institutions	C2	Mid Range Hotel
• Community	D1	Community Centre
• Leisure	D2	Shell Unit
• Agricultural		Farm Store
• Sui Generis		Vehicle Repairs
• Sui Generis		Vehicle Sales

Again each type of development has been tested for viability according to its location and the existing use of the land. In respect of the commercial development, the types of existing land use tested are dependent upon the use category but include greenfield to the proposed use; industrial to the proposed use; and development as existing.

4.3 Zones

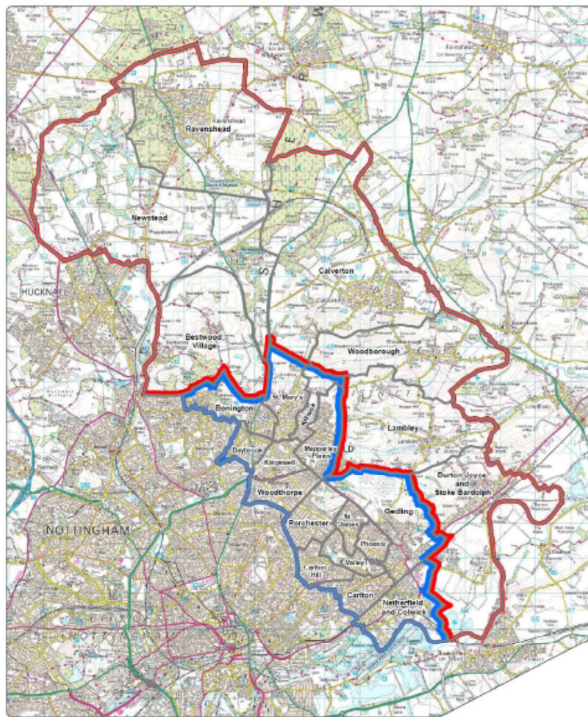
The results of the work undertaken by heb indicate that there is some geographical differentiation in levels of value throughout the Borough for both residential and commercial development. This therefore indicates that differential CIL rates are appropriate for the Borough.

The commercial development has been tested with reference to values in two zones; an urban zone and a rural zone.

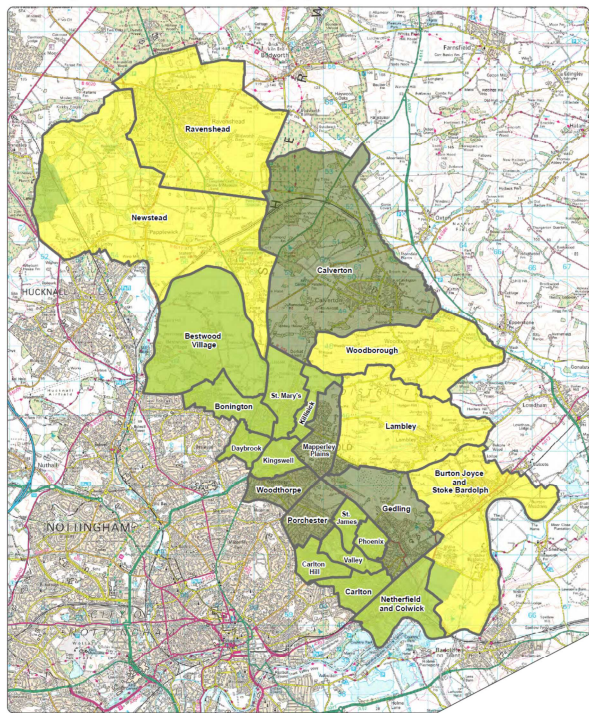
For residential development, three test zones were identified: Zone 1 which relates mainly to existing built up areas or areas of lower value associated with former mining activity; Zone 2 an intermediate zone and Zone 3 which exhibits the highest values in the more affluent, rural areas of the Borough.

The boundaries of the Zones are shown marked on the maps below and discussed in greater detail in the heb Valuation Report.

Gedling CIL Commercial Charging Zones



Gedling CIL - Residential Charging Zones



5.0 Affordable Housing

The residential viability tests assume that there will be a requirement to provide affordable housing on each site. The Borough Council’s Supplementary Planning Document on Affordable Housing published in 2009 indicates a requirement for a proportion of affordable housing on all new developments of 15 or more properties. The proportion is set at 10%, 20% or 30% in different parts of the Borough. The treatment of the affordable housing in the assessment model adopts the same approach, although the parts of the Borough that the different proportions apply to vary slightly since the boundaries follow valuation evidence rather than ward boundaries as in the Supplementary Planning Document.

The split between intermediate rent and social rent is as advised i.e. 60% social rent and 40% intermediate rent. The mix of affordable unit types has been apportioned to reflect the need for affordable family and starter homes.

It is assumed that the affordable housing will be sold by a developer to an RSL and that there would a discount of 60% from market value for the social rented accommodation and a 30% discount for the intermediated rented housing. No land value has been attributed to the plots as the development costs exceed the sales values.

For each of the assessed scheme it is assumed that no Social Housing Grant would be offered in support of the development of the affordable housing.

6.0 Developer Contributions

As indicated above the residual viability appraisals produce a figure which represents the amount available for CIL plus any other planning obligations and therefore have made no allowance for S.106 contributions. The level at which the CIL is set i.e. the proportion of the margin adopted can thus reflect the Borough's preference for dealing with developers contributions. A high levy will result in most of the money being collected through the CIL for identified projects whilst a lower level allows for specific top-up contributions on a case by case basis.

7.0 Model Assumptions

7.1 Density and Development Mix

Residential – Residential densities can vary significantly dependent on the house type mix and location. To avoid using generalised assumptions the model generates land values for a number of different development scenarios using plot values per house type. These plot values are derived by dividing the appropriate land value by the house type density. The house type densities and development scenarios used in the model are set out below:

Apartments	70 units per hectare
2 bed house	50 units per hectare
3 bed house	40 units per hectare
4 bed house	25 units per hectare
5 bed house	20 units per hectare
Mixed Residential Development	100 units
Starter Housing	40 units
Apartment Block	25 low rise units
Executive Housing	25 units
Single Dwelling	

Commercial – For the commercial development appraisals the following development scenarios have been modelled:

Table 1: Development Scenarios

Development Type	Use Class	Sq m	Plot Ratio	Gross:Net	Scenario
Industrial	B1b B1c B2 B8	1000	1:2	1.0	Factory Unit
Office	B1a	2000	1:2	1.2	Office Building
Food Retail	A1	3000	1:3	1.0	Supermarket
General Retail	A 1 A2 A3 A4 A5	300	1:1.5	1.0	Roadside Retail Unit
Hotels	C1	3000	1:2	1.2	Mid Range Hotel
Residential Inst	C2	4000	1:1.5	1.2	Care Facility
Community	D1	200	1:1.5	1.0	Community Centre
Leisure	D2	2500	1:3	1.0	Shell Unit
Agricultural		500	1:2	1.0	Farm shop
Sui Generis	Vehicle Repairs	300	1:2	1.0	Car Repair Garage
	Vehicle Sales	500	1:2	1.0	Car Showroom

7.2 Sales/Rental Values

As previously referred to, local agents, heb have undertaken a survey of land and property values throughout the Borough and the results of this survey are included in the heb Valuation Report. The survey looks at the following:

Residential (C3) - Land values per hectare, land values per plot, and sales values per house type. The plot approach to residential land values avoids anomalies which can be produced with density assumptions in residential developments.

Commercial - Land values per hectare, gross development values per sq metre in the following categories:

Industrial (B1b B1c B2 B8)

Office (B1a)

Food Retail (A1)

General Retail (A1 A2 A3 A4 A5)

Residential Institution (C2)

Hotel (C1)

Community (D1)

Leisure (D2)

Agricultural

Sui Generis

Commercial valuations are based on rental values and yields. The capital value is derived by multiplying the rental by the appropriate yield for the subject property. Yields for different types of property vary substantially depending on the confidence a purchaser has in the safety of the rental income which in turn is based on the covenant strength of the occupier and the location and quality of the building.

The land and sales values have been tabulated by grouping the data gathered across the Borough into appropriate value clusters. This information has then informed the Charging Zones as discussed above. The resulting tables of both residential and commercial land values are presented below.

Table 2: Gedling Residential Values

	Value £/M ²		
	Zone 1	Zone 2	Zone 3
Apartment	1,700	1,850	2,000
2 bed	1,750	1,900	2,050
3 bed	1,750	1,900	2,050
4 bed	1,800	1,950	2,100
5 bed	1,800	1,950	2,100
	Value £/ Ha		
Land	1.27m	1.38m	1.5m

Table 3: Gedling Commercial Values

	Land Value/ha		Sales Value/ m ²		
	Urban	Rural	Urban	Rural	
Food Retail A1	3,700,000	3,700,000	2,500	2,500	
Other Retail A1 A2 A3 A4 A5	1,500,000	1,000,000	1,700	1,500	
Industrial B1b B1c B2 B8	433,000	250,000	700	645	
Office B1a	433,000	250,000	1,350	1,075	
Hotels C1	865,000	865,000	2,500	2,500	
Residential Institutions C2	433,000	250,000	1,266	1,266	
Institutional & Community D1	433,000	250,000	1,077	950	
Leisure D2	600,000	600,000	1,350	1,350	
Agricultural	15,000	15,000	323	323	
Sui Generis	Vehicle Repairs	433,000	250,000	700	1,100
	Vehicle Sales	850,000	450,000	645	720

7.3 Construction Costs

The CIL evidence base includes a bespoke construction cost survey provided by Gleeds Cost Consultants. The survey uses information gathered from the Company's nationwide database specifically relevant to the Borough. Base date for the costs is the 2nd Quarter 2012.

All costs are based on new build on a cleared site and include an allowance for external works. Demolition, abnormal costs and off site works are excluded. The summary table of costs from the survey report is provided overleaf.

Table 4: Gedling Development Costs

Development Type	Construction Cost £/M ²		
	Min	Max	Median
Standard Residential (Mass housebuilder, mid range 3 bed hse)	650	1,000	820
Low Rise Apartments	790	1,170	960
Care Homes	846	1,192	1,076
General Retail, shell finish	680	970	840
Food Retail Supermarket, shell finish	320	590	525
Hotels 2,000m ² , mid-range	1,060	1,220	1,120
Industrial, Offices, Cat A fit-out	870	1,290	1,060*
Industrial, general shell finish	380	700	450
Institutional, Community D7(museums, libraries, public halls, conference)	1,375	2,439	1,838
Leisure D5 (shell only)	770	980	850**
Agricultural shells	170	730	426
Sui Generis			
Vehicle Repairs	760	890	830
Vehicle Showrooms	1,020	1,185	1,140

* Industrial /Offices, Cat A are based on speculative office development of a cost effective design

** Leisure D5 development is based on shell buildings and excludes tenant fit-out.

7.4 Other Assumptions

	Residential	Commercial	
Professional fees	10%	10%	Construction Cost
Legal fees	0.5%	0.5%	GDV
Statutory fees	1.1%	0.6%	Construction Cost
Sales/marketing costs	2.0%	2.0%	Value of market units
Contingencies	5.0%	5.0%	Construction Cost
Interest	6.0%	6.0%	12mths
Arrangement fee	1.0%	1.0%	Cost
Development profit	20%	20%	GDV
Construction	12mths	12mths	
Sales Void	6mths	3mths	

8.0 Appraisal Results

The appraisal results reflect current market conditions and will need to be kept under review by the Council so that any future improvements in the market can be fed through to make positive adjustments in the CIL Levy.

The results of the viability testing for both residential and commercial development are summarised below to indicate the maximum CIL rates chargeable against each category of development and existing land use. The individual residual appraisals which underpin these tables form part of the CIL Documents Evidence Base and can be downloaded by going to CIL Section of the Gedling Borough website.

8.1 Residential

Table 5: Residential Viability Test Results

Charging Zone /Base Land Value Category	£/m ²					
	Mixed Residential	Starter Housing	Apartment Block	Executive Housing	Single Dwelling	Median Rate
Zone 1						
Greenfield to Residential	£40	£6	-£193	£66	£105	£5
Industrial to Residential	-£18	-£44	-£236	£6	£44	-£50
Residential to Residential	-£136	-£143	-£316	-£120	-£79	-£159
Zone 2						
Greenfield to Residential	£104	£58	-£142	£129	£197	£69
Industrial to Residential	£41	£9	-£185	£69	£136	£14
Residential to Residential	-£92	-£104	-£276	-£69	-£3	-£109
Zone 3						
Greenfield to Residential	£166	£117	-£87	£194	£289	£136
Industrial to Residential	£100	£63	-£132	£131	£226	£78
Residential to Residential	-£50	-£64	-£234	-£23	£69	-£61

The ability of residential schemes to provide CIL contributions varies markedly depending on the type of development, the geographical location and existing use of the site. The table above indicates that residential schemes could support a CIL rate of between £0 and £289 per square metre. It should be noted that the apartment block results negatively skew the overall median rate as they present a considerably less viable position when compared with the other development scenarios. The relative importance of this type of development to the Borough has therefore been taken into account when setting the charge rates.

8.2 Commercial

Table 6: Commercial Viability Test Results

Development Type & Base Land Value Category	££/m ²	
	Zones	
	1 Urban	2 Rural
Industrial B1b B1c B2 B8		
Greenfield to Industrial	-£59	-£79
Industrial	-£94	-£99
Office Use B1a		
Greenfield to Office	-£460	-£618
Industrial to Office	-£489	-£647
Office	-£533	-£678
Food Retail A1		
Greenfield to Food Retail	£571	£571
Industrial to Food Retail	£517	£517
Food Retail	£90	£90
General Retail A1 A2 A3 A4 A5		
Greenfield to General Retail	£155	£0
Industrial to General Retail	£128	-£27
General Retail	£60	-£94
Residential Institution C2		
Greenfield to Residential Institution	-£672	-£657
Residential Institution	-£695	-£670
Hotel C1		
Greenfield to Hotel	-£1	-£1
Industrial to Hotel	-£29	-£29
Hotel	-£61	-£61
Community D1		
Greenfield to Community	-£1412	-£1495
Community	-£1438	-£1510
Leisure D2		
Greenfield to Leisure	-£103	-£103
Industrial to Leisure	-£157	-£157
Leisure	-£179	-£179
Agricultural		
Greenfield/Agricultural	-£262	-£262
Sui Generis		
Vehicle Repairs	-£540	-£545
Vehicle Sales	-£686	-£903

As indicated above, in the majority of cases the commercial development appraisals generated negative residual values; the only exceptions being the retail scenarios. Food Retail in both the urban and rural zones of the Borough produces positive residuals for all land uses whereas general retail is only viable in the urban locations.

8.3 Site Specific Testing

The legislation (Section 211 (7A) as inserted by the Localism Act 2011) requires that a charging authority uses 'appropriate available evidence' to inform their draft charging schedule. The above viability tests have drawn on such evidence however the recent guidance also recognises the need to focus on strategic sites on which the relevant plan

relies and also sites where the impact of the levy on economic viability is likely to be most significant.

Whilst a wide range of site types has already been tested using greenfield, brownfield and existing use scenarios, in order to comply with the guidance and in response to comments raised at consultation, a viability modelling exercise has been undertaken on two of the Borough's key residential development sites. The sites are:

North of Papplewick Lane
Top Wighay

These sites are larger than those sampled in the original appraisal work. Both fall within the highest residential charging zone - set at £ 95/m² in the PDCS.

Viability calculations have been undertaken using the £95/m² charge rate and a reduced charge of £70/m² for comparison. The calculations also take into account estimated cost of education and other planning obligations.

The results are set out in the table below.

SITE	Viability Figures			
	CIL £95 Full Edc ⁿ S.106	CIL £95 Zero Edc ⁿ S.106	CIL £70 Full Edc ⁿ S.106	CIL £70 Primary Edc ⁿ S.106
North of Papplewick Lane				
S106 Education	6,656,068	0	6,656,068	5,0000
Other	0	0	0	0
CIL	3,880,275	3,880,275	2,859,150	2,859,150
Viability Margin	1,725,087	8,681,610	2,792,102	4,523,686
Top Wighay Farm				
S106 Education	7,761,600	0	7,761,600	5,000,000
Other	500,000	500,000	500,000	0
CIL	6,305,863	6,305,863	4,646,425	4,646,425
Viability Margin	-4,269,483	3,841,389	-2,535,371	873,001

The above indicates that North of Papplewick Lane can support both CIL and Education S.106 costs with a reasonable level of viability at both a £95/m² and £70/m² charge. Top Wighay Farm however is unviable regardless of which of the CIL charge rates is adopted if a full S.106 education contribution is required. However, if secondary education is financed through CIL and S.106 is used for site specific primary education only then a £70 CIL would maintain a margin of viability for Top Wighay.

The strategic site modelling shows the burden which education costs can place on a development. However, given that the Regulation 123 list will specify particular strategic infrastructure contributions; e.g. towards the secondary provision and other elements such as highways; this would leave only the site specific local primary contributions to be provided for by S.106 agreement. This would then leave a sufficient margin to maintain the viability of both the specific site test scenarios. The implications of this for the proposed CIL rates are considered at Section 9.0 below.

9.0 Conclusions in respect of CIL Rates

9.1 Rationale

As the weight of CIL examination evidence has built up it has become widely accepted that CIL rates do not necessarily have to be determined solely by viability, rather that they should be consistent with and not contrary to this evidence.

The Regulations require that authorities are required to strike 'an appropriate balance' between the need to raise revenue to fund infrastructure delivery to enable sustainable development and the economic viability of development.

In light of this the following issues have been taken into account in setting the CIL rates. Viability testing cannot take into account exceptional circumstances and there will always be examples of sites within a zone which throw up residual values contrary to the model results. Hence it is inevitable that there will be some developments which may not come forward as a result of a charge. This in itself does not mean that a charge is unreasonable or will hinder development in a particular zone.

Prior to establishing the margin available for CIL and Section 106 payments, an allowance has been made for affordable housing contributions. The allowance varies dependent on the zone but is intended to allay concerns that a CIL levy would remove the ability of developments to support affordable housing.

CIL charges are not set at the maximum level indicated by the viability assessments. This leaves a margin to allow for market fluctuations and site specific viability issues.

Finally and most significantly, the base land value calculation provides for the landowner to receive existing use value plus 60% of the uplift in value due the change of use. This is considered a pro-development stance as the residual values produced are felt to be more reflective of market conditions. Residual land values which are based on existing use value plus a proportion of hope value will produce better viability margins but leave landlords with little room for negotiation or indeed incentive to dispose of their land.

Residential

As with all zones, the viability appraisals indicate greenfield to residential is the most viable form of development in Zone 1. However little development is expected to come forward on greenfield land in this zone and therefore a charge in Zone 1 could hinder developments on vacant brownfield sites or residential sites. A zero charge is therefore recommended in Zone 1.

Zones 2 and 3 show more positive viability results. For Zone 2 the maximum CIL chargeable is £197 per square metre for a single dwelling. However a more typical development scenario is likely to be a mixed residential development on greenfield land which illustrates a maximum CIL charge of £104 per square metre.

At the PDCS stage a proposed rate of £55 per square metre for this zone was put forward as providing a reasonable buffer compared with the maximum rates. All housing scenarios on greenfield land produce results above the suggested CIL charges except for the apartment block type. A similar position is found in Zone 3 where a rate of £95 was suggested with maximum rates for greenfield development again in excess of this for all development types except apartments.

However following consultation and the site specific testing it is considered that a reduction in the proposed rates to provide a greater viability buffer would help to safeguard the economic position of the Borough and encourage identified strategic sites to come forward. It is clear infrastructure will need to be delivered through a combination of Section 106 and CIL. If too much burden is placed on delivery via CIL in the early years there is a danger sites will not come forward. Therefore, it proposed to reduce the Residential CIL levels to £45 per square metre for Zone 2 and £70 per square metre for Zone 3. This, alongside realistic drafting of the Regulation 123 list, will provide a clear strategic infrastructure delivery strategy which does not threaten new development in the Borough.

Commercial

As illustrated above the viability model results indicate that the potential for commercial schemes to generate positive residual values in the current market is extremely limited. The only exception is retail development which is discussed in more detail below.

Food Retail – in contrast to all other types of commercial development, food retail generates high positive residual values in both the Urban and Rural Zones. The question is whether it would be within the CIL Regulations to make a differentiation between General Retail and Food Retail for charging purposes. Most authorities who have put forward differing retail rates have sought to use size as the defining factor between uses. Regulation 13 of the 2010 Regulations states that a charging authority may set differential rates for different zones and for different uses, but makes no mention of different rates being set for different sizes of development. Any cut off point in terms of the step up to a higher rate will often be quite arbitrary. Whilst there seems to be agreement that there is a difference in viability between supermarkets and other retail uses, translating this into a difference in use via the Regulations is the issue. A number of charging schedules have already been adopted with differential retail rates in them, but a challenge by Sainsbury's to the Poole DCS highlights the contentious nature of this issue. Amendments to the Regulations are required to clarify this point and to prevent potential ultra vires claims when for instance a supermarket is asked to pay a higher levy. Given the uncertainty of the situation it is proposed that no specific levy is charged for food retail and that a single retail levy therefore applies as discussed below. This decision will be kept under review pending any changes to the Regulations.

General Retail – this category generates positive residual land values for all existing use benchmark schemes in the Urban Zone and neutral or negative residual values in the Rural Zone. A charge of £60 has therefore been suggested for the Urban Zone with a £0 charge in the Rural Zone. Whilst it is noted the £60 charge would be at the maximum for existing retail development, it is considered that new development coming forward in the Urban Zone is most likely to involve a change of use or be contained on an existing site where credit will be given for existing space and hence no charge would be levied.

9.2 Suggested CIL Rates

A summary of suggested CIL rates is provided in the table below. As discussed above, the rates build in a substantial discount from the maximum rates chargeable for each use/ zone.

Table 7: Suggested CIL Rates for Gedling

Development Type			
Residential	Zone 1	Zone 2	Zone 3
	£0/m ²	£45/m ²	£70/m ²
Commercial	Urban Zone	Rural Zone	
Retail A1, A2, A3, A4, A5	£60/m ²	£0/m ²	
All other uses	£0/m ²	£0/m ²	