Report for Dorset Council

Dorset Local Plan Viability Assessment

May 2022

Three Dragons

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Quality statement	In preparing this report, the authors have followed national and professional standards, acted with objectivity, impartially, without interference and with reference to appropriate available sources of information. No performance-related or contingent fees have been agreed and there is no known conflict of interest in advising the client group.
Use of this report	This report is not a formal land valuation or scheme appraisal. It has been prepared using the Three Dragons toolkit and is based on district level data supplied by Dorset Council, consultant team inputs and quoted published data sources. The toolkit provides a review of the development economics of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal. No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

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EXECUTIVE SUMMARY

1. Three Dragons was commissioned by Dorset Council to undertake a viability assessment of the Local Plan being prepared by the council, with the Consultation Draft published in January 2021. The assessment includes an analysis of the potential impact of the policies set out in the draft Local Plan and has been undertaken in accordance with national policy and guidance – including the National Planning Policy Framework and Planning Practice Guidance or PPG. As well as testing the viability of Local Plan policies, the study also considers the CIL rates that may be sought by Dorset Council.
2. Underlying the assessment is a series of tests that calculate the viability of a set of notional sites, representative of the types of development likely to come forward over the life of the Local Plan. The site typologies selected were identified in discussion with Dorset Council. They are not intended to represent specific development proposals but to reflect typical forms of development that are likely to come forward over the plan period. The proposed large scale strategic development north of Dorchester is not included in this study as it is being assessed separately.
3. The study assesses the residual value of development of the typologies and compares this with a benchmark land value. The residual value of a scheme is calculated as the difference between its total value and costs.
4. Residential values were estimated from an analysis of Land Registry data for new build housing and Energy Performance Certificates (EPC) records giving the size of dwellings, for the past five years. The data showed variances in values between different parts of Dorset and the testing has divided Dorset into Dorset East & Dorchester (the highest value area), Dorset Central & West (the mid value area) and Dorset North & South (the lowest value area). A review of property sites, EGi, agent reports and other web based data was used to inform the assumed values for non residential uses.
5. The value of affordable housing was calculated on the basis of the amount that can notionally be borrowed against net rental income and/or the proportion of the market value of a property where an intermediate sale product (such as First Homes) is being tested.
6. Build costs for all development types were sourced from BCIS. Other development costs e.g. professional fees, finance rates and developer returns were based on industry standards and the PPG as well as locally available site specific viability assessments. The impact of higher building standards has been included in the testing.
7. A series of benchmark land values were drawn up, based on notional existing values for brownfield and greenfield land, with different levels of premium applied.
8. Assumptions for the viability testing were discussed with representatives of the local development industry at a workshop and in a series of follow-up consultatios.

   <u>Viability testing results</u>

9. The key draft Local Plan policies that are used in the residential viability testing include:

- Affordable housing at 35% across most of Dorset; and 20% in the Dorset North & South value area; all with a mix of First Homes, shared ownership and social rent as the affordable tenures;
- Accessibility with 5% of all affordable units to Part M4(3) wheelchair standard and the remainder of all dwellings to Part M4(2) standard;
- S106 of £13,000 per dwelling;
- Habitats mitigation of £8,003 per flat and £8,690 per house

10. The testing concludes that most general residential development meeting these draft Local Plan policies is viable. The main exceptions are some flatted developments and some older persons housing.

11. Sensitivity tests were undertaken to explore the impacts of:

    - Alternative benchmark land values;
    - Allowance for Future Homes standard at 2025 (with the higher energy efficiency standards envisaged);
    - Increase in affordable housing from 35% to 40% in value area 3 Dorset East & Dorchester;
    - Higher build costs.

12. The sensitivity tests showed:

    - Alternative benchmark land values have the biggest impact on sites with residential existing use value, as well as the largest typology in the lowest value area;
    - Future Homes has a limited effect on smaller sites but many larger typologies in the mid and lower value areas become marginal or unviable with higher benchmark land values. Based on this, the majority of development will be able to come forward as Future Homes, especially if some of this additional cost is absorbed within the land value and/or costs reduce over time as the requirements of Future Homes become commonplace;
    - Increasing affordable housing to 40% results in some of the typologies now only viable or marginal at the lowest benchmark land value. Evidence provided by the council indicates that, historically, few sites in locations with a current policy requirement of over 40% deliver this amount of affordable housing;
    - The use of higher build costs reduces the viability although the typologies tested remain viable, even at the upper end of the benchmark land values used, indicating that higher build costs would not put delivery of plan policies at risk

13. Of the non-residential uses tested, only supermarkets and out of centre comparison retail showed a positive viability. This is in common with many areas, where speculative development of business space is not usual and development that is brought forward is usually through owner occupation or by a long lease to meet business needs.

Implications for Plan Policies

14. The viability testing shows that, in general, housing development in Dorset is viable with a requirement for 35% affordable housing in the higher value areas of Dorset West & Central and Dorset East & Dorchester and at 20% elsewhere.

15. The sensitivity testing shows that, in the main, development is still viable with higher building standards and higher building costs.

16. There are exceptions to this general pattern:
    - The viability of flatted schemes is mixed- overall, this form of development can proceed in Dorset but that site specific circumstances may mean that some schemes in lower value locations may deliver less affordable housing;
    - Older persons housing also has some mixed viability results. With 10% affordable housing and shared ownership as the tenure, viable development is achieved with sheltered housing schemes in all areas and viable extracare schemes in the highest value area (Dorset East & Dorchester);
    - The analysis of park homes schemes (also undertaken as part of the study) also indicated that an affordable housing contribution set at 10% would be realistic.

17. Therefore, it is considered that the policies set out in the draft Local Plan do not put at risk the overall delivery of the Plan.

Implications for CIL

18. In terms of CIL there is sufficient headroom in addition to the costs of complying with policies to consider a potential CIL charge on the following basis:
    - For residential developments generally a CIL rate in the range of £80-£160/sqm would seem appropriate on the basis of current evidence but with the option of setting a higher rate (say up to £200/sqm) in higher value area. There are a number of exceptions to this approach where a £zero CIL would be applicable;
        a. For flats – both 100% flatted schemes and flats within a mixed development with houses;
        b. For older persons housing schemes;
        c. For park homes schemes;
        d. For rural exception sites, regardless of tenure.
    - For non residential development, generally a £zero rate will apply with the exception of:
        e. Supermarkets and out of centre comparison retail where a CIL rate in the range of £20 to £120/sq m would seem appropriate on the basis of current evidence

Chapter 1 Introduction

Context

1.1 Three Dragons was commissioned by Dorset Council to undertake a viability assessment of the Local Plan being prepared by the council, with the Consultation Draft published in January 2021.

1.2 The assessment includes an analysis of the potential impact of the policies set out in the Consultation Draft[1] and has been undertaken in accordance with national policy and guidance – including the National Planning Policy Framework and Planning Practice Guidance.

1.3 The council is also seeking an indication of a potential Community Infrastructure Levy (CIL) rate, should this be sought by the council in the future for both residential and non-residential uses. National guidance indicates that this is best addressed at a plan making stage so decisions around priorities for funding can be considered within this strategic context.

1.4 Underlying the assessment is a series of tests that calculate the viability of a set of notional sites, representative of the types of development likely to come forward over the life of the Local Plan.

Viability in plan making

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

1.6 This report sets out the typologies and assumptions used to inform the viability testing reflecting latest available information. The viability testing for this report has:

- Reviewed broad costs associated with addressing the proposed policies in the 2021 Consultation Draft;
- Tested the quantum and broad form of proposed development;
- Been designed to assess the balance around development contributions including the amount of CIL that development can support and whether there are differences in viability across the district or between different types of development that are sufficient to justify different policy approaches.

[1] https://www.dorsetcouncil.gov.uk/documents/35024/285538/DCLP-Jan-2021-DorsetCouncilLocalPlan-vol1.pdf/7e0ff0f0-426f-523d-bd45-cc1fe4d60fac

1.7 The testing has drawn on the following evidence:

- Review of the types of sites outlined in the Consultation Draft Local Plan;
- Review of the policies in the Consultation Draft and central government guidance that may have implications for development viability;
- A review of recent developer contributions agreed by the council as well as discussion with council officers about the proposed use of s106 going forward;
- Consultation with the Dorset Council estates and property team and housing enablers
- Desk research to form initial views on the values and costs of residential development in Dorset;
- A range of consultation exercises with the development industry including registered providers.

1.8 In addition to this report is a Technical Report that provides further evidence and background information in support of the analysis undertaken.

Chapter 2 Requirements of viability testing

National policy

2.1 National policy and guidance on viability in plan making and for Community Infrastructure Levy (CIL) is set out in National Planning Policy Framework (NPPF) and the Planning Practice Guidance (PPG). There is also useful guidance contained within 'Viability Testing Local Plans – Advice for planning practitioners' (Harman). The viability testing undertaken within this study complies with this national policy and guidance, the details of which are set out in Appendix A.

Local policy

2.2 The NPPF is clear that viability testing should take into account the costs of any requirements likely to be applied to development. Therefore, a planning policy review has been undertaken. The Local Plan will be the main planning document for Dorset and it will set out the overarching spatial strategy and development principles for the area, together with more detailed policies to help determine planning applications. It is intended that the new Local Plan will replace the existing development plans for the former districts.

2.3 Dorset Council issued a draft options Local Plan for consultation in January 2021, which covered strategy and topics as well as development in the different parts of Dorset. The policies in this draft have been reviewed and discussed with the council in order to understand how they may be applied and the impact that this would have on viability. The main policy impacts are set out in the table below.

Table 2.1 Draft options Local Plan policies

Policy	Response
ENV2 habitat mitigation	Mitigation costs have been provided by the council and are included in the testing. See section 5.
ENV3 biodiversity net gain	Biodiversity net gain costs are drawn from the DLUHC Impact Assessment and included in the testing. See section 5.
ENV9 high standard of environmental performance for new buildings	The testing includes the costs of meeting the new 2021 building standards in Part L, and sensitivity testing is used to test the potential impacts of the 2025 Future Homes standard.
ENV12 pollution control (include remediation of contamination)	It is assumed that sites with contamination constraints will have appropriate adjustments to the site value and therefore no specific allowances are made.
HOUS1 at least 20% of all dwellings to be accessible	Dorset Council has advised that higher accessibility standards may be required and the testing includes the costs of 100% of all dwellings meet Part M4(2) and 5% of affordable dwellings meet Part M4(3).
HOUS2 requirement for 20% to 40% of affordable housing depending on location, split 30%	Early stage testing and discussion with Dorset Council was used to refine the affordable housing targets and the testing has the agreed 35% affordable housing in Dorset East & Dorchester and Dorset West & Central; and 20% affordable housing in Dorset North & South. Dorset

Policy	Response
home ownership, 30% social rent and 40% affordable rent	Council has also advised that social rent is preferred and therefore this is used instead of a mix of affordable and social rent.
COM1 and COM4 development to make provision for community infrastructure including recreation/open space	S106 allowances and site net to gross areas for on-site provision are included in the testing – see sections 4 and 5
COM7 new development to facilitate healthy low carbon travel	S106 allowances are included in the testing - see section 5.
COM9 EV charging for residential and non-residential development	Allowances for EVC are made for residential development – see section 5. It is assumed that provision for non-residential development will be on a commercial basis.
COM12 provision of utilities infrastructure	External/site costs include provision of utilities.

2.4 The Local Plan January 2021 consultation included documents covering development in different parts of Dorset.

- **South Eastern Dorset** functional area- the council has identified a series of different sized sites within the Green Belt and specifically around Corfe Mullen, Upton, Ferndown/West Parley, Sturminster Marshall, Verwood, Wareham, West Moors, Wimborne Minster/Colehill and Lytchett Matravers and others outside of the greenbelt such as those at Swanage and Wool. The potential sites listed range from 25 to 800 dwellings.
- **Central Dorset** functional area – the proposal is to focus growth in Dorchester and Weymouth, as well as Chickerell and Crossways. The potential sites listed range from 3,500 dwellings to the North of Dorchester as well as 810 dwellings at Chickerell.
- **Northern Dorset** functional area – the proposal is to focus growth at the largest settlements of Gillingham and Sherborne, with smaller scale expansion at Stalbridge and Sturminster Newton. The potential sites include 1,800 dwellings in Sherborne as well as a number of smaller sites.
- **Western Dorset** functional area – the proposal is to focus growth at the largest settlement of Bridport, with smaller-scale expansion proposed at Beaminster and Lyme Regis. The largest site is 930 dwellings at Bridport although much of this is already consented.

Consultation with the development industry

2.5 The PPG sets out that:

"Plan makers should engage with landowners, developers, and infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the

plan making stage."[2]

2.6 Consultation with the development industry, undertaken for this assessment, involved a number of different activities which maximised the opportunity for the development industry to engage with the process. The activities were:

- Evidence collected from the council's own property team, drawing on the property team's experience in buying and disposing of land;
- A workshop with developers and agents active in Dorset. 36 organisations attended and the workshop (held on 22nd July) was divided into two sessions to accommodate all those who wanted to attend. Each workshop session lasted about two hours. The workshop consisted of a presentation from the consultant team and comments from attendees. A combined note of the workshop sessions is shown in the Technical Report at Appendix B. The note was circulated to attendees and further comment received;
- At the workshop, the consultant team offered further one to one dialogue with any organisations that wished this. Nine organisations agreed to have further discussion and although all were contacted, only five were able to provide further information. These individual interviews were held in September 2021;
- A key issue raised at the July workshop was that of environmental measures required of development in Dorset to mitigate development impact. A separate workshop to discuss these issues was therefore set up with the four organisations that expressed a wish to attend. A note of the proceedings is shown in the Technical Report at Appendix C;
- A separate 'meeting' was held with housing associations active in Dorset to discuss issues about the delivery of affordable housing. Two of the main housing associations active in Dorset were able to attend (with a further 2 providing verbal and written comments separately) and a note of the meeting is shown in the Technical Report at Appendix D;
- Following the above consultation process, and taking into account comments raised and further evidence provided by the consultees and collected by the consultant team, a revised assumptions note was circulated to all attendees at the July workshop with further opportunity for development industry to provide additional evidence about the costs and values of developing in Dorset.

2.7 The consultant team acknowledges the assistance provided by the Dorset development industry and Dorset Council and express gratitude for their inputs and time taken as part of the study process.

[2] Planning Practice Guidance, Paragraph: 006 Reference ID: 10-006-20190509

Chapter 3 Approach to testing and typologies

Uses included in the testing

3.1 The uses tested are listed below and focus on developer-led forms of development rather than publicly led uses such as new infrastructure facilities or development types that are not common:

Residential

- residential for sale
- sheltered housing
- extra care housing
- care homes
- park homes

Non-residential

- offices
- industrial/warehouse
- retail
- hotel

Typology selection

3.2 The study uses a typology approach for the testing undertaken. The typologies selected for testing were identified in discussion with the council and discussed at the development industry workshop. They are not intended to represent specific development proposals but to reflect typical forms of development that are likely to come forward over the plan period, including allocations. The proposed large scale development of 3,500 dwellings to North of Dorchester is not included within this viability testing as it is being assessed separately. At this stage, no separate testing has been undertaken for build to rent as the council does not have any indications that this form of development will come forward in Dorset over the plan period.

3.3 The typologies are set out below, organised in the three broad groups of development types (residential, specialist housing and non-residential).

Residential and specialist housing typologies

3.4 The standard residential typologies are set out in Table 3.1. These include a set of small sites which are below the affordable housing threshold (at 10 dwellings) as well as some medium and large sites. Testing is undertaken for both greenfield and brownfield sites across different site sizes, reflecting what may come forward over the plan period. The proportions of net developable area[3] reflect typical characteristics of different site types and sizes.

Table 3.1 Typologies – standard residential

Reference	Units	Type Greenfield GF Brownfield BF	Gross ha	Net ha	Dwellings per net ha
Res1a	3	GF - houses	0.10	0.10	30
Res1b	3	BF - houses	0.10	0.10	30
Res2a	6	GF - houses	0.17	0.17	35
Res2b	6	BF - houses	0.17	0.17	35
Res3	8	BF - flat	0.10	0.10	80
Res4a	15	GF - mixed	0.44	0.44	34
Res4b	15	BF - mixed	0.44	0.44	34
Res4c	15	BF - flats	0.19	0.19	80
Res5a	30	GF - mixed	1.04	0.83	36
Res5b	30	BF - mixed	1.04	0.83	36
Res5c	30	BF - flats	0.42	0.38	80
Res6a	60	GF - mixed	2.48	1.65	36
Res6b	60	BF - mixed	2.48	1.65	36
Res7a	150	GF - mixed	6.79	4.11	36
Res7b	150	BF - mixed	6.79	4.11	36
Res8	350	GF - mixed	17.50	9.74	36
Res9	1,000	GF - mixed	57.00	28.57	35

3.5 **Specialist housing**, especially in relation to CIL, needs to have a clear set of definitions. It is important to note that CIL regulations and guidance are concerned with 'use' in its normal meaning and not 'use class'.

3.6 There are a number of different types of specialist older person housing. These are helpfully set out by the older person industry through the Retirement Housing Group and are set out in Appendix E in the Technical Report.

3.7 For this study, we have tested a Retirement Housing scheme, a Supported (Extra Care) Housing scheme and a Care Home scheme.

3 **Net developable area** is defined as the land within a site that is available for development. The gross site area will also include land for uses such as open space and parks, schools, major distributor roads.

3.8 We also test a park homes scheme typology – see chapter 4 for further details.

Table 3.2 Typologies – specialist residential

Reference	Units	Type Greenfield GF Brownfield BF	Gross ha	Net ha	Units per net ha
Older person housing					
OP1	40	GF/BF – Supported flats	0.36	0.36	111
OP2	57	GF/BF – Extra care flats	0.63	0.63	90
OP3	60	GF/BF – Care home beds	0.38	0.38	158
Park homes					
PH1-PH3	12	GF - Park homes	0.45	0.45	27

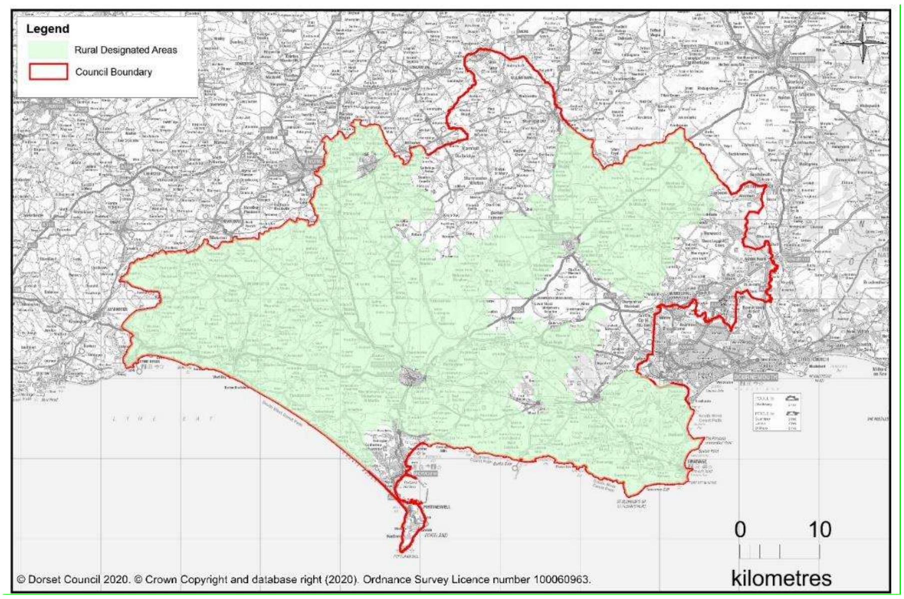
Affordable housing requirements

Overall approach

3.9 The study explores the impact of introducing affordable housing on scheme viability for housing schemes of 10 or more dwellings. Different proportions and tenure of affordable housing within the range set out as potential policy options in HOUS2.

3.10 Affordable housing can also be required on smaller general housing sites in rural designated areas (developments of 5-9 dwellings). The map below shows the extent of rural designated areas (RDAs) in Dorset and it is apparent that RDAs are found across Dorset and across the value areas identified for general market housing as set out later. Therefore, the viability of small sites in the range of 6 to 9 dwellings has also been undertaken, using RES2 with 6 dwellings as the exemplar.

Figure 3.3 Designated rural areas



3.11 Also considered was potential for affordable housing contributions from specialist older person housing and park homes.

3.12 But rural exceptions sites are not included as a typology in the viability testing as the draft policy is clear that they should be 100% affordable housing. This reflects the fact that the priority for these sites is to maximise delivery of affordable housing.

Previous policies and delivery

3.13 The scale of affordable housing tested has been guided by current 'district' policies and actual delivery levels. The policies operating in the previous districts of Dorset are summarised in the table below. Ranges shown reflect different %s for different localities/site size.

Table 3.4 Affordable housing policy targets – previous districts of Dorse

Previous district	Target %
East Dorset	40% - 50%
North Dorset	25% - 40%
Purbeck	40%-50%
Weymouth, Portland and West Dorset	25% - 35%

3.14 Information provided by the council indicates that there has been limited success in meeting the affordable housing targets in areas with targets of 40% and 50%. The available evidence reflects differences in the way the previous Dorset districts implemented their policies and then monitored affordable housing delivery. The analysis should be viewed as being indicative of past performance rather than a statistically robust assessment.

3.15 Of the sample of 81 cases identified, 20 did not provide any affordable housing on site but made a financial contribution in lieu of this. The scale of cash contributions varied significantly between schemes and it is not possible to say whether the financial contributions were equivalent to policy compliant on-site provision. However, the general picture is that, where there is a financial contribution, this was at a level below that required to meet the policy.

3.16 Of the remaining 48 cases[4]:

- Where the target was either 25% or 35% (13 schemes) about half delivered over 20% affordable housing and half below 20%. This included 4 of the 12 schemes in areas with a 35% target, that met the 35% policy requirement;

[4] 13 schemes recorded an affordable housing contribution in excess of the policy requirement. The reasons for this are not directly recorded but it may reflect a phase in the development of a larger scheme. This group has been discounted from the analysis. This explains the progress form 81 cases overall to 48 cases where we have reliable information on percentage of affordable housing delivered.

- Where the target was either 40% or 50% (35 schemes), 22 schemes provided less than 35% affordable housing. This included 15 scheme which made no contribution. Of the 25 schemes in areas with a 50% target, only 3 met the target and most schemes contributed 35% or less affordable housing.

Testing approach identified

3.17 Using this evidence, and taking account of officer views and feedback from the development industry, a series of testing options were established with details set out in Appendix F of the Technical Report and summarised below:

- 35% affordable housing with a tenure mix of 25% First Homes, 5% Shared Ownership and 70% Rent in Dorset West & Central and Dorset East & Dorchester;
- 20% affordable housing with a tenure mix of 25% First Homes, 25% Shared Ownership and 50% Rent in Dorset North & South;
- all affordable housing rent assumes a social rent product (and value);
- sensitivity test in Dorset East & Dorchester with 40% affordable housing and a tenure mix of 25% First Homes, 5% Shared Ownership and 70% Rent;
- 10% affordable housing for specialist accommodation including older persons[5] (assumes a shared ownership product) and park homes (assumes a discount market product).

Non-residential typologies

3.18 The testing of non-residential developments has also been conducted on a typology basis, reflecting the strategic nature of this study.

3.19 **Retail typologies** include convenience and comparison, in and out of town centre locations. Town centre locations include Dorchester and Weymouth as well as smaller settlements across Dorset. Data on town centre retail values has been taken from transactions in locations across Dorset, while out of centre comparison retail data has used South West data in order to base estimates on sufficient transactions.

3.20 In the past, leases to the main supermarket operators have commanded a premium with investment institutions. Although there are some small regional variations on values, they are reasonably standard across the country with investors focusing primarily on the strength of the operator covenant and security of income. As a result, it is reasonable to use a broad geographical evidence base for convenience retail. We use a combination of SW and National data to estimate convenience retail values.

3.21 There has been a structural change in convenience retailing in recent years with an end to the expansion of the largest format convenience retailing and more emphasis on smaller

[5] Except care homes which are not tested with any affordable housing.

supermarket formats (as used by both discount and premium convenience operators) and greater provision of small format stores, often within the Sunday trading threshold (280 sq m display floor area), also often in existing floorspace. These changes reflect the alterations in shopping habits. This trend appears to be continuing even with the recent general downturn in retail due to the pandemic and the typologies chosen reflect these changes.

3.22 There is **employment activity** and planned growth across Dorset. We have therefore tested office, industrial and warehouse uses in edge of settlement/transport nodes as well as office development in more traditional centres. Whilst potentially office development could be in both in and out of centre, it is anticipated that industrial uses and warehouses will be located only at out of centre locations. Dorset office and industrial/warehouse data has been used to estimate values.

3.23 Nationally, there has been significant growth in the provision of **budget hotels**,[6] with relatively few full-service hotels outside the major conurbations. The most likely new-build hotel development in Dorset is a budget hotel[7] and the testing has used a budget hotel development of 70 rooms over three storeys, this could be in either a coastal centre or near business activity in an out of centre location. National data has been used to estimate values per room.

3.24 It is important to note that, whilst it is likely a range of non-residential uses (e.g. offices, industrial, retail and leisure) will come forward over the lifetime of the plan, experience elsewhere and the review of proposed local plan policies suggests that these will account for a very limited proportion of development and are affected more by market forces than policy requirements. Therefore, whilst it is important to consider the results in terms of any potential CIL it is unlikely that plan policies will have any significant impact.

3.25 The following table sets out the non-residential typologies used for testing including the assumed net developable site area for each development type and the amount of floorspace it will accommodate:

Table 3.3 Non-residential typologies

Type		Size (sq m/rooms)
NR1	Retail	Town centre comparison 200 sq m
NR2		Out of centre comparison 1,000 sq m
NR3		Convenience 300 sq m
NR4		Supermarket 1,100 sq m

6 The British Hospitality Association Trends and Developments Report 2012 indicates that budget hotels are defined as a property without an extensive food and beverage operation, with limited en-suite and in-room facilities (limited availability of such items as hair dryers, toiletries, etc.), low staffing and service levels and a price markedly below that of a full service hotel.

7 https://www.knightfrank.co.uk/blog/2018/07/12/knight-frank-launches-uk-hotel-development-opportunities-2018-report

Type		Size (sq m/rooms)
NR5	Office	Town centre 2,000 sq m
NR6		Out of centre 1,500 sq m
NR7	Industrial/warehouse	1,600 sq m
NR8		5,000 sq m
NR9	Hotel	Budget hotel 70 beds

Chapter 4 Residential & specialist housing assumptions

Introduction

4.1 This chapter sets out the assumptions used in the assessment and their rationale, for residential and specialist housing typologies. The assumptions have been drawn from a variety of sources and tested with the development industry though the various stages of consultation undertaken for the study.

Dwelling mix and size

4.2 The table below sets out the dwelling mix and size. The mixes are informed by the Housing Needs Assessment 2021, amended to reflect workshop and subsequent housebuilder and registered provider feedback.

Table 4.1 Dwelling size and mix

Tenure	1 bed flat/maisonette	2 bed flat/maisonette	2 bed terrace	3 bed terrace	4 bed terrace	3 bed semi	4 bed detached
Market sqm	-	65	70	93		94	130
Affordable sq m	50	70	79	93	106	-	-
Market mix	-	5%	25%	10%		30%	30%
Social/affordable rent mix	10%	15%	25%	45%	5%	-	-
Shared ownership mix	-	-	50%	45%	5%	-	-
First homes mix	-	-	50%	50%		-	-

4.3 There are some exceptions to this standard mix:

- The 3 dwelling Res1 has three detached houses;
- The 6 dwelling Res2 has two semis and 4 detached;
- The two flatted typologies 100% 2 bed flats for market and low-cost home ownership; and 50:50 1 bed:2 bed flats for affordable and social rent;
- Sheltered and extracare older persons housing is split 50:50 1 bed:2 bed flats for both market and affordable dwellings - care homes are single bedspaces;
- Park homes are treated as one type of unit with no bed spaces specified.

4.4 The floor areas for flats in the table above are the net saleable areas. The build costs for flats are applied to the gross floor area, with 10% non-saleable space for 1-2 storey flats and 15% non-saleable space for 3-5 storey flats. Older persons housing has higher allowances for non-saleable space – see further discussion below.

4.5 Self-build and custom housebuilding units are included (5% of total units) on larger typologies and are modelled as three and four bed houses with garages at 5% over standard values[8].

Standard residential market values

4.6 We devised a series of market value areas and the market values for different dwelling types using a combination of data from Land Registry and Energy Performance Certificates (EPC) which give a £s per square metre value for the three value zones identified in Dorset.

4.7 Sales values are estimates as at 2Q2021 based upon Land Registry data 2016-2021 for 2,200 sales, adjusted by the HPI by dwelling type to bring them to 2Q2021 values and matched against EPC data on dwelling sizes. The values for houses are blended across the different dwelling types as the data indicates that generally these are relatively homogenous within each value area.

4.8 Development industry feedback suggested that the initial value area boundaries should be amended so that development in Crossways, Blandford and Dorchester would all be in the main zones associated with these settlements rather than being split across different value zone boundaries:

- Dorchester remains in value zone 1 with Dorset North and South, but extended to include the potential Dorchester North urban extension;
- Crossways remains in value zone 3 with Dorset North and South but extends to include potential sites consulted upon on the edge of the town;
- Blandford Forum remains in value zone 2 Dorset Central and West but extends to include potential sites consulted upon on the edge of the town.

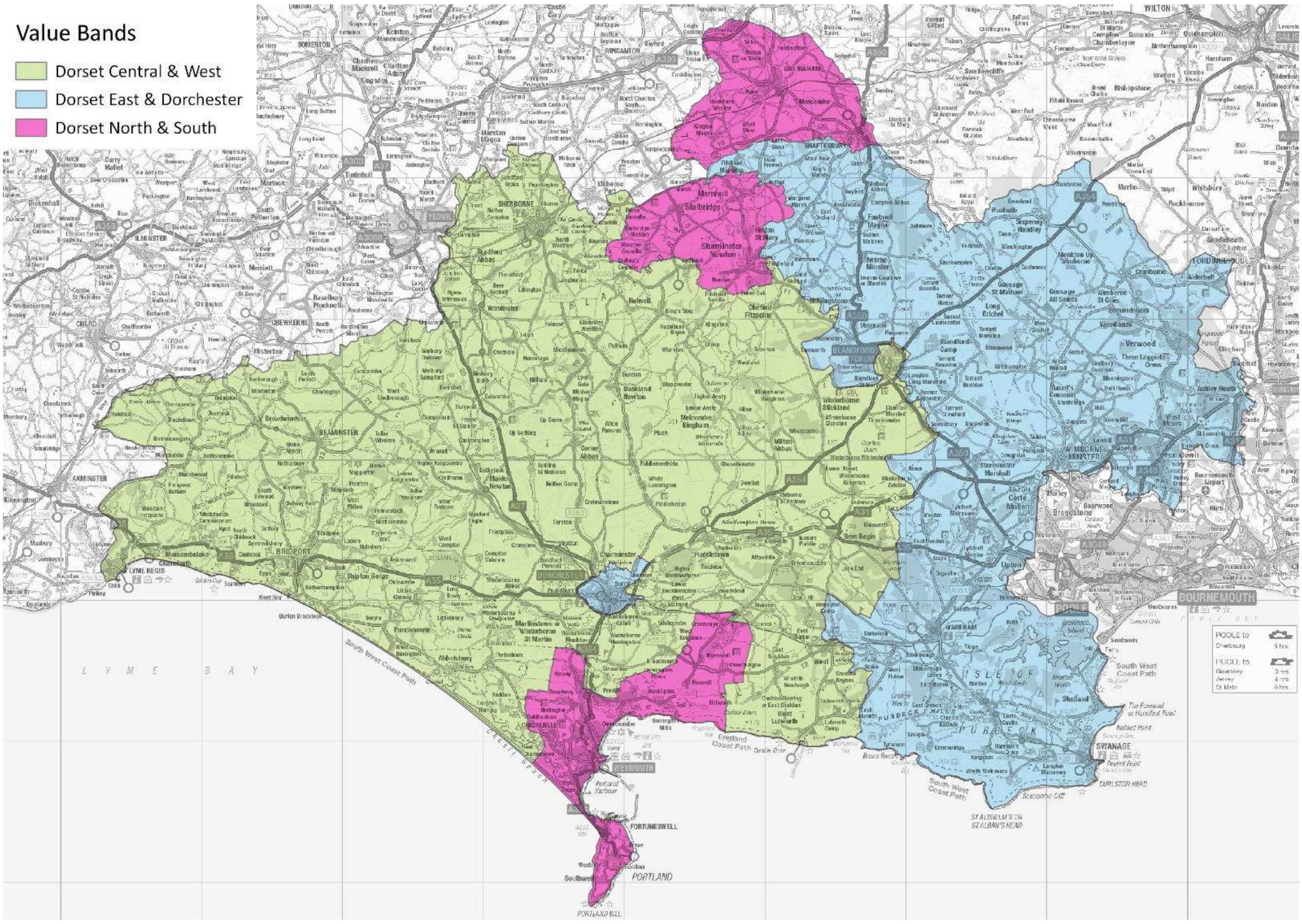
4.9 The table and map below set out the sales values per sq m and the proposed value zone boundaries.

[8] Testing assumptions for Self build and custom housebuilding have been developed by Three Dragons in discussion with NaCSBA and the Right to Build Taskforce

Table 4.2 Market sales values £/sq m

Unit Type	Value zone 1 Dorset East and Dorchester	Value zone 2 Dorset Central and West	Value zone 3 Dorset North and South
		£/sq m	
Flat	£3,691	£3,656	£3,038
House	£3,643	£3,461	£2,996

Figure 4.1 Value zones



Affordable housing values

4.10 Affordable housing transfer values are estimated on a capitalised net rent[9] basis. Affordable rents are drawn from the Local Housing Allowances (LHA) based on Mid and West Dorset Broad

[9] The capitalised net rent approach means an assessment of the amount that can be 'borrowed' against the net rent – this being the gross rent minus allowances for management and maintenance and a range of other costs – see Table 4.3 for a full list

Rental Market Area (BRMA), with slight adjustment to reflect the Bournemouth BRMA LHA (as suggested by Dorset Council). Social rents were based upon data supplied by Dorset Council. Rents are as at April 1 2021.

4.11 First Homes are at 70% of market value (subject to the £250,000 per dwelling price cap). In effect this limits this tenure to two and three-bedroom dwellings in parts of Dorset.

Table 4.3 Affordable housing assumptions

Social & affordable rent		Shared ownership	
Service charge	£11 per unit	Share size	30%
Management and maintenance	£1,000	Rental charge	2.75%
Voids/bad debts	3%	Capitalisation	4.5%
Repairs reserve	£600		
Capitalisation	4.5%		

Table 4.4 Affordable housing rents

	Social rent pw	Affordable rent pw
1 bed flat	£87	£120
2 bed flat	£95	£155
2 bed terrace	£105	£155
3 bed semi	£118	£190
4 bed	£180	£250

Table 4.5 Affordable housing transfer values £/dwelling

Unit Type		Value zone 1 Dorset East and Dorchester	Value zone 2 Dorset Central and West	Value zone 3 Dorset North and South
		£/dwelling		
Social rent	1 bed flat	£62,000	£62,000	£62,000
	2 bed flat	£71,000	£71,000	£71,000
	2 bed house	£82,000	£82,000	£82,000
	3 bed house	£97,000	£97,000	£97,000
	4 bed house	£166,000	£166,000	£166,000
Affordable rent	1 bed flat	£86,000	£86,000	£86,000
	2 bed flat	£125,000	£125,000	£125,000
	2 bed house	£125,000	£125,000	£125,000
	3 bed house	£165,000	£165,000	£165,000
	4 bed house	£232,000	£232,000	£232,000
Shared ownership	2 bed house	£209,000	£199,000	£172,000
	3 bed house	£247,000	£234,000	£203,000
	4 bed house	£281,000	£267,000	£231,000
	2 bed flat	£181,000	£179,000	£149,000

Unit Type		Value zone 1 Dorset East and Dorchester	Value zone 2 Dorset Central and West	Value zone 3 Dorset North and South
First Homes 30% discount	2 bed house	£201,000	£191,000	£166,000
	3 bed house	£237,000	£225,000	£195,000
First Homes 40% discount	2 bed flat	£155,000	£154,000	£128,000
	2 bed house	£173,000	£164,000	£142,000
	3 bed house	£203,000	£193,000	£167,000
First Homes 50% discount	2 bed flat	£129,000	£128,000	£106,000
	2 bed house	£144,000	£137,000	£118,000
	3 bed house	£169,000	£161,000	£139,000

Benchmark land values

4.12 The table below sets out the benchmark land values to be used for testing. These are based upon an analysis of land for sales, previous area-wide and site-specific viability assessments, MHCLG/VOA estimates and EUV calculation. The premiums applied to the estimates of existing use follow the HCA (now Homes England) guidance[10].

4.13 The benchmarks apply to the gross site areas for 'standard' development and would, for example, include the net developable areas for housing and other site uses, incidental and formal open space. It is anticipated that where large scale open space is provided (such as a country park) these benchmarks would not be appropriate and nor would these benchmarks be expected to be applied to SANG land. SANG and other environmental mitigation is dealt with as a separate policy cost elsewhere in the testing.

4.14 Post workshop feedback from housebuilders, agents and the council estates team indicates that these benchmarks are suitable for this area-wide viability testing.

[10] Homes and Communities Agency, 2010, Annex 1 (Transparent Viability Assumptions) - "*Benchmarks and evidence from planning appeals tend to be in a range of 10% to 30% above EUV in urban areas. For greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value*". (page 9)

Table 4.6 Benchmark land values

Site type	EUV/ha	Premium		BLV/ha	Based on	EUV Source
Large greenfield 1	£21,000	10	times	£210,000	10 times agricultural value	3D review + commentators
Large greenfield 2	£21,000	15	times	£315,000	15 times agricultural value	3D review + commentators
Large greenfield 3	£21,000	20	times	£420,000	20 times agricultural value	3D review + commentators
Small greenfield 1	£59,000	10	times	£590,000	10 times paddock value	3D review
Small greenfield 2	£59,000	15	times	£885,000	15 times paddock value	3D review
Small greenfield 3	£59,000	20	times	£1,180,000	20 times paddock value	3D review
Existing residential 1	£2,910,000	10	%	£3,201,000	Existing residential + 10%	MHCLG
Existing residential 2	£2,910,000	20	%	£3,492,000	Existing residential + 20%	MHCLG
Existing residential 3	£2,910,000	30	%	£3,783,000	Existing residential + 30%	MHCLG
Higher brownfield 1	£650,000	10	%	£715,000	EUV estimate + 10%	3D estimate/MHCLG
Higher brownfield 2	£650,000	20	%	£780,000	EUV estimate + 20%	3D estimate/MHCLG
Higher brownfield 3	£650,000	30	%	£845,000	EUV estimate + 30%	3D estimate/MHCLG
Lower brownfield 1	£250,000	10	%	£275,000	Site specific low value EUV + 10%	Site specific viability
Lower brownfield 2	£250,000	20	%	£300,000	Site specific low value EUV + 20%	Site specific viability
Lower brownfield 3	£250,000	30	%	£325,000	Site specific low value EUV + 30%	Site specific viability

4.15 Further details regarding the benchmark land values and where they are applied can be found in Appendix G in the Technical Report.

Residential development costs

Build costs

4.16 At the development industry workshops the build costs presented were based on figures within the Build Cost Information Service (BCIS), with a local 'Dorset' index applied. However, following feedback from the workshops, dwelling build costs have been refined and further localised to reflect a lower index for Dorset North and South than the index for Dorset East and Dorchester and Dorset Central and East.

4.17 The table below shows the indices discussed, with Wimborne representing the eastern part of Dorset and Yeovil representing North Dorset[11], particularly Gillingham. For Dorset East and Dorchester, and Dorset Central and East we use an index of 104 and for Dorset North and South we use an index of 99. The build costs are for 2Q2021.

Table 4.7 BCIS location index

	BCIS Index
Dorset	104
Wimborne	101
Purbeck	106
West Dorset	107
Weymouth & Portland	98
Yeovil	100
Poole	103

4.18 As discussed at the workshop the build costs also recognise some of the economies of scale associated with larger developments, as well as higher costs for smaller developments. Based on an analysis undertaken by BCIS this is scaled so that build cost/sq m reduces as volume increases. The use of BCIS LQ is standard for testing volume development on the larger sites. The build costs for self and custom build is 5% above mean BCIS, based on the testing approach agreed with the Self-Build Taskforce.

[11] It is appreciated that Yeovil is in Somerset but is adjoining the county boundary and is similar in character to the north Dorset area.

Table 4.8 BCIS location index

Build costs Q2 2021	Typology	Dorset East & Dorchester and Dorset Central & West £/sq m	Dorset North & South £/sq m
BCIS LQ (5yrs)		£1,098	£1,045
BCIS Mean (5yrs)		£1,301	£1,238
2-5 units inc CSB	Res1a/b	£1,366	£1,300
6-9 units	Res2a/b	£1,301	£1,238
10-50 units	Res4a/b, Res5a/b	£1,236	£1,176
51-100 units	Res6a/b	£1,197	£1,139
101-250 units	Res7a/b	£1,158	£1,102
251+ units	Res8	£1,098	£1,045
Large strategic (500+)	Res9	£1,098	£1,045
Mean 1-2 storey	Within mixed site typologies	£1,463	£1,393
Mean 3-5 storey	Res3, Res4c, Res5c	£1,468	£1,398
Older persons housing	OP1, OP2	£1,672	£1,591

4.19 The workshop and subsequent feedback suggested that some regional builders in Dorset may have higher costs than those in Table 4.8 (reflecting an assumed higher specification in the development) although there was no consensus about what these costs would be. In response to these comments, sensitivity tests have been undertaken with a 5% (reflecting costs suggested by one of the housebuilders) increase in build costs.

4.20 The testing includes additional allowances for costs to meet the 2021 changes to Parts F and L of the Building Regulations (dealing with energy conservation and ventilation), with £3,800 per house and £2,090 per flat based on the UK government impact assessment[12]. Some development industry feedback has suggested that these costs have increased and, in any case, do not take into account potential but unknown costs of implementing the government's intentions regarding Future Homes as set out in variation publications. While the Impact Assessment for new building standards has costs for changes to Part L there is less clarity about the costs for Future Homes.

4.21 Some councils have commissioned work regarding potential costs for meeting Future Homes Standards, however as there is limited information as to what any standard may require and the

[12] MHCLG, 2019, 2019 Consultation on changes to Part L (conservation of fuel and power) and Part F (ventilation) of the Building Regulations for new dwellings: Impact Assessment

potential for varying routes to achieving carbon savings means there are a wide range of costs presented. For houses, costs (in addition to meeting Part L 2013) range from £4,000 to £16,500 for houses and for flats, the range is £3,000 to £10,000. Therefore, as a sensitivity test £12,000 per house £8,000 per flat has been used, but recognising that by the time this (new Building Regulation) is in force, that costs may reduce as more cost effective solutions are realised.

4.22 Plot/external and additional site costs allowances are detailed in the tables below, expressed as % of base build cost and £/dwelling respectively. Plot/external costs include gardens, drive/path, fencing, walls, drainage, external services and some limited estate roads with associated services, landscaping and drainage. Additional site costs are further allowances for the types of costs associated with sites as they become larger – roads, drainage, lighting, utilities, landscaping, adoption along with 'normal' site clearance and preparation as well as fees for these items. The plot/external and additional site costs do not include garages or s106 costs, which are added separately.

Table 4.9 Plot/external /site infrastructure costs

Typology	Plot costs and site infrastructure (% of base build cost)	Allowance for additional site infrastructure / dwelling (exc. s106)
Res 1, Res2, Res3, Res4, Res5	15%	£0
Res6	10%	£5,000
Res7, Res8	10%	£10,000
Res9	10%	£26,000

4.23 The build costs for flats is applied to the gross floor area, with 10% non-saleable space for 1-2 storey flats and 15% non-saleable space for 3-5 storey flats. Older persons housing has higher allowances for non-saleable space – see below.

4.24 A separate allowance is made for garages for all market semi-detached houses and all market detached houses at £7,700. This broad assumption recognises that some houses will not have a garage and some larger houses may have double garages.

Other development costs

4.25 The other standard development costs used in the testing are set out in the table below.

Table 4.10 Other standard residential development costs

Development cost	Assumption	Note
Professional fees	1-9 units 10% 10-100 units 8% 101+ units 6%	of build and plot/external costs
Finance rate	6%	of all costs including land value
Marketing/sales fees	3% of GDV for market housing/First Homes (1.0% agents, 0.5% legal costs and 1.5% marketing/incentives) £500 legal costs per AH rented and shared ownership unit £150 First Homes additional costs	6% for older person housing
Developer return	17.5% market GDV & 6% AH GDV 10% First Homes GDV	
Agents and legal	1.75% of land value	
SDLT[13]	Prevailing rate	

Specialist housing

Older persons

4.26 The testing assumptions for older persons housing are drawn from the Retirement Housing Group (RHG) guidance on viability testing [14]for sheltered and extracare developments.

[13] Stamp duty land tax

[14] Retirement Housing Group, Briefing Note on Viability, 2016

Table 4.11 Older persons housing

Testing input	Assumption	Note
Sheltered and extracare values	Selling prices for sheltered schemes are based on a range of schemes that have either sold or are currently selling at the time of reporting in 2021 and cross referenced to Land Registry sales data for existing semi-detached houses. For extracare current selling prices are cross referenced against 125% of sheltered prices.	RHG guidance
Care homes	Capital value per room of £110,000 based upon EGi transaction data from sales, cross referenced by EGi data on rents and yield.	
Net and gross floor areas	Sheltered – 1 bed at 50 sq m net and 2 bed at 75 sq m net; plus 25% non-saleable space Extracare – 1 bed at 65 sq m net and 2 bed at 80 sq net; plus 35% non-saleable Care homes – 60 bed unit of 3,000 sq m (50 sq m/bed gross), over 2 floors with 40% site coverage.	RHG guidance and standard practice
Build cost	Sheltered and extra care: Dorset East Dorchester and Dorset Central/West £1,672/sq m Dorset North and South £1,591/sqm Care homes: Dorset wide £1,903/sqm	BCIS supported housing and care homes for the elderly
Sales & Marketing	Sheltered and extra care 6% GDV Care homes 3% GDV	RHG guidance and standard practice
Delivery	Sheltered and extra care 18 months to first sale First year of sales 40%, Second year of sales 30%, Third year of sales 30% Care home 18 months to completion	RHG guidance and standard practice
Void costs	Sheltered and extra care £100,000/scheme Care homes 6 months voids (£223,098/scheme)	Discussion with RHG and standard practice
Professional fees, finance, return and land purchase costs	As set out for standard residential (Table 4.10)	

4.27 Developer contributions are tested at £500 per unit and environmental mitigation will also apply (see section on development contributions below).

4.28 Based on the comparison with existing stock semi-detached houses[15], the estimates of sheltered and extracare dwellings are set out in the table below.

Table 4.12 Older persons housing

Value area	Average price of a semidetached house	1 bed sheltered	2bed sheltered	1 bed extracare	2 bed extracare
Dorset East & Dorchester	£348,039	£261,000	£348,000	£326,000	£435,000
Dorset Central & West	£322,469	£242,000	£322,000	£303,000	£403,000
Dorset North & South	£309,860	£233,000	£310,000	£291,000	£388,000

4.29 We note that data on the market retirement homes sales (mainly in Dorset East & Dorchester) is 13%-14% higher than these on a £/sq m basis and therefore the values used in this testing may be conservative.

4.30 Care homes are tested based on a capital value per bed basis of £111,000[16], with a gross floorspace per bed of 50 sq m, a build cost of £1,903/sq m plus 10% external works, and a return of 15% of GDV.

[15] Land Registry data indexed to 2Q2021
[16] Based on transaction data

Park homes

4.31 Park home developments are found across Dorset. They are different in character from 'traditional' developer housing and a bespoke testing approach is required.

4.32 The analysis presented here has been drawn form a number of sources, including feedback following the development industry workshop, a review of Dorset planning applications and of appeal decisions in England, other published studies, direct contact with suppliers and transporters and a review of websites advertising park homes for sale.

4.33 Although not the only type of park homes development, the typical 'model' for such a scheme is for an operator to develop a site with a number of discrete plots and sell the park homes off-plan - of a size and specification chosen by the purchaser. This is the development model that has been assumed for this study with a scheme of 12 plots on a 0.45 ha site.

4.34 The website review of recent values for new park homes in Dorset identified a wide range of values (not related to the value areas used elsewhere in the study for 'traditional' housing). It was decided to test two (12 unit) schemes; one with a notional value of £265,000 per unit and one with £175,000 per unit. It is also apparent that different types of park homes have different costs and a lower and higher cost product was identified. Therefore, the testing, modelled the higher value park home in combination with the higher cost product and paired the lower value park home with the lower cost unit. A mid range value and cost product was also modelled.

4.35 Further details of the assumptions used are set out below and in the Technical Report at Appendix H

Table 4.13 Park homes

Testing input	Assumption	Note
Park homes values	Higher - £265,000 per unit Mid - £220,000 per unit Lower - £175,000 per unit	Higher and lower figures derived from transaction data
Unit cost	Higher - £90,000 per unit Mid - £79,000 per unit Lower - £68,000 per unit	Higher and lower figures derived from transaction data
Transportation costs	£6,000 per unit	Assumes a double unit is transported
Plot costs	£23,700	Based on 30% of the mid point of the unit cost
Marketing and professional fees	11%	Standard assumption

Testing input	Assumption	Note
Finance, return and land purchase costs	As set out for standard residential (Table 4.10)	
Delivery rate	One year (for a 12 plot scheme)	

4.36 Developer contributions are the same as older person typologies and tested at £500 per unit and environmental mitigation will also apply (see below). Various appeal decisions have clarified that CIL cannot be charged on park homes.

First Homes

4.37 The testing assumptions for first homes are in line with the summer 2021 discussions with HBF as follows.

Table 4.14 First Homes testing assumptions

Testing assumption	Assumption
House type	2 and 3 bed units
Development period	Same as market housing
Marketing costs	Same as market housing – assumes Homebuy Agent or Local Authority does all eligibility screening
Additional legal and professional fees	£150/dwg
Developer return	An affordable product but no bulk purchase by an RP, with the potential to revert to market housing if no First Homes demand. Developer return 10% of GDV.

Delivery

4.38 The delivery rates used in the testing are set out in the table below. These take into account the suggestions from the workshop about lower delivery rates for smaller sites. Where applicable, delivery rates are inclusive of affordable housing.

Table 4.15 Delivery rates

Typology	Rate
Res 1, Res2, Res3	Within one year
Res4, Res5, Res6	9 months to first completion then 40pa
Res7, Res8, Res9	9 months to first completion then 50pa

Policy costs

4.39 The testing includes the set of national and local policy costs that will apply to new residential development in Dorset. The 2021 changes to Building Regulations Part L is noted with the build costs earlier. The local policies are taken from the draft local plan.

Developer contributions including CIL

4.40 Dorset Council has advised that previous s106 requirements are not necessarily a guide to the contributions required for infrastructure under the new local plan and as CIL rates vary significantly across Dorset and will be reviewed, they will not be included within the modelling. To enable Dorset Council to consider the impact of developer contributions on viability all typologies of 10 or more dwellings have an allowance of £13,000 per unit included within the testing. This is based on figures provided by Dorset Council to address education, health, transport, open space and other local mitigation requirements. The potential for CIL either instead of or complementary to s106, is further considered in Chapter 7 Also of note is that developer contributions associated with environmental mitigation are considered separately (see below).

4.41 Specialist housing is expected to have a lower s106 requirement and the council has advised a figure of £500 per unit, based on their experience of developer contributions previously sought and likely future requirements. No s106 costs have been applied to care homes.

Other policy costs

4.42 **Biodiversity net gain -** The allowance for biodiversity gain is drawn from the government's impact assessment[17] which was published with the consultation on the amendments to the Environment Act. However, it should be noted that, as biodiversity net gain is site specific depending on both the existing site characteristic and the ability of development form to both mitigate and provide additional gain, it is difficult to gauge a suitable allowance for meeting the requirements. It is also of note that the NHBC, with the RSPB, have recently issued guidance on how to achieve net gain within new development. At the launch of the guidance both the authors

[17] MHCLG, 2019, Biodivesity net gain and local nature recovery strategies impact assessment

and one of the major housebuilders (Barratt Homes) emphasised that incorporating measures for biodiversity net gain during the design phase meant additional costs were minimal. This suggests that, whilst an allowance is included, the actual cost could be much lower and therefore the testing allowances are a conservative estimate. It is also of note that the impact assessment[18], section 6.4 is quite clear that any costs associated with biodiversity net gain will result in an adjustment to the land price rather than an additional cost to development, suggesting any allowance included in this study represents a very conservative approach.

4.43 **EV charging** - An allowance for 'fast charge' electric vehicle charging points is made for all parking spaces as per Part S Building Regulation 2021. It is assumed that parking spaces will be available on a per unit basis for all residential typologies[19]. A further allowance for EV charging preparation costs is also included[20]. The EV charger costs are based upon the impact assessment produced by the government[21]. These allowances go beyond the local policy option of 20% of dwellings with EV charging points.[22]

4.44 **Accessibility** - The accessibility requirements are interpreted as seeking 20% of all dwellings at M4(2) and 5% of the affordable housing as M4(3). Using the government impact assessment this is £1,400[23] per unit for M4(2) and a significant cost allowance of £17,999 per each of the qualifying units for M4(3).[24]

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[18] ibid
[19] An average of one space/ev charger per unit is considered reasonable for high level plan wide testing
[20] This additional allowance is for preparation costs such as ducting so that further points can be added in the future if required
[21] MHCLG, 2019, Residential charging infrastructure provision impact assessment
[22] Note that government policy changed during the viability modelling and therefore 20% of the EV charging costs plus the preparation allowance is within the detailed modelling and the remaining 80% of the EV charging cost is within the 'Total policy costs', set out in the summary of testing results in the Technical Report Appendix I
[23] MHCLG, September 2020, Raising accessibility standards for new homes consultation paper, para 45, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/930274/200813_con_doc_-_final__1_.pdf
[24] EC Harris for DCLG, Housing Standards Review Cost Impacts, 2014

Table 4.16 Policy costs

Development cost	Assumption	Note/Source
National policy		
Biodiversity net gain	£270 per unit on brownfield & £998 per unit on greenfield	UK Government impact assessment
Local policy		
Custom & self build	5% plots on larger schemes (10+ dwgs, with part dwellings rounded down)	Draft policy/Dorset Council
Accessibility	20%-100% of dwellings M4(2) @ £1,400 per unit 0%-5% Part M(3)	Draft policy/UK Government impact assessment
EV charging	EV charging point @£865/dwg plus additional allowance per dwelling for ducting.	Draft policy/UK Government impact assessment
s106 allowance	£13,000/dwg	Dorset Council (Education, health and other local mitigation)

Environmental mitigation

4.45 Dorset has a wide range of environmentally sensitive areas and is therefore required to mitigate impact of development across the area. As the approach to environmental mitigation was highlighted as an important issue at the development industry workshops a further, more detailed, consultation workshop was undertaken, where costs and approach were presented and agreed (see the Technical Report at Appendix C). Based on this further dialogue and the advice from Dorset Council the following costs (in Table 4.17) apply in the different value areas. For the purposes of the viability testing, and taking a conservative approach to the testing, the full range of habitat mitigation is included within **all** the tests, even though (as shown in Figure 4.2) not all requirements will apply in all locations.

Figure 4.2 Environmental mitigation requirements

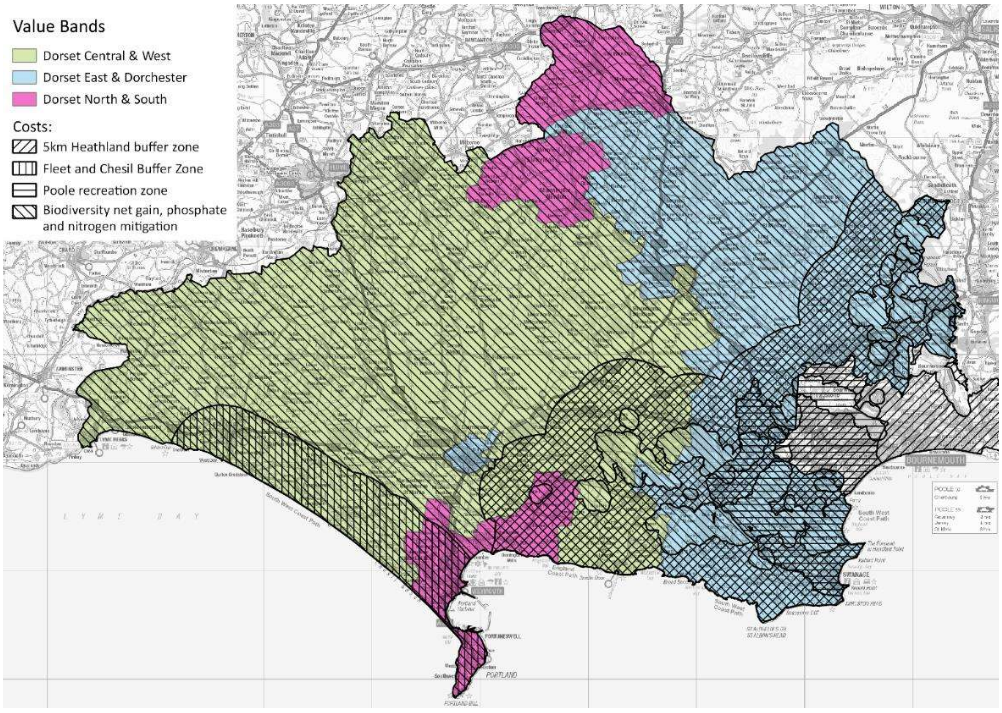

Table 4.17 Environmental mitigation costs

	Dorset North & South	Dorset Central & West	Dorset East & Dorchester	Cost source
Dorset heaths	£5,750	£5,750	£5,750	Dorset Council
Fleet & Chesil	£550	£550	-	Dorset Council
Poole recreation	-	-	£190	Dorset Council
Phosphate & nitrogen	£2,200 per house £1,513 per flat	£2,200 per house £1,513 per flat	£2,200 per house £1,513 per flat	Dorset Council

Chapter 5 Results of the residential & specialist testing

Introduction

5.1 This chapter summarises results of the residential viability assessments. These assessments test the proposed policies in the new Dorset Local Plan. The base modelling includes the standard development costs and affordable housing for each of the three value areas, s106 and the additional habitats policy costs. The viability results take into account land costs, finance and developer return. In summary:

- In value area 1 Dorset North & South, for sites above the relevant size threshold, affordable housing is tested at 20% of dwellings; with a tenure split of 25% First Homes, 25% Shared Ownership and 50% Social Rent;
- In value area 2 Dorset West & Central and value area 3 Dorset East & Dorchester, for sites above the relevant size threshold, affordable housing is tested at 35% of dwellings; with a tenure split of 25% First Homes, 5% Shared Ownership and 70% Social Rent;
- In all typologies of 15 or more dwellings there is a s106 allowance of £13,000 per unit and on all typologies an allowance of £8,003 per flat and £8,690 per house for environmental mitigation;
- In all typologies there is an allowance of £2,090 per flat and £3,800 per house to meet the changes to Part L Building Regs 2021;
- In all typologies allowances are included for accessibility standards, electric vehicle charging points and biodiversity net gain

5.2 The full results are presented in Appendix I and shown as net residual value per dwelling basis, with all costs taken into account. A negative figure means a scheme is not viable (as tested). A positive net residual value shows a viable scheme and represents the theoretical maximum 'headroom' available to support either further policy costs and/or planning obligations/CIL and/or higher land values/developer return. For the purposes of this chapter, results are expressed as either being viable (green), marginal (amber) or unviable (red). 'Marginal' is defined as being up to plus/minus £5,000 per dwelling. This is an arbitrary definition used in this report and with the purpose of identifying typologies and policy tests where a small change in the assumptions used could switch a site from having a positive to negative residual value or vice versa..

5.3 We also include a set of sensitivity testing:

- Sensitivity test 1 – alternative benchmark land values;
- Sensitivity test 2 – allowance for Future Homes Standard 2025;
- Sensitivity test 3 – increase in affordable housing from 35% to 40% in value area 3 Dorset East & Dorchester.
- Sensitivity test 4 – increase in build costs

5.4 Each typology has been subjected to a detailed appraisal, complete with cashflow analysis. A range of different scenarios are presented, including general residential, higher density development and specialist housing.

Small site typologies

5.5 The following table shows the viability position for small sites below the affordable housing threshold of 10 dwellings (note that affordable housing in designated rural areas is considered separately).

Table 5.1 Small site typologies

Typology	Units	Type	Existing use	Dorset North & South No AH	Dorset West & Central No AH	Dorset East & Dorchester No AH
Res1a	3 houses	Greenfield	Paddock			
Res1bi	3 houses	Brownfield	Residential			
Res1bii	3 houses	Brownfield	Higher brownfield			
Res2a	6 houses	Greenfield	Paddock			
Res2b	6 houses	Brownfield	Higher brownfield			

Commentary on small sites viability

- The two small sites are generally viable across all three value areas for both brownfield and greenfield development;
- However, policy compliant development on sites with the highest BLV based on the existing use being residential (Res1bi) will only be viable in the highest value area (Dorset East & Dorchester);
- In the middle value area (Dorset Central & West) and in the lower value area (Dorset North & South) this type of development is not viable as tested;
- The policy requirements should not affect delivery for the majority of development.

Medium site typologies

5.6 The following table shows the viability position for medium sites of 15 to 60 dwellings on both greenfield and brownfield sites with variable existing uses.

Table 5.2 Medium site typologies

Typology	Units	Type	Existing use	Dorset North & South 20% AH	Dorset West & Central 35% AH	Dorset East & Dorchester 35% AH
Res4a	15 mixed	Greenfield	Paddock			
Res4b	15 mixed	Brownfield	Higher brownfield			
Res5a	30 mixed	Greenfield	Paddock			
Res5bi	30 mixed	Brownfield	Higher brownfield			
Res5bii	30 mixed	Brownfield	Lower brownfield			
Res6ai	60 mixed	Greenfield	Agricultural			
Res6aii	60 mixed	Greenfield	Paddock			
Res6b	60 mixed	Brownfield	Lower brownfield			

Commentary on medium sites viability

- Most of the generic medium sites are viable across all the three value areas;
- The exceptions are the 30 dwelling Res5a and 60 dwelling Res6aii in the mid and lower value areas, where the testing indicates that these types of development are marginal;
- The affordable housing and policy requirements should not harm delivery of these sites

Large site typologies

5.7 The following table shows the viability position for medium sites of 150 to 1,000 dwellings on both greenfield and brownfield sites with variable existing uses.

Table 5.3 Large site typologies

Typology	Units	Type	Existing use	Dorset North & South 20% AH	Dorset West & Central 35% AH	Dorset East & Dorchester 35% AH
Res7a	150 mixed	Greenfield	Agricultural			
Res7b	150 mixed	Brownfield	Lower brownfield			
Res8	350 mixed	Greenfield	Agricultural			
Res9	1,000 mixed	Greenfield	Agricultural			

Commentary on large sites viability

- Most of the large sites are viable as tested across all the three value areas;
- The largest site (Res9) is marginal in the low and mid value areas;
- The affordable housing and policy requirements should not harm delivery of these sites.

Flat led site typologies

5.8 The following table shows the viability position for flat led typologies of 8 to 30 dwellings on brownfield sites with variable existing uses. The 8 dwelling scheme is below the threshold for affordable housing.

Table 5.4 Flat site typologies

Typology	Units	Type	Existing use	Dorset North & South 0% or 20% AH	Dorset West & Central 0% or 35% AH	Dorset East & Dorchester 0% or 35% AH
Res3i	8 flats	Brownfield	Higher brownfield			
Res3ii	8 flats	Brownfield	Residential			
Res4c	15 flats	Brownfield	Higher brownfield			
Res5c	30 flats	Brownfield	Higher brownfield			

Commentary on flat led sites viability

- In the highest and medium value areas, the 8 dwelling small flats scheme below the affordable housing threshold is viable and in the lower value area it is marginal;
- The higher existing use (Res3ii) and the larger flatter schemes are unviable in all the value areas;
- Affordable housing as well as other policy requirements will be a challenge on these sites.

5.9 Outside Weymouth and Portland, the council is not anticipating or planning for any significant amounts of flatted development. Within Weymouth and Portland there is potential for just over 40% of the remaining supply without planning permission (c1300 units) to come forward as flats if the pattern of past permissions continues. This is a relatively small number in terms of the overall Dorset requirements and therefore it is considered that the majority of development can come forward with the policy requirements as tested within this assessment. Furthermore, if there is a site specific viability issue, the policy allows for flexibility in its application if there is a reasoned justification.

Designated rural areas

5.10 The following table shows the viability position for designated rural areas typologies of 6 dwellings on brownfield sites with variable existing uses and the inclusion of the applicable rate – either 20% or 35% (according to value area) of affordable housing.

Table 5.5 Designated rural areas site typologies

Typology	Units	Type	Existing use	Dorset North & South 20% AH	Dorset West & Central 35% AH	Dorset East & Dorchester 35% AH
Res2ci	6 houses	Greenfield	Paddock			
Res2cii	6 houses	Brownfield	Higher brownfield			

Commentary on designated areas viability

- The example of a 6 dwelling scheme in a designated rural area indicates that this type of development is still viable, with the inclusion of affordable housing at the relevant rate for the value area. It is recognised that the affordable housing contribution may be taken as a financial payment but this does not affect the results of the viability testing.

Older persons typologies

5.11 The older persons housing testing covers sheltered, extracare and care homes. For sheltered and extra care housing **10%** of units as affordable housing (Shared Ownership) is included within the testing. There is no affordable housing included in the care home testing and a single Dorset wide value is used.

Table 5.6 Older person typologies

Typology	Units	Type	Existing use	Dorset North & South	Dorset West & Central	Dorset East & Dorchester
OP1a	40 sheltered	Greenfield	Paddock			
OP1b	40 sheltered	Brownfield	Higher brownfield			
OP2a	50 extra care	Greenfield	Paddock			
OP2b	50 extra care	Brownfield	Higher brownfield			
OP3	60 carehome	Greenfield	Paddock			

Commentary on viability of the older persons typologies

- The viability of policy compliant development older persons housing is mixed but mainly viable or marginal;
- Sheltered housing is more viable than extra care;
- Sheltered housing is comfortably viable with 10% affordable housing in the highest value area (Dorset East and Dorchester) and marginally viable in the two lower value areas;
- Care homes are not viable as tested;
- Extracare housing is also comfortably viable with 10% affordable housing in the highest value area (Dorset East and Dorchester) but is marginal on brownfield sites and unviable on greenfield sites in the two lower value areas;
- The results suggest that older person housing is not as viable as standard residential development. An alternative affordable housing percentage of 10% (for sheltered and extra care housing), alongside meeting wider policy and mitigation costs is generally viable and should not harm delivery of development.

Park homes schemes

5.12 The following table shows the viability results for the park homes typology of 12 dwellings provided on a greenfield sites. There are three variations tested with different combinations of park home values and costs – PH1 with the highest value and highest costs, PH2 with the mid value and mid costs and PH3 with the lowest value for the park home and the lowest costs. All the tests included 10% affordable housing (as discounted market sale). The variation in value and costs with the park homes do not coincide with the market value areas used elsewhere for testing residential viability.

Table 5.7 Park homes site typologies

Typology	Units	Type	Existing use	Dorset wide
PH1	12 park homes	Greenfield	Paddock	
PH2	12 park homes	Greenfield	Paddock	
PH3	12 park homes	Greenfield	Paddock	

5.13 The park homes schemes were also tested at 20% affordable housing but were found to be unviable for all three typologies (PH1, PH2 and PH3).

Commentary on park homes sites

- At the higher and mid point values (and costs) the typologies are shown to be viable or marginal;
- At the lowest value the typology (PH3) is not viable;
- The results indicate that the viability of park homes schemes (with 10% affordable housing and the other policy costs) varies between schemes and, in certain circumstances, will be viable. A policy target of 10% would therefore be appropriate but with the proviso that there will need to be flexibility where schemes are demonstrated to be at a lower value than the average.

Sensitivity tests

5.14 While the PPG does not advocate the use of sensitivity testing, the council and the development industry via the consultations undertaken for this study, have sought to understand the impact of alternative assumptions.

5.15 Therefore a set of sensitivity testing has been undertaken to test these. The sensitivity tests are as follows:

- Sensitivity test 1 – alternative benchmark land values;
- Sensitivity test 2 – allowance for Future Homes Standard 2025;
- Sensitivity test 3 – increase in affordable housing from 35% to 40% in value area 3 Dorset East & Dorchester;
- Sensitivity test 4 – higher build costs.

Sensitivity test 1 – alternative benchmark land values

5.16 The main testing used the mid benchmarks. These represented 15x existing use value for greenfield sites and 20% uplift on existing use value for brownfield sites (BLV2). The table below shows the differences in viability status (with all other assumptions remaining the same) with the alternative benchmarks - the lower uplift of 10x and 10% (BLV1) and the upper uplift of 20x and 30% (BLV3) and how these compare with the mid point (BLV2). Note that the alternative benchmark land values are not shown for flats where the small site areas means that a change in land value has limited impact.

5.17 The alternative benchmark land values can show the council where sites that might have been previously unviable or marginal may become more viable if land price is lower i.e. the price is adjusting to enable the policies to be met, which is in line with the expectation of PPG. Also, whilst the existing use value may not vary significantly across Dorset, the expectation of uplift may be lower in the lower value areas and potentially higher in the higher value areas.

Table 5.8 Sensitivity test 1 – alternative benchmark land values typologies

Typology	Units	Type	Existing use	Dorset North & South 20% AH			Dorset West & Central 35% AH			Dorset East & Dorchester 35% AH		
Small site typologies				BLV 1	BLV 2	BLV 3	BLV 1	BLV 2	BLV 3	BLV 1	BLV 2	BLV 3
Res1a	3 houses	Greenfield	Paddock									
Res1bi	3 houses	Brownfield	Residential									
Res1bii	3 houses	Brownfield	Higher brownfield									
Res2a	6 houses	Greenfield	Paddock									
Res2b	6 houses	Brownfield	Higher brownfield									
Medium site typologies												
Res4a	15 mixed	Greenfield	Paddock									
Res4b	15 mixed	Brownfield	Higher brownfield									
Res5a	30 mixed	Greenfield	Paddock									
Res5bi	30 mixed	Brownfield	Higher brownfield									
Res5bii	30 mixed	Brownfield	Lower brownfield									
Res6ai	60 mixed	Greenfield	Agricultural									
Res6aii	60 mixed	Greenfield	Paddock									
Res6b	60 mixed	Brownfield	Lower brownfield									
Large site typologies												
Res7a	150 mixed	Greenfield	Agricultural									
Res7b	150 mixed	Brownfield	Lower brownfield									
Res8	350 mixed	Greenfield	Agricultural									
Res9	1,000 mixed	Greenfield	Agricultural									

5.18 The results show that alternative benchmark land values have the biggest impact on sites with residential existing use value, such as Res1bi and on sites with higher greenfield existing use value, such as Res4a, Res5a and Res6aii. Also impacted is the largest typology Res9 where the highest values in the lower value areas become unviable.

Sensitivity test 2 – *allowance for Future Homes standard 2025*

5.19 The government published an update to Part L of the Building Regulations in December 2021. This becomes operational in June 2022 and is intended to deliver a 31% saving in carbon emissions in new residential development. The testing includes an allowance for the Part L 2021 (see the Technical Report, Appendix J for further details).

5.20 However, it is likely that further changes will take place within the plan period, with the implementation of Future Homes 2025. There is no clarity about how the 2025 standard (of 75% reduction) is to be achieved. It is reasonable to assume another update to the Building Regulations but this has yet to emerge. The Future Homes Standards 2019 Consultation indicated that it will not be until 2024 that there will be 'implementation consultation'.[25] Therefore, whilst it is important to consider any potential impact as part of this sensitivity test, this is within the context of yet to be published standards and a development industry that will be responding with the most economically advantageous approach. Indeed, the government's own impact assessment on the costs of implementing the changes to Building Regulations Part L this June, states that:

> "…….*Over the longer-term, Currie & Brown estimate that the costs associated with both heat pumps and solar PV will fall, as supply chains mature and become more integrated, and learning rates take effect. ….*"[26]

5.21 This sensitivity testing assumes an allowance of £12,000 per house and £8,000 per flat to meet the uplift costs from Part 2013 to a Future Homes 2025 standard. Details regarding the approach to costs are set out in Appendix J, which draws upon cost research undertaken by the government and a number of local authorities. The results are set out in the following table.

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[25] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040925/Future_Buildings_Standard_response.pdf

[26] Para 7.17, Department for Levelling UP, Housing & Communities, 2021 changes to the energy efficiency requirements of the Building Regulations for domestic buildings, Final Stage Impact Assessment, December 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040631/Domestic_Part_L.pdf

Table 5.9 Sensitivity test 2 – allowance for Future Homes standard 2025 typologies

Typology	Units	Type	Existing use	Dorset North & South 20% AH			Dorset West & Central 35% AH			Dorset East & Dorchester 35% AH		
Small site typologies				BLV 1	BLV 2	BLV 3	BLV 1	BLV 2	BLV 3	BLV 1	BLV 2	BLV 3
Res1a	3 houses	Greenfield	Paddock									
Res1bi	3 houses	Brownfield	Residential									
Res1bii	3 houses	Brownfield	Higher brownfield									
Res2a	6 houses	Greenfield	Paddock									
Res2b	6 houses	Brownfield	Higher brownfield									
Medium site typologies												
Res4a	15 mixed	Greenfield	Paddock									
Res4b	15 mixed	Brownfield	Higher brownfield									
Res5a	30 mixed	Greenfield	Paddock									
Res5bi	30 mixed	Brownfield	Higher brownfield									
Res5bii	30 mixed	Brownfield	Lower brownfield									
Res6ai	60 mixed	Greenfield	Agricultural									
Res6aii	60 mixed	Greenfield	Paddock									
Res6b	60 mixed	Brownfield	Lower brownfield									
Large site typologies												
Res7a	150 mixed	Greenfield	Agricultural									
Res7b	150 mixed	Brownfield	Lower brownfield									
Res8	350 mixed	Greenfield	Agricultural									
Res9	1,000 mixed	Greenfield	Agricultural									

5.22 The additional costs associated with a potential move towards a Future Homes Standards has limited effect on small site typologies – all are still viable other than the existing residential use (which is similar to the base testing). The medium size sites continue to be viable or marginal at the lowest benchmark land values (1 & 2) across the three value areas and for most benchmark land value uplifts in value area 3 Dorset East and Dorchester. The large sites of Res7a to Res8 are all viable/marginal, however Res9 is not viable in the two lower value areas, unless the lowest BLV is considered reasonable.

5.23 The results suggest that the majority of development will be able to come forward on the basis of the cost allowance made for the potential introduction of Future Homes, especially if some of this additional cost is absorbed within the land value, which is in line with the government's general intentions when new requirements such as these are introduced.

Sensitivity test 3 – increase affordable housing in Dorset East & Dorchester from 35% to 40%

5.24 The council has previously sought higher levels of affordable housing than those set out in the testing and are therefore interested in understanding the viability impact of moving from 35% affordable housing to 40% affordable housing in the highest value area 3, Dorset East & Dorchester.

5.25 So the council can understand the impact of these changes with the potentially higher costs associated with Future Homes, the testing includes both sensitivity test 2 and the affordable housing increase. The typologies affected by the change in affordable housing percentage will maintain the same proportions in terms of mix and tenure as the base testing. All other assumptions remain the same. The results are set out in the following table.

Table 5.10 Sensitivity test 3 – 40% affordable housing in Dorset East & Dorchester typologies

Typology	Units	Type	Existing use	Dorset East & Dorchester 40% AH		
Medium site typologies				BLV 1	BLV 2	BLV 3
Res4a	15 mixed	Greenfield	Paddock			
Res4b	15 mixed	Brownfield	Higher brownfield			
Res5a	30 mixed	Greenfield	Paddock			
Res5bi	30 mixed	Brownfield	Higher brownfield			
Res5bii	30 mixed	Brownfield	Lower brownfield			
Res6ai	60 mixed	Greenfield	Agricultural			
Res6aii	60 mixed	Greenfield	Paddock			
Res6b	60 mixed	Brownfield	Lower brownfield			
Large site typologies						
Res7a	150 mixed	Greenfield	Agricultural			
Res7b	150 mixed	Brownfield	Lower brownfield			
Res8	350 mixed	Greenfield	Agricultural			
Res9	1,000 mixed	Greenfield	Agricultural			

5.26 The results present a mixed picture with some of the typologies now only viable or marginal at the lowest benchmark land value uplift (BLV1). Previously (for the base test) across the benchmark land values 34 out of the 36 tests were viable compared with only 23 out of the 36 tests in sensitivity test 3.

5.27 This reduced level of viability is comparable with what the council has been achieving in terms of affordable housing where policy requirements are above 35%. As set out in 3.1.4, where policy requirements have been set at 40% or 50%, actual delivery has been at a much lower level – often at 0% but more generally around 35%. Coupled with the results set out in Table 5.10, there seems limited reason for increasing the affordable housing target above 35% in the higher value area.

Sensitivity test 4 – increase in build costs

5.28 Sensitivity testing has been undertaken to determine the impact of higher build costs. A nominal 5% increase in base build costs has been modelled for the 60 dwelling Res6b typology, against the same brownfield BLV used in the base case modelling (lower brownfield). The increased build costs will also have a direct impact on the allowances for external/site costs and professional fees as these are calculated from base dwelling build costs, as well as indirect impacts on finance. All other assumptions remain the same. The results are set out in the following table.

Table 5.11 Sensitivity test 4 – increase in build cost by 5%

Typology	Dorset North & South			Dorset West & Central			Dorset East & Dorchester		
Typologies	BLV1	BLV2	BLV3	BLV1	BLV2	BLV3	BLV1	BLV2	BLV3
Res6b 60 mixed base test									
Res6b 60 mixed sensitivity test 4									

5.29 The use of higher build costs reduces the viability although the typology remains viable even at the upper end of the benchmark land values used. This illustrates that in this test an increase in build costs would not put delivery of plan policies at risk.

Chapter 6 Non-residential testing

Introduction

6.1 A set of non-residential development typologies have been viability tested as part of the study. The proposed policies within the Local Plan are not considered to significantly add to the development costs for non-residential uses in the plan period. Within the testing we have made some allowances for s106 contributions (e.g. minor highways and travel planning[27]) and included costs to account for biodiversity net gain. This section sets out the assumptions used for the non-residential viability testing.

6.2 The viability analysis undertaken has been based on a residual value approach in which scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme revenue is based on revenue from the property and scheme costs assume a return to the developer and 'development costs' include build costs and other costs such as professional fees, finance costs and marketing fees.

6.3 From the 'gross residual value' calculated an allowance for site purchase is deducted based on existing use value plus site purchase costs (agents and legal fees) to assess the 'residual balance' against which a scheme could support any additional costs (or a CIL contribution). This residual balance shows the level of affordability or financial headroom available from which additional contributions can be met.

6.4 This report section summarises he non-residential testing and further detail can be found in the Technical Report at Appendix K.

Establishing Gross Development Value (GDV)

6.5 In establishing the GDV for non-residential uses, this report has also considered historical comparable evidence to inform new values on a local, regional and, for some uses, national, level.

6.6 The following table illustrates the values established for a variety of non-residential uses, expressed in sq m of net rentable floorspace and yield. The table is based on our knowledge of the market and analysis of comparable transaction data provided by EGi and relevant market reports. The rents and yields are capitalised within the toolkit to provide GDV for all the development types. The rents and yields used are set out in Table 6.1.

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[27] Based on advice from Dorset Council

Table 6.1 Non-residential typologies

Typology	Use	Description	Rent £/sq m	Yield
NR1	Retail comparison	Town centres	£220	8.00%
NR2	Retail comparison	Out of centre/retail warehouse/park	£170	6.00%
NR3	Retail convenience	Small local store	£188	6.00%
NR4	Retail convenience	Supermarket	£167	4.00%
NR5	Office	Town centres	£125	8.50%
NR6	Office	Fringe and transport nodes	£130	8.50%
NR7	Industrial/warehouse	Fringe and transport nodes	£75	7.25%
NR8	Industrial/warehouse	Fringe and transport nodes	£75	7.25%
NR9	Hotel	Budget/business	£98,000/room	

Development costs

6.7 **Build costs** have been taken from the RICS Build Cost Information Service (BCIS) at the time of this study (current build cost values) and rebased (by BCIS) to Dorset prices. The build costs adopted are based on the BCIS mean values shown in the following table.

Table 6.2 Build costs

Type	Build cost £ /sq m* Q2 2021
NR1 – Retail comparison town centres	£1,561
NR2 - Retail comparison out of centre	£941
NR3 – Retail convenience local	£1,632
NR4 – Retail convenience supermarket	£1,632
NR5 – Office town centres	£1,903
NR6 – Office fringe	£1,911
NR7 – Industrial/warehouse 1,600 sq/m	£889 (up to 2,000 sq m)
NR8 – Industrial/warehouse 5,000 sq/m	£743 (over 2,000 sq m)
NR9 – Hotel	£1,602
* 10% external works are added to these figures	

6.8 **Other costs** - there are a range of other costs that are included within the assessment. The costs identified reflect typical/industry-standard costs and appraisal inputs for the typologies tested.

6.9 There are also some allowances for S106, where it is likely these maybe sought for travel planning, public transport or highways. These are not routinely sought by the council, so there is limited evidence (only 1 in the past year), and whilst this has been used as a guide we have also sought officers' views on what is reasonable to test.

6.10 Whilst there is an allowance for biodiversity net gain, following the recent requirement set out in the Environment Act 2021, no allowances have been made for electric vehicle charging. It is considered that whilst charging points may be provided at many of the types of non-residential development tested that at present many of these will be 'rapid' chargers in excess of 25kw charging capacity. These types of chargers attract user fees and are normally supplied on a commercial basis and therefore the cost will be with the operator rather than the site developer.

Table 6.3 Other costs

Cost type	Assumption	Notes
Professional fees and contingency	8% of build costs	Incorporates all professional fees associated with the build, including fees for designs, planning, surveying, project managing and contingency
Sales and letting	3% of GDV	Includes any agent and legal costs and inclusive of arrangement fees
Developer return	15% of GDV	General standard in strategic assessments for non-residential development
Interest rates (debit only)	6%	Includes arrangement costs
Stamp Duty Land Tax	As per HMRC rates	-
Void/rent free	Various allowances -1m to 6m	Various allowances for voids/rent free periods have been made in the testing
Biodiversity Net Gain	£14,333/ha	Reflects Environment Act requirement, utilising the government impact assessment central estimate on cost

Non-residential benchmark land values

6.11 The viability testing of the non-residential development uses a standard residual value approach, which considers whether the value of development can meet all the development costs including a benchmark land value. This is a benchmark/threshold value which reflects a value range that a landowner would reasonably be expected to sell/release their land for development.

6.12 Establishing the existing use value (EUV) of land and in setting a benchmark/threshold at which a landowner is prepared to sell to enable a consideration of viability can be a complex process. There are a wide range of site-specific variables which affect land sales (e.g. whether the landowner requires a quick sale or is seeking a long-term land investment). However, for a strategic study, where the land values on future individual sites are unknown, a pragmatic approach is required. Our starting point for non-residential benchmark land values is to draw from the work undertaken to inform the residential values, and for the base and sensitivity testing the following values are used. The benchmarks for some retail uses are higher than some residential benchmarks, reflecting the relative lack of suitable sites for some schemes.

Table 6.4 Non-residential benchmark land values

Typology	Lower benchmark £/ha	Mid benchmark £/ha	Higher benchmark £/ha	Based on:
NR1 – Retail comparison town centres	£715,000	£780,000	£845,000	Higher brownfield existing use of £650,000+10%; +20%; +30%
NR2 - Retail comparison out of centre	£1,770,000	£2,065,000	£2,360,000	Paddock existing use of £59,000/ha x30; x35; x40
NR3 – Retail convenience local	£1,770,000	£2,065,000	£2,360,000	Paddock existing use of £59,000/ha x30; x35; x40
NR4 – Retail convenience supermarket	£1,770,000	£2,065,000	£2,360,000	Paddock existing use of £59,000/ha x30; x35; x40
NR5 – Office town centres	£715,000	£780,000	£845,000	Higher brownfield existing use of £650,000+10%; +20%; +30%
NR6 – Office fringe	£275,000	£300,000	£325,000	Standard brownfield existing use of £250,000+10%; +20%; +30%
NR7 – Industrial/warehouse 1,600 sq/m	£275,000	£300,000	£325,000	Standard brownfield existing use of £250,000+10%; +20%; +30%
NR8 – Industrial/warehouse 5,000 sq/m	£275,000	£300,000	£325,000	Standard brownfield existing use of £250,000+10%; +20%; +30%

Typology	Lower benchmark £/ha	Mid benchmark £/ha	Higher benchmark £/ha	Based on:
NR9 – Hotel	£715,000	£780,000	£845,000	Higher brownfield existing use of £650,000+10%; +20%; +30%

Results of the non-residential testing

6.13 This section summarises results of the non-residential viability appraisals. As described, there are no policies that directly affect the viability of non-residential development, other than those around biodiversity net gain - however the council want to understand the impact of these requirements as well as any scope for CIL.

6.14 The table below summarises the results from the detailed assessments for each non-residential development type, indicating whether the use is viable or not. The assessments can be found in Appendix K.

6.15 It is important to note that the analysis considers development that might be built for subsequent sale or rent to a commercial tenant. However, there will also be development that is undertaken for specific commercial operators, either as owners or pre-lets. In these circumstances the economics of the development relate to the profitability of the enterprise accommodated within the buildings rather than the market value of the buildings. Therefore, it should be noted that while the testing suggests that some types of development are not viable or marginal, developments of these types may still be brought forward for individual occupiers to meet their specific requirements. In particular, if the required return is reduced to the level of a contractor return, then unviable sites may be marginal or (marginally) positive.

Table 6.5 Testing results (green-viable; orange-marginal +-5% of GDV; red-not viable)

Typology	Lower benchmark	Mid benchmark	Higher benchmark
	Headroom (£/sqm)	Headroom (£/sqm)	Headroom (£/sqm)
NR1 – Retail comparison town centres			
NR2 - Retail comparison out of centre			
NR3 – Retail convenience local			
NR4 – Retail convenience supermarket			
NR5 – Office town centres			
NR6 – Office fringe			
NR7 – Industrial/warehouse 1,600 sq/m			

Typology	Lower benchmark	Mid benchmark	Higher benchmark
NR8 – Industrial/warehouse 5,000 sq/m			
NR9 – Hotel			

6.16 Of the uses tested only the supermarket and out of centre retail are viable. All of the other uses are unviable or marginal. As tested, both the supermarkets and out of centre retail could support a CIL of between £20/sqm and £120/sqm depending on the assumed benchmark land value.

Chapter 7 Viability - policy requirements & CIL

Introduction

7.1 In coming to a view about appropriate policy requirements and CIL rates, the council will need to consider whether the plan is reasonable, viable and consistent with national guidance in the National Planning Policy Framework (NPPF) and Planning Practice Guidance (PPG) and whether a CIL schedule is compliant in legal terms with the 2008 Act and 2010 Regulations (as amended). The policies in the plan should not put at risk the delivery of the plan overall. In terms of CIL, the charging schedule should set an appropriate balance between helping to fund necessary new infrastructure and the potential effects on the economic viability of development across the district.

7.2 There is no prescribed approach to setting either policy requirements or CIL rates and the council will need to be informed by the viability evidence but does not have to follow prescriptively the results of the testing. A number of considerations will need to be taken into account:

- Development values – the council should be mindful of the variances in values across Dorset, including the lower values in Weymouth, Crossways and in Gillingham, both of which may be expected to provide some of the housing supply;
- Types of sites to come forward – a number of the sites are green belt release (particularly in the east of Dorset) as well as other greenfield sites across Dorset. While it is likely that there will be some flatted development, this is not planned to be a major part of future supply;
- The need to balance the supply of affordable housing with funding for infrastructure and providing mitigation for pressures on the environment in the local area.

7.3 Whilst viability of the plan is the focus of this report, the council also needs to consider the approach to CIL. In coming to a view on CIL, the council should take into account:

- Simplicity of charging zones – the guidance suggests that CIL should be easily understandable and minimise the need for multiple charging zones and development types;
- Market shock – although much of Dorset already has CIL, a large step change in the CIL rate, could potentially have an effect on future delivery;
- Buffer – whilst there is no method prescribed to setting the CIL rate, guidance does suggest that the rate should not be at the margin of viability. In other words, the CIL rate should not generally be set the same as the total headroom available – a buffer should be incorporated. The buffers used in other CIL studies have varied but generally fall around 30-50%;
- Reasonableness – some councils (and Examiners) have come to a view that a CIL rate which costs no more than 5% of GDV is generally acceptable and unlikely to put development at risk. This is an arbitrary figure but based on general practice.

7.4 In advance of adoption of the new local plan, the current affordable housing and CIL requirements are those for the former districts within Dorset, as set out in the table below.

Table 7.1 Former district affordable housing and residential CIL

Area	Document	Affordable housing	CIL 2021
East Dorset	2018 SPD	Greenfield 50% Brownfield 40% 70:30 Rented/Intermediate	Up to 10 dwellings £174.13 Over 10 dwellings £81.26 New neighbourhood – zero rated
Purbeck	2012 Local Plan	NW Purbeck including Wareham 40% SE Purbeck including Swanage 50%	Wareham/Purbeck Rural £142.31 Rural Centre £42.69 Upton £14.23
West Dorset	2015 Local Plan	Portland 25% Weymouth & West Dorset 35%	£123
Weymouth & Portland			Portland £98.01 Elsewhere £113.93
North Dorset	2016 Local Plan	Rural 40% Blandford & Shaftesbury 30% Gillingham & Sturminster Newton (Inc Gillingham Southern Extension) 25%	£0

Draft Local Plan residential policies

7.5 The viability testing in Chapter 6 shows that, in general, housing development in Dorset is viable as tested i.e at 35% affordable housing in the higher value areas of Dorset West & Central and Dorset East & Dorchester and 20% elsewhere. At these levels of provision, there is some additional headroom which can provide confidence to the council that these targets should be achievable in most circumstances.

7.6 The sensitivity testing shows that in the main, development is still viable with higher building standards and higher building costs.

7.7 There are exceptions to this general pattern. The viability of flatted schemes is mixed, with viable schemes in some (higher value) areas and unviable schemes in some lower value areas with the same future affordable housing (35%/20% as appropriate) and other policy costs included. Overall, it can be concluded that this form of development can proceed in Dorset with these policy requirements but that site specific circumstances may mean that some schemes in lower value locations cannot achieve this level of contribution but may be able to deliver some amount of affordable housing.

7.8 Older persons housing also has some mixed viability results. With 10% affordable housing and shared ownership as the tenure, viable development is achieved with sheltered housing schemes in all areas and viable extracare schemes in the highest value area (Dorset East & Dorchester). Again, it can be concluded that this form of development can proceed in Dorset with an affordable policy target of 10% but that there may be some schemes in some lower value locations where site specific consideration needs to be given, particularly extracare schemes. It should also be noted that the testing takes a conservative view on values for older persons housing (see Chapter 5) and there is likely to be stronger viability in some circumstances

7.9 The analysis of park homes schemes also indicated that an affordable housing contribution set at 10% would be realistic.

Non-residential policies

7.10 There are no local policies affecting the viability of non-residential development. Some nominal s106 has been included within the testing to mitigate potential impacts but this will vary on a case-by-case basis.

7.11 The only non-residential uses that are viable as tested are supermarket development and out of centre comparison retail. Other uses may come forward as design and build or through pre-lets where the commercial case for the business operation is sufficient to bear the cost of new premises.

7.12 Overall there are no viability concerns from the work undertaken as part of this study about the Local Plan requirements for non-residential development.

Potential for CIL

7.13 It is still at a relatively early stage in the preparation of the local plan to settle on a full set of CIL rates, although it is appreciated that judgements about the other policy requirements (notably affordable housing) need to be within the context of the need also to collect money, through CIL, for necessary infrastructure. Therefore, this report sets out some general principles for the level of CIL that will be appropriate but does not specify a full schedule of rates – these can be refined as the policy approach of the council becomes more established.

7.14 In setting CIL the council will need to come to a view as to whether they want to use CIL to fund all the infrastructure associated with new development or whether on some sites it will be more efficient and beneficial to seek s106 to ensure some or part of the infrastructure is funded and delivered. The approach may vary according to location, type or size of development and is of note that may councils choose a £zero or low rate CIL on larger strategic sites preferring instead to collect s106 (this is the approach that has been modelled within this report, i.e. a s106 is applied to all applicable typologies).

7.15 If Dorset Council do wish to pursue CIL on some or all of their sites then it is recommended that rates should generally operate with a minimum buffer of 50% of the available headroom[28] for those 'typical' sites tested within this study. The resulting potential CIL rate range should then be sense checked against whether it would be within 5% of total GDV for each typology. There is then a judgement as to what a reasonable rate would be in terms of risk to delivery and any market shock.

7.16 To assist Dorset Council in considering local plan policy the headroom identified in Appendix I for residential development and Appendix K for non residential development have been reviewed. This is based on the mid range benchmark land value 2 with all the policy costs included and a notional section106 allowance of £3,000 per unit (on residential development of 10 plus units) for any local mitigation. At this stage a range is presented at it will depend on the council's view in terms of Future Homes standards, risk, their development strategy and the infrastructure funding gap.

- For residential developments generally a CIL rate in the range of £80-£160/sqm would seem appropriate on the basis of current evidence but with the option of setting a higher rate (say up to £200/sqm) in higher value area. There are a number of exceptions to this approach where a £zero CIL is proposed;
    - For flats – both 100% flatted schemes and flats within a mixed development with houses;
    - For older persons housing schemes;
    - For park homes schemes;
    - For rural exception sites, regardless of tenure.
- For non residential development, generally a £zero rate will apply with the exception
    - For supermarkets and out of centre comparison retail a CIL rate in the range of £20 to £120/sq m would seem appropriate on the basis of current evidence

[28] Headroom is what is left after all costs including a return for the landowner and the developer have been taken into account