



# **Community Infrastructure Levy: Viability Study**

Prepared for  
West Dorset District Council

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# 1 Executive Summary

- 1.1 This report tests the ability of a range of development types throughout the District of West Dorset 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 contributions towards the provision of affordable housing.

## Methodology

- 1.2 The study methodology compares the residual land values of a range of generic 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 values have fallen below their peak. We have allowed for this by running a sensitivity analysis which inflates sales values by 10% and build costs by 5%. 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 levels that might become viable following an improvement in market conditions over the life of the Charging Schedule. 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.

## Key findings

- 1.5 The key findings of the study are as follows:
- 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 improvements.
  - The ability of **residential schemes** to make CIL contributions varies depending on area and the current use of the site. Having regard to these variations, a majority of residential schemes across the District should be able to absorb a CIL rate of around £100 per square metre, leaving a margin for site-specific factors that might affect viability. While differential rates of CIL are more complex, it is likely that the Council would lose a significant amount of potential income from higher value areas. We recommend the following rates of CIL for each area:
    - Beaminster, Bridport, Dorchester, Lyme Regis and Sherbourne: circa £100 per square metre; and
    - Chickerell, Chermouth and Crossways: a reduced rate of circa £80 per square metre.

- In some circumstances, developments are currently unviable whether or not CIL is levied. The imposition of CIL will therefore not affect the prospects of these sites being delivered. Where these sites are required to provide lower proportions of affordable housing, the prospects for securing a viable scheme that can make CIL contributions might improve.
- **Hotel developments** are unlikely to be viable at the current time, given the level of capital values and construction costs. We would therefore suggest a zero rate at the current time.
- At current rent levels, **Office development** is unlikely to come forward in the short to medium term as the capital values generated are insufficient to cover development costs. We therefore recommend that the Council sets a nil rate for offices.
- Residual values generated by **Retail developments** vary significantly between local centre retail and high street retail (which is just marginally viable) on the one hand, and retail warehousing and supermarkets (which generate sufficient residual values to enable the payment of CIL). The Council does not expect any major supermarket or retail warehouse developments to come forward. However, if developments of this type were to come forward, our appraisals indicate that a CIL of £100 per square metre could be readily absorbed with a significant margin below the maximum rate. We recommend a nil rate of CIL for town-centre non food retailing and local centre retail developments.
- 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 zero rate for industrial floorspace.
- D1 and D2 uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 uses.

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## 2 Introduction

- 2.1 This study has been commissioned to contribute towards an evidence base to inform West Dorset District Council's ('the Council') CIL Preliminary Draft Charging Schedule ('PDCS'), as required by Regulation 14 of the CIL Regulations April 2010 (as amended in 2011). 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 and other planning obligations; and
  - to test the ability of commercial schemes to make a contribution towards infrastructure through CIL.
- 2.2 In terms of methodology, we adopted standard residual valuation approaches 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 application of policy requirements on a site by site basis. It is therefore essential that levels of CIL are set so as to allow a sufficient margin to allow for these site specific variations.

### Policy Context

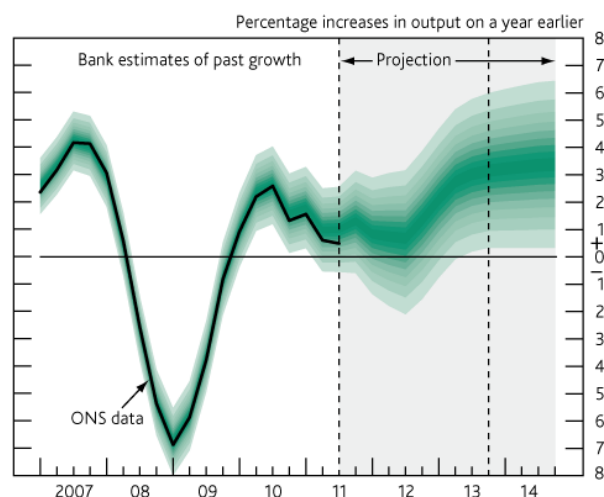
- 2.3 The CIL regulations state that in setting a charge, local authorities must aim to strike "*an appropriate balance*" between revenue maximisation on the one hand and the potentially adverse impact upon the viability of development on the other. The regulations also state that local authorities should 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 sources of funding (this is considered elsewhere within the Council's evidence base).
- 2.4 Local authorities must consult relevant stakeholders on the nature and amount of any proposed CIL. Following consultation, a charging schedule must be submitted for independent examination.
- 2.5 The regulations allow a number of 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. 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 the costs of complying with the agreement must exceed the amount of CIL that would have been payable); and that the Authority must be satisfied that granting relief would not constitute state aid.
- 2.6 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.
- 2.7 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).

- 2.8 Several local authorities have undertaken viability assessments and have drafted a CIL charging schedule, which they have submitted for independent examination. To date, three charging authorities (Newark and Sherwood Council, Shropshire Council and Redbridge Borough Council) have been through the examination process and are at various stages of adoption and implementation.

### Economic and housing market context

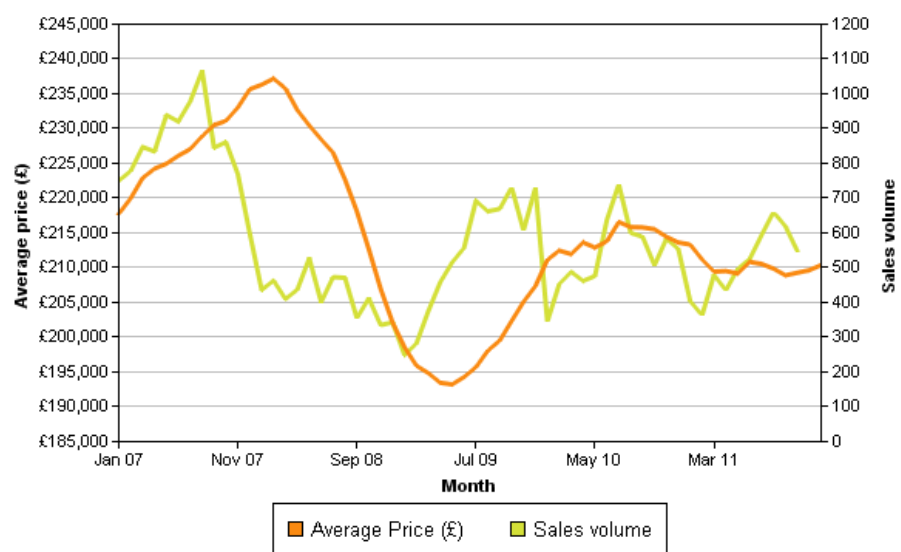
- 2.9 The historic highs achieved in the UK housing market by mid 2007 followed a prolonged period of real house price growth. However, a period of 'readjustment' began in the second half of 2007, triggered initially by rising interest rates and the emergence of the US sub prime lending problems in the 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.
- 2.10 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 November 2011 Bank of England GDP fan chart below, showing the range of the Bank's predictions for GDP growth to 2014) has meant that consumer confidence has started to improve to some extent.



Source: Bank of England

- 2.11 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 it is evident that this brief resurgence has abated, with the Halifax House Price Indices showing a fall of 1.3% in the year to December 2011.
- 2.12 The balance of opinion is that house prices will remain flat in the short term, with continuing high levels of unemployment likely to result in increased repossessions and increased supply of homes into the market. At the same time, demand is expected to remain subdued, due to the continuing difficulties consumers face in securing mortgages.

**Figure 2.7.1: House prices and sales volumes in Dorset**



Source: Land Registry

- 2.13 According to Land Registry data, residential sales values in Dorset have recovered since the lowest point in the cycle in May 2009. Prices increased by 12% between May 2009 and June 2010 but have since fallen back in 2011 and remain 11.3% below their February 2008 level.
- 2.14 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 regional mainstream markets (i.e. non-prime) will return to growth in 2013<sup>1</sup>. Savills predict that values in south west England will fall by 1.5% in 2012, but increase by 0.5% in 2013, 2.5% in 2014, 3.5% in 2015 and 5.0% in 2016. This equates to cumulative growth of 10.3% between 2012-2016 inclusive, compared to a UK average of 6% cumulative growth over the same period.

<sup>1</sup> Savills Research: Residential Property Focus, November 2011

### **Local Policy context**

- 2.15 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. The Council expects developments of 3 or more units to contribute towards affordable housing, with a target of 35%, provided as two thirds social rent and one third shared ownership. On small sites, the affordable housing contribution is secured as a payment in lieu. In urban areas, the affordable housing threshold is 15 units.

### **Development context**

- 2.16 Developments in the District range from the construction of single dwellings and urban in-fill developments, up to major developments on the edge of existing settlements. The bulk of development (in terms of volume of units) is expected to come forward on previously undeveloped land. Demand for some types of commercial floorspace and high street retail in some areas is relatively weak. There are significant variations in residential sales values between different parts of the District, with Lyme and Sherbourne attracting the highest values, and Chickerell and Crossways the lowest values.

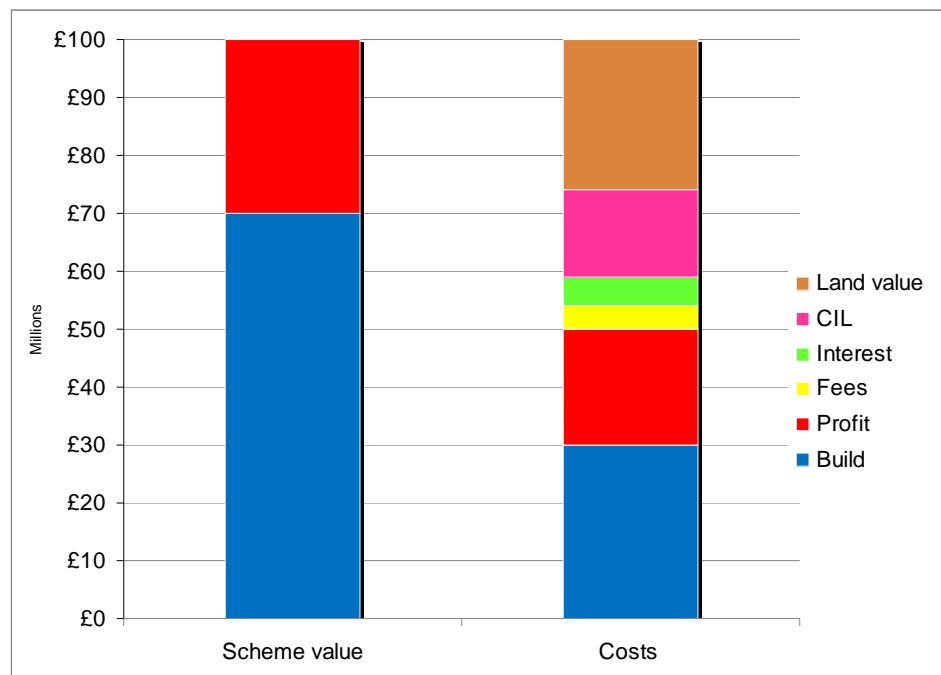


## 3 Methodology and appraisal inputs

- 3.1 Our methodology follows standard development appraisal conventions, using assumptions that reflect local market and planning policy circumstances. The study is therefore specific to West Dorset District and reflects the policy requirements set out in the adopted Planning Obligations SPD.

### 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 Social Landlord ('RSL') for the completed affordable housing units. The model then deducts the build costs, fees, interest, 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), 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' or another appropriate benchmark to make development worthwhile. The margin above current use value may be 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 (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."*

**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 It is clear from the planning appeal decisions above 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 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.

- 3.10 The recent 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 some objectors suggested that 'Market Value' was a more appropriate benchmark. The Examiner concluded 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).*

- 3.11 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).*

- 3.12 It is important to stress, therefore, 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 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.

## 4 Development appraisals

### Residential development

- 4.1 We have appraised a series of generic developments, reflecting both the range of sales values/capital values and also sizes/types of development and densities of development across the District. This is similar to the approach adopted in the Council's *Affordable Housing Viability Study* by Three Dragons (January 2010).

#### Residential sales values

- 4.2 Residential values in the District reflect national trends in recent years but do of course vary across the District. We considered both comparable evidence of transacted properties in the District and the Council sought agreement from developers on appropriate values for testing purposes. This exercise indicates that developments will attract sales values ranging from £2,137 to £3,229 per square metre.
- 4.3 Sales values vary between different areas across the District, with higher values in Lyme and Sherbourne; and the lowest values in Chickerell and Crossways. The average values we have assumed in our appraisals are shown in Table 4.3.1.

**Table 4.3.1: Sales values**

| Areas      | Value per sq m | Value per sq ft |
|------------|----------------|-----------------|
| Beaminster | £3,086         | £287            |
| Bridport   | £2,791         | £259            |
| Chickerell | £2,244         | £208            |
| Dorchester | £2,859         | £266            |
| Lyme       | £3,390         | £315            |
| Sherbourne | £3,433         | £315            |
| Charmouth  | £2,433         | £226            |
| Crossways  | £2,249         | £209            |

- 4.4 As noted earlier in the report, Savills predict that sales values will increase over the medium term. Whilst this predicted growth cannot be guaranteed, we have run a sensitivity analysis assuming growth in sales values of 10%, accompanied by 5% increase in costs (the latter assuming a pick up in construction activity and higher labour and materials costs). We have also modelled a fall in prices of 5%, to provide the Council with an indication of the impact a reverse in values would have on viability.

#### Affordable housing tenure and values

- 4.5 The Council's policy position is that developments should provide 35% affordable, with a tenure mix of two thirds social rent and one third shared ownership (or other forms of intermediate housing). The Council has advised that RSLs operating locally are currently offering circa £900 per square metre for completed units of social rent. This amount reflects the capital value of the net rents, having regard to management and maintenance costs, and financing arrangements of the RSLs. For shared ownership housing, RSLs

are offering £1,350 per square metre.

- 4.6 The CLG/HCA '2011-2015 Affordable Homes Programme – Framework' (February 2011) document clearly states that RSLs will not receive grant funding for any affordable housing provided through planning obligations. Consequently, all our appraisals assume nil grant. We recommend that the Council revisits this assumption when it next reviews its charging schedule after 2015.

#### Residential development types, density and mix

- 4.7 We have run appraisals using the range of densities that are typically encountered in the District, based on advice from the Council. Densities are assumed to be around 30 units per hectare. A consistent unit mix has been adopted for both private and affordable tenures, as shown in Table 4.5.1. The mix varies between type of development. Table 4.5.2 summarises the different development types selected for testing purposes.

**Table 4.5.1: Unit Mix**

| Site type | 1 Bed flat | 2 bed flat | 3 bed flat | 2 bed house | 3 bed house | 4 bed house | 5 bed house |
|-----------|------------|------------|------------|-------------|-------------|-------------|-------------|
| 1         | -          | -          | -          | -           | -           | 100%        | -           |
| 2         | -          | -          | -          | 20%         | 40%         | 40%         | -           |
| 3         | -          | -          | -          | 20%         | 40%         | 40%         | -           |
| 4         | -          | -          | -          | 20%         | 40%         | 40%         | -           |
| 5         | -          | -          | -          | 25%         | 35%         | 30%         | 10%         |
| 6         | -          | -          | -          | 30%         | 35%         | 25%         | 10%         |
| 7         | -          | -          | -          | 30%         | 35%         | 25%         | 10%         |

**Table 4.5.2: Housing Mix**

|   | Number of units | Housing type | Development density units per ha | Net developable area (ha) |
|---|-----------------|--------------|----------------------------------|---------------------------|
| 1 | 1               | Houses       | 30                               | 0.03                      |
| 2 | 2               | Houses       | 30                               | 0.07                      |
| 3 | 5               | Houses       | 30                               | 0.17                      |
| 4 | 10              | Houses       | 30                               | 0.33                      |
| 5 | 50              | Houses       | 30                               | 1.67                      |
| 6 | 250             | Houses       | 30                               | 8.33                      |
| 7 | 1,500           | Houses       | 30                               | 50                        |

#### Residential build costs

- 4.8 We have sourced build costs for the residential schemes from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes. The basic cost for houses is £860 per square metre (£80 per square foot), which excludes external works and fees.

- 4.9 Sites 1 and 2 are small 'one off' developments which attract slightly higher costs. We have increased the basic BCIS cost to £946 per square metre (£88 per square foot) to reflect these higher costs.
- 4.10 Our appraisals include a 15% allowance for external works (roads, pavements, street lights etc).
- 4.11 On the 'strategic' sites (sites 6 and 7), our appraisals include an additional £20,000 per unit allowance for major on-site infrastructure and associated costs.
- 4.12 A further 6% allowance is included for the costs associated with meeting Code for Sustainable Homes level 4, which is reflective of the findings of work undertaken by Cyrill Sweett on behalf of CLG.

#### **Professional fees**

- 4.13 In addition to base build costs, schemes will incur professional fees, covering design, valuation, highways and so on. Our appraisals incorporate a 10% allowance for these fees, which is at the higher end of the range for most schemes.

#### **Section 278 and residual Section 106 costs**

- 4.14 Our appraisals incorporate an allowance of £1,000 per unit to address any Section 278 and residual Section 106 costs.

#### **Development and sales periods**

- 4.15 Development and sales periods vary between type of scheme. However, our sales periods are based on an assumption of a sales rate of 3 units per month. This is reflective of current market conditions, whereas in improved markets, a sales rate of up to 8 units per month might be achieved. The build and sales periods for each scheme type are summarised in Table 4.38.1 below.

#### **Developer's profit**

- 4.16 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 15-17% of development costs. 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 have 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).
- 4.17 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.
- 4.18 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, if at all.

- 4.19 The minimum generally acceptable profit level is currently around 20% of GDV. For the larger schemes (sites 6 and 7, which have extensive upfront infrastructure investment), we have assumed a higher profit of 25%. 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 Homes and Communities Agency's guidelines in its Economic Appraisal Tool.

#### **Phasing of CIL payments**

- 4.20 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 Table 4.30.1

### **Benchmark land values for the residential analysis**

- 4.21 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.
- 4.22 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.
- 4.23 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).
- 4.24 Over the past four 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 yields to improve (i.e. decrease), which will result 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.
- 4.25 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.
- 4.26 The four benchmark land values used in this study have been selected to provide a broad indication of likely land values across the District, but it is important to recognise 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.
- 4.27 We have included a risk-adjusted Valuation Office Agency (‘VOA’) ‘residential land value’ for Weymouth & Portland as one of our benchmarks (there is no data available for West Dorset District). This data reflects *the value of land with planning consent for residential use with appropriate servicing* and thus an over generous benchmark against which to test developments which do not have planning. Valuers would typically deduct an allowance for risk from the value of sites without consent. We have therefore adjusted the Weymouth & Portland residential land value of £1.7 million per hectare to £1.19 million per hectare to account for planning risk. Recognising that the VOA undertook its most recent study when Social Housing Grant was available for most sites, we have adjusted the land value to account for the reduction in grant availability resulting from the October 2010 *Comprehensive Spending Review*<sup>2</sup>. This results in a further reduction of £0.4 million per hectare (based on 10 units at £40,000 grant per unit). The resulting land value benchmark is £790,000, which we have rounded up to **£800,000 per hectare**.
- 4.28 There is very little recent transactional data available, but we would in any case caution against reliance on deals, in light of the comments on this data in Examiner’s report on the Mayor of London’s CIL<sup>3</sup>.
- 4.29 The second benchmark land value takes the adjusted VOA figure above and makes a further adjustment to provide an indicative residential land value benchmark for lower value areas. This benchmark equates to **£650,000 per**

<sup>2</sup> It should also be noted that the Homes and Communities Agency’s *Affordable Homes Programme 2011-2015 – Framework* document also explicitly states that affordable housing delivered through Section 106 obligations will not receive grant.

<sup>3</sup> 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.”



**hectare** and is intended to illustrate the inevitable variation in land values across the District.

- 4.30 The third and fourth benchmark land values are based on low value uses – industrial land at **£400,000 per hectare** and **£300,000 per hectare** for other uses, including bulk land/greenfield sites.
- 4.31 Our residential appraisal inputs are summarised in Table 4.30.1.

**Table 4.30.1: Residential appraisal assumptions for each site type**

| Appraisal input                           | Source/Commentary  | Scheme type |           |           |           |             |         |         |
|---|--|-------------|-----------|-----------|-----------|-------------|---------|---------|
|   |  | 1           | 2         | 3         | 4         | 5           | 6       | 7       |
| Number of units                           | All units constructed as houses  | 1           | 2         | 5         | 10        | 50          | 250     | 1,500   |
| Base construction costs (£s per sq metre) | BCIS adjusted for location. Sites 1 and 2 – 10% uplift to reflect higher costs for very small schemes. Other schemes 'Estate housing – generally'. Site 6 and 7 – 10% discount for economies of scale. | £946        | £946      | £860      | £860      | £860        | £774    | £774    |
| External works (% of build costs)         | Based on average scheme cost. £20,000 per unit additional allowance for greenfield infrastructure on Sites 6 and 7   | 15%         | 15%       | 15%       | 15%       | 15%         | 15%     | 15%     |
| Contingency (% of build cost)             | Industry norm  | 5%          | 5%        | 5%        | 5%        | 5%          | 5%      | %       |
| Construction period (months)              | We assume that developers will build at the rate they are able to sell.  | 7           | 9         | 12        | 15        | 16          | 51      | 51      |
| Professional fees (% of build)            | BNPPRE assumption, relates to complexity of scheme   | 10%         | 10%       | 10%       | 10%       | 10%         | 10%     | 10%     |
| Sales period (months)                     | Determined by ability of market to absorb new development  | 1           | 1         | 2         | 3         | 15          | 50*     | 50*     |
| Sale start (month from commencement)      | Linked to end of construction period   | 7           | 10        | 12        | 14        | 10          | 10      | 10      |
| Sales rate (units per month)              | Reflective of current market, could improve.   | 3           | 3         | 3         | 3         | 3           | 3       | 3       |
| Profit on private (% of GDV)              | 25% profit on larger schemes justified by higher risk profile  | 20%         | 20%       | 20%       | 20%       | 20%         | 25%     | 25%     |
| Profit on affordable (% of GDV)           | Reduced risk due to pre-sale to RSL  | 6%          | 6%        | 6%        | 6%        | 6%          | 6%      | 6%      |
| Phasing of CIL payments                   | BNPPRE assumption – equal splits, paid in months shown in table  | 1 / 4 / 4   | 1 / 6 / 6 | 1 / 6 / 6 | 1 / 6 / 6 | 1 / 12 / 16 | 1/24/36 | 1/24/36 |
| Gross to net ratio for flats              | BNPPRE assumption  | n/a         | n/a       | n/a       | n/a       | n/a         | n/a     | n/a     |
| Site area (ha, developable area)          | Assumes a density of 30 units per ha (net)   | 0.03        | 0.06      | 0.17      | 0.33      | 1.67        | 8.83    | 50      |

\* Multiple developers on site

## Commercial development

- 4.32 We have appraised a series of generic commercial developments, 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 existing use on the site, based on the same type of commercial development. In each case, the existing use value assumes that the existing building is half the size of the new development, with a lower rent and higher yield reflecting the secondary nature of the building.

### Commercial rents and yields

- 4.33 Our research on lettings of commercial floorspace indicates a range of rents achieved, as summarised in table 4.32.1. 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 development activity in the office sector over the past decade. While new build office developments are likely to attract a premium rent above second hand rents, we would expect this to be relatively modest. The rents and yields adopted in our appraisals are summarised in Table 4.32.1.
- 4.34 Our appraisals of commercial floorspace test the viability of developments on existing commercial sites. For these developments, we have assumed that the site currently accommodates the same use class and the development involves intensification of that use. 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 20% landowner premium is added to the resulting existing use value as an incentive for the site to come forward for development. The premium would vary between sites, but has been adopted as a worst case scenario for testing purposes.

### Commercial build costs

- 4.35 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).

### Profit

- 4.36 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).

**Table 4.32.1: Commercial appraisal assumptions for each use**

| Appraisal input                                   | Source/Commentary  | Offices | Town centre retail | Retail warehouse | Super-market retail | Industrial |
|---|--|---------|--------------------|------------------|---------------------|------------|
| Total floor area (sq ft)                          | Generic scheme   | 7,500   | 4,000              | 20,000           | 30,000              | 15,000     |
| Rent (£s per sq ft)                               | Based on average lettings sourced from EGI   | £12     | £20                | £15              | £22                 | £6         |
| Rent free/void period (years)                     | BNPPRE assumption  | 2       | 2                  | 2                | 2                   | 2          |
| Yield   | BNPPRE prime yield schedule  | 7%      | 6.5%               | 6.5%             | 5.5%                | 8%         |
| Purchaser's costs (% of GDV)                      | Stamp duty 4%, plus agent's and legal fees   | 5.75%   | 5.75%              | 5.75%            | 5.75%               | 5.75%      |
| Demolition costs (£s per sq ft of existing space) | BCIS   | £5      | £5                 | £5               | £5                  | £5         |
| Gross to net (net as % of gross)                  | Based on experience from individual schemes  | 85%     | 85%                | 85%              | 85%                 | 85%        |
| Base construction costs (£s per sq ft)            | BCIS costs. Offices – 'generally' for air conditioned offices. 'Generally' figure for industrial, supermarkets, retail warehouse and town centre retail. | £131    | £91                | £55              | £106                | £65        |
| External works (% of 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)   | 10%     | 10%                | 10%              | 10%                 | 10%        |
| Agent's fees and legal fees                       | (% of capital value)   | 1.75%   | 1.75%              | 1.75%            | 1.75%               | 1.75%      |
| Interest rate                                     | BNPPRE assumption  | 6.5%    | 6.5%               | 6.5%             | 6.5%                | 6.5%       |
| Professional fees (% of build)                    | BNPPRE assumption, relates to complexity of scheme   | 10%     | 10%                | 10%              | 10%                 | 10%        |
| Profit (% of costs)                               | 25% profit on larger schemes justified by higher risk profile  | 20%     | 20%                | 20%              | 20%                 | 20%        |

**Table 4.32.1 (continued) Commercial appraisal assumptions for each use – existing uses**

| Appraisal input                          | Source/Commentary   | Offices | Town centre retail | Retail warehouse | Super-market retail | Industrial |
|--|---|---------|--------------------|------------------|---------------------|------------|
| Existing floorspace (sq ft)              | Assumed to be 50% of new space  | 3,750   | 2,000              | 10,000           | 15,000              | 7,500      |
| Rent on existing floorspace              | Reflects poor quality second hand space of same use, low optimisation of site etc and ripe for redevelopment  | £7      | £12                | £12              | £12                 | £3         |
| Yield on existing floorspace             | BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc         | 8%      | 7.5%               | 7.5%             | 7%                  | 9%         |
| 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                 | £0         |
| 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 | 20%     | 20%                | 20%              | 20%                 | 20%        |

## 5 Appraisal outputs

### Residential appraisals

- 5.1 The full outputs from our appraisals of residential development are attached as Appendix 2. We have modelled seven generic site types, reflecting different densities and types of development, which are tested in each area in the District and against four land value benchmarks. These types are summarised in table 5.1.1 below.

**Table 5.1.1: Development types**

|   | Number of units | Housing type | Development density units per ha | Net developable area (ha) |
|---|-----------------|--------------|----------------------------------|---------------------------|
| 1 | 1               | Houses       | 30                               | 0.03                      |
| 2 | 2               | Houses       | 30                               | 0.07                      |
| 3 | 5               | Houses       | 30                               | 0.17                      |
| 4 | 10              | Houses       | 30                               | 0.33                      |
| 5 | 50              | Houses       | 30                               | 1.67                      |
| 6 | 250             | Houses       | 30                               | 8.33                      |
| 7 | 1,500           | Houses       | 30                               | 50                        |

### Scenarios tested – schemes below affordable housing threshold

- 1. Base sales and base costs (including Code for Sustainable Homes Level 4);
- 2. Sales fall by 5%;
- 3. Sales increase by 10% and costs increase by 5%

### Scenarios tested – schemes above affordable housing threshold

- 4. Base sales and base costs (including Code for Sustainable Homes Level 4 with 35% affordable housing
- 5. As Scenario 4, sales values fall by 5%
- 6. As Scenario 4, sales values increase by 10% and costs increase by 5%
- 7. As Scenario 4, 40% affordable housing
- 8. As Scenario 4, 30% affordable housing
- 9. As Scenario 4, 20% affordable housing

- 5.2 We assumed that all schemes will meet Code for Sustainable Homes level 4. Level 4 is reflected through a 6% adjustment to our base build costs.
- 5.3 For all types of site, we have run two sensitivity analyses; firstly, with sales values increasing by 10% and build costs also increasing by 5%; and secondly, with sales values falling by 5%. This is provided for illustrative purposes and may assist the Council in understanding how viability might be affected by movements in sales values over time. However, the future trajectory of the housing market is inherently uncertain and predictions cannot be relied upon.
- 5.4 The residual land values from each of the scenarios above in each of the eight housing market areas are then compared to four benchmark land values

(‘BLVs’) based on the assumptions set out in paragraphs 4.20 to 4.30. 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**

- 5.5 Our research on rents achieved on commercial lettings indicates a range of rents within each main use class. Our commercial appraisals therefore model the lower end of the range of rents and capital values to test the impact on viability and the ability of commercial schemes to contribute towards CIL. For each use class tested (B1, B2/B8, retail etc), 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**

- 5.6 For development types with no affordable housing (i.e. site types 1 and 2), there are four spreadsheets, as follows:
- Base sales values, CSH level 4;
  - Sales values + 10%, build costs + 5%; and
  - Sales values -5%.
- 5.7 For development types which are required to provide affordable housing (site types 3, 4, 5, 6 and 7), there are additional analyses to those shown above, as follows:
- Base sales values, CSH level 4, 35% affordable housing;
  - Base sales values, CSH level 4, 40% affordable housing;
  - Base sales values, CSH level 4, 30% affordable housing; and
  - Base sales values, CSH level 4, 20% affordable housing;
- 5.8 A sample of the format of the results is provided below. This sample relates to site type 1.

CIL Viability West Dorset District

Benchmark Land Values (per net developable ha)

**SITE TYPE 1**  
**1 UNITS**  
**HOUSES**  
**30 UPH**

| BLV1             | BLV2            | BLV3           | BLV4       |
|------------------|-----------------|----------------|------------|
| Resi land (high) | Resi land (low) | Fmr industrial | Greenfield |
| £800,000         | £650,000        | £400,000       | £250,000   |

CSH level: 4  
Aff Hsg: 35%

|  |                       |
|--|-----------------------|
|  | Sales value inflation |
|  | Build cost inflation  |
|  | Profit                |

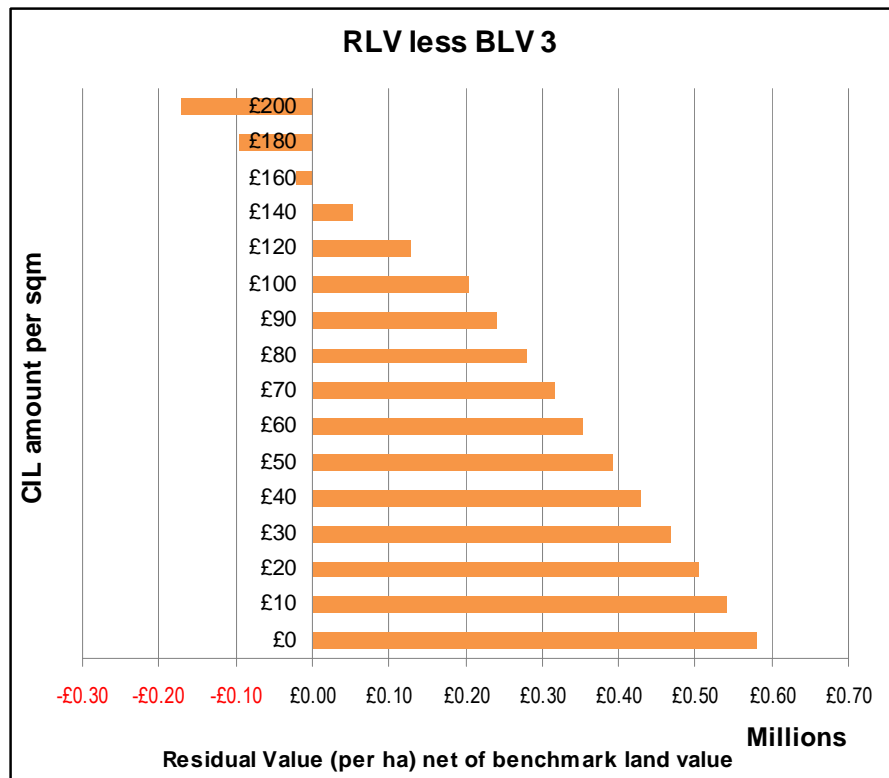
Site type 1 Description: **Area 1 £3086 psm Beaminster** Site area: 0.03 ha

| CIL amount | RLV     | RLV per ha | RLV less BLV 1 | RLV less BLV 2 | RLV less BLV 3 | RLV less BLV 4 |
|------------|---------|------------|----------------|----------------|----------------|----------------|
| 0          | 132,038 | 3,961,150  | 3,161,150      | 3,311,150      | 3,561,150      | 3,711,150      |
| 10         | 130,787 | 3,923,600  | 3,123,600      | 3,273,600      | 3,523,600      | 3,673,600      |
| 20         | 129,535 | 3,886,051  | 3,086,051      | 3,236,051      | 3,486,051      | 3,636,051      |
| 30         | 128,283 | 3,848,501  | 3,048,501      | 3,198,501      | 3,448,501      | 3,598,501      |

- 5.9 Each spreadsheet provides residual values at varying amounts of CIL, starting at £0 and increasing to £200 per square metre. Whilst CIL applies to net additional floor area only, our appraisals assume that it is applied to the whole development (excluding affordable housing). This reflects the fact that most sites coming forward in the District are greenfield or other previously undeveloped sites.
- 5.10 Separate data tables are provided in each spreadsheet for each of the housing market areas:
- Area 1: Beaminster;
  - Area 2: Bridport;
  - Area 3: Chickerell;
  - Area 4: Dorchester;
  - Area 5: Lyme Regis;
  - Area 6: Sherbourne;
  - Area 7: Charmouth; and
  - Area 8: Crossways.
- 5.11 The RLV is converted to a per hectare rate and compared to the four benchmark land values (see paragraphs 4.20 to 4.30). This is shown in the columns headed 'RLV less BLV1, BLV2' etc. A positive number indicates that the development is viable, as the developer will receive a normal level of development profit and the land value will be sufficient for the site to come forward.
- 5.12 The numerical data is then displayed in four graphs, one for each threshold land value. The graphs show the amount by which the RLV exceeds BLV (or is less than BLV) for each level of CIL. In the illustrative example below (Chart 5.12.1), the graph shows that the maximum viable level of CIL would be £120 per square metre, but that above this level, higher levels of CIL would render the scheme unviable. It is important to note that the charts do not have the same scale and the reader needs to bear this in mind if comparing one chart to another.



**Chart 5.12.1: Illustrative example of data chart**



**Commercial appraisal results**

5.13 The commercial appraisal results are more straightforward, due to the narrower range of variables that need to be considered in comparison to residential development. The appraisal results are presented in a similar way to the residential results, using the same charts to show the ‘surplus’ or negative scheme value after CIL is deducted.

## 6 Assessment of the results

- 6.1 This section should be read in conjunction with the full results attached at Appendix 2 (residential appraisal results), Appendix 3 (filtered residential appraisal results) and Appendix 4 (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 District. These RLVs are then compared to benchmark land values.
- 6.2 Charging authorities are required to strike “*an appropriate balance*” between the need to raise funding to provide infrastructure to ensure development is sustainable and the potential impact of CIL on the economic viability of development. 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, they 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.

### Assessment – residential development

- 6.4 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. CLG guidance recognises that CIL may make some developments unviable. 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.

- 6.5 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 critical factor. We have therefore disregarded the ‘unviable’ schemes in recommending an appropriate level of CIL. Appendix 3 provides a ‘filtered’ set of results, removing the unviable development scenarios to provide a clearer picture of the impact of CIL on developments that could proceed in current market conditions. 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 in the short term<sup>4</sup>.

#### **Determining a maximum viable rate of CIL for residential development**

- 6.6 As noted in paragraph 6.5, where a scheme is unviable the imposition of CIL at any level (including zero) 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 accordance with the Council’s requirements.
- 6.7 In the main, Site type 1 generates residual values that are higher than the benchmark land values, even at the highest level of CIL in the testing range of up to £200 per square metre. There is one exception to this; at Crossways, the highest rates of CIL would only become viable when scheme viability is tested against the lower benchmark land values (see Table 6.7.1).

**Table 6.7.1: Site type 1 - maximum viable rates of CIL (£s per square metre)**

| Area       | Resi land value (higher) | Resi land value (lower) | Former Industrial land | G’Field bulk land |
|------------|--------------------------|-------------------------|------------------------|-------------------|
| Beaminster | £200                     | £200                    | £200                   | £200              |
| Bridport   | £200                     | £200                    | £200                   | £200              |
| Chickerell | £120                     | £160                    | £200                   | £200              |
| Dorchester | £200                     | £200                    | £200                   | £200              |
| Lyme       | £200                     | £200                    | £200                   | £200              |
| Sherbourne | £200                     | £200                    | £200                   | £200              |
| Charmouth  | £200                     | £200                    | £200                   | £200              |
| Crossways  | £120                     | £160                    | £200                   | £200              |

- 6.8 In most areas, the viable scenarios for Site type 2 indicate that the viable level of CIL is greater than the upper end of the £0 to £200 per square metre range

<sup>4</sup> However, as shown by the ‘scenario 9’ results (which reduce affordable housing to 20%) 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.

of CIL that we tested. In Chickerell, Charmouth and Crossways, low levels of CIL are viable when schemes are compared to the highest land value benchmarks (see Table 6.8.1).

**Table 6.8.1: Site type 2 - maximum viable rates of CIL (£s per square metre)**

| Area       | Resi land value (higher) | Resi land value (lower) | Former Industrial land | G'Field bulk land |
|------------|--------------------------|-------------------------|------------------------|-------------------|
| Beaminster | £200                     | £200                    | £200                   | £200              |
| Bridport   | £200                     | £200                    | £200                   | £200              |
| Chickerell | £140                     | £180                    | £200                   | £200              |
| Dorchester | £200                     | £200                    | £200                   | £200              |
| Lyme       | £200                     | £200                    | £200                   | £200              |
| Sherbourne | £200                     | £200                    | £200                   | £200              |
| Charmouth  | £200                     | £200                    | £200                   | £200              |
| Crossways  | £140                     | £200                    | £200                   | £200              |

- 6.9 Site type 3 falls above the affordable housing threshold, with a requirement for 35% affordable housing. Due to this additional pressure on scheme value, the maximum levels of CIL fall in the lower value areas when the schemes are compared to the two residential land benchmark land values (see Table 6.9.1). A similar pattern of results emerges for Site types 4 and 5 (see Tables 6.9.2 and 6.9.3).

**Table 6.9.1: Site type 3 - maximum viable rates of CIL (£s per square metre)**

| Area       | Resi land value (higher) | Resi land value (lower) | Former Industrial land | G'Field bulk land |
|------------|--------------------------|-------------------------|------------------------|-------------------|
| Beaminster | £200                     | £200                    | £200                   | £200              |
| Bridport   | £180                     | £200                    | £200                   | £200              |
| Chickerell | nv                       | nv                      | £90                    | £160              |
| Dorchester | £200                     | £200                    | £200                   | £200              |
| Lyme       | £200                     | £200                    | £200                   | £200              |
| Sherbourne | £200                     | £200                    | £200                   | £200              |
| Charmouth  | £40                      | £120                    | £200                   | £200              |
| Crossways  | nv                       | nv                      | £100                   | £160              |

**Table 6.9.2: Site type 4: Maximum viable rates of CIL (£s per square metre)**

| Area       | Resi land value (higher) | Resi land value (lower) | Former Industrial land | G'Field bulk land |
|------------|--------------------------|-------------------------|------------------------|-------------------|
| Beaminster | £200                     | £200                    | £200                   | £200              |
| Bridport   | £200                     | £200                    | £200                   | £200              |
| Chickerell | nv                       | nv                      | £80                    | £180              |
| Dorchester | £200                     | £200                    | £200                   | £200              |
| Lyme       | £200                     | £200                    | £200                   | £200              |
| Sherbourne | £200                     | £200                    | £200                   | £200              |
| Charmouth  | £20                      | £100                    | £200                   | £200              |
| Crossways  | nv                       | nv                      | £80                    | £180              |

**Table 6.9.3: Site type 5: Maximum viable rates of CIL (£s per square metre)**

| Area       | Resi land value (higher) | Resi land value (lower) | Former Industrial land | G'Field bulk land |
|------------|--------------------------|-------------------------|------------------------|-------------------|
| Beaminster | £200                     | £200                    | £200                   | £200              |
| Bridport   | £200                     | £200                    | £200                   | £200              |
| Chickerell | nv                       | nv                      | £80                    | £140              |
| Dorchester | £200                     | £200                    | £200                   | £200              |
| Lyme       | £200                     | £200                    | £200                   | £200              |
| Sherbourne | £200                     | £200                    | £200                   | £200              |
| Charmouth  | £20                      | £100                    | £200                   | £200              |
| Crossways  | nv                       | nv                      | £80                    | £180              |

6.10 Site types 6 and 7 are major strategic developments where we have factored in additional allowances for major infrastructure. Table 6.10.1 shows the maximum viable levels of CIL for site type 6 and Table 6.10.2 shows the results for site type 7. These sites are most likely to be priced on the basis of greenfield bulk development land; where sites are viable, they are – in the main – able to absorb CIL contributions of up to £200 per square metre.

**Table 6.10.1: Site type 6 - Maximum viable rates of CIL (£s per square metre)**

| Area       | Resi land value (higher) | Resi land value (lower) | Former Industrial land | G'Field bulk land |
|------------|--------------------------|-------------------------|------------------------|-------------------|
| Beaminster | £200                     | £200                    | £200                   | £200              |
| Bridport   | £40                      | £120                    | £200                   | £200              |
| Chickerell | nv                       | nv                      | nv                     | nv                |
| Dorchester | £80                      | £180                    | £200                   | £200              |
| Lyme       | £200                     | £200                    | £200                   | £200              |
| Sherbourne | £200                     | £200                    | £200                   | £200              |
| Charmouth  | nv                       | nv                      | nv                     | £70               |
| Crossways  | nv                       | nv                      | nv                     | nv                |

**Table 6.10.2: Site type 7 - Maximum viable rates of CIL (£s per square metre)**

| Area       | Resi land value (higher) | Resi land value (lower) | Former Industrial land | G'Field bulk land |
|------------|--------------------------|-------------------------|------------------------|-------------------|
| Beaminster | £200                     | £200                    | £200                   | £200              |
| Bridport   | £40                      | £120                    | £200                   | £200              |
| Chickerell | nv                       | nv                      | nv                     | nv                |
| Dorchester | £90                      | £160                    | £200                   | £200              |
| Lyme       | £200                     | £200                    | £200                   | £200              |
| Sherbourne | £200                     | £200                    | £200                   | £200              |
| Charmouth  | nv                       | nv                      | nv                     | £70               |
| Crossways  | nv                       | nv                      | nv                     | nv                |

- 6.11 Given the range of results above, our recommendation is that a CIL rate of £100 per square metre strikes a reasonable balance between the potential maximum rate that could be charged in many parts of the District, and the other parts of the District where lower rates could be secured.
- 6.12 Alternatively, the Council could adopt differential rates of CIL, with a lower rate in Chickerell, Charmouth and Crossways, where scheme viability appears to be the most under pressure. The rate could be maintained at £100 per square metre in other areas, or increased slightly to offset any decrease in potential income arising from the discount applied to the lower value areas.
- 6.13 The Council should avoid setting rates at the margins of viability in order to minimise the potential for CIL to have an adverse impact on viability and/or levels of affordable housing that can be provided. As noted in the tables above, in Beaminster, Dorchester, Lyme and Sherbourne, there is significant headroom above the rate of £100 per square metre to absorb viability issues that might emerge. A slightly reduced rate may provide a more substantial buffer to protect viability on schemes in Bridport, Chickerell and Crossways.

- 6.14 In determining the maximum levels of CIL and the recommended rates above, we have based our assessment on current costs and values only. We have run a set of appraisals that show the impact of an increase in sales values, accompanied by an increase in build costs. These appraisals indicate a significant improvement in viability that would assist in enhancing the existing viability 'buffer' between CIL rates and the maximums identified above. However, given that the future trajectory of the housing market is uncertain, the Council should use these predictions with caution when setting its CIL rates.

#### **Residential care homes**

- 6.15 The viability of residential care homes is similar to that of general residential as sales values reflect local market levels. However, residential care schemes include a significantly higher level of communal space to accommodate social areas and other facilities. This has an adverse impact on viability. Our appraisal assumes a gross to net ratio of 70%, compared to 85% for a standard residential scheme. BCIS indicates that build costs for these facilities will average £1,290 per square metre, which we have reflected in our appraisals, together with an additional allowance for external works of 10%.
- 6.16 Our appraisal (attached at Appendix 4) assumes a capital value of £3,390 per square metre of completed development. This reflects the higher value areas within the District at Lyme Regis and Sherbourne. This is likely to be the prime area for developments of this type.
- 6.17 Our appraisal indicates that residential care homes are unlikely to be able to absorb CIL contributions unless higher values are achieved. We therefore recommend that the Council sets a nil rate for this type of development.

#### **Hotel development**

- 6.18 We have separately assessed the ability of hotel developments to make contributions through CIL (appraisal results attached at Appendix 4). Assuming a capital value of £40,000 per room (based on the typical rate paid by budget hotel operators outside main urban areas), our appraisals indicate that hotel development is unlikely to be viable at the current time. Considerable increases in capital values or a fall in build costs below average BCIS levels for hotels would be required to make hotel schemes viable. We therefore recommend a zero CIL at the current time.

#### **Holiday lets**

- 6.19 We understand that the Council receives applications for holiday lets, which are rented out rather than used as second homes for sole occupation. Holiday lets will typically be restricted to prevent long-term holidaymakers, with occupancy of no more than 28 consecutive days or no more than 6 months in any 12 month period. The consequences of this restriction are that, firstly, owners cannot live permanently in the property; and secondly, the availability of mortgages may be more restricted than would be the case for a residential unit.

- 6.20 Beyond the issues identified above, the viability of holiday lets will be similar to residential units designed for owner occupation. The build costs will be similar, although the value of the unit will depend upon the level of occupancy that can be achieved. To an extent, the level of charges to guests would be higher than the rent for a permanent residential unit, which compensates for void periods.
- 6.21 We would suggest that the Council has regard to the maximum rates set out for residential development in paragraphs 6.6 to 6.14, but apply a greater discount to allow for the factors outlined above.

### **Assessment – commercial development**

- 6.22 Our appraisals indicate that the potential for commercial schemes to be viably delivered is under considerable pressure at the current time. This pressure is described in detail in a study on commercial development undertaken by Goadsby in 2009<sup>5</sup>. Although retail warehousing and supermarket developments generate positive RLVs in excess of existing use value benchmarks, the Council does not expect any such developments to come forward in the short to medium term. Town centre retailing, local centre retailing, office developments and industrial developments are only marginally viable or unviable in the current market.
- 6.23 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 reflect this range to show the likely contributions that can be secured in the 'least viable' scenario where rents are lowest. For uses where even the higher levels of rent result in unviable development scenarios, we have not tested with the lower rent levels.

### **Office development**

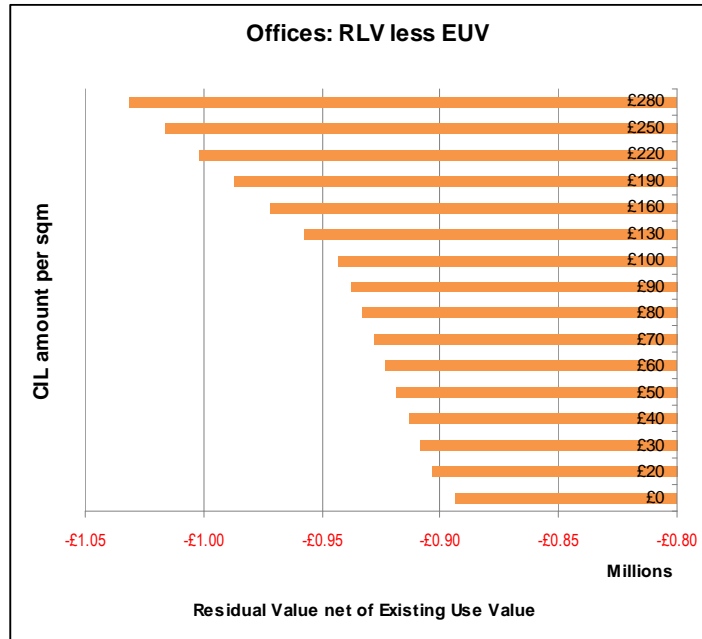
- 6.24 The results of our office appraisals indicate that the rent levels that could be secured on new developments in the District are unlikely to be sufficiently high to generate positive residual land values. Comparable evidence and recent marketing activity indicates that new build office rents are not likely to exceed circa £12 per sq ft at the current time. It is therefore very unlikely that office development will come forward in the short term. The results of our appraisal, with varying rates of CIL, are shown in Chart 6.24.1 below.

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<sup>5</sup> 'Assessment of potential employment sites', Goadsby on behalf of West Dorset District Council, October 2009



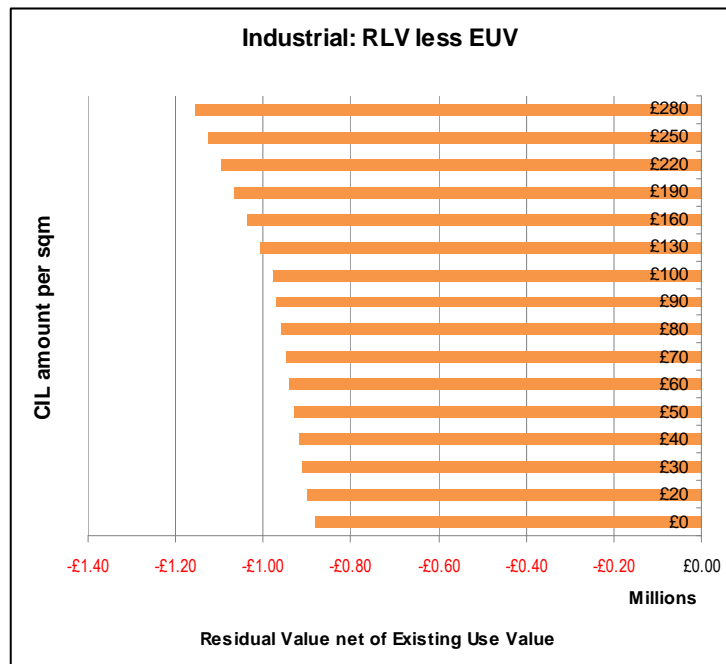
**Chart 6.24.1: Residual land values generated by office developments  
(rent of £12 per square ft or £129 per square metre)**



**Industrial/warehouse development**

6.25 Industrial and warehousing uses in West Dorset attract rents averaging £81 per square metre (£7.50 per sq ft). Industrial yields are currently around 8%. As a result of relatively low rents, industrial floorspace does not currently generate positive residual land values, as shown in Chart 6.25.1. As a consequence, it is unlikely that a significant quantum of industrial development will come forward in the short term.

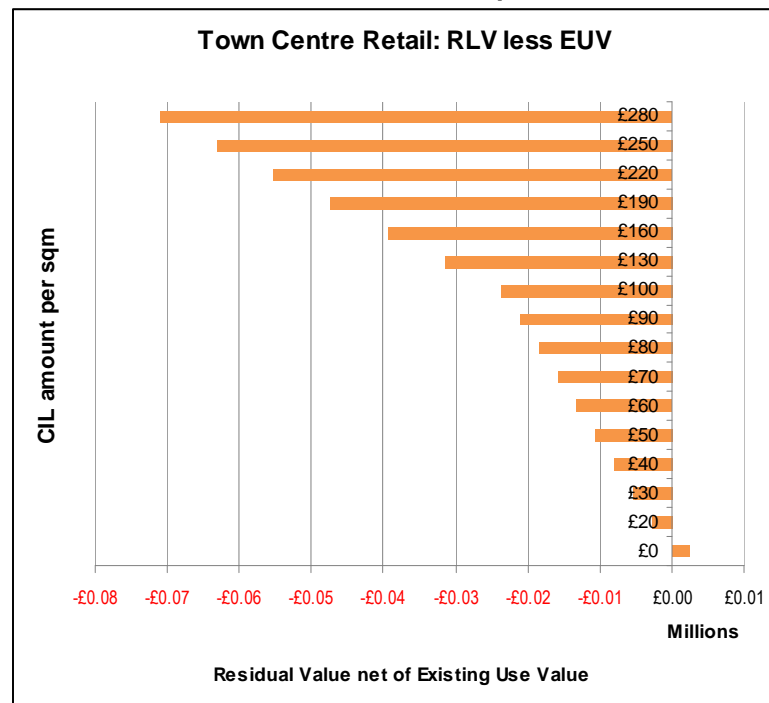
**Chart 6.25.1: Industrial development**



## Retail development

- 6.26 While rent levels do not vary hugely between the different types of retail, there are variations in yield, reflecting the relative strength of covenant offered by each type of occupier. Yields for supermarket operators are typically much lower than for independent retailers, resulting in higher capital values for supermarkets. We also assume higher build costs for town centre retailing, reflecting the additional design and quality requirements in comparison to retail warehouses and supermarkets that are designed in a more functional manner.
- 6.27 Our appraisals indicate that retail warehouses and retail supermarkets generate high capital values and would be able to absorb a CIL of up to £200 per square metre. Non-food town centre retail is marginally viable in most circumstances, before a requirement for CIL, as shown in Chart 6.27.1 (the charts for other retail uses can be found at Appendix 4). Given the need for a buffer for individual site differences, it is unlikely that any level of CIL could be raised on this type of retail.

**Chart 6.27.1: Town Centre retail development**



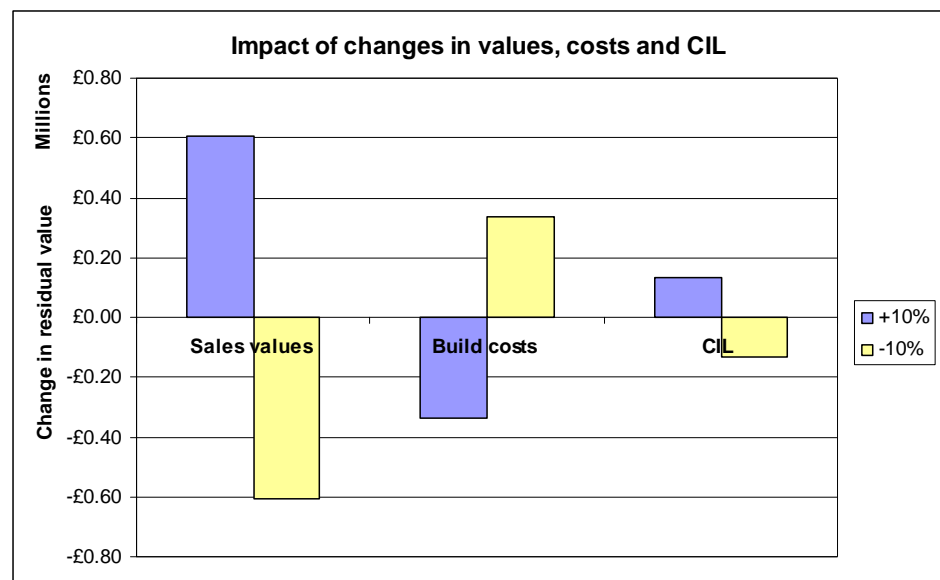
## D1 and D2 floorspace development

- 6.28 D1 and D2 floorspace typically includes uses that do not accommodate revenue generating operations, such as schools, health centres, museums 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. Many D1 uses will be infrastructure themselves, which CIL will help to provide. It is therefore unlikely that D1 and D2 uses will be capable of generating any contribution towards CIL.

## 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 District, 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 use classes and different areas. The results of our study point firmly towards the second option as our recommended route, particularly for residential development.
- 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* a 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 shown in the charts in Section 6. This point is also illustrated in Chart 8.2.1 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 8.2.1: 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 core recommendations on levels of CIL are therefore summarised as follows:

- 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 improvements.
- The ability of **residential schemes** to make CIL contributions varies depending on area and the current use of the site. Having regard to these variations, a majority of residential schemes across the District should be able to absorb a CIL rate of around £100 per square metre, leaving a margin for site-specific factors that might affect viability. While differential rates of CIL are more complex, it is likely that the Council would lose a significant amount of potential income from higher value areas. We recommend the following rates of CIL for each area:
  - Beaminster, Bridport, Dorchester, Lyme Regis and Sherbourne: circa £100 per square metre; and
  - Chickerell, Chermouth and Crossways: a reduced rate at circa £80 per square metre.
- In some circumstances, developments are currently unviable whether or not CIL is levied. The imposition of CIL will therefore not affect the prospects of these sites being delivered. Where these sites are required to provide lower proportions of affordable housing, the prospects for securing a viable scheme that can make CIL contributions might improve.
- **Hotel developments** are unlikely to be viable at the current time, given the level of capital values and construction costs. We would therefore suggest a zero rate at the current time.
- At current rent levels, **Office development** is unlikely to come forward in the short to medium term as the capital values generated are insufficient to cover development costs. We therefore recommend that the Council sets a nil rate for offices.
- Residual values generated by **Retail developments** vary significantly between local centre retail and high street retail (which is just marginally viable) on the one hand, and retail warehousing and supermarkets (which generate sufficient residual values to enable the payment of CIL). The Council does not expect any major supermarket or retail warehouse developments to come forward. However, a rate of £100 per square metre could be viably absorbed, allowing for a significant buffer below the maximum rate. We recommend a nil rate of CIL for town-centre non food retailing and local centre retail developments.
- 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 zero rate for industrial floorspace.
- D1 and D2 uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 uses.

- 7.5 For residential schemes, the application of CIL of £80 to £100 per square metre is broadly equivalent to the amounts currently secured by the Council through Section 106 contributions. A CIL equivalent to this amount is therefore unlikely to be a critical factor in determining whether or not a scheme is viable. When considered in context of total scheme costs, a CIL of £80 to £100 per square metre is a very modest amount, accounting for less than 3% of total development costs (i.e. less than a developer's contingency which is typically around 5%). Some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these sites. In striking a balance between CIL rates and viability, the Council should also consider the potential CIL that could be secured from the more viable sites when determining an appropriate balance between revenue maximisation and viability.

## Appendix 1 Map of housing market areas

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## Appendix 2 Residential appraisal results

## Appendix 3 Filtered residential appraisal results



## Appendix 4 Commercial appraisal results