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Community Infrastructure Levy: Viability Study

Prepared for

Southend-on-Sea Borough Council

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1 Executive Summary

1.1 This report tests the ability of a range of development types throughout Southend-on-Sea Borough Council's ('the Council's') area to yield contributions to infrastructure requirements through the Community Infrastructure Levy ('CIL'). Levels of CIL have been tested in combination with the Council's other planning requirements, including the provision of affordable housing.

Methodology

1.2 The study methodology compares the residual land values ('RLV') of a range of developments to a range of benchmark land values. If a development incorporating a given level of CIL generates a higher value than the benchmark land value, then it can be judged that the proposed level of CIL will be viable.

1.3 The study utilises the residual land value method of calculating the value of each development. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance and CIL) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site.

1.4 The housing and commercial property markets are inherently cyclical and the Council is testing its proposed rates of CIL at a time when the market is recovering after a severe recession. Residential values in Southend have recovered to a degree but still remain circa 8.4% below the 2008 peak levels.[1] Forecasts for future house price growth indicate continuing growth in the 'mainstream' UK and East of England markets. We have allowed for this by running a sensitivity analysis which varies the base sales values and build costs, with values increasing by 18.5% and costs by 8.5%. This reflects the growth predicted by Savills in their research report, 'Residential Property Focus Q4 2013'[2] from 2014 to 2016 (i.e. the potential life of a charging schedule), and forecasted growth in build costs as identified from the RICS Build Costs Information Service ('BCIS') over the same period. This analysis is indicative only, but is intended to assist the Council in understanding the levels of CIL that are viable in today's terms but also the impact of changing markets on viability. We have also tested a fall in sales values of 5%, to enable the Council to take a view on the impact of any adverse movements in sales values in the short term. Our commercial appraisals incorporate sensitivity analyses on rent levels and yields.

Key findings

1.5 The key findings of the study are as follows:

[1] As identified from the Land Registry's online House Price Index database (http://www.landregistry.gov.uk/public/house-prices-and-sales/search-the-index)

[2] We note that since the appraisals were undertaken Savills have since released their Q1 2014 report which highlights higher growth that that tested, see para 2.22.

Residential

- The ability of **residential schemes** to make CIL contributions varies depending on the area and the current use of the site. Having regard to these variations, residential schemes should be able to absorb a **maximum** CIL rate of between a nominal rate of around £20 per square metre and £100 per square metre. CLG guidance requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount (buffer) to the maximum rate, with discounts ranging from circa 20% to 50%. We would recommend a buffer of circa 30% for Southend-on-Sea Borough Council.

- Taking a broad view across our appraisals, the maximum and suggested rates are as follows:

Table 7.4.1: Maximum and suggested CIL rates – residential

Market Areas	Maximum CIL indicated by appraisals (£s per sqm)	CIL after buffer (£s per sqm)	Suggested three Zone Approach to CIL (£ per sq m)	Suggested two Zone Approach to CIL (£ per sq m)
1 - North central area, Airport, Westborough, Victoria and Prittlewell	N/A	Nominal rate of around £20	£10	£20
2 - Southchurch	N/A	Nominal rate of around £20	£10	£20
3 - Mid central area	N/A	Nominal rate of around £20	£10	£20
4 - Shoeburyness	£30	£21	£20	£20
5 - Eastwood, Belfairs and Blenheim	£30	£21	£20	£20
6 - South central area (below railway)	£50	£35	£40	£40
7 -Thorpe Bay	£80	£56	£40	£40
8 - Leigh-on-Sea and Chalkwell	£100	£70	£40	£40

- Whilst the maximum rates are higher than the suggested rates, the inclusion of a buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and 'shocking' the market). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority's judgement.

- As identified in the table above, we recommend that the Council considers combining areas into one charging zone, thereby simplifying the charging schedule into less charging areas. It is also worth noting that Market Areas 1, 2 and 3 have been identified as being generally unviable and as such the application of CIL is unlikely to be the defining factor and the imposition of CIL at a zero level will not make schemes viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. In this regard we would recommend that the Council considers a maximum nominal rate of around £20 per square metre.

- Our appraisals for **Extra Care** and **Retirement Housing** identify that such developments generate surpluses that would support a CIL charge to varying degrees dependant on the existing use of the site. On this basis we recommend the Council considers adopting a rate of £20 per square metre across the entire Borough for such development.

Commercial

- It is worth noting that the results of this viability exercise, which identify certain commercial development as unviable, do not mean that sites will not be developed within the Borough. Viability is only one of many factors which affect whether a site is developed. For example owner occupiers who may wish to locate in Southend-on-Sea. Alternatively, a business may wish to develop their own premises by reference to their own cost benefit analysis, which will bear little relationship to the residual land value calculations that a speculative landlord developer may undertake.
- At current rent levels, **Office development** across the Borough is unlikely to generate sufficient surpluses to accommodate a CIL charge. We therefore recommend that the Council considers a nil or nominal rate for office development.
- Our appraisals of developments of **industrial and warehousing** floorspace indicate that these uses are unlikely to generate positive residual land values. We therefore recommend a nil or nominal rate for industrial floorspace.
- **Convenience based supermarkets and superstores and retail warehousing (net retailing space of over 280 square metres)** are likely to be viable across the Borough with a maximum CIL rate of £106 per square metre. After allowing for a buffer, which we consider to be appropriate to deal with site specific issues, the Council might consider setting a CIL of £70 per square metre.
- Residual values generated by **all other forms of retail (A1-A5) developments** are higher than current use values to varying degrees across the Borough. However, to a degree smaller retail development will involve the re-use of existing retail space, which will not be CIL liable. In order to capture value from schemes that add floorspace, and in particular larger format stores that generate higher value, differential rates could be adopted.
  - Residual values generated by **all other retail (A1-A5)** developments in the **primary shopping area of Southend Town Centre** are identified as unlikely to generate significant surpluses to fund CIL. The residual land values are only likely to exceed current use values by a small margin to allow for a CIL to be levied on sites in a lower value use i.e. offices instead of existing retail use. On this basis we would recommend that the Council considers a nil or nominal rate on retail development in the prime shopping area of Southend Town Centre.
  - **Leigh-on-Sea and elsewhere in the Borough,** rents for all other retail (A1-A5) development are considerably lower and our appraisals identify that developments are unable to viably support a CIL charge. We therefore recommend that the Council considers a nil or nominal rate on retail development in Leigh-on-Sea and elsewhere in the Borough.

- At current values **Hotel developments** are identified as not being able to generate a surplus and in this regard we would recommend that the Council considers setting a nil or nominal rate for Hotel use.
- **D1** and **D2** use classes cover a large and varied number of uses. Given this large number of uses, individual viability testing of this range of possible uses that could come forward has not been undertaken as it would be too complex to test all these uses with any degree of reliability. Some uses in these classes would be viable, generating reasonably high revenues. However some uses in these classes would not be viable for the most part; this typically includes community facilities that do not accommodate revenue generating operations, such as public health and education facilities, museums, libraries and places of worship. Other uses that do generate an income stream, such as swimming pools, have operating costs that are far higher than the income and require public subsidy. Further, some such uses generating revenue i.e. private education facilities are likely to benefit from charitable status. In this regard, many D1 uses will be infrastructure in themselves, which CIL will help to provide. In light of this, we recommend that the Council considers a nil or nominal[3] rate of CIL be set for such uses.

  Should the Council wish to do so, they would be able to set a nominal rate of CIL on **all other uses** of perhaps no more than £10 per square metre. A nominal rate is unlikely to be a significant factor in developers' decision making and could be absorbed without having a significant impact on viability across the borough. In addition, the Council could consider excluding uses such as community facilities, public healthcare and education facilities and emergency services facilities from this category, in line with the approach taken for the Mayoral CIL. Should the Council not wish to proceed with a nominal rate on all other uses, a nil rate would apply by default unless a rate has been explicitly set.

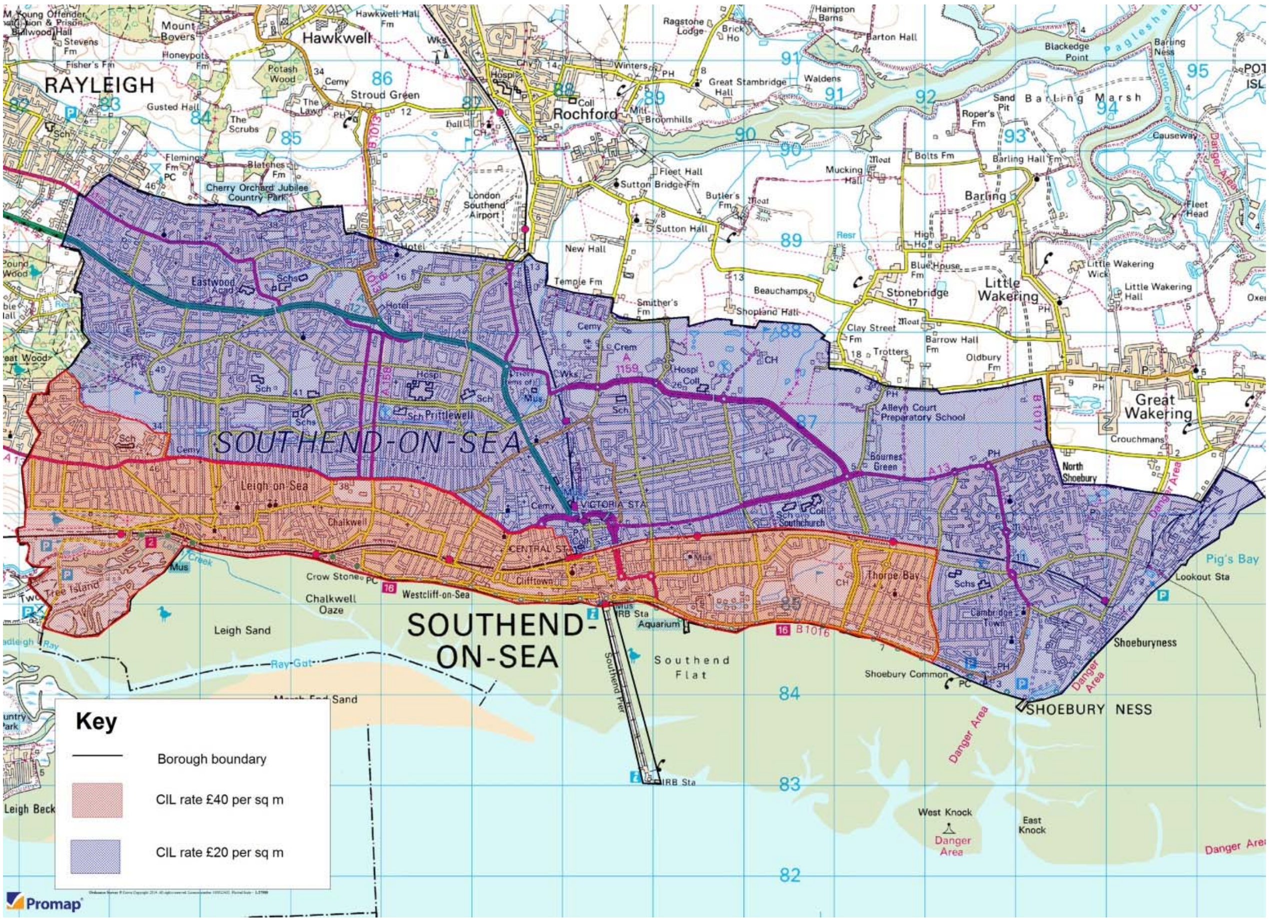
1.6 The proposed CIL rates for Southend-on-Sea are summarised in Table 1.6.1 below. The suggested residential charge zones are set out in the map at Figure 1.6.2 overleaf.

Table 1.6.1: Suggested CIL rates

Development type	Proposed CIL rate
Residential – Zone 1 (Market areas 1-5)	£20
Residential – Zone 2 (Market areas 6-8)	£40
Extra Care and retirement housing	£20
Convenience based supermarkets and superstores and retail warehousing	£70
All other uses[3]	Nominal rate of £10

[3] Should the Council be minded to adopt a nominal rate on such uses we would recommend that it considers exempting uses such as community facilities, public healthcare and education facilities and emergency services from this category, in line with the approach taken for the London Mayoral CIL.

Figure 1.6.2 Suggested Residential charges



1.7 For residential schemes, the application of CIL is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme value, CIL will be a modest amount, typically accounting for between 0.9% and 1.6% of value (see Table 7.6.1). Some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these schemes.

1.8 With respect to commercial schemes, the application of a nominal CIL is unlikely to be the determining factor in whether a developer brings forward a site or whether not a scheme is viable. As identified in table 7.6.2, the proposed CIL is a marginal factor in a scheme's viability i.e. less than 1% of total development costs in terms of the uses tested allowing for a nominal charge of £10 per square metre. The CIL Guidance identifies that a charging authority does not have to set a nil rate, the setting of a nominal rate would allow the Council to achieve the balance required by the CIL regulations between the delivery of development and the provision of infrastructure to support the growth envisaged in the Council's local plan.

1.9 The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future changes. While there is no requirement for charging authorities to commit to a formal timescale for reviewing its CIL charging schedule, we recommend that the Council should consider reviewing the Charging Schedule in the next three years and potentially earlier if the market is perceived to have changed significantly.

2 Introduction

2.1 This study has been commissioned to contribute towards an evidence base to inform the Southend-on-Sea Borough Council's ('the Council's') CIL Charging Schedule ('CS'), as required by Regulation 14 of the CIL Regulations April 2010 (as amended). The aims of the study are summarised as follows:

- to test the impact upon the economics of residential development of a range of levels of CIL;
- for residential schemes, to test CIL alongside the Council's requirements for affordable housing as well as other planning obligations; and
- to test the ability of commercial schemes to make a contribution towards infrastructure through CIL.

2.2 Our methodology, adopts a standard residual valuation approach to test the impact on viability of a range of levels of CIL. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique), mean that conclusions must always be tempered by a level of flexibility in the application of policy requirements on a site by site basis. As CIL is fixed at the point of adoption, it is essential that levels of CIL are set so as to allow a sufficient margin to allow for these site specific variations.

CIL Policy Context

2.3 As of April 2015 or the adoption of a CIL Charging Schedule (whichever is the sooner), the current S106/planning obligations system i.e. the use of 'pooled' S106 obligations will be limited. The adoption of a CIL Charging Schedule is discretionary for the Council, however, the scaling back of the use of pooled S106 obligations is not discretionary. As such, should the Council elect not to adopt a CIL Charging Schedule, it is likely to have significant implications with regard to funding infrastructure in the Borough and the Council will need to be aware of such implications in their decision-making.

2.4 It is worth noting that some site specific S106 obligations will remain available for negotiation after the adoption of CIL/April 2015. However these will be restricted to site specific mitigation that meet the three tests set out at CIL Regulation 122 and to the provision of affordable housing. They cannot be used for securing payments towards infrastructure that benefit more than one development, unless they form part of the Council's five sites, from which Section 106 contributions to provide infrastructure[4] can be pooled.

2.5 The CIL regulations state that in setting a charge, local authorities must strike *"an appropriate balance"* between revenue maximisation on the one hand and the potentially adverse impact upon the viability of development on the other. The regulations also state that local authorities should take account of other sources of available funding for infrastructure when setting CIL rates. This report deals with viability only and does not consider other

[4] This infrastructure should not be identified on the Council's Regulation 123 list.

sources of funding (this is considered elsewhere within the Council's evidence base).

2.6 Local authorities must consult relevant stakeholders on the nature and amount of any proposed CIL at two stages; after publication of the Preliminary Draft Charging Schedule ('PDCS') and the Draft Charging Schedule ('DCS')[5]. Following consultation, a charging schedule must be submitted for independent examination.

2.7 The payment of CIL becomes mandatory on all new buildings and extensions to buildings with a gross internal floorspace over 100 square metres once a charging schedule has been adopted. The CIL regulations allow a number of reliefs and exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if controlled by a charity) are subject to relief. Secondly, local authorities may, if they choose, elect to offer an exemption on proven viability grounds. A local authority wishing to offer exceptional circumstances relief in its area must first give notice publicly of its intention to do so. The local authority can then consider claims for relief on chargeable developments from landowners on a case by case basis. In each case, an independent expert with suitable qualifications and experience must be appointed by the claimant with the agreement of the local authority to assess whether paying the full CIL charge would have an unacceptable impact on the development's economic viability.

2.8 The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed. To be eligible for exemption, regulation 55 states that the Applicant must enter into a Section 106 agreement; and that the Authority must be satisfied that granting relief would not constitute state aid. It should be noted however that CIL cannot simply be negotiated away or the local authority decide not to charge CIL.

2.9 CIL Regulation 40 includes a vacancy period test for calculating CIL liability so that vacant floorspace can be offset in certain circumstances. That is where a building that contains a part which has not been in lawful use for a continuous period of at least six months within the last three years, ending on the day planning permission first permits the chargeable development, the floorspace may not be offset.

2.10 The CIL regulations enable local authorities to set differential rates (including zero rates) for different zones within which development would take place and also for different types of development. The amendment to the Statutory CIL Guidance in December 2012 clarified that CIL Regulation 13 permits charging authorities to levy *'differential rates by reference to different intended uses of development provided that the different rates can be justified by a comparative assessment of the economic viability of those categories of development. The definition of "use" for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987, although that Order does provide a useful reference point.'* (Para 35). The February 2014 amendments to the CIL Regulations further extends the ability to set differential rates in relation to, *'scales of development'*.

[5] In addition to these statutory consultation exercises, the Council has consulted informally with key stakeholders to open a dialogue regarding CIL and development viability, in line with best practice identified in the CLG's CIL Guidance February 2014.

2.11 The 2010 regulations set out clear timescales for payment of CIL, which varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allow local authorities to set their own timescales for the payment of CIL if they choose to do so. This is an important issue that the Council will need to consider, as the timing of payment of CIL can have an impact on an Applicant's cashflow (the earlier the payment of CIL, the more interest the Applicant will bear before the development is completed and sold).

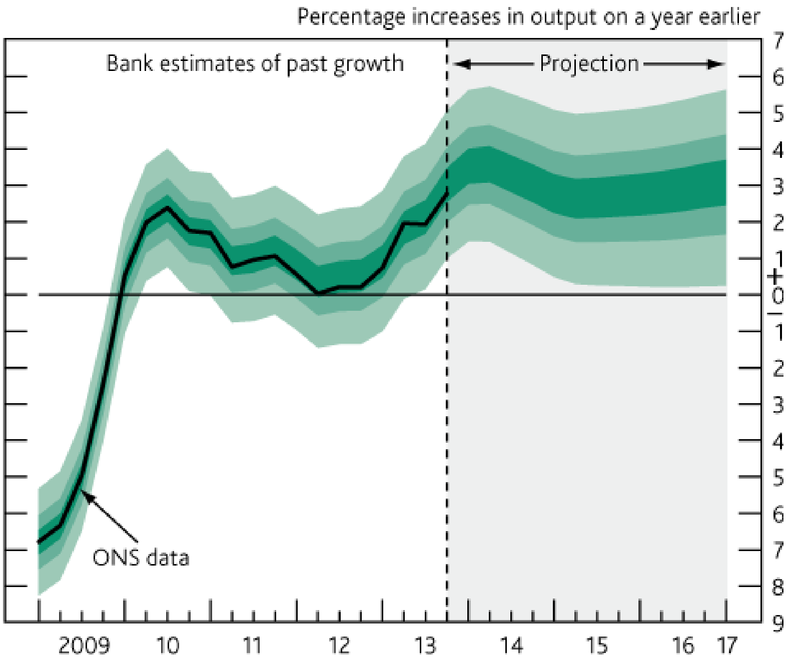
2.12 Several local authorities have undertaken viability assessments and have drafted CIL charging schedules, which they have submitted for independent examination. To date, a number of charging authorities (including the Mayor of London, Portsmouth, Newark and Sherwood, Huntingdonshire, Wandsworth, Shropshire, Bristol, Bedford, Poole, Waveney, Barnet, Brent, Bedford, Croydon, Harrow, Newham, Merton, Waltham Forest, Chelmsford, Norwich, Wycombe, Plymouth, Exeter and Redbridge) have been through the examination process and are at various stages of implementation.

Economic and housing market context

2.13 The historic highs achieved in the UK housing market by mid 2007 followed a prolonged period of real house price growth. However, a period of 'readjustment' began in the second half of 2007, triggered initially by rising interest rates and the emergence of the US sub prime lending problems in the last quarter of 2007. The subsequent reduction in inter-bank lending led to a general "credit crunch" including a tightening of mortgage availability. The real crisis of confidence, however, followed the collapse of Lehman Brothers in September 2008, which forced the government and the Bank of England to intervene in the market to relieve a liquidity crisis.

2.14 The combination of successive shocks to consumer confidence and the difficulties in obtaining finance led to a sharp reduction in transactions and a significant correction in house prices in the UK, which fell to a level some 21% lower than at their peak in August 2007 according to the Halifax House Price Index. Consequently, residential land values fell by some 50% from peak levels. One element of government intervention involved successive interest rate cuts and as the cost of servicing many people's mortgages is linked to the base rate, this financial burden has progressively eased for those still in employment. This, together with a return to economic growth early 2010 (see Fig 2.14.1, February 2014 Bank of England GDP fan chart below, showing the range of the Bank's predictions for GDP growth to 2017) has meant that consumer confidence has continued to improve.

Fig number 2.14.1 February 2014 Bank of England GDP fan chart



Source: Bank of England

2.15 Throughout the first half of 2010 there were some tentative indications that improved consumer confidence was feeding through into more positive interest from potential house purchasers. Against the background of a much reduced supply of new housing, this would lead one to expect some recovery in prices. However, this brief resurgence abated with figures falling and then fluctuating in 2011 and 2012, with the Halifax House Price Indices showing a fall of 0.6% in the year to March 2012. The Halifax attributed some of recovery during that period to first time buyers seeking to purchase prior to the reintroduction of Stamp Duty from 1 April 2012. The signs of improvement in the housing market towards the end of 2012 continued through 2013 and into 2014 and both The Halifax and Nationwide continue to report positively in their January 2013 Housing Price Index updates. They both refer to the housing market's escalating improvement, referencing the improvement in employment and improving confidence.

2.16 Nationwide's economist, Robert Gardner, identifies that, *'The housing market is continuing to gather momentum on the back of further solid gains in employment, record low mortgage rates and rising confidence.'* Whilst The Halifax's economist Martin Ellis reports that, *'Mounting signs that the economic recovery is becoming firmly established, together with a predicted decline in unemployment, should further boost consumer confidence over the coming months. This will increase the likelihood that more people will consider buying a property in 2014, therefore supporting housing demand.'*

2.17 Both reports refer to an increase in market activity, however Nationwide is more positive stating that, '*there have been encouraging signs that activity levels in the housing market are also gradually returning towards more normal levels. According to HMRC, the total number of housing transactions increased to 103,000 in December, 30% higher than the same* *month in 2012. The pickup in activity appears to be fairly broad-based, and it is encouraging that first time buyers are a key driving factor behind the upturn.'*

2.18 The Halifax however refers to a potential for increase in activity as a result of, *'the recent strengthening in house prices' [which] is increasing the amount of equity that many homeowners have in their home. This will potentially encourage and enable more owners to put their property on the market for sale over the coming year, therefore boosting supply. Indeed, our consumer confidence research shows that there has been a significant improvement in sentiment towards selling in recent months. These factors should help to curb the upward pressure on prices.'*

2.19 Nationwide highlights that house prices, 'recorded their thirteenth successive monthly increase in January 2014, rising by 0.7% on the month', however the rate of increase fell slightly compared with that recorded in December 2013, which was 1.4%. Notwithstanding this, the price of a typical home was 8.8% higher than January 2013 and 'House prices are now around 4% below the 2007 peak'. The Halifax reports that, 'House prices in the final three months of 2013 were 1.9% higher than in the previous three months. This was within the narrow range of 1.8 - 2.1% for this measure recorded in each of the preceding six months. The annual rate of price increase fell slightly compared with last month with prices in the three months to December 7.5% higher than in the same three months last year.'

2.20 On this basis, the outlook for the UK economy and house prices would appear to be expected to continue to rise in 2014.

Figure 2.20.1: Average house prices in Essex and Southend-on-Sea

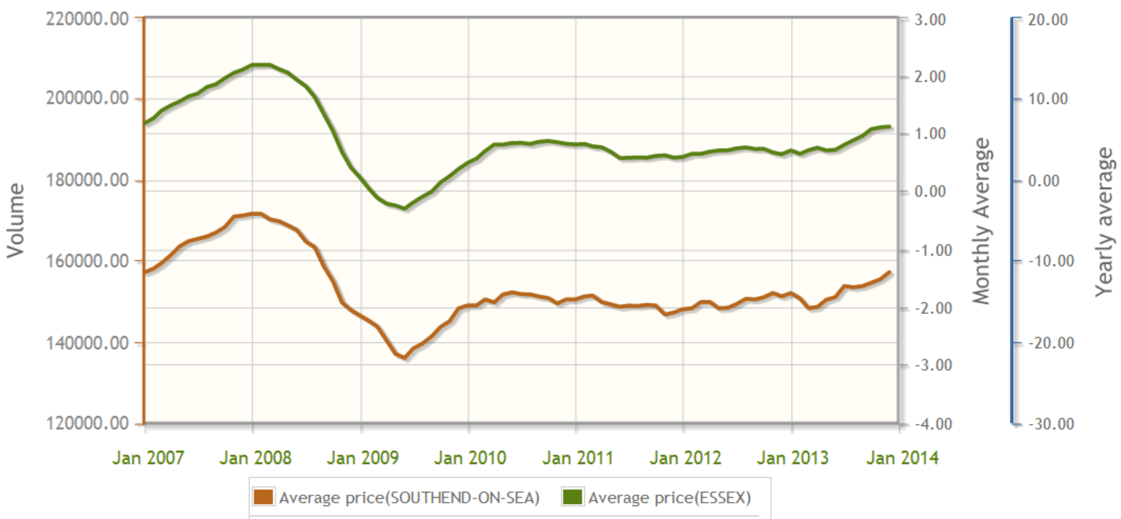
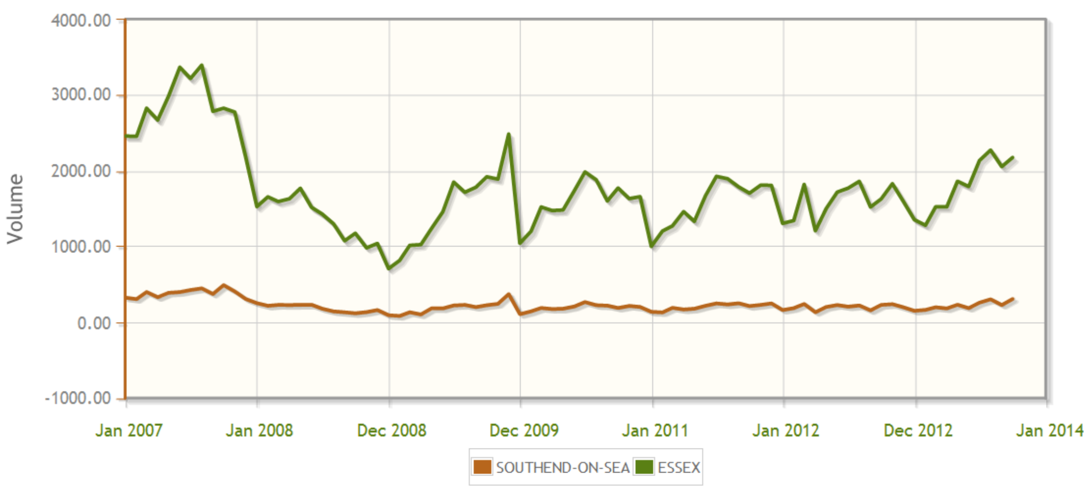


Figure 2.20.2: Sales volumes in Essex and Southend-on-Sea



Source: Land Registry (February 2014)

2.21 According to Land Registry data, residential sales values in Southend-on-Sea and Essex have recovered since the lowest point in the cycle in June 2009. Prices fell by 20.77% in Southend-on-Sea from the peak of the market, February 2008, to June 2009. Following this, prices increased by circa 10% between June 2009 and June 2010. From this point sales values have remained fairly stable, fluctuating up and down from October 2010 prices by no more than 2.5%, however, overall values increased by circa 4% over this period. In December 2013, sales values in Southend-on-Sea were 8.42% lower than the January 2008 peak value and 7.31% lower than the March 2008 Peak value in Essex as a whole.

2.22 The future trajectory of house prices is currently uncertain, although Savills' current prediction is that values are expected to increase over the next five years. Medium term predictions are that properties in the mainstream East of England markets will grow over the period 2014 to 2018[6] . Savills predict that values in mainstream East markets (i.e. non-prime) will experience cumulative growth of 30.7 between 2014 to 2018 inclusive, compared to a UK average of 25.2% cumulative growth over the same period.

Local Policy context

2.23 This study takes into account the adopted Core Strategy, the saved policies in the Local Plan and the emerging policies and standards set out in the draft Development Management and Southend Central Area Action Plan (SCAAP) DPDs, which include *inter alia* an affordable housing requirement; sustainability; open space; and Section 106 requirements addressing on-site issues.

2.24 The Core Strategy is a strategic level document that provides the framework for subsequent emerging DPDs, including the Development Management DPD and the SCAAP.

[6] Savills Research: Residential Property Focus,Q1 2014 (February 2014)

2.25 The Core Strategy sets out the Council's spatial strategy and strategic planning policy framework for Southend-on-Sea. It contains the vision and strategic objectives for the spatial strategy, key development principles, detailed core thematic policies and a monitoring and implementation framework. The Core Strategy:

- Identifies broad locations for development, seeking to secure sustainable regeneration and growth focused on the urban area;
- Sets out the Council's strategic approach to housing, the economy, shopping and transport.
- Seeks to create and maintain a balance between employment and housing growth in the future including:
  - The provision of not less than 13,000 net additional jobs in the period 2001 to 2021 within Southend; and
  - The provision of 6,500 net additional dwellings in the period 2001 to 2021 within Southend.
- Sets clear policies that will guide planning decisions on planning applications on issues such as affordable housing provision, the protection of open space and ensuring new development is built to high standards of design and sustainability.
- Sets out the infrastructure requirements for the Borough up to 2021 and indicates how these will be provided. This includes securing a 'step change' in the provision of transport infrastructure as an essential concomitant to new development.
- Indicates how the plan will be implemented and shows how progress will be monitored.

2.26 Given the advanced stage of the Development Management and SCAAP DPDs and the NPPF's requirement at para 175 that, '*where practical, Community Infrastructure Levy charges should be worked up and tested alongside the Local Plan. The Community Infrastructure Levy should support and incentivise new development*', this study takes into account both the adopted and emerging policy requirements of the Southend-on-Sea development plan.

2.27 In addition to financing infrastructure, the Council expects residential developments to provide a mix of affordable housing tenures, sizes and types to help meet identified housing needs and contribute to the creation of mixed, balanced and inclusive communities.

2.28 Policy CP 8: Dwelling Provision identifies that residential development proposals will be expected to contribute to local housing needs, including affordable and special needs provision. To achieve this, the Borough Council will enter into negotiations with developers to ensure that:

a all residential proposals of 10-49 dwellings or 0.3 hectares up to 1.99 hectares make an affordable housing or key worker provision of not less than 20% of the total number of units on site; and

b all residential proposals of 50 dwellings or 2 hectares or more make an affordable housing or key worker provision of not less than 30% of the total number of units on the site;

2.29 For sites providing less than 10 dwellings (or below 0.3 ha) or larger sites where, exceptionally, the Borough Council is satisfied that on-site provision is not practical, they will seek to negotiate with developers to obtain a financial contribution to fund off-site provision. The Council will ensure that any such sums are used to help address any shortfall which in affordable housing.

2.30 Emerging Policy DM7 (Dwelling Mix) of the Development Management DPD identifies that all residential development is required to provide a dwelling mix that incorporates a range of dwelling types and bedroom sizes, including family housing on appropriate sites, to reflect the Borough's housing need and housing demand. Further, where affordable housing is provided:

i the affordable dwelling mix set out in Policy Table 2 is sought; and

ii An indicative tenure mix of 70:30 between social rented accommodation and intermediate housing is sought.

Table 2.29.1: Policy Table 2

	1 bed	2 bed	3 bed	4 bed
Affordable Housing	30%	25%	30%	15%

2.31 Where it is considered that the affordable housing dwelling mix and/or tenure mix is not appropriate, applicants will be required to justify to the satisfaction of the Council, a more appropriate mix. The Council will take into consideration factors such as the latest available affordable housing evidence, the site context and viability.

2.32 It is noted, however, that the Thames Gateway South Essex Strategic Housing Market Assessment Review published in December 2013 identifies a different size mix of Housing Requirement for 2011-31 based on Population Projection scenarios for Southend-on-Sea. This sets out a mix for all housing as well as for affordable and in particular includes a lower percentage of 1 bed and 4 bed affordable dwellings (16% and 4% respectively) and a higher percentage of 2 and 3 bed affordable dwellings (43% and 37% respectively) when compared to Draft Policy DM7.

2.33 The current local policy basis for planning obligations is found in Core Strategy Policy KP3: Implementation and Resources, which states that, in order to help the delivery of the Plan's provisions the Council will enter into planning obligations with developers to ensure the provision of infrastructure and transportation measures required as a consequence of the development proposed. This includes provisions such as:

a roads , sewers, servicing facilities and car parking;
b improvements to cycling, walking and passenger transport facilities and services;
c off-site flood protection or mitigation measures, including sustainable drainage systems (SUDS);
d affordable housing;
e educational facilities;
f open space, 'green grid', recreational, sport or other community development and environmental enhancements, including the provision of public art where appropriate;

g any other works, measures or actions required as a consequence of the proposed development; and
h appropriate on-going maintenance requirements.

2.34 Emerging Policy DM2 (Low Carbon Development and Efficient Use of Resources) in the Development Management DPD requires that all development proposals will make the fullest contribution to minimising energy demand and carbon dioxide emissions. Further it also requires that all development proposals will be energy and resource efficient by achieving a minimum Code for Sustainable Homes Level 3 and move towards zero carbon by 2016 for all residential developments. Achieve a BREEAM 'very good' rating and move towards zero carbon by 2019 for all non-residential developments.

Development context

2.35 Developments in Southend range from small in-fill sites to larger regeneration schemes. The Core Strategy makes provision for a large share of the Borough's new growth and regeneration to be focussed in the Central Area, which is being taken forward in the SCAAP.

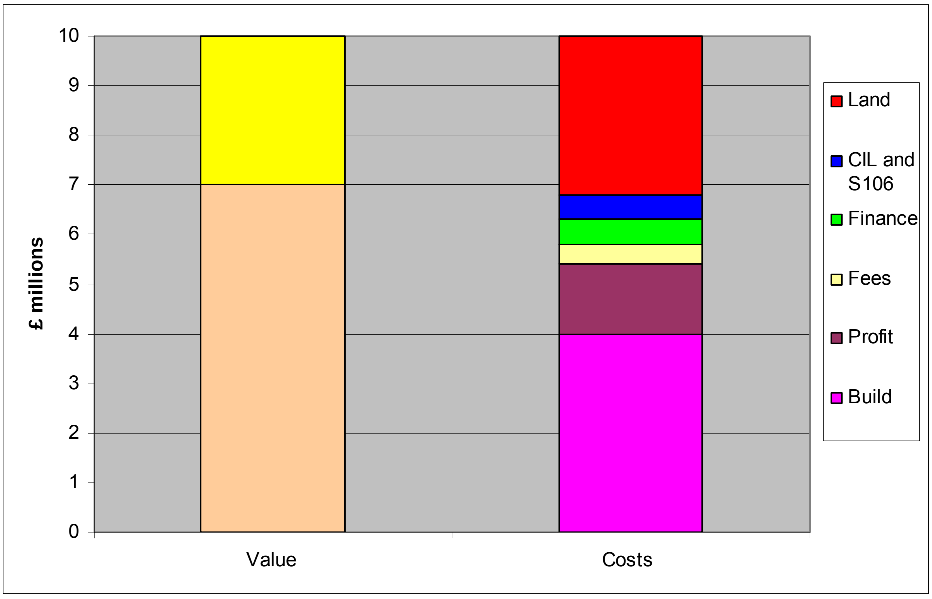
2.36 There are variations in residential sales values between different parts of the Borough, with areas closer to the seafront generally perceived to be more desirable and achieving higher values (including areas such as Leigh-on-Sea, Chalkwell and Thorpe Bay) and the areas to the north and around the airport, Westborough, Victoria and Prittlewell areas achieving lower values. Outside the Central Area, commercial development is likely to be more limited in scale. The Borough's retail centres are performing reasonably well given the current economic climate. However, the Council only expects to see development of a significant amount of additional floorspace linked to the regeneration of the Southend Central area in the medium to long term. New office development is also likely to be limited in the short to medium term given the current economic climate and the large amount of office space currently on the market, while industrial development is likely to be limited throughout the Borough.

3 Methodology and appraisal inputs

3.1 Our methodology follows standard development appraisal conventions, using locally-based sites and assumptions that reflect local market circumstances and emerging planning policy requirements. The study is therefore specific to Southend and reflects the Council's planning policy requirements.

Approach to testing development viability

3.2 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing and the payment from a Registered Provider ('RP') for the completed affordable housing units. The model then deducts the build costs, fees, interest, residual S106, CIL (at varying levels) and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the brown portion of the right hand bar in the diagram.



3.3 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of current use value, discussed later), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.

3.4 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value[7]' or another appropriate benchmark to make development worthwhile. The margin above current use value may be

[7] For the purposes of this report, existing use value is defined as the value of the site in its existing use, assuming that it remains in that use. We are not referring to the RICS Valuation Standards definition of 'Existing Use Value'.

considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.

3.5 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the current use. CIL will be a cost to the scheme and will impact on the residual land value. Ultimately, if landowners' expectations are not met, they will not voluntarily sell their land and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that policy may change at some future point with reduced requirements. It is within the scope of those expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

Viability benchmark

3.6 The CIL Regulations provide no specific guidance on how local authorities should test the viability of their proposed charges. However, there is a range of good practice generated by both the Homes and Communities Agency and appeal decisions that assist in guiding planning authorities on how they should approach viability testing for planning policy purposes.

3.7 In 2009, the Homes and Communities Agency published a good practice guidance manual 'Investment and Planning Obligations: Responding to the Downturn'. This defines viability as follows: "*a viable development will support a residual land value at level sufficiently above the site's existing use value*[8] *(EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner*".

3.8 A number of planning appeal decisions provide guidance on the extent to which the residual land value should exceed existing use value to be considered viable:

Barnet & Chase Farm: APP/Q5300/A/07/2043798/NWF
"the appropriate test is that the value generated by the scheme should exceed the value of the site in its current use. The logic is that, if the converse were the case, then sites would not come forward for development"

Bath Road, Bristol: APP/P0119/A/08/2069226
"The difference between the RLV and the existing site value provides a basis for ascertaining the viability of contributing towards affordable housing."

Beckenham: APP/G5180/A/08/2084559
"without an affordable housing contribution, the scheme will only yield less than 12% above the existing use value, 8% below the generally accepted margin necessary to induce such development to proceed."

[8] This term should not be confused with the RICS *Red Book* definition. Existing Use Value in this context is taken to mean the value of the site in its current use, disregarding opportunities for redevelopment of the site for other uses.

Oxford Street, Woodstock: APP/D3125/A/09/2104658
"The main parties' valuations of the current existing value of the land are not dissimilar but the Appellant has sought to add a 10% premium. Though the site is owned by the Appellants it must be assumed, for valuation purposes, that the land is being acquired now. It is unreasonable to assume that an existing owner and user of the land would not require a premium over the actual value of the land to offset inconvenience and assist with relocation. The Appellants addition of the 10% premium is not unreasonable in these circumstances."

3.9 The guidance issued by the Local Housing Delivery Group[9] ('LHDG') on 22 June 2012 advocates the use of current use value plus an appropriate premium as a benchmark for testing CIL and local plan policy requirements.

3.10 It is clear from the LHDG guidance, planning appeal decisions and HCA good practice publication that the most appropriate test of viability for planning policy purposes is to consider the residual value of schemes compared to the existing or current use value plus a premium. As discussed later in this report, our study adopts a range of benchmark land values, reflecting differing circumstances in which sites are brought forward.

3.11 The examination on the Mayor of London's CIL charging schedule considered the issue of an appropriate land value benchmark. The Mayor had adopted existing use value, while certain objectors suggested that 'Market Value' was a more appropriate benchmark. The Examiner concluded in his Report on the Examination of the Draft Mayoral CIL Charging Schedule (27 January 2012) that:

"The market value approach…. while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context." (para 8) and that "*I don't believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done*" (para 9).

3.12 In his concluding remark, the Examiner points out that

"the price paid for development land may be reduced [so that CIL may be accommodated]. *As with profit levels there may be cries that this is unrealistic, but* ***a reduction in development land value is an inherent part of the CIL concept****. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges.* (para 32 – emphasis added).

3.13 It is important to stress, however, that there is no single threshold land value at which land will come forward for development. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of

[9] This group was led by the Homes and Communities Agency and comprises representatives from the National Home Builders Federation, the Royal Town Planning Institute, local authorities and valuers (including BNP Paribas Real Estate).

demand for the site's current use in comparison to others; how offers received compare to the owner's perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single threshold land value, it is difficult for policy makers to determine the minimum land value that sites should achieve. This will ultimately be a matter of judgement for each individual Charging Authority.

Consultation with stakeholders

3.14 In line with both the CLG's CIL Guidance February 2014 and Local Housing Delivery Group Guidance, the Council has sought a collaborative approach with local developers and others in the property industry at an early stage of the viability testing whereby *'viability testing is an iterative process, both informing and being informed by the emerging policies'* (Local Housing Delivery Group Guidance Part Two, pg 19).

3.15 The Local Housing Delivery Group Guidance identifies at Part 2 that, *'In working collaboratively through the assessment process, it is important the planning authority seeks engagement with the range of bodies with an interest in plan policies and their impact on deliverability, including neighbouring authorities under the Duty to Cooperate.'* Further the Guidance also sets out that, *'Where developers engage in this collaborative process, it will aid the work if they are able to share as fully as possible their own appraisals and practices, recognising that there will be commercial constraints on this.'* The CIL Guidance supports this position identifying at section 2:2:2:4 that, *'This will require support from local developers'.*

3.16 The Council and BNP Paribas Real Estate undertook informal consultation with key stakeholders at an early stage of preparing the local plan viability work supporting the Council's draft Development Management and SCAAP DPDs and their Community Infrastructure Levy Charging Schedule. This was undertaken to open a dialogue regarding development viability across the Borough in relation to the draft plans, which have already undergone consultation, and with respect to the potential future CIL Charging Schedule.

3.17 The key stakeholders invited to attend were identified by the Council through their existing databases and understanding of development in the Borough and included developers, landowners, active agents, Registered Providers (RPs) and infrastructure providers etc.

3.18 This informal consultation took the form of a workshop at which BNP Paribas Real Estate provided an introduction to the viability work being undertaken and presented our proposed methodology for the study and the proposed appraisal inputs to the stakeholders. During the workshop we sought the stakeholders comments on both elements and welcomed any further local information and evidence that they might have to assist with the study.

3.19 Following the workshop, the presentation was emailed to all attendees and invitees (i.e. including those invited but who were unable to attend). The covering letter from the Council again confirmed that both they and BNP Paribas Real Estate would be appreciative of any comments regarding the approach and proposed appraisal inputs for the Local Plan Testing Viability Study and evidence to support any proposed amendments to the appraisal inputs, to be received within two weeks of the information being sent out.

3.20 Six responses were received to the consultation, which included Natural England, The Theatres Trust, Anglian Water and three from local developers/landowners. Comments made to this consultation were taken into consideration and as considered appropriate, revisions were made to the inputs to the viability study accordingly.

4 Development appraisals

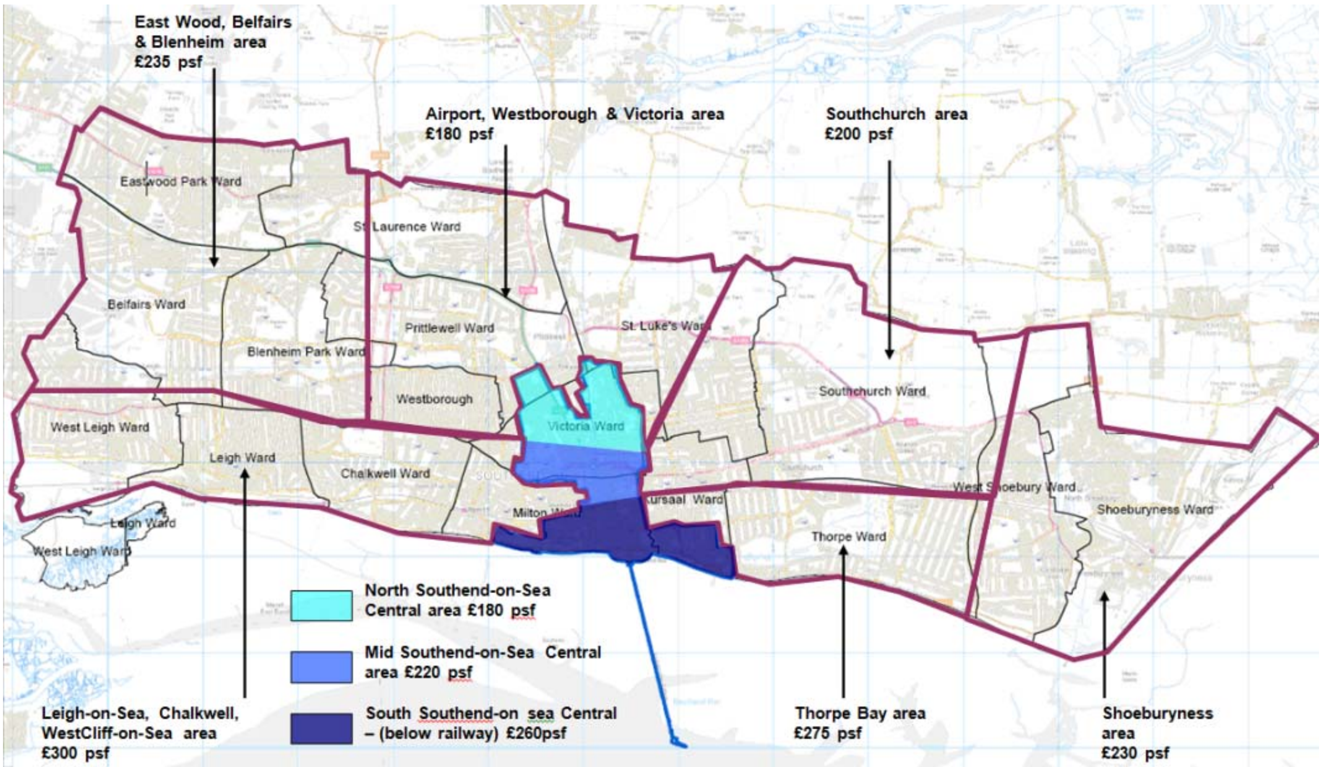
Residential development

4.1 We have appraised a series of development typologies, reflecting both the range of sales values/capital values and also sizes/types of development and densities of development across the Southend-on-Sea area. The inputs to the appraisals are based on research on the local housing market and data from other identified sources.

Residential sales values

4.2 Residential values in the area reflect national trends in recent years but do of course vary between different sub-markets. We have considered comparable evidence of transacted properties in the area and also properties on the market to establish appropriate values for each scheme for testing purposes. This exercise indicates that developments in the Borough will attract average sales values ranging from circa £3,229 per square metre (£300 per square foot) to £1,938 per square metre (£180 per square foot). In general higher values are achieved along the seafront and particularly in the Leigh-on-Sea, Chalkwell and Thorpe Bay areas. The market areas are illustrated in Figure 4.2.1 below

Figure 4.2.1: Average sales values in Southend-on-Sea



4.3 We have applied the following average sales values in our appraisals, reflecting the range above.

Table 4.3.1: Average sales values adopted in Southend-on-Sea appraisals

Area	Ave values £s per square metre	Ave values £s per square foot
1 - North central area, Airport, Westborough, Victoria and Prittlewell	£1,938	£180
2 - Southchurch	£2,153	£200
3 - Mid central area	£2,369	£220
4 -Shoeburyness	£2,476	£230
5 -Eastwood, Belfairs and Blenheim	£2,530	£235
6 - South central area (below railway)	£2,799	£260
7 -Thorpe Bay	£2,960	£275
8 - Leigh-on-Sea and Chalkwell	£3,229	£300

4.4 As noted earlier in the report, Savills predict that sales values will increase over the medium-term. We have run sensitivity analysis assuming growth in sales values of 18.5%, accompanied by cost inflation of 8.5%[10], which This reflects the growth predicted by Savills in their research report, 'Residential Property Focus Q4 2013', and forecasted growth in build costs for Southend-on-Sea as identified from the RICS Build Costs Information Service ('BCIS'). This sensitivity analysis provides the Council with an indication of the impact of changes in values and costs on scheme viability.

Affordable housing tenure and values

4.5 The Council's Core Strategy Policy CP 8 (Dwelling Provision) identifies that residential developments will be expected to contribute to local housing needs, including affordable provision, and to achieve this, the Council will enter into negotiations to ensure that:

- not less than 30% of units are affordable on sites of 50+ dwellings or 2 hectares; and
- not less than 20% of units are affordable on sites of 10-49 dwellings or 0.3 hectares to 1.99 hectares;
- However, for sites providing less than 10 dwellings or below 0.3 ha or larger sites where, exceptionally, the Borough Council is satisfied that on-site provision is not practical, they will negotiate with developers to obtain a financial contribution to fund off-site provision.

4.6 Although the Council is keen to ensure that Social Rented accommodation is still provided wherever possible in order to meet local needs, they have accepted the concept of Affordable Rent in the Borough. It is appreciated that Affordable Rent is now a key part of funding for new affordable housing and social rented accommodation is expensive to provide given the current economic position and loss of grant. Given this position this study tests both tenures, however we have recommended CIL rates based on the results of the appraisals testing social rented units, which presents a worst case scenario.

[10] Our appraisals do not, however, include any inflation on existing use values, as commercial floorspace is not expected to increase in value significantly over the next four to five years.

4.7 Social rents have been tested at target rents and we have modelled affordable rent units based on 80% of market rents for the rented element of our appraisals, as long as these do not exceed the Local Housing Allowance levels. These are shown in the table below:

Table 4.7.1: Summary of average private rents, 80% of private rents and Local Housing allowance levels

Property type	Ave Market Rent per week	80% of Market Rent per week	Local Housing Allowance (per week)	Rent adopted in study
One bed	£138.46	110.77	£114.23	£110.77
Two bed	£173.08	138.46	£149.76	£138.46
Three bed	£230.77	184.62	£184.62	£184.62
Four bed	£300.00	£240.00	£229.62	£229.62

4.8 The CLG/HCA '*2011-2015 Affordable Homes Programme – Framework'* (February 2011) document clearly states that Registered Providers will not receive grant funding for any affordable housing provided through planning obligations. We have therefore assumed that schemes will not receive grant funding.

4.9 For shared ownership units, we have assumed that Registered Providers will sell 30% initial equity stakes and charge a rent of 2.75% on the retained equity. A 10% charge for management is deducted from the rental income and the net amount is capitalised using a yield of 6%.

Residential development types, density and mix

4.10 BNP Paribas Real Estate and the Council have reviewed historic planning applications received in the Borough and have based the appraisal typologies on a range of actual developments within the Borough. These typologies are therefore reflective of developments that have been consented/delivered as well as those expected to come forward in the Southend-on-Sea area in future.

4.11 Table 4.11.1 below and continued overleaf summarises the different development typologies selected for testing purposes. These are intended to reflect the range of developments across the Council area. Table 4.11.2 summarises the unit mix for each typology. These have been arrived at based on a combination of the current draft Policy DM 7, the SHMA position and past completions in the Borough (2002-2012).

Table 4.11.1: Development typologies

Site Type	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	4	Houses	33	0.12
2	8	Flats	160	0.05
3	12	Houses	34	0.35
4	16	Flats	133	0.12
5	20	Flats & Houses	77	0.26

Table 4.11.1: Development typologies cont.

Site Type	Number of units	Housing type	Development density units per ha	Net developable area (ha)
6	45	Flats & houses	66	0.68
7	60	Flats	200	0.3
8	100	Flats & Houses	100	1
9	150	Flats & Houses	75	2

Table 4.11.2: Unit mix (taken across all tenures together)

Site type	1 Bed flat	2 bed flat	3 bed flat	2 bed house	3 bed house	4 bed house
Unit size	37.5 sqm	57 sqm	67 sqm	83 sqm	96 sqm	113 sqm
1	-	-	-	100%	-	-
2	30%	70%	-	-	-	-
3	-	-	-	25%	45%	30%
4	25%	70%	5%	-	-	-
5	30%	-	-	30%	40%	-
6	25%	5%	10%	25%	30%	5%
7	25%	70%	5%	-	-	-
8	25%	60%	5%	-	5%	5%
9	25%	20%	5%	20%	30%	-

4.12 With respect to the size of units adopted in the study, these have been informed by the 'Housing Quality Review' document published by Southend-on-Sea Borough Council in March 2011, which sets out various residential space standards at Appendix 2.

Residential build costs

4.13 We have sourced build costs for the residential schemes from the RICS Building Cost Information Service (BCIS)[11], which is based on tenders for actual schemes[12]. However, adjustments to the base costs are necessary to reflect other factors which are not included in BCIS. In addition to the build costs outlined below, our appraisals include a contingency of 5% of build costs. Our approach is set out in the following paragraphs.

4.14 **Houses:** we have used the mean average BCIS 'Estate housing – generally' cost, adjusted for Southend-on-Sea, which is currently £858 per square metre. In addition to these base costs, we have included an allowance which equates to an additional 22%[13] of the base cost for demolition, site preparation and external works.

[11] The BCIS build costs were sourced on 4 May 2013 and are adjusted for the Southend-on-Sea Borough area.
[12] We understand from the Council that such schemes in the Borough are likely to be Building Regulations Part L 2010 compliant and not CSH level 3.
[13] Percentage allowance based on BNP Paribas Real Estate's professional judgement of costs to allow for demolition, site preparation, external works and car parking in Southend-on-Sea.

4.15 **Flats**: we have used the mean average BCIS 'Flats – generally' cost, adjusted for Southend-on-Sea, which is currently £1,009 per square metre for the lower density schemes in the Borough. For the higher density schemes (typology 7) we have used the mean BCIS 'Flats – 6+ storeys' adjusted for Southend-on-Sea, which is currently £1,320 per square metre. In addition to these base costs, we have included an allowance which equates to an additional 22%[13] of the base cost for demolition, site preparation, external works and car parking. Our appraisals assume a gross to net ratio of between 80% and 85% for flats, depending on the density of the scheme.

4.16 A summary of build costs for each scheme type is provided in Table 4.16.1.

Table 4.16.1: Build costs (per square metre)

Typology	BCIS description	Base cost	External works	All-in cost (gross)
1 and 3	Estate housing – generally	£858	£189	£1,047
2 and 4	Flats – generally	£1,009	£222	£1,231
7	Flats – generally (6+ stories)	£1,320	£290	£1,610
5,6,8 and 9	Estate housing – generally and Flats – generally	£858 and £1,009	£189 and £222	£1,047 and £1,231

4.17 Our appraisals also incorporate:

- an allowance of £600 per residential unit reflecting the CLG research on the costs of meeting Lifetime Homes standards; and
- a cost of £750 per residential unit to allow for SuDs reflecting the middle point of the range identified (i.e. £500-£1000 per unit) in the August 2011 CLG Study '*Code for Sustainable Homes: Updated Cost Review'*.

4.18 An allowance of 6% across all housing tenures has been included above the base BICS costs to allow for and uplift from 2010 part L building regulations to meet Code for Sustainable Homes (CSH) level 4. These assumptions are based on the August 2011 CLG Study '*Code for Sustainable Homes: Updated Cost Review'*.

Development programme

4.19 The development programme for each development typology is summarised in Figure 4.19.1 (overleaf). This assumes a 3 month period for pre-commencement and varying build and sales periods, depending on the number of units in the scheme. We have assumed a sales rate of 3 units per month, with an element of off-plan sales reflected in the timing of receipts for the majority of the developments. This is reflective of current market conditions, whereas in improved markets, a sales rate of 6 units or more per month might be expected.

Figure 4.19.1 Development programme for each site type

DEVELOPMENT PROGRAMMES

Quarter

Site type	Activity	1	2	3	4	5	6	7	8	9	10	11	12
		Year 1				Year 2				Year 3			
	Pre-construction												
T1 - 4 Houses	Construction												
	Sales												
	S106 payment												
	CIL payment 1												
	CIL payment 2												
	CIL payment 3												

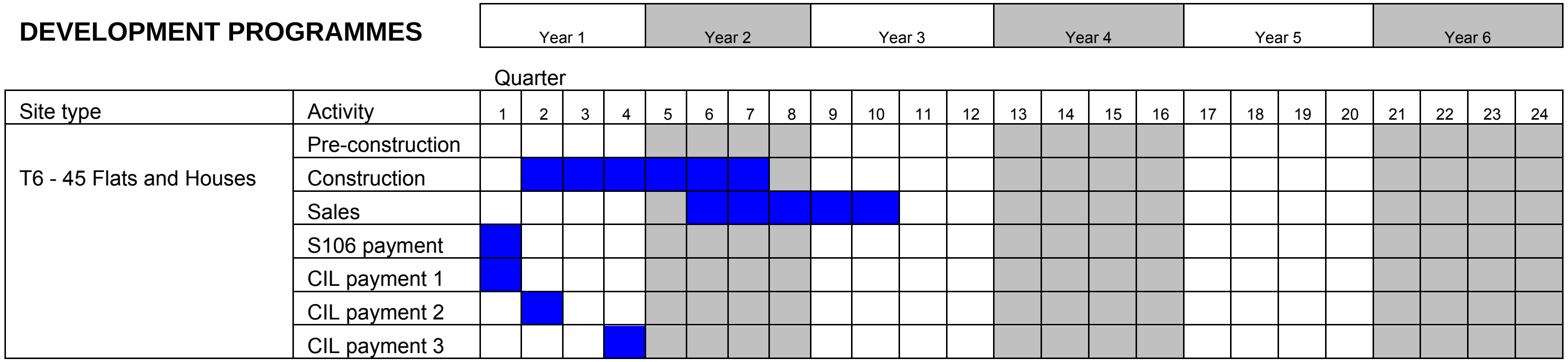
Site type	Activity	1	2	3	4	5	6	7	8	9	10	11	12
	Pre-construction												
T2 - 8 Flats	Construction												
	Sales												
	S106 payment												
	CIL payment 1												
	CIL payment 2												
	CIL payment 3												

Site type	Activity	1	2	3	4	5	6	7	8	9	10	11	12
	Pre-construction												
T3 - 12 Houses	Construction												
	Sales												
	S106 payment												
	CIL payment 1												
	CIL payment 2												
	CIL payment 3												

Site type	Activity	1	2	3	4	5	6	7	8	9	10	11	12
	Pre-construction												
T4 - 16 Flats	Construction												
	Sales												
	S106 payment												
	CIL payment 1												
	CIL payment 2												
	CIL payment 3												

Site type	Activity	1	2	3	4	5	6	7	8	9	10	11	12
	Pre-construction												
T5 - 20 Flats and Houses	Construction												
	Sales												
	S106 payment												
	CIL payment 1												
	CIL payment 2												
	CIL payment 3												

Figure 4.19.1 Development programme for each site type (cont.)



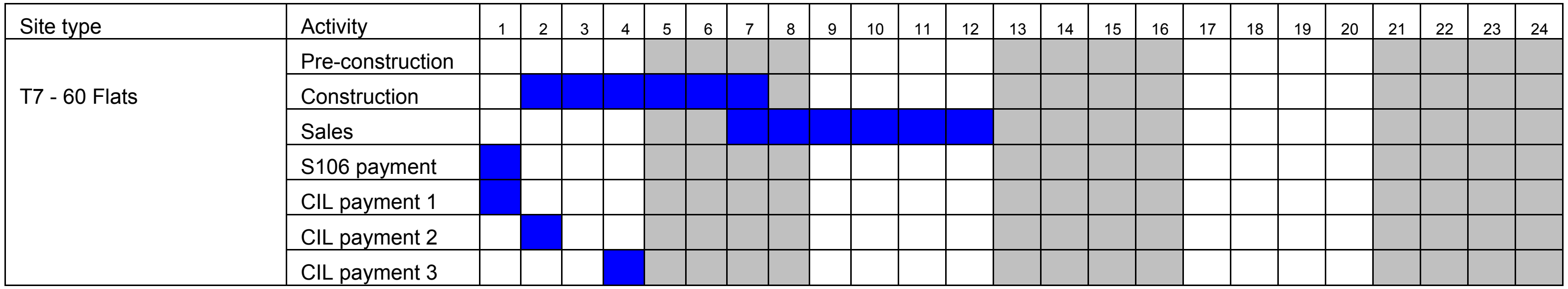


Figure 4.19.1 Development programme for each site type (cont.)

DEVELOPMENT PROGRAMMES

		Year 1				Year 2				Year 3				Year 4				Year 5				Year 6			
		Quarter																							
Site type	Activity	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
T8 - 100 Flats and Houses	Pre-construction																								
	Construction																								
	Sales																								
	S106 payment																								
	CIL payment 1																								
	CIL payment 2																								
	CIL payment 3																								

Site type	Activity	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
T9 - 150 Flats and Houses	Pre-construction																								
	Construction																								
	Sales																								
	S106 payment																								
	CIL payment 1																								
	CIL payment 2																								
	CIL payment 3																								

Professional fees

4.20 In addition to base build costs, schemes will incur professional fees covering design, valuation highways and planning consultants and the cost of preparing and submitting the planning application and so on. Our appraisals incorporate a 10% allowance, which is at the middle to higher end of the range for most schemes. This allowance incorporates all professional inputs and planning fees, EPCs and NHBC costs.

4.21 Our appraisals incorporate an allowance of 3% of GDV to cover marketing costs. An additional 0.5% of GDV is included for legal costs on sales.

Finance costs

4.22 Our appraisals incorporate finance costs on land and build at 7%, inclusive of arrangement and exit fees, reflective of current funding conditions. .

Stamp duty and acquisition costs

4.23 We include stamp duty at 4% of land costs, agents fees of 1% and legal fees on acquisition of 0.8%.

Residual Section 106 costs

4.24 The Council has undertaken an exercise to assess the average levels of residual Section106 contributions that would have been achieved from determined planning applications in the Borough over the last five years. Based on the findings of the Council's analysis our appraisals test an allowance of £1,012 per residential unit to address any residual Section 106 costs. This is an estimate only and actual sums sought have in the past and will in future vary according to site specific circumstances, however the figure is considered by the Council and BNP Paribas Real Estate to be a reasonable proxy for the likely sums to be sought after CIL is adopted. Further, we note that this figure is in line with those adopted by many other charging authorities and are therefore regarded as reasonable for testing purposes. It is noted that once CIL is adopted Section 106 obligations will continue to be negotiable amounts, but also have regard to CIL regulation 122, and in this regard there is scope for these to flex according to viability.

Phasing of CIL payments

4.25 The Council is yet to formulate its instalment policy. For testing purposes, we have assumed that any CIL due will be split into three equal instalments, payable at the months shown in Figure 4.19.1 above

4.26 In our experience viability improves marginally for some schemes i.e. a higher maximum CIL rate of circa 20% is likely to be able to be levied, as instalments are pushed back / spread over the development period as this improves the cashflow.

4.27 Given that phasing has an impact on viability, albeit fairly marginally, and in the context of the current economic climate, we would recommend that the Council takes a cautious approach to their instalment policy, possibly considering spreading payments over a development period of up to two years where large CIL sums apply. This would assist the viability of developments by reducing the level of upfront costs. In addition, spreading the CIL charge over the development period would be the closest approach to that currently applied to S106 contributions.

4.28 It is noted that the Council is able to introduce, withdraw or amend an instalments policy at any time during the life of their charging schedule as long as they give at least 28 days notice before the new policy takes effect and/or old policy is withdrawn. In addition, the instalments policy is not a matter that the Examiner is required to consider.

Developer's profit

4.29 Developer's profit is closely correlated with the perceived risk of residential development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme. In 2007, profit levels were at around 15% of GDV. However, following the impact of the credit crunch and the collapse in interbank lending and the various government bailouts of the banking sector, profit margins increased. It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the Boards of the major housebuilders will set targets for minimum profit).

4.30 The views of the banks which fund development are more important; if the banks decline an application by a developer to borrow to fund a development, it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals.

4.31 The near collapse of the global banking system in the final quarter of 2008 is resulting in a much tighter regulatory system, with UK banks having to take a much more cautious approach to all lending. In this context, and against the backdrop of the current sovereign debt crisis in the Eurozone, the banks may not allow profit levels to decrease much lower than their current level of 20%.

4.32 Our assumed return on the affordable housing GDV is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an RSL prior to commencement. Any risk associated with take up of intermediate housing is borne by the acquiring RSL, not by the developer. A reduced profit level on the affordable housing reflects the GLA 'Development Control Toolkit' guidance and Homes and Communities Agency's guidelines in its Economic Appraisal Tool.

Exceptional costs

4.33 Exceptional costs can be an issue for development viability on previously developed land. Exceptional costs relate to works that are 'atypical', such as remediation of sites in former industrial use and that are over and above standard build costs. However, for the purposes of this exercise, it is not possible to provide a reliable estimate of what exceptional costs would be, in the absence of detailed site investigation. Our analysis therefore excludes exceptional costs, as to apply a blanket allowance would generate misleading results. An 'average' level of allowance for certain costs (e.g. piling on sites with abnormal ground conditions) is already reflected in BCIS data, as such costs are frequently encountered on sites that form the basis of the BCIS data sample. In addition, our appraisals include a contingency which will mitigate the impact of exceptional costs.

4.34 It is expected however, that when purchasing previously developed sites developers will have undertaken reasonable levels of due diligence and would therefore have reflected obvious remediation costs/suitable contingencies into their purchase price.

Benchmark land values for the residential analysis

4.35 Very few developments in the Borough will take place on land that has not been previously developed. Developments will therefore normally involve the demolition of an existing building and the development of a new building (either of the same use or a different use). For a development to be 'viable', the value generated by the new building must exceed that of the old. This relationship is recognised through comparing scheme values to benchmark land values, which reflect existing site values.

4.36 Benchmark land values, based on the current use value or alternative use value of sites are key considerations in the assessment of development economics for testing planning policies and tariffs. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the land's current use value. Current use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. Current use value or alternative use value are effectively the 'bottom line' in a financial sense and therefore a key factor in this study.

4.37 We have arrived at a broad judgement on the likely range of benchmark land values. On previously developed sites, the calculations assume that the landowner has made a judgement that the current use does not yield an optimum use of the site; for example, it has fewer storeys than neighbouring buildings; or there is a general lack of demand for the type of space, resulting in low rentals, high yields and high vacancies (or in some cases no occupation at all over a lengthy period). We would not expect a building which makes optimum use of a site and that is attracting a reasonable rent to come forward for development, as residual value may not exceed current use value in these circumstances.

4.38 In considering the value of sites in existing commercial use, it is necessary to understand the concept of 'yields'. Yields form the basis of the calculation of a building's capital value, based on the net rental income that it generates. Yields are used to calculate the capital value of any building type which is rented, including both commercial and residential uses. Yields are used to calculate the number of times that the annual rental income will be multiplied to arrive at a capital value. Yields reflect the confidence of a potential purchaser of a building in the income stream (i.e. the rent) that the occupant will pay. They also reflect the quality of the building and its location, as well as general demand for property of that type. The lower the covenant strength of the occupier (or potential occupiers if the building is currently vacant), and the poorer the location of the building, the greater the risk that the tenant may not pay the rent. If this risk is perceived as being high, the yield will be high, resulting in a lower number of years rent purchased (i.e. a lower capital value).

4.39 Over the past five years, yields for commercial property have 'moved out' (i.e. increased), signalling lower confidence in the ability of existing tenants to pay their rent and in future demand for commercial space. This has the effect of depressing the capital value of commercial space. However, as the economy recovers, we would expect and are already starting to see in some parts of the Country, yields improve (i.e. decrease), which results in increased capital values. Consequently, current use values might increase, increasing the base value of sites that might come forward, which may have implications for landowners' decisions on releasing sites for alternative uses.

4.40 Redevelopment proposals that generate residual land values below current use values are unlikely to be delivered. While any such thresholds are only a guide in 'normal' development circumstances, it does not imply that individual landowners, in particular financial circumstances, will not bring sites forward at a lower return or indeed require a higher return. If proven current use value justifies a higher benchmark than those assumed, then appropriate adjustments may be necessary. As such, current use values should be regarded as benchmarks rather than definitive fixed variables on a site by site basis.

4.41 The four benchmark land values used in this study have been selected to provide a broad indication of likely land values across the Borough, having regard to the predominant types of sites that have come forward and those identified by the Council as coming forward in future. It is important to recognise however, that other site uses and values may exist on the ground. There can never be a single threshold land value at which we can say definitively that land will come forward for development, especially in urban areas. The rents and yields are based on our research on lettings of existing floorspace that have been completed over the past two and a half years.

4.42 It is also necessary to recognise that a landowner will require an additional incentive to release the site for development[14]. The premium above current use value would be reflective of specific site circumstances (the primary factors being the occupancy level and strength of demand from alternative occupiers). For policy testing purposes it is not possible to reflect the circumstances of each individual site, so a blanket assumption of a 20% premium has been adopted to reflect the 'average' situation.

Benchmark land value

4.43 **Benchmark land value 1:** This benchmark assumes higher value secondary office space on a hectare of land, with 40% site coverage and 4 storeys. The rent assumed is based on lettings of second hand offices in the Borough at £7.50 per sq ft. We have assumed a £30 per sq ft allowance for refurbishment and a letting void of three years. The capital value of the building would be £3.419 million to which we have added a 20% premium, resulting in a benchmark of £4.103 million per Ha.

4.44 **Benchmark Land Value 2**: This benchmark assumes lower value secondary office space on a hectare of land, with 40% site coverage and 3 storeys. The rent assumed is based on lettings of second hand offices in the Borough at £5.50 per sq ft. We have assumed a £25 per sq ft allowance for refurbishment and a letting void of three years. The capital value of the building would be £1.493 million, to which we have added a 20% premium, resulting in a benchmark of £1.792 million per Ha.

4.45 **Benchmark Land Value 3**: This benchmark assumes lower value secondary industrial/warehousing space on a hectare of land, with 60% site coverage and 1 storey. The rent assumed is based on lettings of second hand industrial floorspace in the Borough at £4 per sq ft. We have assumed a £17 per sq ft allowance for refurbishment and a letting void of three years.

[14] This approach is therefore consistent with the National Planning Policy Framework, which indicates that development should provide "competitive returns" to landowners. A 20% return above current use value is a competitive return when compared to other forms of investment.

The capital value of the building would be £843,000, to which we have added a 20% premium, resulting in a benchmark of £1.012 million per Ha.

4.46 **Benchmark Land Value 4**: This benchmark assumes a community building, which could include buildings owned by the Council and other public sector bodies, and community/charity groups. We have assumed site coverage of 50% across a hectare of land, with a single storey building. The rent assumed is based on our estimate of £1.50 per sq ft. We have assumed a £9 per sq ft allowance for refurbishment and a letting void of one year. The capital value of the building would be £255,000, to which we have added a 20% premium, resulting in a benchmark of £306,000 per Ha.

4.47 We would caution against reliance on land sales as evidence of minimum land value thresholds, particularly in light of the comments on this data in Examiner's report on the Mayor of London's CIL[15], which indicates that owners will need to adjust their expectations to accommodate allowances for infrastructure.

Commercial development

4.48 We have appraised a series of commercial development typologies, reflecting a range of use classes at average rent levels achieved on lettings of commercial space in actual developments. In each case, our assessment assumes an intensification of the site, based on three current commercial uses of the site, providing a range of current use values. In each case, the existing use value assumes that the existing building is 30%-50% of the size of the new development, with a lower rent and higher yield reflecting the secondary nature of the building.

Commercial rents and yields

4.49 Our research on lettings of commercial floorspace indicates a range of rents achieved, as summarised in table 4.49.1. This table also includes our assumptions on appropriate yields to arrive at a capital value of the commercial space. There does not appear to have been substantial commercial development activity over the past few years. New build developments are on the whole likely to attract a premium rent above second hand rents however, we for the majority of developments we would expect this to be relatively modest uplift. The rents and yields adopted in our appraisals are summarised in Table 4.49.1.

4.50 Our appraisals of commercial floorspace test the viability of developments on existing commercial sites. For these developments, we have assumed that the site could currently accommodate one of three existing uses (i.e. thereby allowing the site to be assessed in relation to a range of three current use values (CUVs)) and the development involves the intensification of site. We have assumed lower rents and higher yields for existing space than the planned new floorspace. This reflects the lower quality and lower demand for second hand space, as well as the poorer covenant strength of the likely occupier of second hand space. A modest refurbishment cost is allowed for to reflect costs that would be incurred to secure a letting of the existing space. A 15% -20% landowner premium is added to the resulting existing use value as an incentive for the site to come forward for development. The actual premium would vary between sites, and be determined by site-specific circumstances, so the 15% - 20% premium has been adopted as a 'top of

[15] Para 32: *"the price paid for development land may be reduced…. a reduction in development land value is an inherent part of the CIL concept…. in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges."*

range' scenario for testing purposes.

Commercial build costs

4.51 We have sourced build costs for the commercial schemes from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes. These costs vary between different uses and exclude external works and fees (our appraisals include separate allowances for these costs). Costs for each type of development are shown in Table 4.49.1.

4.52 It is noted that the Council's emerging Policy DM2 (Low Carbon Development and Efficient Use of Resources) in the Development management DPD sets out the Council's aspiration to achieve BREEAM 'very good' rating and move towards zero carbon by 2019 for all non-residential developments. In this regard we have included an allowance of 10% of base build costs towards achieving BREEAM 'excellent' in our commercial appraisals.

Profit

4.53 In common with residential schemes, commercial schemes need to show a risk adjusted profit to secure funding. Profit levels are typically around 20% of developments costs and we have incorporated this assumption into our appraisals.

Residual Section 106 costs

4.54 As identified in para 4.24 the Council has undertaken an exercise to assess the average levels of residual Section106 contributions that would have been achieved from determined planning applications in the Borough over the last five years. Based on the findings of the Council's analysis our appraisals test an allowance of £19 per square metre to address any residual Section 106 costs. This figure is considered to be a reasonable proxy for likely sums to be sought after CIL is adopted. It is noted that Section 106 contributions will remain negotiable and in this regard there is scope for these to flex according to viability.

Table 4.49.1: Commercial appraisal assumptions for each use

Appraisal input	Source/Commentary	Offices	Industrial and warehouses	Retail – Comparison A1-A5	Convenience supermarkets & superstores and retail warehousing	Hotels
Total floor area (sq ft)	Scheme	30,000	30,000	3,000	3,003, 10,764 & 53,820	30,000
Rent (£s per sq ft)	Based on average lettings sourced from EGI and Focus	Prime space - £13	£6.50	£30 overall - Prime Southend Town Centre £20 overall - Leigh-on-Sea) £12 - Elsewhere	£20	Rent per room £3,400 per annum based on Budget Hotel.
Rent free/void period (years)	BNPPRE assumption	2	2	2	2	n/a
Yield	BNPPRE prime yield schedule	8%	8%	6.75%, 7.5% and 8%	5.5%	6.5%
Purchaser's costs (% of GDV)	Stamp duty 4%, plus agent's and legal fees	5.80%	5.80%	5.80%	5.80%	5.8%
Demolition costs (£s per sq ft of existing space)	Based on experience from individual schemes	£5	£5	£5	£5	£5
Gross to net (net as % of gross)	Based on experience from individual schemes	82%	90%	82%	82%	80%
Base construction costs (£s per sq ft)	BCIS costs. Offices – 'generally' for air conditioned offices with adjustment for quality. 'Generally' figure for industrial, supermarkets and retail.	£156	£62	Prime - £125 Leigh-on-Sea and elsewhere - £94	Up to 1,000 sq m - £113 1,000 sq m to 7,000 sq m - £109	£134
BREEAM Excellent (% of base build costs)		10%	10%	10%	10%	10%
External works (% of base build costs)	BNPPRE assumption	10%	10%	10%	10%	10%
Contingency (% of build costs)	BNPPRE assumption	5%	5%	5%	5%	5%
Letting agent's fee	(% of first year's rent)	15%	15%	15%	15%	15%
Agent's fees and legal fees	(% of capital value)	1.5%	1.5%	1.5%	1.5%	1.5%
Interest rate	BNPPRE assumption	7%	7%	7%	7%	7%

Table 4.49.1: Commercial appraisal assumptions for each use (cont.)

Appraisal input	Source/Commentary	Offices	Industrial and warehouses	Retail – Comparison A1-A5	Convenience supermarkets & superstores and retail warehousing	Hotels
Professional fees (% of build)	BNPPRE assumption, relates to complexity of scheme	10%	10%	10%	10%	10%
Profit (% of costs)	BNPPRE assumption based on schemes submitted for planning	20%	20%	20%	20%	20%

Table 4.49.2 Commercial appraisal assumptions for each use – current use benchmarks

Appraisal input	Source/Commentary	Offices	Industrial and warehouses	Retail – Comparison A1-A5	Retail – Convenience (Small)	Hotels
Existing floorspace	Assumed to be between 15% to 50% of new space (N.B. appraisals do not discount existing floorspace)	50%	50%	50%	50%	50%
Rent on existing floorspace (£s per sq ft)	Reflects three types of poor quality second hand space (industrial, office and retail as appropriate), low optimisation of site etc and ripe for redevelopment.	£4 - £7.50	£4 - £5	Prime - £10 - £20 Leigh-on-Sea - £7.50 - £15 Elsewhere - £5 - £10	£5 - £10	£4 - £7.50
Yield on existing floorspace	BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc	9% - 10%	9% - 10%	Prime – 7% - 8% Leigh-on-Sea – 7.75% - 9% Elsewhere – 8% -9%	8% - 9%	9% - 10%
Rent free on existing space	Years	3	3	3	3	3
Refurbishment costs (£s per sq ft)	General allowance for bringing existing space up to lettable standard	£25	£25	£25	£25	£25
Fees on refurbishment (% of refurb cost)	BNPPRE assumption	7%	7%	7%	7%	7%
Landowner premium	BNPPRE assumption – in reality the premium is likely to be lower, therefore this is a conservative assumption	15%-20%	15%-20%	20%	20%	15%-20%

5 Appraisal outputs

Residential appraisals

5.1 The full outputs from our appraisals of residential development are attached as Appendix 1. We have modelled nine site types, reflecting different densities and types of development, which are tested in the nine broad housing market areas identified in Section 4 and against the typical land value benchmarks for the Borough. The development typologies are summarised in table 5.1.1 below.

Table 5.1.1: Development typologies

Site Type	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	4	Houses	0.12	33
2	8	Flats	0.05	160
3	12	Houses	0.35	34
4	16	Flats	0.12	133
5	20	Flats & Houses	0.26	77
6	45	Flats & houses	0.68	66
7	60	Flats	0.3	200
8	100	Flats & Houses	1	100
9	150	Flats & Houses	2	75

Scenarios tested

1. Base sales and base costs (including Code for Sustainable Homes Level 4);
   - 30% affordable housing for typologies 7, 8 and 9 (above 50 units);
   - 20% affordable housing for typologies 3,4, 5 and 6 (above 10 units); and
   - 0% affordable housing for typologies 1 and 2 which fall below the threshold of 10 units.
2. Sales values fall by 5%;
3. Sales values increase by 18.5% and costs increase by 8.5%;
4. As (1) all with 20% affordable;
5. As (1) all with 0% affordable housing; and
6. As (1) with Affordable Rent instead of social rent.

5.2 As identified in section 4.6 and scenario 6 above, this study tests both social rent and Affordable Rent tenures. We have adopted social rent for our base appraisals from which we have recommended CIL rates, which presents a worse case scenario.

5.3 We have assumed that all development types will meet CSH Level 4.

5.4 CIL applies to net additional floor area only. Our base appraisals assume no deduction for existing floorspace, thereby providing the worst case scenario[16].

[16] Existing buildings must be occupied for their lawful use for at least six months in the three years prior to grant of planning permission to qualify as existing floorspace for the purposes of calculating CIL liability.

5.5 The residual land values from each of the scenarios above in each housing market areas are then compared to the benchmark land value based on the assumptions set out in paragraphs 4.43 to 4.46. This comparison enables us to determine whether the imposition of CIL would have an impact on development viability. In some cases, the equation RLV less BLV results in a negative number, so the development would not proceed, whether CIL was imposed or not. We therefore focus on situations where the RLV is greater than BLV and where (all other things being equal) the development would proceed. In these situations, CIL has the potential to 'tip the balance' of viability into a negative position.

Commercial appraisals

5.6 Our research on rents achieved on commercial lettings indicates a range of rents within each main use class. Our commercial appraisals therefore model base position and test the range of rates (higher and lower than the base level) and changes to yields. This enables us to draw conclusions on maximum potential rates of CIL. For each type of development tested, we have run appraisals of a quantum of floorspace, each with rent levels reflecting the range identified by our research.

Presentation of data

Residential appraisals results

5.7 The results for each site type are presented in tables showing the CIL rate and the corresponding RLV (which is then converted into a RLV per hectare). The RLV per hectare is then compared to the four benchmark land values, which are also expressed as a per hectare value. Where the RLV exceeds the benchmark, the amount of CIL entered into the appraisal is considered viable.

5.8 A sample of the format of the results is provided in figure 5.8.1 below. This sample relates to site type 5.

Figure 5.8.1: Sample format of residential results

Community Infrastructure Levy			**Benchmark Land Values (per gross ha)**				
Southend-on-Sea Borough Council			BLV1	BLV2	BLV3	BLV4	
			Offices higher	Offices lower	Industrial	Inst/Cmnty/Resi	
			£4,103,000	£1,792,000	£1,012,000	£306,000	
Site type	5						
	Flats and Houses		**Affordable %**	30%		Site area	0.26 ha
No of units	20 units		% rented	70%		Net to gross	100%
Density:	77 dph		% intermed	30%			
CSH level:	4					Growth	
						Sales	0%
						Build	0%
Area 6			**Private values**	£2799 psm			

CIL amount per sq m	RLV	RLV per ha	RLV less BLV 1	RLV less BLV 2	RLV less BLV 3	RLV less BLV 4
0	484,033	1,863,528	-2,239,472	71,528	851,528	1,557,528
20	465,167	1,790,894	-2,312,106	-1,106	778,894	1,484,894
40	446,301	1,718,259	-2,384,741	-73,741	706,259	1,412,259
50	436,868	1,681,941	-2,421,059	-110,059	669,941	1,375,941
80	408,568	1,572,985	-2,530,015	-219,015	560,985	1,266,985
100	389,701	1,500,351	-2,602,649	-291,649	488,351	1,194,351
120	370,834	1,427,712	-2,675,288	-364,288	415,712	1,121,712
140	351,968	1,355,077	-2,747,923	-436,923	343,077	1,049,077
150	342,535	1,318,760	-2,784,240	-473,240	306,760	1,012,760
180	314,235	1,209,804	-2,893,196	-582,196	197,804	903,804
200	295,369	1,137,169	-2,965,831	-654,831	125,169	831,169
210	285,936	1,100,852	-3,002,148	-691,148	88,852	794,852
220	276,501	1,064,531	-3,038,469	-727,469	52,531	758,531
230	267,068	1,028,213	-3,074,787	-763,787	16,213	722,213
240	257,635	991,896	-3,111,104	-800,104	-20,104	685,896
250	248,202	955,578	-3,147,422	-836,422	-56,422	649,578

Commercial appraisal results

5.9 The appraisals include a 'base' rent level, with sensitivity analyses which model rents above and below the base level (an illustration is provided in Chart 5.9.1). The maximum CIL rates are then shown per square metre, against three different current use values (see Table 4.49.1). Chart 5.9.2 provides an **illustration** of the outputs in numerical format, while Chart 5.9.3 shows the data in graph format. In this example, the scheme could viably absorb a CIL of between £0 and £275 per square metre, depending on the current use value. The analysis demonstrates the significant impact of very small changes in yields (see appraisals 4 and 6, which vary the yield by 0.25% up or down) on the viable levels of CIL.

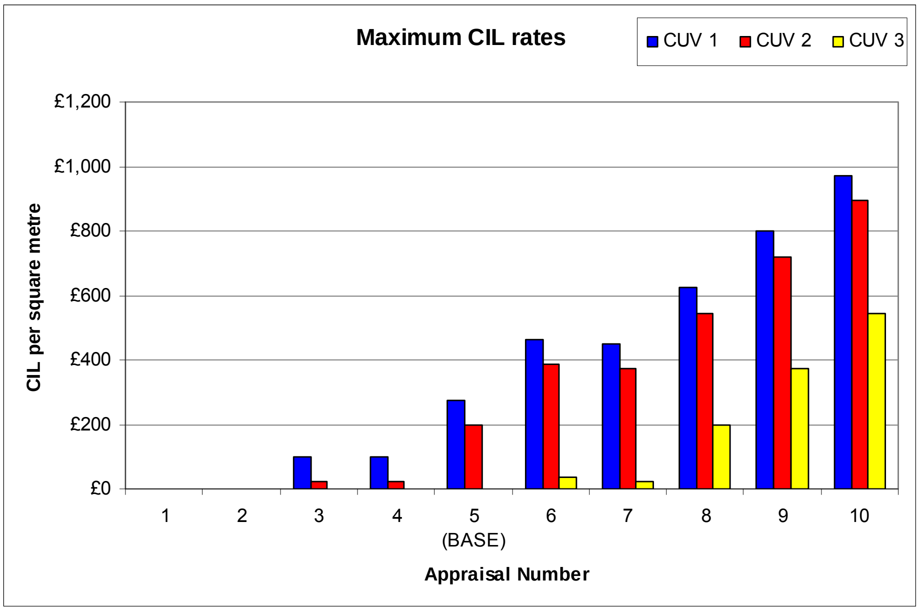
Chart 5.9.1: Illustration of sensitivity analyses

	£s per sqft	Yield	Rent free
Appraisal 1	£21.00	6.50%	2.00 years
Appraisal 2	£22.00	6.50%	2.00 years
Appraisal 3	£23.00	6.50%	2.00 years
Appraisal 4	£24.00	6.75%	2.00 years
Appraisal 5 (base)	**£24.00**	**6.50%**	**2.00 years**
Appraisal 6	£24.00	6.25%	2.00 years
Appraisal 7	£25.00	6.50%	2.00 years
Appraisal 8	£26.00	6.50%	2.00 years
Appraisal 9	£27.00	6.50%	2.00 years
Appraisal 10	£28.00	6.50%	2.00 years

Chart 5.9.2: Maximum CIL rates – numerical format

	Change in rent from base	CUV 1	CUV 2	CUV 3
Appraisal 1	-14%	£0	£0	£0
Appraisal 2	-9%	£0	£0	£0
Appraisal 3	-4%	£100	£23	£0
Appraisal 4	0%	£99	£21	£0
Appraisal 5 (base)	**-**	**£275**	**£197**	**£0**
Appraisal 6	0%	£465	£387	£38
Appraisal 7	4%	£449	£371	£23
Appraisal 8	8%	£624	£546	£197
Appraisal 9	11%	£798	£720	£371
Appraisal 10	14%	£972	£894	£546

Chart 5.9.3: Maximum CIL rates – graph format



6 Assessment of the results

6.1 This section should be read in conjunction with the full results attached at Appendix 1 (residential appraisal results) and Appendix 2 (commercial appraisal results). In these results, the residual land values are calculated for scenarios with sales values and capital values reflective of market conditions across the Borough. These RLVs are then compared to appropriate benchmark land values.

6.2 The CIL regulations state that in setting a charge, local authorities must *"strike an appropriate balance"* between revenue maximisation on the one hand and the potentially adverse impact of CIL upon the viability of development across the whole area on the other. Our recommendations are that:

- Firstly, councils should take a strategic view of viability. There will always be variations in viability between individual sites, but viability testing should establish the most typical viability position; not the exceptional situations.
- Secondly, councils should take a balanced view of viability – residual valuations are just one factor influencing a developer's decision making – the same applies to local authorities.
- Thirdly, while a single charge is attractive, it may not be appropriate for all authorities, particularly in areas where sales values vary between areas.
- Fourthly, markets are cyclical and subject to change over short periods of time. Sensitivity testing to sensitivity test levels of CIL to ensure they are robust in the event that market conditions improve over the life of a Charging Schedule is essential.
- Fifthly, local authorities should not set their rates of CIL at the limits of viability. They should leave a margin or contingency to allow for change and site specific viability issues.

6.3 The early examinations have seen a debate on how viability evidence should translate into CIL rates. It has now been widely recognised that there is no requirement for a Charging Authority to slavishly follow the outputs of residual valuations. At Shropshire Council's examination in public, Newark & Sherwood Council argued that rates of CIL should be set at the level dictated by viability evidence which would (if followed literally) have resulted in a Charging Schedule with around thirty different charging zones across the Shropshire area. Clearly this would have resulted in a level of complexity that CIL is intended to avoid. The conclusion of this debate was that CIL rates should not necessarily be determined solely by viability evidence, but *should not be logically contrary* to the evidence. Councils should not follow a mechanistic process when setting rates – appraisals are just a guide to viability and are widely understood to be a less than precise tool.

6.4 This conclusion follows section 2:2:2:4 of the CIL Guidance, which states that *'there is no requirement for a proposed rate to exactly mirror the evidence… There is room for some pragmatism.'* The Council should not follow a mechanistic process when setting rates – appraisals are just a guide to viability and are widely understood to be a less than precise tool. Further, section 2:2:2:6 of the CIL Guidance also identifies that, *'Charging authorities that plan to set differential levy rates should seek to avoid undue complexity.'*

Assessment – residential development

6.5 As CIL is intended to operate as a fixed charge, the Council will need to consider the impact on two key factors. Firstly, the need to strike a balance between maximising revenue to invest in infrastructure on the one hand and the need to minimise the impact upon development viability on the other. Secondly, as CIL will effectively take a 'top-slice' of development value, there is a potential impact on the percentage or tenure mix of affordable housing that can be secured. This is a change from the current system of negotiated financial contributions, where the planning authority can weigh the need for contributions against the requirement that schemes need to contribute towards affordable housing provision.

6.6 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable regardless of the level of CIL (including a nil rate) and schemes that are viable prior to the imposition of CIL at certain levels. If a scheme is unviable before CIL is levied, it is unlikely to come forward and CIL would not be a factor that comes into play in the developer's/landowner's decision making. We have therefore disregarded the 'unviable' schemes in recommending an appropriate level of CIL. The unviable schemes will only become viable following a degree of real house price inflation, or in the event that the Council agrees to a lower level of affordable housing for particular sites in the short term[17].

Determining maximum viable rates of CIL for residential development

6.7 As noted in paragraph 6.5, where a scheme is unviable the imposition of CIL at a zero level will not make the scheme viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. For the purposes of establishing a maximum viable rate of CIL, we have had regard to the development scenarios that are currently viable and that might, therefore, be affected by a CIL requirement. All the results summarised below assume that current affordable housing requirements are met in full.

6.8 Tables 6.8.1 and 6.8.2 summarises the results of our appraisals for sites that fall below the affordable housing threshold of ten units, for which we understand that the Council can seek to negotiate a contribution towards affordable housing but no formal percentage is required. On this basis we have tested the scheme assuming no affordable housing is provided as we understand that the Council very rarely seeks payments in lieu on such developments.

6.9 These results show that housing developments are more viable than flatted developments given the higher costs associated with developing flats. Small housing developments similar to Typology 1, would be viable with a CIL at the top of the range tested (i.e. £250 per square metre) on the majority of sites in community use or owned by the Council or other public sector bodies, although viability is identified as being more challenging on existing office sites across the Borough and on existing industrial sites in the lower value areas of the Borough.

[17] However, as shown by the sensitivity analyses (which reduce affordable housing to 20%, 10% and 0%) even a reduction in affordable housing does not *always* remedy viability issues. In these situations, it is not the presence or absence of planning obligations that is the primary viability driver – it is simply that the value generated by residential development is lower than some existing use values. In these situations, sites would remain in their existing use.

Table 6.8.1: 4 unit development (houses) (33 dph)

Site type	T1 - 4 Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V[18]	N/V	N/V	50
Area 2	N/V	N/V	N/V	220
Area 3	N/V	N/V	80	250
Area 4	N/V	N/V	180	250
Area 5	N/V	N/V	220	250
Area 6	N/V	100	250	250
Area 7	N/V	220	250	250
Area 8	N/V	250	250	250

Table 6.8.2: 8 unit development (flats) (160 dph)

Site type	T2 - 8 Flats			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	N/V
Area 3	N/V	N/V	N/V	N/V
Area 4	N/V	N/V	N/V	N/V
Area 5	N/V	N/V	N/V	N/V
Area 6	N/V	N/V	80	180
Area 7	N/V	80	200	250
Area 8	N/V	250	250	250

6.10 Tables 6.10.1 to 6.10.7 summarise the results of our appraisals for sites that are required to provide affordable housing. These appraisals incorporate the full 20% affordable housing requirement for typologies 3, 4, 5 and 6 and 30% affordable housing requirement, provided for typologies 7, 8 and 9. The affordable housing is provided as 70% social rent and 30% intermediate.

Table 6.10.1: 12 unit development (houses), 20% Aff Housing, 34 dph

Site type	T3 - 12 Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	20	150
Area 3	N/V	N/V	100	250
Area 4	N/V	N/V	150	250
Area 5	N/V	N/V	250	250
Area 6	N/V	20	250	250
Area 7	N/V	150	250	250
Area 8	N/V	250	250	250

18 In these tables, 'N/V' indicates that the scheme residual land value would be lower than the benchmark land value, even at nil CIL.

Table 6.10.2: 16 unit development (flats), 20% Aff Housing, 133 dph

Site type	T4 - 16 Flats			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	N/V
Area 3	N/V	N/V	N/V	N/V
Area 4	N/V	N/V	N/V	N/V
Area 5	N/V	N/V	N/V	N/V
Area 6	N/V	N/V	N/V	N/V
Area 7	N/V	N/V	N/V	80
Area 8	N/V	20	150	250

Table 6.10.3: 20 unit scheme (houses and flats), 20% Aff Hsg, 77 dph

Site type	T5 - 20 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	50
Area 3	N/V	N/V	50	240
Area 4	N/V	N/V	150	250
Area 5	N/V	0	180	250
Area 6	N/V	200	250	250
Area 7	N/V	250	250	250
Area 8	N/V	250	250	250

Table 6.10.4: 45 unit scheme (houses and flats), 20% Aff Hsg, 66 dph

Site type	T6 - 45 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	N/V
Area 3	N/V	N/V	N/V	120
Area 4	N/V	N/V	N/V	200
Area 5	N/V	N/V	20	240
Area 6	N/V	0	240	250
Area 7	N/V	120	250	250
Area 8	N/V	250	250	250

Table 6.10.5: 60 unit scheme (flats), 30% Aff Hsg, 200 dph

Site type	T7 - 60 Flats			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	N/V
Area 3	N/V	N/V	N/V	N/V
Area 4	N/V	N/V	N/V	N/V
Area 5	N/V	N/V	N/V	N/V
Area 6	N/V	N/V	N/V	N/V
Area 7	N/V	N/V	N/V	N/V
Area 8	N/V	N/V	N/V	N/V

Table 6.10.6: 100 unit scheme (houses and flats), 30% Aff Hsg, 100 dph

Site type	T8 - 100 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	N/V
Area 3	N/V	N/V	N/V	N/V
Area 4	N/V	N/V	N/V	N/V
Area 5	N/V	N/V	N/V	N/V
Area 6	N/V	N/V	N/V	N/V
Area 7	N/V	N/V	N/V	N/V
Area 8	N/V	N/V	N/V	180

Table 6.10.7: 150 unit scheme (houses and flats), 30% Aff Hsg, 75 dph

Site type	T9 - 150 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	N/V
Area 3	N/V	N/V	N/V	N/V
Area 4	N/V	N/V	N/V	N/V
Area 5	N/V	N/V	N/V	N/V
Area 6	N/V	N/V	N/V	180
Area 7	N/V	N/V	50	250
Area 8	N/V	0	250	250

6.11 As noted on in para 6.9, in general, wholly flatted schemes or those with a high proportion of flats (Typologies 2, 4, 7 and 8) are less viable than housing only schemes or mixed schemes with a higher proportion of houses. This is due to the difference in build costs and the loss of saleable floorspace to provide communal areas and stair cores. Further, higher density flatted schemes developed (such as Typology 7) incur higher build costs associated with taller buildings as well as higher gross to net efficiencies.

Sensitivity analysis on affordable housing

6.12 Current experience in Southend-on-Sea indicates that delivering the Council's affordable housing targets is possible, although challenging in many cases. The Council have on occasions accepted a reduced level of provision upon the acceptance of a proven viability case. To reflect these schemes, we re-tested all the sites with a reduced affordable housing (20%, 10% and 0%). The full results of these sensitivity tests are included in Appendix 1. The primary purpose of this exercise was to determine whether changes to affordable housing requirements on individual schemes would enable unviable sites to contribute towards infrastructure. The results show positive movement in terms of the viability of CIL rates when affordable housing levels are reduced. While we are not suggesting that the Council should change its affordable housing policies (as many schemes could meet their required targets), the exercise demonstrates that the flexible application of the Borough's policies will ensure that CIL will not render development unviable. However, we appreciate that the Council will be keen to minimise the impact on affordable housing as far as possible and this is a key risk factor when determining rates of CIL

6.13 Tables 6.13.1 to 6.13.7 summarise the results from the appraisals with a 10% reduction in their affordable housing target. Where the CIL rate has increased, we have shown the rate that would have been possible with the full target of affordable housing. These rates are shown in red. As a result of the increase in overall scheme value resulting from the reduction in affordable housing, viability improves and in some cases the CIL rates increase towards to top end of the testing range.

Table 6.13.1: 12 unit development (houses), 10% Aff Housing, 34 dph

Site type	T3 - 12 Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	180 (150)
Area 3	N/V	N/V	80 (20)	250
Area 4	N/V	N/V	150 (100)	250
Area 5	N/V	N/V	200(150)	250
Area 6	N/V	100 (20)	250	250
Area 7	N/V	230 (150)	250	250
Area 8	N/V	250	250	250

Table 6.13.2: 16 unit development (flats), 10% Aff Housing, 133 dph

Site type	T4 - 16 Flats			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	N/V
Area 3	N/V	N/V	N/V	N/V
Area 4	N/V	N/V	N/V	N/V
Area 5	N/V	N/V	N/V	N/V
Area 6	N/V	N/V	N/V	40 (N/V)
Area 7	N/V	N/V	50 (N/V)	150 (80)
Area 8	N/V	120 (20)	250 (150)	250

Table 6.13.3: 20 unit scheme (houses and flats), 10% Aff Hsg, 77 dph

Site type	T5 - 20 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	100 (50)
Area 3	N/V	N/V	100 (50)	250 (240)
Area 4	N/V	20 (N/V)	180 (150)	250
Area 5	N/V	50 (0)	230 (180)	250
Area 6	N/V	250 (200)	250	250
Area 7	N/V	250	250	250
Area 8	80 (N/V)	250	250	250

Table 6.13.4: 45 unit scheme (houses and flats), 10% Aff Hsg, 66 dph

Site type	T6 - 45 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	0 (N/V)
Area 3	N/V	N/V	N/V	150 (120)
Area 4	N/V	N/V	50 (N/V)	230 (200)
Area 5	N/V	N/V	80 (20)	250 (240)
Area 6	N/V	80 (0)	250 (240)	250
Area 7	N/V	210 (120)	250	250
Area 8	N/V	250	250	250

Table 6.13.5: 60 unit scheme (flats), 20% Aff Hsg, 200 dph

Site type	T7 - 60 Flats			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	N/V
Area 3	N/V	N/V	N/V	N/V
Area 4	N/V	N/V	N/V	N/V
Area 5	N/V	N/V	N/V	N/V
Area 6	N/V	N/V	N/V	N/V
Area 7	N/V	N/V	N/V	N/V
Area 8	N/V	N/V	N/V	N/V

Table 6.13.6: 100 unit scheme (houses and flats), 20% Aff Hsg, 100 dph

Site type	T8 - 100 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	N/V
Area 3	N/V	N/V	N/V	N/V
Area 4	N/V	N/V	N/V	N/V
Area 5	N/V	N/V	N/V	N/V
Area 6	N/V	N/V	N/V	N/V
Area 7	N/V	N/V	N/V	80 (N/V)
Area 8	N/V	N/V	80 (N/V)	250 (180)

Table 6.13.7: 150 unit scheme (houses and flats), 20% Aff Hsg, 75 dph

Site type	T9 - 150 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
Area 1	N/V	N/V	N/V	N/V
Area 2	N/V	N/V	N/V	N/V
Area 3	N/V	N/V	N/V	N/V
Area 4	N/V	N/V	N/V	0 (N/V)
Area 5	N/V	N/V	N/V	50 (N/V)
Area 6	N/V	N/V	40 (N/V)	230 (180)
Area 7	N/V	N/V	150 (50)	250
Area 8	N/V	100 (0)	250	250

6.14 We have also undertaken sensitivity analysis in relation to the tenure of the rented affordable housing accommodation. Viability is seen to improve when allowing for Affordable Rent in place of Social Rent. We note that as identified in the sensitivity testing undertaken in the local plan, Affordable Rented units, given their lower risk and therefore profit requirement (6% as opposed to 20%) are likely to add more value to schemes than private units in the lower value areas of the Borough.

Sensitivity analysis on values and costs

6.15 As noted in Section 5, we carried out further analyses which consider the impact of increases in sales values of 18.5%, accompanied by an increase in build costs of 8.5%. This data is **illustrative only**, as the future housing market trajectory is very uncertain given the economic outlook and technologies for sustainability measures are likely to become cheaper over time. However, if such increases were to occur, the results set out in Appendix 1 show the likely levels of CIL that could be absorbed.

Suggested CIL rates

6.16 Although the results indicate that viability of residential development is currently challenging in certain locations, it should be possible for rates of CIL to be levied across all areas, subject to allowing for a buffer or margin to address risks to delivery. There are four key risk factors:

- the first is that individual sites might incur exceptional costs (decontamination, difficult ground conditions etc.) and as a result the residual land value could fall. Developers will try and reflect such costs in their offer to the landowner, but the extent of any issues is not always fully apparent until the land value is fixed. Where sites have an existing use, an owner will not be prepared to accept a reduction below the value of the current building to accommodate exceptional costs on a redevelopment;

- Secondly, current use values on individual sites will inevitably vary and will fall somewhere between the values used in our appraisals. As a result, the ability of schemes to absorb high rates of CIL could be adversely affected.

- Thirdly, sales values could fall or normal build costs could rise over the life of the Charging Schedule, adversely affecting scheme viability. While the Council could change its rates to adapt to these changes, this cannot be done quickly due to the need to develop a refreshed evidence base and follow the statutory consultation and examination process; and

- Fourthly, imposing a high rate of CIL (that vastly exceeds the current levels of Section 106 obligations) in the Council's first Charging Schedule could 'shock' the land market with a consequential risk that land supply falls. This factor has led many charging authorities to seek to limit their CIL rates to no more than around 3-5% of development costs, or to set their CIL rates so that they are broadly comparable to existing Section 106 contributions[19].

6.17 It is also important to consider that where a scheme is shown as unviable before the application of CIL, it will be other factors such as sales values, build costs and the percentage of affordable housing that will need to adjust for the scheme to become viable.

6.18 The maximum rates of CIL indicated by our appraisals are outlined below. Given the range of results above, and the risk factors outlined in the previous paragraph, our conclusion is that the rates of CIL that the Council might set – having regard to the range of the results and taking account of viability across the Borough as a whole – should be set at a discount of circa 30% to the maximum rates, as shown in Table 6.18.1.

[19] For example, Wandsworth Council has adopted this approach in the Vauxhall Nine Elms Opportunity Area, where the existing tariff has been converted into a per square metre CIL rate.

Table 6.18.1: Maximum and suggested CIL rates

Market Areas	Maximum CIL indicated by appraisals (£s per sqm)	CIL after buffer (£s per sqm)	Suggested three Zone Approach to CIL (£ per sq m)	Suggested two Zone Approach to CIL (£ per sq m)
1 - North central area, Airport, Westborough, Victoria and Prittlewell	N/A	Nominal rate of around £20	£10	£20
2 - Southchurch	N/A	Nominal rate of around £20	£10	£20
3 - Mid central area	N/A	Nominal rate of around £20	£10	£20
4 - Shoeburyness	£30	£21	£20	£20
5 - Eastwood, Belfairs and Blenheim	£30	£21	£20	£20
6 - South central area (below railway)	£50	£35	£40	£40
7 -Thorpe Bay	£80	£56	£40	£40
8 - Leigh-on-Sea and Chalkwell	£100	£70	£40	£40

6.19 In determining the maximum levels of CIL and the recommended rates above, we have based our assessment on: current costs and values, no existing floorspace and taking into consideration the impact of CSH level 4. We have run a set of appraisals that show the impact of; an increase in sales values, accompanied by an increase in build costs; a fall in sales values (the results are included in Appendix 1). These appraisals provide an indication of the likely movement in viability that any 'buffer' below the maximum rates would need to accommodate.

6.20 We recommend that the Council considers combining areas into two or three charging zones, thereby simplifying the charging schedule into less charging areas. It is also worth noting that Market Areas 1, 2 and 3 have been identified as being generally unviable and as such the application of CIL is unlikely to be the defining factor and the imposition of CIL at a zero level will not make schemes viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. In this regard we would recommend that the Council considers a maximum nominal rate of around £20 per square metre.

Extra Care and Retirement Housing

6.21 We have also considered the viability of setting a CIL rate for Extra Care Housing and Retirement Housing which are both housing types for the elderly that aim to help them maintain their independence. This is achieved by providing self-contained accommodation with access to onsite care services and to enable people to continue to live in a community to avoid becoming isolated. They also provide health, care and support services as appropriate to individuals where they live rather than having to move into a residential care home.

6.22 For the purposes of this study, Extra Care Housing and Retirement Housing is defined as housing which is purpose built or converted for sale to elderly people with a package of estate management and care services as necessary and which consists of grouped, self-contained accommodation with communal facilities. These premises often have emergency alarm systems and/or wardens. These properties would not provide the same level of care as residential care (C2) as would be expected in care homes where residents do not live in self-contained accommodation.

6.23 Although Extra Care and Retirement Housing fall within Class C3 in the Use Classes Order, it is recognised that they have a significantly different viability considerations to standard residential dwellings. These arise due to the lower gross to net ratio of developments (due to the need for communal facilities). This factor, along with a slower sales rate (assumed in our study to be sales rate of 1.5 units a month), combine to adversely affect viability as compared to standard C3 housing. In addition such developments are also likely to attract higher build costs and for the purposes of this study we have adopted the BCIS costs for Sheltered Housing Generally.

6.24 There are slightly different characteristics of Extra Care as compared to Retirement Housing, relating to gross to net floor areas and the extent of communal areas.

6.25 In our experience Extra Care Housing Schemes have gross to net floorspace ratios of circa 65%, whilst Retirement Housing (i.e. a McCarthy and Stone type development) achieve gross to net ratios of circa 70%.

6.26 Our appraisals of both Extra Care housing and retirement/sheltered housing indicate that such developments generate positive residual land values as set out in Table 6.26.1 below.

Table 6.26.1: 32 unit scheme (flats), 25 dph

Site type	32 unit scheme (flats)			
	BLV1	BLV2	BLV3	BLV4
Extra Care	N/V	N/V	0	100
Retirement Housing	N/V	48	150	250

6.27 In light of these results we would recommend the Council considers adopting a rate of £20 per square metre. A rate of £20 per square metre is unlikely to be a significant factor in a developers' decision making, accounting for no more than 1% of scheme development costs, and could be absorbed without having a significant impact on viability across the borough.

Assessment – commercial development

6.28 Our appraisals indicate that the potential for commercial schemes to be viably delivered varies between different uses and between areas across the Borough. Retail rents are higher in certain areas and developments might generate sufficient surplus residual value to absorb a CIL.

6.29 As noted in section 4, the level of rents that can be achieved for commercial space varies according to exact location; quality of building; and configuration of space. Consequently, our appraisals adopt a 'base' position based on average rents for each type of development and show the results of appraisals with lower and higher rents. This analysis will enable the Council to consider the robustness of potential CIL charges on commercial uses, including the impact that changes in rents might have on viability.

Office development

6.30 We have undertaken research on deals for commercial floorspace in the Borough using electronic databases such as EGi and Focus, as well as discussions with local agents. Our research indicates that a range of rents are currently being achieved and as such prime office space is likely to achieve between £10 to £15 per square foot, on advice from local agents we have adopted a rent of £13 per sq ft. Our research into the office market in the Borough has identified that there have been few transactions in the last few years, however we understand form local agents that the market is showing tentative signs of recovery. In this regard, the yields applied are based on advice from local agents and research undertaken in the South East and Essex area as well as our understanding of the current commercial property market in the UK. In addition we understand that there is a substantial amount of vacant office space in Southend, the majority of which is of poor quality. New build office developments are likely to attract a premium rent above second hand rents. However, such development is likely to be relatively modest in the short term given the current economic climate.

6.31 The results of our appraisals indicate that office developments are unlikely to be viable, unless rents increase and yields harden significantly over the life of the Charging Schedule. In this regard we recommend that the Council considers a nil or nominal rate on office developments in the borough.

6.32 Should the Council be minded to adopt a charge on such development, a nominal rate of around £10 per square metre is unlikely to be a significant factor in a developers' decision making and could be absorbed without having a significant impact on viability across the borough.

Industrial and warehouse development

6.33 Our appraisals of industrial development indicate that residual values are likely to be too low to absorb a CIL. A considerable increase in new build industrial rents would be required before any CIL could be absorbed (see Appendix 2 for Appraisals). As such we recommend that the Council considers adopting either a nil or nominal rate (of around £10 per square metre) of CIL for such uses.

Convenience based supermarkets and superstores and retail warehousing (over 280 square metres)

6.34 Our appraisals of convenience based supermarkets and superstores[20] and retail warehousing[21] development indicate a greater degree of viability than for comparison retail.

6.35 Other charging authorities have considered the differences in viability between comparison retail and convenience based retail and retail warehousing. It is acknowledged that size does not necessarily result in the higher values generated by convenience based supermarkets and superstores and retail warehousing uses. Rather, is it a combination of factors including:

[20] Superstores/supermarkets are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit

[21] Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for mainly car –borne customers.

- The availability of car parking;
- The operational economics of supermarkets/superstores (these uses are known to be efficient at generating volume sales whilst having low operating costs);
- The rents that retailers are willing to pay to occupy these units tend to be high (particularly with regard to comparison retailing as these locations will command prime rents in the area);
- The value which the investment market ascribes to such units is high. This is due to such units being occupied by operators with greater covenant strength, which results in lower yields being applied; and
- Such large developments are also likely to come forward on sites which have lower existing use values i.e. a large majority of large retail units have historically been developed on former industrial sites and as a result a lower benchmark land value is achieved, which results in a higher surplus and consequently a potential for a higher CIL rate.

6.36 We understand from our research that the large national retailers actively seek space larger than the Sunday Trading Law threshold of 280 square metres.

6.37 We have undertaken research using databases such as our in house comparable database, Focus and EGi and discussions with active local agents as well as our in house valuation team, who undertake valuations regularly for major supermarkets, that yields achieved on units occupied by the major national occupiers are circa 5% and keener in many instances, whilst yields achieved on units occupied by independent local tenants are likely to be in the region of 8%.

6.38 Yield differentials have a significant bearing on the outcome of a development appraisal. At a yield of 7.75% or 8% our appraisals indicate that a retail development of 279 square metres[22] is unlikely to generate surplus residual values above the value of current floorspace i.e. such development is considered to be unviable (see Chart 6.36.1 below and Appendix 2 for copies of our appraisal). As highlighted above, due to the covenant strength of the large national retailers, investment yields are lower, resulting in a higher capital value. Adopting a lower yield of 5.5%, our appraisals (279 sq m unit, 1,000 sq m unit and 5,000 sq m unit) show that a maximum CIL of between £0 and £369 per sq m could be levied on such retail space, depending on the size of the store (which has an impact on build costs) and the value of the existing use of the site (see Charts 6.38.2 to 6.38.4 overleaf and Appendix 2 for copies of our appraisals).

[22] Assuming a local occupier.

Chart 6.38.1: Convenience based supermarkets and superstores and retail warehousing (whole Borough) (279 sq m) – higher yield (lower covenant strength

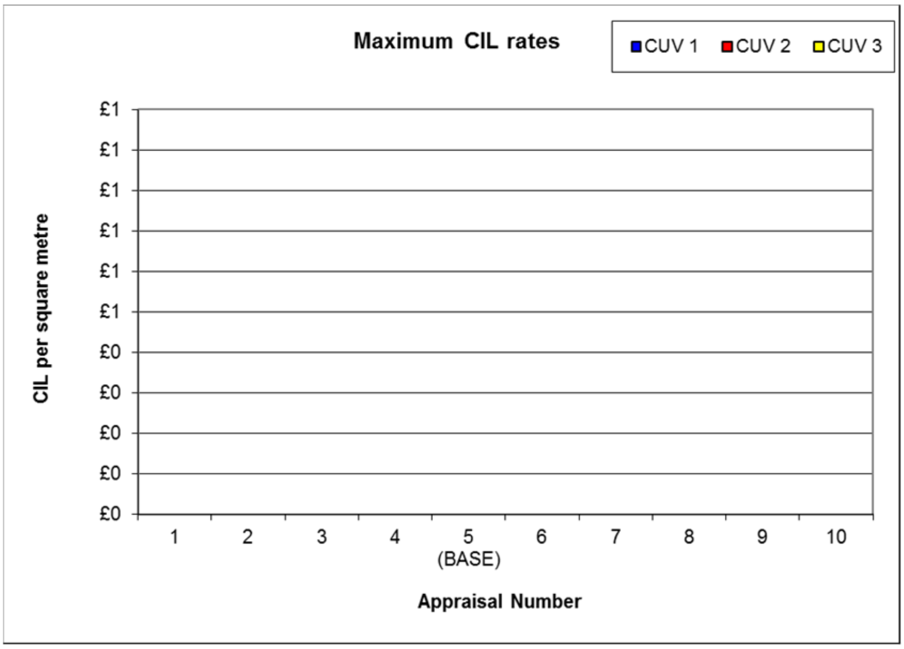


Chart 6.38.2: Convenience based supermarkets and superstores and retail warehousing (whole area) (279 sq m) – lower yield (higher covenant strength)

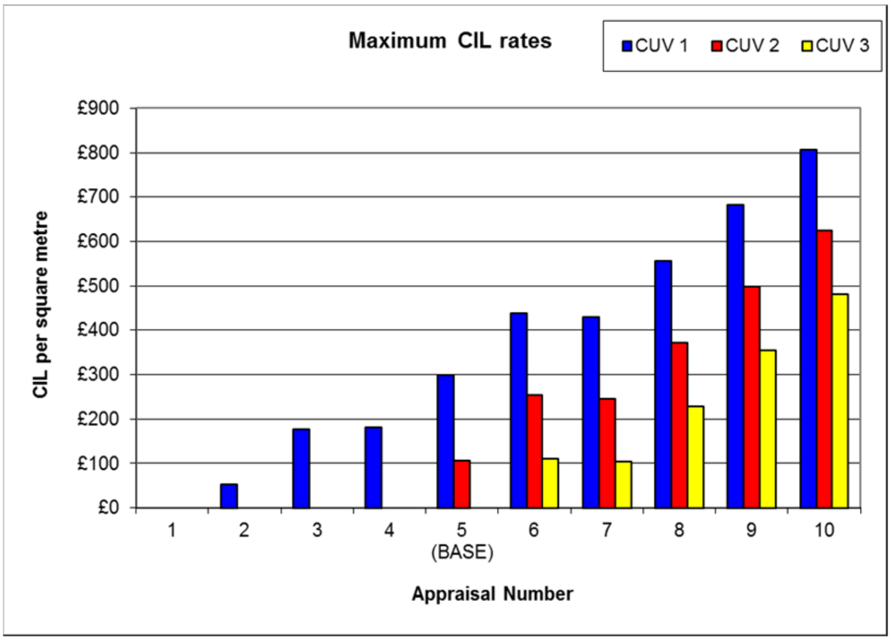


Chart 6.38.3: Convenience based supermarkets and superstores and retail warehousing (whole area) (1,000 sq m) – lower yield (higher covenant strength)

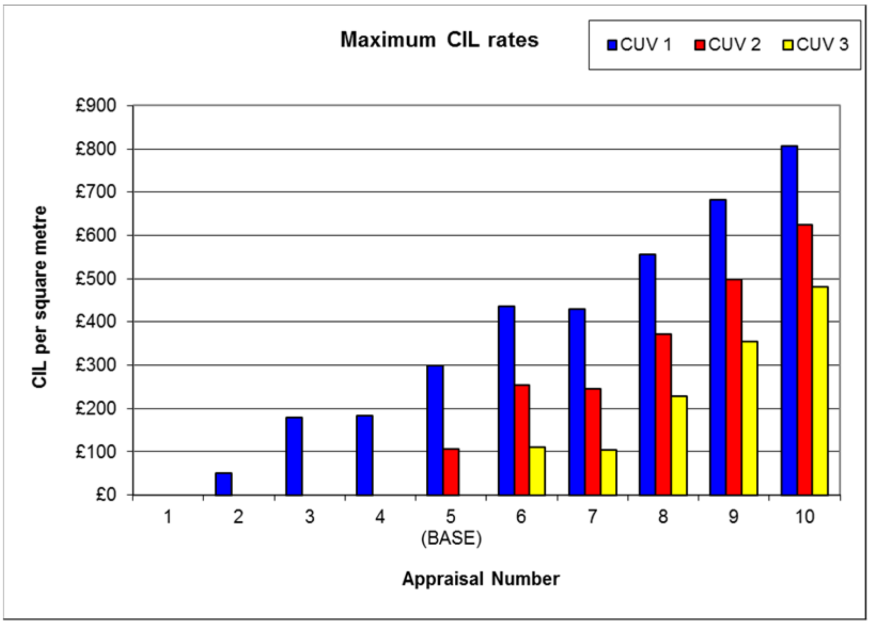
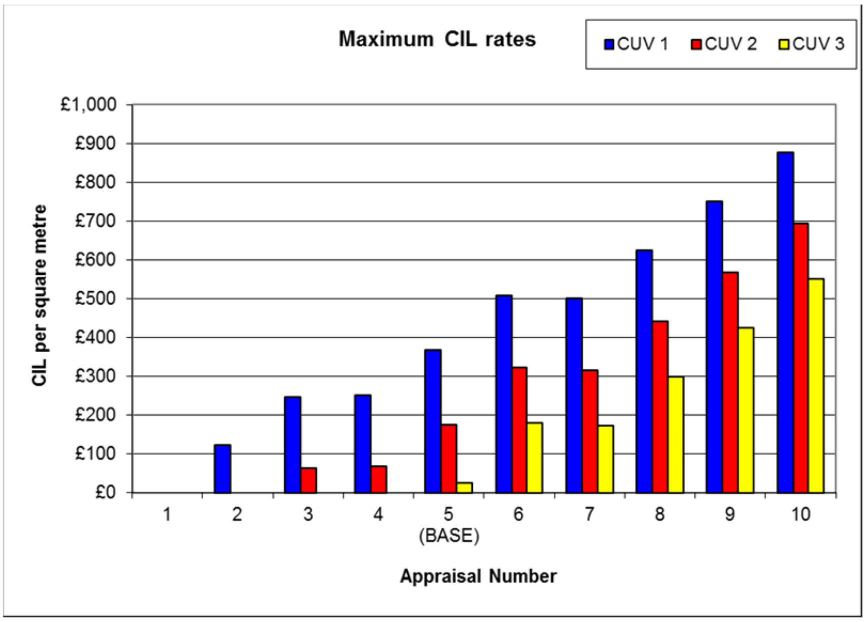


Chart 6.38.4: Convenience based supermarkets and superstores and retail warehousing (whole area) (5,000 sq m) – lower yield (higher covenant strength)



6.39 In light of the above and the results of our viability appraisals, we recommend that the Council adopts a maximum CIL of £106 per square metre (based on CUV 2 of the 279 sq m and £1,000 sq m stronger covenant appraisals) on Convenience based supermarkets and superstores and retail warehousing across the Borough on units of 280 sq m, (on the basis that the national occupiers seek to and in the majority of cases currently occupy units larger than this threshold and the converse is true of local occupiers).

6.40 After allowing for a suitable buffer, (which in our experience is suitable to deal with site specific issues and changes in values over time) we recommend that the Council considers a CIL of £70 per sq m for such development.

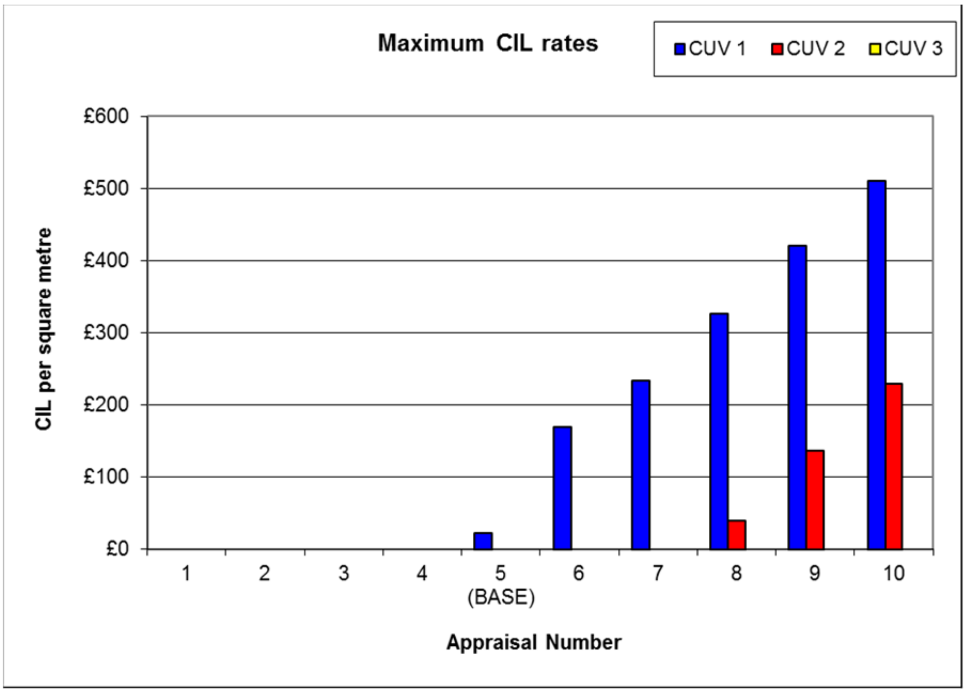
All other retail (A1-A5) development – Prime Shopping Area – Southend Town Centre

6.41 The prime retail area in Southend is located in the Town Centre located on a traditional linear High Street which is supported to the north by The Victoria shopping centre and to the south by The Royals. Our research indicates that prime rental values have dropped significantly in Southend since the downturn in the economy in 2008. The PMA Southend-on-Sea PROMIS Retail Report (created in February 2013) identifies that prime rents in Southend to be circa £75 per sq ft Zone A (ZA), however following discussions with local agents and our Valuation team a range of rents are currently being achieved in Southend and £75 per sq ft ZA would represent the higher end of the scale. We also understand that competition from centres such as Chelmsford, Bluewater, Westfield Stratford and to a lesser extent Lakeside and Basildon have had an impact on retail rents in Southend-on-Sea. We note that the Promis report identifies that in January 2014, there were 6 reported requirements for Southend, against an average of 12, ranking the town 122 of the 200 PROMIS Centres. In this regard Southend is identified as having 'a slightly low level of demand for a town of its size and status'.

6.42 With respect to yields we understand that prime retail yields in Southend Town Centre identified by local agents and our Valuation Team are placed at circa 6.5%. This is 0.75% keener than the prime retail yields reported in the Promis Report, which identifies that 'agent sources placed prime retail yields at 7.25% in Summer 2013'. We understand that time allowances for voids and incentives are currently between 18 to 24 months.

6.43 In light of the above, we have adopted a rent of £30 per square foot overall, (assuming a rent of circa £65 per sq ft ZA) capitalised at a yield of 6.75%. We have also included a 24 month allowance for voids and incentives. Chart 6.43.1 overleaf summarises the all other retail (A1-A5) development appraisals in the primary shopping area of Southend Town Centre.

Chart 6.43.1: Viable levels of CIL on all other retail (A1-A5) developments in the Prime Shopping Area of Southend Town Centre



6.44 Our appraisals of all other retail developments (A1- A5 uses) in the prime retail area of Southend Town centre indicate that such development is unlikely to generate significant surpluses that could fund CIL. The residual land values are only likely to exceed current use values by a small margin to allow for a CIL to be levied on sites in a lower value use i.e. offices instead of existing retail use. The maximum CIL identified that the Council could levy on this development type ranges from £0 to £22 per square metre, depending on the current use of the site.

6.45 It is worth noting that a significant proportion of new retail floorspace development in Southend Town Centre is likely to involve the recycling of existing retail floorspace. Consequently, retail development would generate little net additional floorspace that would be chargeable for CIL. Furthermore, development of new retail floorspace on existing retail sites is unlikely to generate significant surpluses that could fund CIL. This is because rents for new build floorspace are only slightly higher than rents for existing floorspace.

6.46 On this basis we would recommend that the Council considers the Council considers a nil or nominal rate (of around £10 per square metre) for all other retail development (A1-A5) in the Town Centre.

All other retail (A1-A5) development – Leigh on Sea District Centre and elsewhere in the Borough

6.47 The main shopping provision in Leigh-on-Sea is provided around The Broadway/Rectory Grove triangle and along The Broadway. This forms the designated district centre boundary. Discussions with local agents and research into transactions has identified that rents for all other retail (A1-A5) development in the Leigh-on-Sea District Centre area are lower than those achieved in the prime shopping area of Southend (circa £20 per sq ft). Elsewhere in the Borough we understand that retail rents are circa £10 - £12 per sq ft.

6.48 Our appraisals of such development in the Leigh-on-Sea District Centre area and elsewhere in the Borough (See Appendix 2 for copies of our appraisals) identify that at current rent levels retail development is unable to support a CIL charge. In this regard we would recommend that the Council considers a nil or nominal rate for all other retail development (A1-A5) outside Southend Town Centre.

Hotel development

6.49 Our appraisal of hotel development is attached at Appendix 2. This indicates that at current values, hotel developments are unlikely to generate significant residual land values to absorb a CIL. Given this position we recommend that the Council considers setting a nil or nominal CIL rate on hotel developments.

D1 and D2 floorspace development

6.50 The D1 and D2 use classes cover a large and varied number of uses. Given this large number of uses, individual viability testing of this range of possible uses that could come forward has not been undertaken as it would be too complex to test all these uses with any degree of reliability. Some uses in these classes would be viable, generating reasonably high revenues. However, some uses in these classes would not be viable for the most part; this typically includes community facilities that do not accommodate revenue generating operations, such as public health centres and education facilities, museums, libraries and places of worship. Some such uses that do generate an income stream, such as swimming pools and private education facilities, have operating costs that are far higher than the income and require public subsidy or fund raising and often benefit from charitable status. Indeed, many D1 uses will be infrastructure in themselves, which CIL will help to provide.

6.51 Given the above, we recommend that the Council considers a nil or nominal rate for such uses.

All other uses

6.52 Should the Council wish to do so, they would be able to set a nominal rate of CIL on all other uses. As mentioned in para 6.50, given the large number of uses in certain use classes, such as D1, D2 and Sui Generis uses, individual viability testing of this range of possible uses has not been undertaken as it would be too complex to test all these uses with any degree of reliability.

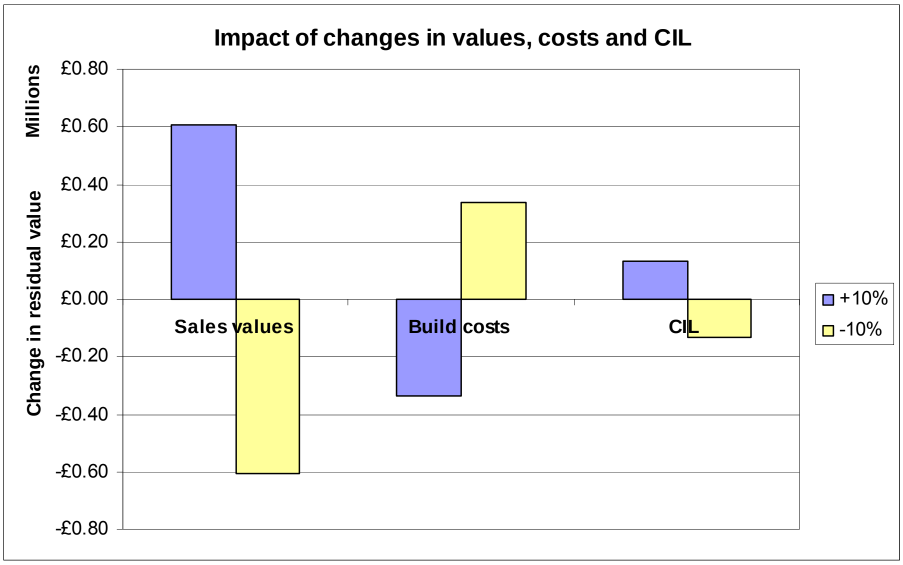
6.53 Further, it is noted that such uses do not form a significant part of the development plan. With regard to including uses which have been identified to be on the margins of viability it is considered that a nominal rate could be applied to these uses on the basis that a nominal rate is unlikely to be a significant factor in developers' decision making and could be absorbed without having a significant impact on viability across the Borough. In line with the advice set out in paras 6.50 - 6.51 above and the approach taken to the Mayoral CIL, the Council could consider excluding uses such as public healthcare, education, emergency services and community facilities from this category. Alternatively, should the Council not wish to proceed with a nominal rate on all other uses a nil rate would apply by default.

7 Conclusions and recommendations

7.1 The results of our analysis indicate a degree of variation in viability of development in terms of different uses. In light of these variations, two options are available to the Council under the CIL regulations. Firstly, the Council could set a single CIL rate across the Borough, having regard to the least viable types of development and least viable locations. This option would suggest the adoption of the 'lowest common denominator', with sites that could have provided a greater contribution towards infrastructure requirements not doing so. In other words, the Council could be securing the benefit of simplicity at the expense of potential income foregone that could otherwise have funded infrastructure. Secondly, the Council has the option of setting different rates for different types of development. The results of our study point firmly towards the second option as our recommended route.

7.2 We have also referred to the results of development appraisals as being highly dependent upon the inputs, which will vary significantly between individual developments. In the main, the imposition of CIL is not the critical factor in determining whether a scheme is viable or not (with the relationship between scheme value, costs and land value benchmarks being far more important). This is evidenced by the very marginal differences between the 'pre' and 'post' CIL residential appraisals summarised in Section 6. This point is also illustrated in Chart 7.2.1 below, which compares the impact on the residual value of a scheme of a 10% increase and decrease in sales values and a 10% increase and decrease in build costs to a £100 per sq metre change in CIL.

Chart 7.2.1: Impact of changing levels of CIL in context of other factors



7.3 Given CIL's nature as a fixed tariff, it is important that the Council selects rates that are not on the limit of viability. This is particularly important for commercial floorspace, where the Council does not have the ability to 'flex' other planning obligations to absorb site-specific viability issues. In contrast, the Council could in principle set higher rates for residential schemes as the level of affordable housing could be adjusted in the case of marginally viable schemes. However, this approach runs the risk of frustrating one of the Council's other key objectives of delivering affordable housing. Consequently, sensitive CIL rate setting for residential schemes is also vital.

7.4 Our recommendations on levels of CIL are therefore summarised as follows:

Residential

- The ability of **residential schemes** to make CIL contributions varies depending on the area and the current use of the site. Having regard to these variations, residential schemes should be able to absorb a **maximum** CIL rate of between a nominal rate of around £20 per square metre and £100 per square metre. CLG guidance requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount (buffer) to the maximum rate, with discounts ranging from circa 20% to 50%. We would recommend a buffer of circa 30% for Southend-on-Sea Borough Council.

- Taking a broad view across our appraisals, the maximum and suggested rates are as follows:

Table 7.4.1: Maximum and suggested CIL rates – residential

Market Areas	Maximum CIL indicated by appraisals (£s per sqm)	CIL after buffer (£s per sqm)	Suggested three Zone Approach to CIL (£ per sq m)	Suggested two Zone Approach to CIL (£ per sq m)
1 - North central area, Airport, Westborough, Victoria and Prittlewell	N/A	Nominal rate of around £20	£10	£20
2 - Southchurch	N/A	Nominal rate of around £20	£10	£20
3 - Mid central area	N/A	Nominal rate of around £20	£10	£20
4 - Shoeburyness	£30	£21	£20	£20
5 - Eastwood, Belfairs and Blenheim	£30	£21	£20	£20
6 - South central area (below railway)	£50	£35	£40	£40
7 -Thorpe Bay	£80	£56	£40	£40
8 - Leigh-on-Sea and Chalkwell	£100	£70	£40	£40

- Whilst the maximum rates are higher than the suggested rates, the inclusion of a buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and 'shocking' the market). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority's judgement.

- As identified in the table above, we recommend that the Council considers combining areas into one charging zone, thereby simplifying the charging schedule into less charging areas. It is also worth noting that Market Areas 1, 2 and 3 have been identified as being generally unviable and as such the application of CIL is unlikely to be the defining factor and the imposition of CIL at a zero level will not make schemes viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. In this regard we would recommend that the Council considers a maximum nominal rate of around £20 per square metre.

- Our appraisals for **Extra Care** and **Retirement Housing** identify that such developments generate surpluses that would support a CIL charge to varying degrees dependant on the existing use of the site. On this basis we recommend the Council considers adopting a rate of £20 per square metre across the entire Borough for such development.

Commercial

- It is worth noting that the results of this viability exercise, which identify certain commercial development as unviable, do not mean that sites will not be developed within the Borough. Viability is only one of many factors which affect whether a site is developed. For example owner occupiers who may wish to locate in Southend-on-Sea. Alternatively, a business may wish to develop their own premises by reference to their own cost benefit analysis, which will bear little relationship to the residual land value calculations that a speculative landlord developer may undertake.
- At current rent levels, **Office development** across the Borough is unlikely to generate sufficient surpluses to accommodate a CIL charge. We therefore recommend that the Council considers a nil or nominal rate for office development.
- Our appraisals of developments of **industrial and warehousing** floorspace indicate that these uses are unlikely to generate positive residual land values. We therefore recommend a nil or nominal rate for industrial floorspace.
- **Convenience based supermarkets and superstores and retail warehousing (net retailing space of over 280 square metres)** are likely to be viable across the Borough with a maximum CIL rate of £106 per square metre. After allowing for a buffer, which we consider to be appropriate to deal with site specific issues, the Council might consider setting a CIL of £70 per square metre.
- Residual values generated by **all other forms of retail (A1-A5) developments** are higher than current use values to varying degrees across the Borough. However, to a degree smaller retail development will involve the re-use of existing retail space, which will not be CIL liable. In order to capture value from schemes that add floorspace, and in particular larger format stores that generate higher value, differential rates could be adopted.
    - Residual values generated by **all other retail (A1-A5)** developments in the **primary shopping area of Southend Town Centre** are identified as unlikely to generate significant surpluses to fund CIL. The residual land values are only likely to exceed current use values by a small margin to allow for a CIL to be levied on sites in a lower value use i.e. offices instead of existing retail use. On this basis we would recommend that the Council considers a nil or nominal rate on retail development in the prime shopping area of Southend Town Centre.
    - **Leigh-on-Sea and elsewhere in the Borough,** rents for all other retail (A1-A5) development are considerably lower and our appraisals identify that developments are unable to viably support a CIL rate. We therefore recommend that the Council considers a nil or nominal rate on retail development in Leigh-on-Sea and elsewhere in the Borough.
- At current values **Hotel developments** are identified as not being able to generate a surplus and in this regard we would recommend that the Council considers setting a nil or nominal rate for Hotel use.

- **D1** and **D2** use classes cover a large and varied number of uses. Given this large number of uses, individual viability testing of this range of possible uses that could come forward has not been undertaken as it would be too complex to test all these uses with any degree of reliability. Some uses in these classes would be viable, generating reasonably high revenues. However some uses in these classes would not be viable for the most part; this typically includes community facilities that do not accommodate revenue generating operations, such as public health and education facilities, museums, libraries and places of worship. Other uses that do generate an income stream, such as swimming pools, have operating costs that are far higher than the income and require public subsidy. Further, some such uses generating revenue i.e. private education facilities are likely to benefit from charitable status. In this regard, many D1 uses will be infrastructure in themselves, which CIL will help to provide. In light of this, we recommend that the Council considers a nil or nominal[23] rate of CIL be set for such uses.
- Should the Council wish to do so, they would be able to set a nominal rate of CIL on **all other uses** of perhaps no more than £10 per square metre. A nominal rate is unlikely to be a significant factor in developers' decision making and could be absorbed without having a significant impact on viability across the borough. In addition, the Council could consider excluding uses such as community facilities, public healthcare and education facilities and emergency services facilities from this category, in line with the approach taken for the Mayoral CIL. Should the Council not wish to proceed with a nominal rate on all other uses, a nil rate would apply by default unless a rate has been explicitly set.

7.5 The proposed CIL rates for Southend-on-Sea are summarised in Table 7.5.1 overleaf.

Table 7.5.1: Suggested CIL rates

Development type	Proposed CIL rate
Residential – Zone 1 (Market areas 1-5)	£20
Residential – Zone 2 (Market areas 6-8)	£40
Extra Care and retirement housing	£20
Convenience based supermarkets and superstores and retail warehousing	£70
All other uses[23]	Nominal rate of £10

7.6 For residential schemes, the application of CIL is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme value, CIL will be a modest amount, typically accounting for between 0.9% and 1.6% of value (see Table 7.6.1 below). Some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these schemes.

23 Should the Council be minded to adopt a nominal rate on such uses we would recommend that it considers exempting uses such as community facilities, healthcare, education and emergency services from this category, in line with the approach taken for the London Mayoral CIL.

Table 7.6.1: CIL as a proportion of scheme value - residential

CIL Market Areas	Maximum CIL (£s per sqm)[24]	Suggested CIL (£s per sqm)	Suggested CIL as % of maximum viable rate	Suggested CIL as % of Gross Development Value[25]
Area 1	N/A	Nominal rate of around £20	N/A	1.2%
Area 2	N/A	Nominal rate of around £20	N/A	1.1%
Area 3	N/A	Nominal rate of around £20	N/A	1.0%
Area 4	£30	£20	67%	0.9%
Area 5	£30	£20	67%	0.9%
Area 6	£50	£40	80%	1.6%
Area 7	£80	£40	50%	1.6%
Area 8	£100	£40	40%	1.4%

Table 7.6.2: CIL as a proportion of scheme value - commercial

Use	Maximum CIL (£s per sqm)	Suggested CIL (£s per sqm	Suggested CIL as % of maximum viable rate	Suggested CIL as % of Gross Development Value[26]
Office	N/A	Nominal rate of around £10	N/A	0.35%
Industrial and warehousing	N/A	Nominal rate of around £10	N/A	0.82%
all other retail (A1-A5)	N/A	Nominal rate of around £10	N/A	0.26%
Hotel	N/A	Nominal rate of around £10	N/A	0.38%
Convenience based supermarkets and superstores and retail warehousing (net retailing space of over 280 square metres)	£106	£70	66%	2.54%

[24] The percentages for residential schemes are based on the appraisals for site type 5.

[25] The percentages here assume that CIL is levied on the entire floorspace of the development (except for affordable housing, which benefits from affordable housing relief) and that there is no deduction for existing floorspace. These percentages therefore represent the worst case scenario.

[26] The percentages here assume that CIL is levied on the entire floorspace of the development and that there is no deduction for existing floorspace. These percentages therefore represent the worst case scenario.

7.7 With respect to commercial schemes, the application of a nominal CIL is unlikely to be the determining factor in whether a developer brings forward a site or whether not a scheme is viable. As identified in table 7.6.2, CIL is a marginal factor in a scheme's viability i.e. less than 1% of total development costs in terms of the uses tested allowing for a nominal charge of £10 per square metre. The CIL Guidance identifies that a charging authority does not have to set a nil rate, the setting of a nominal rate would allow the Council to achieve the balance required by the CIL regulations between the delivery of development and the provision of infrastructure to support the growth envisaged in the Council's local plan.

7.8 The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future changes. While there is no requirement for charging authorities to commit to a formal timescale for reviewing its CIL charging schedule, we recommend that the Council should consider reviewing the Charging Schedule in the next three years and potentially earlier if the market is perceived to have changed significantly.