

South Downs National Park Authority



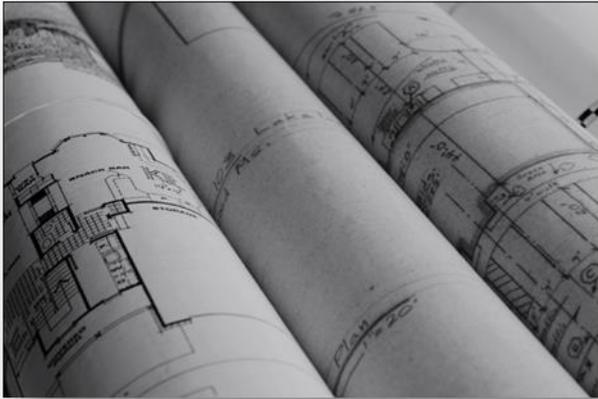
**Viability Assessment:
Community Infrastructure Levy & Affordable
Housing**

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**Final Report
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Executive Summary

Context

1. This summary provides a very brief background introduction to the Community Infrastructure Levy (CIL) and Affordable Housing (AH) viability assessment undertaken for the South Downs National Park Authority (SDNPA). The purpose is to inform and support the Authority's development strategy preparation, within the context of the emerging Local Plan (the development plan) for the Park area and its related local CIL proposals.
2. There is no bespoke adopted development plan for the Park area, since it crosses the boundaries of many former local Council areas. The emerging version will develop into the first that fulfils the Park-wide development planning role. Whilst it is expected that key policies relevant to development viability will be broadly consistent with the nature of the prevailing or developing policies in the numerous abutting local authority areas, clearly it will not be possible to reflect all of those. A key purpose of this assessment, alongside reviewing the viability potential for and recommending suitable CIL charging rates for the Park area, is therefore to provide the SDNPA with a broad picture on affordable housing viability with a view to setting suitable targets for that.
3. The CIL was introduced by the Government as a means of Local Authorities pooling development contributions to help fund the provision of the local infrastructure needed to support the planned growth (plan-led development) in their area. In essence, currently by April 2014 it will replace s.106 as a means of securing those wider area infrastructure contributions. However, during April - May 2013 the Government consulted on further proposed CIL reforms, which should be confirmed through amended CIL Regulations and new associated Guidance early in 2014, and are set to extend the April 2014 date by one year. The proposed reforms, largely confirmed at the end of 2013, also contain other measures which the full report outlines – where those could influence the SDNPA's future thinking on the local CIL and, potentially, how that combines with affordable housing requirements. The viability information can be updated readily if required in response to where these aspects settle in due course.

4. In most cases, therefore, local authorities that do not put a CIL in place will see their scope to secure those planning obligations (compared with existing mechanisms) severely reduced. S.106 will become a vehicle for securing only planning obligations relating to site-specific infrastructure and mitigation requirements. Based on the current CIL regulations, s.106 will continue to be used for securing affordable housing in the established way, however.
5. The CIL principles and charging structure are set-out under the regulations. Those provide a framework which the local authority (the 'charging authority' for the CIL, and in this case the SDNPA) has no flexibility over; CIL must be implemented and charged in the prescribed way. Charging authorities can however decide on the local charging rate(s), including whether to vary those by development use type and / or locality; as may be driven by varying development viability in their area.
6. Under the regulations, the CIL will be chargeable on a per square metre (sq. m) basis on all new development which adds more than 100 sq. m gross internal floor-space. This covers all types of property (residential and commercial / non-residential, including extensions). In addition, the development of all new dwellings will be chargeable, including new dwellings of less than 100 sq. m. Affordable housing and developments by charities will not be subject to CIL charging under the current regulations. Subject to certain criteria, CIL charging will not apply to any pre-existing accommodation on a development site. Therefore within the CIL payment calculation, the existing floor area may be deducted ("netted-off") from the chargeable development floor area. This will have a variable, usually positive, viability impact on developments where existing floorspace is allowed-for in this way. Within this viability study, no allowance is made for this potentially positive viability influence because it is likely to be such a variable and site-specific factor.
7. The National Planning Policy Framework (NPPF) sets out the overall approach to the preparation of Local Plans. It states that planning authorities (in this case the SDNPA) should seek opportunities to achieve each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. Significant adverse impacts on any of these dimensions should be avoided and, wherever possible, alternative options which reduce or eliminate such impacts should be pursued. The NPPF also states that Local Plans should be aspirational but realistic -

that is, to balance aspirational objectives with realistic and deliverable policies. In accordance with guidance such as exists within the NPPF but also within documents such as the June 2012 Local Housing Delivery Group (Sir John Harman) Report 'Viability testing Local Plans', this viability assessment takes into account the likely development strategy and policy-set of the SDNPA's emerging Local Plan. However, on an on-going basis the Authority will need to consider the viability context and the policies that are likely to have key impacts on that as it continues to build the Plan proposals from here.

Study and process

8. The SDNPA appointed Dixon Searle Partnership (DSP) to review the viability scope for affordable housing together with testing a range of development use types (residential and commercial / non-residential) for their capacity to support CIL funding in the Park area – combined with the emerging work on the development strategy and new Local Plan proposals.
9. Alongside supporting information on the local infrastructure requirements, the viability assessment is a key piece of evidence required to inform and support the Plan development, particularly in respect of planning-led affordable housing policy thresholds and targets (%s) and the CIL proposals. DSP is amongst the leading consultancies in this field, having taken Local Plan policies through Examination on numerous occasions and now taken its CIL viability work through Examination in Public (EIP) stage successfully for six other authorities. We are working currently with a range of other authorities. The most recent outcomes to reach that stage were for Sevenoaks District and West Berkshire Council District – both after Examinations in the Autumn of 2013. The assessment for SDNPA is informed by these positive experiences.
10. The study investigates the potential scope for CIL charging in the South Downs National Park in combination with the thrust of policies expected to be within the Local Plan, with the aim of ensuring that the overall approach will not put at serious risk the delivery of the Plan as a whole. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the Park area; taking into account the range of normal costs and obligations

(including local and national policies associated with development, as would be borne by development schemes alongside the CIL). The aim is to provide the Authority with advice as to the likely viability of both the policies within the emerging Plan and viability of seeking developer contributions towards infrastructure provision through the CIL. This includes the consideration of viability and the potential charging rate or rates appropriate in the local context as part of a suitable and achievable overall package of planning obligations alongside other usual development costs.

11. The study approach does this through exploring the collective effect of key development costs and obligations. The methodology explores a range of reasonably representative development scenarios and involves testing those for a variety of sensitivities, including the following factors varying:
 - Completed scheme (sales) values ('gross development value – GDV');
 - Sensitivity testing of SDNPA potential affordable housing policies (across an overall range of 10% - 50% affordable housing on sites of 1 or more new dwelling(s));
 - Varying potential land value expectations;
 - Range of "trial" CIL charging rates;
 - Build and other development and policy costs varying by scheme type.
12. Affordable housing targets should be appropriately challenging, but their framing should acknowledge the key role of viability and they should be operated flexibly where necessary. This is with the aim of to delivering optimum levels of this much needed housing, whilst maintaining a reasonable level of viability as tested through appropriate land value levels (for the land owner, to secure the release of sites) and via suitable profit levels, being the developer's appropriate risk-reward.
13. With CIL, the Authority must seek to strike an appropriate balance between contributing to local infrastructure funding needs (meeting the infrastructure 'funding gap' that CIL aims to bridge) and development viability. In doing so, a range of other factors need to be considered, such as site supply and likely frequency and development plan relevance of various development types to the area. This question of balance has been confirmed through the latest, consolidated, guidance on CIL (published by DCLG April 2013). Similar principles apply to testing the Local Plan

generally whereby the policies and proposals in the draft Local Plan can be brought together to consider their cumulative impact on development viability.

14. DSP aims to provide parameters and options, where possible, and this approach has been appropriate in informing client local authorities' work to date. The viability work need not be followed slavishly, but the Council should consider the viability information and sensitivities set out by DSP – culminating in the scope of our recommendations (see later). However, it should be emphasised that it is an essential requirement for the CIL Charging Schedule to be justified by evidence of viability. The key test at Examination will be whether the rates are set at reasonable levels in order not to unduly compromise development viability (in the context of the delivery of the plan as a whole rather than necessarily in respect of each individual site). This is a vital part of seeking the right balance in setting the local approach to the CIL. The Council will also need to show how its CIL proposals will contribute positively to the development of the area.
15. In summary, the study involved the key stages of research, assumptions setting (including inviting development industry stakeholders to submit information), running a wide range of development viability appraisals and finally, analysis and review. The appraisals used residual land valuation principles - an established approach to this type of study, used over a number of years to consider affordable housing and other aspects of viability review for planning policy development. The full study report (as follows this summary) comprehensively sets out the process and outcomes.

Findings – Affordable Housing under the emerging Plan (High level)

16. In terms of affordable housing viability considered alongside the wide range of assumed collective development costs, including the CIL testing, the study process found that there is the potential to seek up to 40% affordable housing from schemes of 10 or more dwellings, with a sliding scale of reducing requirements (including a potential role for Affordable Housing Financial Contributions (AH FCs)) suggested for use with smaller sites beneath that. This does not in any way fix the affordable housing policy positions at this level. Those will be considered by the SDNPA, informed by this assessment, however it sets out a suitable and viability tested starting and potential base-point against which the CIL and other aspects can also be

considered; given the wider range of sensitivity testing that has been carried out. This is necessarily qualified though, owing to the early stages nature and high-level consideration of the values and normal costs relationships.

17. The wider information should be considered, but for the current purposes the summary recommendations for the viability scope on affordable housing (combined with CIL as set out below and based on the assumptions set all as provided with the full report detail) are as follows:

Recommendations Summary – Potential Affordable Housing (AH) Target %s

Scheme size (no of new dwellings)	AH mode	AH Target (allied to CIL recommendations)
1 - 4	AH Financial Contribution	10%
5 - 9	AH Financial Contribution / potentially consider on-site (not rigid)	20%
10+	Strong presumption for on-site provision	40%

18. The key points in respect of the Local Plan picture and made through the report are, in our view, the need to:

- Build and keep under review the viability picture as more becomes known – including on the building-up of the development strategy, working with neighbouring authorities and a more settled understanding of the Infrastructure Development Plan (IDP) requirements and costings;
- Continue to consider and operate development control policies and prepare information to guide delivery (development briefs, SPDs or other equivalent supporting guidance) in a responsive and adaptable way rather than having too rigid an approach to securing the necessarily challenging targets on aspects such as affordable housing and sustainability / carbon reduction;
- Balancing key objectives with viability, including potential compromise, as may be necessary. This will most likely need to be dealt with and settled in a bespoke way

according to site specific issues and how those will change over time – e.g. with the market and over various phases of development.

Findings - CIL

19. For residential development, suitable overall parameters for CIL charging in the South Downs National Park were found to be £100 to £200/sq. m, depending on circumstances (see below) and taking account of the need not to set rates at the margins of viability.
20. A level of differentiation will be necessary given the broad range of locations and potential sites types to be incorporated within the development strategy. However, DSP's suggestion is to aim to keep the approach to both affordable housing and CIL relatively simple so that in essence consistent policies can be set and applied Park-wide. The overall development scope is associated primarily with some larger sites and limited greenfield land release, but also including a large number of proposed smaller sites from, where possible, the re-use of land (PDL – previously developed land such as former commercial sites) and small-scale infill / extension of settlements. The selection of rates based on these parameters is expected to be further informed by the match (best fit, necessarily on an overview basis) with the type and location of sites coming forward to support and protect the selected development strategy.
21. We have found that while a differential approach is likely to be necessary to reflect the likely characteristics of residential development varying between the main (SDNPA hierarchy Tier 1 and 2) settlements of Lewes, Petersfield, Midhurst and Petworth; Liss (which although a Tier 2 settlement, is likely to require differential treatment; and the many smaller settlements within the very large rural area beyond those. A “wash-over” type rate is put forward for the latter. DSP considers that further differentiation for residential is considered unwarranted and in any event would only serve to complicate the approach still without reflecting the large range of highly localised differences that are found during our typical and appropriate CIL overview.

22. In all cases, (and applicable also to commercial / non-residential scenarios – see below) any rates considered below the levels and parameters that we set out are within the scope of our viability findings.
23. In avoiding setting rates too high, the wider characteristics and costs of development need to be considered. These include a range of factors such as potentially on-going uncertain economic conditions, variable land value levels, the need to continue supporting other planning objectives (e.g. affordable housing and sustainable construction) to optimal possible levels in individual circumstances; and potential occurrence of variable abnormal costs, etc.
24. These are general characteristics based on an appropriate high level overview and not necessarily reflecting all local or scheme-specific variations that may become relevant at the delivery point, but nevertheless this type of approach fits the Local Plan and CIL principles while respecting the key variations seen.
25. The viability of a range of commercial / non-residential development types in the Park area was found to be highly variable overall – with only retail development in some circumstances (larger format, envisaged in the local context primarily as potential town based supermarket development), considered capable of reliably supporting meaningful CIL contributions at the current time. The review for CIL viability also informs the Council’s ongoing work in respect of wider Plan delivery and economic objectives, acknowledging that it is important to work with partners to make the most of promoting choice and opportunities in the most appropriate locations. A proactive and creative approach will be needed, enabling the most to be made of opportunities as market activity goes through improved periods.
26. As with residential development, our findings show that there is a need and scope to support a differential approach to any retail development that comes forward during the life of the first CIL charging schedule. The approach to the right balance locally will be further informed by the plan relevance and incidence of the various types of retail development in the context of the SDNPA’s development and economic strategy priorities. The key finding on retail is that a significantly lower rate would be appropriate in viability terms for smaller shops development; at a minimal or, at a recommended nil rate £0/sq. m if the progression of any new small shopping unit proposals is considered important to the Plan overall.

27. The report (as follows) provides commentary relating to the involved viability considerations in dealing with retail development. It provides evidence should the Council consider it relevant to pursue differentiation for the different retail development use types that come with associated variable characteristics and viability results.
28. As with all charging rate levels, the results of this study could be kept under review for subsequent charging schedules with regard to economic circumstances, the updated value / cost relationships and the on-going / potentially changing relevance over time of various scheme types in the Park area.
29. In testing other forms of commercial / non-residential development, it was found that any level of CIL charging could generally either exacerbate the viability issues associated with marginal schemes or unviable schemes by placing undue added risk to other forms of new development coming forward. This added risk needs to be balanced against the likely frequency of such schemes, their role in the development plan delivery overall and perhaps also the level of CIL “yield” (total monies collected) that they might provide. We see some authorities aiming to charge CIL on development uses such as hotels and care homes where those are shown clearly to be viable and of planned local relevance, but experience of such areas is highly variable and here the viability evidence does not support that at the current time.
30. Whichever approach to CIL is progressed, we reiterate that the SDNPA will need to continue to operate its overall approach to parallel obligations (s.106 and other policy requirements) in an adaptable way; reacting to and discussing particular site circumstances as needed (and supported by shared viability information for review). CIL will be fixed, but will need to be viewed as part of a wider package of costs and obligations that will need to be balanced and workable across a range of circumstances. Again this is not just a local factor, but is a widely applicable principle. Under the latest CIL guidance (likely to be strengthened through the CIL reforms) charging authorities will increasingly need to make clear how CIL and s.106 will operate together in their area. This will include being clear about infrastructure needs so that there is no actual or perceived “double dipping” – i.e. charging for infrastructure both through CIL and s.106.

31. The following table provides an outline of our CIL charging recommendations summary (as included at the final section of the full study report that follows) – see the table below:

CIL Charging rates Parameters & Rates for Consideration
A. Residential
<p>Based on the findings and discussion including at 3.2 – 3.4 of this report, and the above AH positions (subject to NPA review and confirmation):</p> <p>Overall parameters - £100 to £200/sq. m.</p> <p>Recommend a 3 zones approach, based on key characteristics:</p> <ul style="list-style-type: none"> - Overall “wash-over” rate – smaller settlements / rural areas - rate of not more than £200/sq. m, applicable to all scenarios National Park-wide except for in respect of differentiation for: - Tier 1 and 2 settlements excluding Liss - £150/sq. m (Lewes, Petersfield, Midhurst, Petworth) and; - Liss – £100/sq. m (assuming requires differentiation being relevant to overall plan delivery).
B. Retail
<p>Based on the findings and discussion including at 3.5 – 3.6 of this report:</p> <p>Overall parameters – £0 – £120/sq. m.</p> <p>Recommend larger format retail – retail warehousing and supermarkets – a charging rate of up to £120/sq. m.</p> <p>This rate would also be applicable to extensions of any size.</p> <p>All other retail at £0/sq. m.</p>

<p>Any differentiation by type of retail should be linked to use rather than simply based on size (see 3.6.12 and associated text).</p>
<p>C. <u>Business Development - Office and Industrial of all forms</u></p>
<p>Based on the findings and discussion including at 3.7 of this report: At the current time, although subject to future review - £0/sq. m</p>
<p>D. <u>Hotels and Care Homes</u></p>
<p>Based on the findings and discussion including at 3.8 – 3.9 of this report: At the current time, although subject to future review - £0/sq. m</p>
<p>E. <u>Community (and all other) uses</u></p>
<p>Based on the findings and discussion including at 3.10 of this report: Nil rate (£0/sq. m), on balance, in preference to a low / nominal “default” rate</p>

(Source: DSP 2013)

**Executive Summary ends.
 January 2014.**

1 Introduction

1.1. Background to the Study

- 1.1.1. The South Downs National Park Authority (SDNPA) assumed its full powers in April 2011 and is an independent Authority operating within the local government framework. The SDNPA is the sole Local Planning Authority for the area of the park and is therefore the 'charging authority' for the purposes of the Community Infrastructure Levy. It is the 8th largest planning authority in the UK.
- 1.1.2. The SDNPA has partnership Agency Agreements with 8 of the 12 Local Authorities within the Park area to undertake planning functions on its behalf. 90% of applications are determined by these delegated Local Planning Authorities. SDNPA determines all applications within the Park areas covered by Arun, Brighton and Hove, Eastbourne and Wealden districts.
- 1.1.3. The SDNPA is currently producing a Management Plan for the next five years and a Local Plan for the next 20 years which will set out the planning policies to guide development and protect the special qualities of this area. Prior to the adoption of the emerging Local Plan (scheduled for 2016/17), planning decisions in the National Park are based on the existing Local Development Frameworks of the 12 Local Authorities within the Park. As an intermediate stage, the National Park Authority is working on five joint-core strategies with the NPAs of Wealden District, Mid Sussex District, Lewes District, East Hampshire District and Winchester City. These will provide a more up-to-date development plan for those areas of the Park covered by the joint-core strategies until the National Park Authority's Local Plan is in place.
- 1.1.4. The National Park Authority has approved a timetable to adopt a Community Infrastructure Levy (CIL) Charging Schedule by mid-2015; ahead of the Local Plan. This approach has been agreed by the Government and Planning Inspectorate on the provision that the National Park Authority is clear as to the development strategy to be adopted in the emerging Local Plan.
- 1.1.5. The National Park Authority's CIL charging schedule will cover one of the largest areas to date and presents many challenges including its geographical extent, mix of

urban settlements and natural environment and the delivery of the Authority's statutory purposes and duty.

- 1.1.6. The National Park Authority's Infrastructure Delivery Plan, setting out the infrastructure projects necessary to support the development plan, is being produced at present. This document will demonstrate a funding gap arising after other sources of funding have been taken into account and will justify the need for a CIL charging schedule.
- 1.1.7. Current affordable housing requirements for new development, including rural exception sites, are set out in the existing Local Development Frameworks of the 12 Local Authorities within the Park. Interim affordable housing requirements will be established in the five emerging joint-core strategies, for the areas of the Park covered by those plans. A Park-wide local affordable housing requirement will be adopted in the emerging Local Plan, informed by the recommendations of this viability assessment.
- 1.1.8. Unusually, but as agreed with the Government and Planning Inspectorate, this CIL study is being carried out ahead of the Local Plan rather than alongside the development of a Local Plan or based on an adopted Local Plan. Recommendations with regard to CIL and appropriate charging levels are made allied to any emerging Local Plan policies known at the time of carrying out this assessment and consistent with the development strategy which drives the need for the CIL to be put in place to support the associated infrastructure requirements. Intrinsicly linked to the setting of appropriate CIL rates, this assessment also looks at the viability of affordable housing provision across the National Park area.
- 1.1.9. To this end, the SDNPA commissioned Dixon Searle LLP to carry out a Viability Assessment to provide an area-wide analysis of residential and non-residential development viability with recommendations for a potential range of CIL charges that could be applied and a potential range of affordable housing requirements (where applicable) across the National Park area.

1.2. Background – Community Infrastructure Levy

- 1.2.1 The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from developers undertaking

new developments in their area. In this case, the South Downs National Park Authority will be the charging authority.

- 1.2.2 CIL takes the form of a charge levied per square metre (sq. m) on the gross internal floorspace of 'net additional liable development'¹. The levy is chargeable on most types of new development that involve an increase in floor space. The charge will be expressed as a rate in £s per sq. m (£/sq. m) of development; known as the charging rate.
- 1.2.3 The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, under the Community Infrastructure (Amendment) Regulations 2014, there will be a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.²
- 1.2.4 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area, in accordance with its Development Plan or in the case of the South Downs National Park, the development strategy in the emerging Local Plan. The Local Plan, when adopted, will set out how the National Park will develop into the future through strategic and locational policies that will cover the period 2017 - 2035.
- 1.2.5 CIL regulations require charging authorities to allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas. In January 2013 it was announced that in areas where there is a neighbourhood development plan in place, the neighbourhood will be able to receive 25% of the revenues from the Community Infrastructure Levy arising from the development that they have chosen to accept. Under the Regulations the money would be paid directly to the neighbourhood planning bodies (Parish / Town Councils) and could be used for

¹ DCLG – Community Infrastructure Levy Guidance (April 2013)

² Subject to the changes to be introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provides a mandatory exemption for self-build housing, including communal housing.

community projects. The Government has said that it will issue further guidance on exactly what the money can be spent on.

- 1.2.6 Neighbourhoods without a neighbourhood development plan but where the community infrastructure levy is still charged will receive a capped share of 15% of the levy revenue arising from development in their area. This announcement was formalised through the Community Infrastructure Levy 2013 (Amendment) Regulations on 25th April 2013. The Guidance was also updated to reflect these changes³.
- 1.2.7 Under the Government's regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority.
- 1.2.8 The levy rate(s) will have to be informed and underpinned firstly by evidence of the infrastructure needed to support new development, and therefore as to the anticipated funding gap that exists; and secondly by evidence of development viability.
- 1.2.9 South Downs National Park Authority has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the emerging Local Plan. The IDP will identify the elements of infrastructure required to support the development plan with estimated costs, potential and known funding sources and timescales for delivery where known at the time of publication. The IDP is being prepared in consultation with key infrastructure and service providers and will form a key part of the evidence base which will both support the emerging Local Plan and assist in the development of the CIL charging schedule.
- 1.2.10 Infrastructure is taken to mean any service or facility that supports the NPA's area and its population and includes (but is not limited to) facilities for transport, affordable housing, education, health, social infrastructure, green infrastructure, public services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the

³ DCLG – Community Infrastructure Levy Guidance (April 2013)

established way through site specific planning (s.106) agreements. Within this study, an allowance has been made for the cost to developers of providing affordable housing in addition to testing potential CIL charging rates. In this sense, the collective planning obligations (affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others. It follows that the extent to which s.106 will have an on-going role may also need to be considered in determining suitable CIL charging rates, bearing in mind that CIL will be non-negotiable.

1.2.11 In most cases CIL will replace s.106 as the mechanism for securing developer contributions towards required infrastructure. Indeed, latest Government guidance on CIL states that it expects NPAs to work proactively with developers to ensure they are clear about infrastructure needs so that there is no actual or perceived “double dipping” – i.e. charging for infrastructure both through CIL and s.106. Therefore s.106 should be scaled back to those matters that are directly related to a specific site and are not set out in a Regulation 123 list (a list of infrastructure projects that the NPA intends to fund through the Levy). This could be a significant consideration, for example, in respect of large scale strategic development associated with on-site provision of infrastructure, high site works costs and particularly where these characteristics may coincide with lower value areas.

1.2.12 An authority wishing to implement the CIL locally must produce a charging schedule setting out the levy’s rates in its area. The CIL rate or rates should be set at a level that ensures development within the authority’s area (as a whole, based on the plan provision) is not put at serious risk.

1.2.13 A key requirement of CIL and setting the charging rates is that an appropriate balance should be struck between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development (development viability).

“By providing additional infrastructure to support development of an area, the levy is expected to have a positive economic effect on development across an area. In deciding the rate(s) of the levy for inclusion in its draft charging schedule, a key consideration is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing

the levy upon development across their area. The Community Infrastructure Levy regulations place this balance of considerations at the centre of the charge-setting process. In meeting the requirements of regulation 14(1), charging authorities should show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant Plan and support the development of their area. As set out in the National Planning Policy Framework in England, the ability to develop viably the sites and the scale of development identified in the Local Plan should not be threatened”.

“Charging authorities should be able to show and explain how their proposed Community Infrastructure Levy rate (or rates) will contribute towards the implementation of their relevant Plan and support development across their area. It is likely, for example, that charging authorities will need to summarise evidence as to economic viability in a document (separate from the charging schedule) as part of their background evidence that shows the potential effects of their proposed levy rate (or rates) on the economic viability of development across their area”.

“As background evidence, the charging authority should also prepare and provide information about the amounts raised in recent years through section 106 agreements. This should include the extent to which affordable housing and other targets have been met”⁴.

1.2.14 At the time of finalising this report, the Government had completed its consultation on proposed reforms to the CIL regulations with the Government’s response to the consultation published in October 2013. The Draft Community Infrastructure Levy (Amendment) Regulations 2014 were laid before Parliament on 9th December 2013 with changes including:

- the ability to differentiate CIL rates by size (in addition to use and geographic location);
- timing of calculating the levy;
- extension of vacancy credit to 3 years;
- payment in kind;
- changes to social housing relief;

⁴ DCLG – Community Infrastructure Levy – Guidance (April 2013)

- a new mandatory exemption for self-build housing, including communal development (includes a three year clawback period starting from certification of completion);
- a new mandatory exemptions for residential annexes and extensions
- restrictions on the use of s278 highway agreements for infrastructure on the Reg 123 list (exemption apply e.g. TfL) and;
- delay to the s106 pooling requirement until April 2015.

1.2.15 It is anticipated that the regulations will come into effect in the early part of 2014. At the time of writing, further information on the Amendments could be found here: <http://www.legislation.gov.uk/ukdsi/2014/9780111106761/contents>

1.2.16 The direction anticipated in the CIL Regulations (Amendment) have been taken into account where possible in the preparation of this report and in our opinion the preparation of this study meets the requirements of all appropriate Guidance (see 1.4 below).

1.3 South Downs National Park Profile

1.3.1 Uniquely combining a biodiverse landscape with bustling towns and villages, the South Downs National Park covers an area of over 1,600 km² with a population of over 110,000. There are 181 parishes and 332 separate settlements. Spanning a breadth of 160 kilometres, the landscape of the South Downs encompasses over 20 kilometres of heritage coast, nature reserves, historic monuments, visitor attractions, listed buildings and conservation areas.

1.3.2 The South Downs National Park Authority (SDNPA) is the organisation responsible for promoting the purposes of the National Park and the interests of the people who live and work within it.

1.3.3 There are 15 National Parks in the UK. Known as Britain's Breathing Spaces, National Parks are areas of spectacular landscape that include mountains, meadows, moorlands, woods, coasts and wetlands. Mostly farmed landscapes supporting living, working communities, National Parks are areas of protected countryside that everyone can visit and enjoy.

1.3.4 As a National Park, the SDNPA has statutory purposes and socio-economic responsibilities as specified in the Environment Act of 1995.

- To conserve and enhance the natural beauty, wildlife and cultural heritage of the area.
- To promote opportunities for the understanding and enjoyment of the special qualities of the Park by the public.

1.3.5 Working in partnership with other Local Authorities and other organisations, it is also the duty of the Authority to seek to foster the economic and social well-being of the local communities within the National Park

1.3.6 The role of the South Downs National Park as a Planning Authority is to control and influence the development of land and buildings within its boundaries. To do this effectively the SDNPA has to balance the statutory duties and purposes of the National Park, safeguarding the natural environment and existing built heritage, with the needs of individuals, the local population supporting rural communities and local businesses.

1.3.7 It is proposed that the National Park's Local Plan will be formally submitted to the Secretary of State in June 2016 and be adopted by June 2017. It will set the planning policy framework for the National Park for the period up to 2035. It is likely to continue to evolve over time to meet the changing needs and aspirations of the National Park.

1.4 Purpose of this Report

1.4.1 This study has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance⁵ applicable to studies of this nature. This study has also had regard to draft National Planning Practice Guidance issued in August 2013.

⁵ Local Housing Delivery Group – Viability Testing Local Plans (June 2012) & Royal Institution of Chartered Surveyors (RICS) – Financial Viability in Planning (GN 94/2012).

- 1.4.2 In August 2013 the Government also began consultation on a Housing Standards Review to seek views on the rationalisation of the framework of building regulations and local housing standards. As this document is at consultation stage, it has not been possible to incorporate any potential changes that may come forward in the future. This is an area however that the NPA will wish to monitor.
- 1.4.3 In order to meet the requirements of Regulation 14 of the CIL Regulations April 2010 (as amended) and the requirements of the NPPF, the NPA appointed Dixon Searle Partnership (DSP) to provide the viability evidence base to inform the development of the NPA's draft CIL charging schedule. Alongside and integral to the development of the CIL charging schedule is the level of affordable housing that can be viably sought across the National Park.
- 1.4.4 This study investigates the potential scope for CIL charging and affordable housing provision in the South Downs National Park with the aim of ensuring that the overall approach will not put at serious risk the delivery of the emerging Local Plan as a whole. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the National Park; taking into account the range of normal costs and obligations (including local and national policies associated with development, as would be borne by development schemes alongside the Community Infrastructure Levy and affordable housing). The aim is to provide the NPA with advice as to the likely viability of seeking developer contributions towards infrastructure provision through the CIL and an appropriate level of affordable housing. This includes the consideration of viability and the potential charging rate or rates appropriate in the local context as part of a suitable and achievable overall package of likely planning obligations (including affordable housing) alongside other usual development costs.
- 1.4.5 This does not require a detailed viability appraisal of every site anticipated to come forward over the plan period rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather potential policies which are likely to have a close bearing on development costs.
- 1.4.6 To this end, the Study requires any policies and proposals to be brought together to consider their cumulative impact on development viability as well as the cost impact

of national policies and regulatory requirements in setting a viable level of CIL and a deliverable level of affordable housing.

- 1.4.7 One of the key areas will be the NPA's approach to affordable housing. This study applies sensitivity testing to a range of affordable housing proportions and at different thresholds combined with varying CIL levels – to provide information to inform the NPA's ongoing approach.
- 1.4.8 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.
- 1.4.9 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue generated by the completed scheme (the gross development value – GDV).
- 1.4.10 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme typologies representing development scenarios that are likely to be relevant to the development strategy and that are likely to come forward within the National Park.
- 1.4.11 The study process produces a large range of results relating to the exploration of a range of potential ('trial') CIL charging rates, affordable housing percentages as well as other variables. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform both the policy and CIL rate setting process.
- 1.4.12 The potential level of CIL charge viable in each scenario has been varied through an iterative process exploring trial charging rates over a range £0 to £250/sq. m for residential scenarios and £0 to £195/m² for non-residential / commercial scheme test scenarios. This was found to be a sufficient range for exploring the CIL charging scope locally and did not need to be extended following the review of initial results.

- 1.4.13 The results of each of the appraisals are compared to a range of potential benchmark land values or other guides relevant to the particular development scenarios. These are necessary to determine both the overall viability of the scheme types tested and a potentially viable level of CIL and affordable housing as it relates to development type and varying completed scheme value levels (GDVs). The results sets have been tabulated in summary form and those are included as Appendices IIa (residential) and IIb (non-residential / commercial).
- 1.4.14 A key element of the viability overview process is comparison of the RLVs generated by the development appraisals and the potential level of land value that may need to be reached to ensure development sites continue to come forward so that development across the area is not put at risk. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. Any surplus is then potentially available for CIL and affordable housing provision.
- 1.4.15 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons will be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested.
- 1.4.16 In the background to considering the scale of the potential charging rates and their proportional level in the South Downs National Park context, we have also reviewed them alongside a variety of additional measures that are useful in considering the overall impact of a level of CIL on development viability. This includes reviewing the potential CIL charging rates in terms of percentage of development value and cost. This provides additional context for considering the relative level of the potential CIL charging rate(s) and their impact compared with other factors that can affect development viability such as changes in property market conditions, build costs, inflation, affordable housing, etc.
- 1.4.17 This report then sets out findings and recommendations for the NPA to consider in taking forward its further development work on the local implementation of the CIL and Preliminary Draft Charging Schedule (PDCS) alongside a reasonable and viable

level of affordable housing to be sought on residential development schemes across the NP area.

1.5 Notes and Limitations

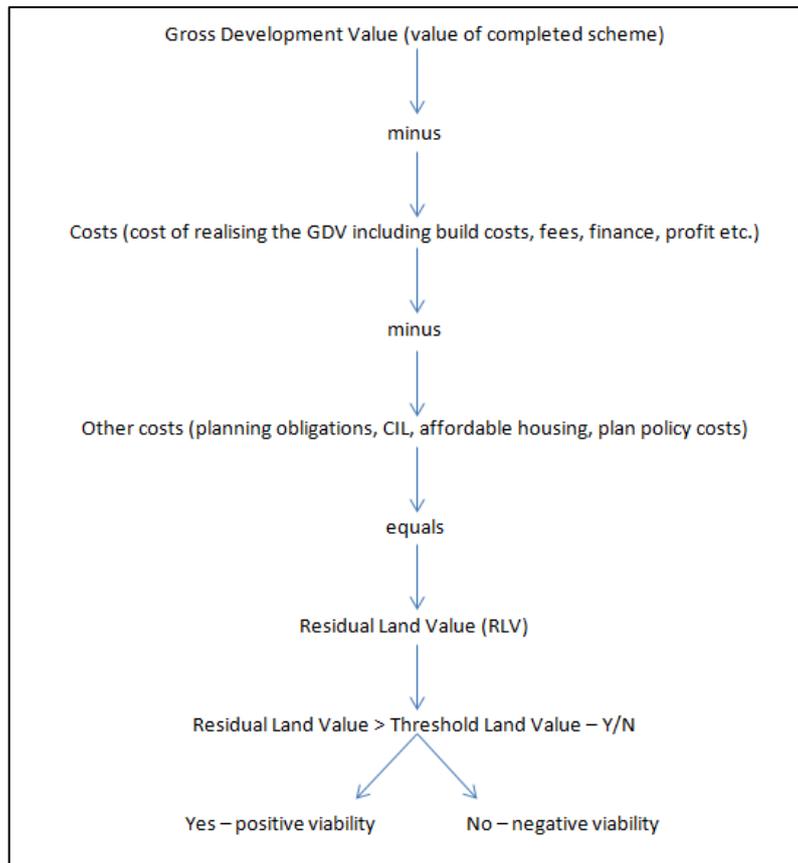
- 1.5.1 This study has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including affordable housing and CIL economic viability. However, in no way does this study provide formal valuation advice. It should not be relied on for other purposes.
- 1.5.2 In order to carry out this type of study a large quantity of data is reviewed and a range of assumptions are required. It is acknowledged that these rarely fit all eventualities - small changes in assumptions can have a significant individual or cumulative effect on the residual land value generated and / or the value of the CIL funding potential (the surplus after land value comparisons).
- 1.5.3 It should be noted that in practice every scheme is different and no study of this nature can reflect all the variances seen in site specific cases. The study is not intended to prescribe assumptions or outcomes for specific cases.
- 1.5.4 Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the NPA's work on its CIL Preliminary Draft Charging Schedule preparations and affordable housing policies.

2 Assessment Methodology

2.1 Residual valuation principles

- 2.1.1 Collectively this study investigates the potential for a range of development types to contribute to infrastructure provision funding across the National Park through the collection of financial contributions charged via a Community Infrastructure Levy and provides recommendations on the viability of various affordable housing proportions and the thresholds above which affordable housing may be sought.
- 2.1.2 There will be a number of policies coming through the emerging Local Plan that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on experience elsewhere and discussions with Council officers as to potential policy direction, in particular including affordable housing policy. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the collective impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.
- 2.1.3 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme types, both residential and non-residential/commercial.
- 2.1.4 Residual valuation, as the term suggests, provides a “residual” value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 1) shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



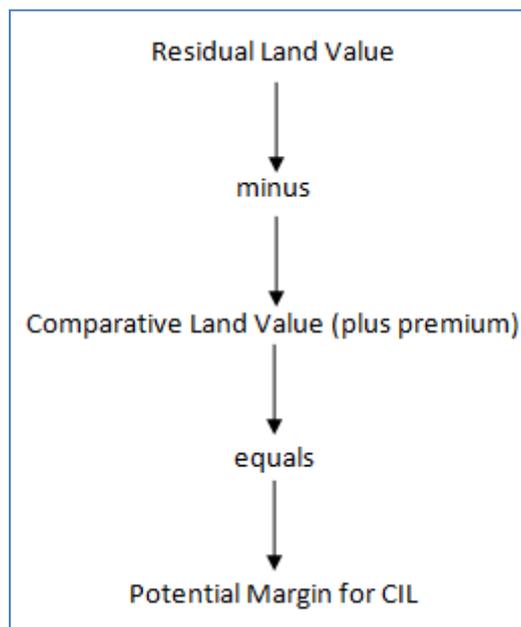
- 2.1.5 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).
- 2.1.6 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.
- 2.1.7 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as the Valuation Office Agency (VOA) reporting, previous evidence held

by the NPA and its immediate neighbours⁶ and any available sales, or other evidence on value, are used for this purpose in making our assessment. Recently there has been a low level of activity on land deals and consequently there has been very little to use in terms of comparables. As such a range of reporting as mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not a South Downs National Park specific factor. In assessing the appraisal results, the surplus or excess residual (land value) remaining above these indicative land value comparisons is shown as the margin potentially available to fund CIL contributions.

2.1.8 The results show trends indicating deteriorating residual land values (and therefore reduced viability) as scheme value (GDV) decreases and / or costs rise – e.g. through adding / increasing affordable housing, increasing build costs (as with varying commercial development types) and increasing trial CIL rates.

2.1.9 Any potential margin (CIL funding scope) is then considered in the round so that charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs that could alter over time or with scheme specifics. In essence, the steps taken to consider that potential margin or surplus are as follows (see figure 2 below):

Figure 2: Relationship Between RLV & Potential Maximum CIL Rate (surplus or margin potentially available for CIL).



⁶ There are 12 local authorities within the Park area, all at different stages of Local Plan and CIL development.

2.1.10 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I and III. They reflect the local markets through research on local values, costs and types of provision, etc. At key project stages we consulted with the NPA's officers and sought soundings as far as were available from a range of local development industry stakeholders as we considered our assumptions. This included issuing a stakeholder questionnaire / pro-forma to key stakeholders (developers, house builders, landowners, agents, Registered Providers etc.) alongside e-mail exchanges and telephone discussions to get feedback on study assumptions and provide the opportunity for provision of information to inform the study. Appendix III provides more details.

2.2 Site Development Scenarios

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and non-residential / commercial developments. The scenarios were developed and discussed with the NPA following a review of the information it provided. Information included emerging Joint Core Strategies, Strategic Housing Land Availability Assessment (SHLAA), Employment Land Review, Retail Study and other information. For the purposes of CIL, it was necessary to determine scenario types reasonably representative of those likely to come forward across the National Park bearing in mind the probable life of a first CIL Charging Schedule. In addition the scale of development coming forward across the National Park also needed to be considered.

Residential Development Scenarios

2.2.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision (see Figure 3 below, and Appendix I provides more details):

Figure 3: Residential Scheme Types

Scheme Type	Overall Scheme Mix
1 House	1 x 4 BH
2 Houses	2 x 4 BH
5 Houses	5 x 3 BH
10 Houses	3 x 2 BH, 5 x 3 BH, 2 x 4 BH
10 Flats	4 x 1 BF, 6 x 2 BF
15 Mixed	1 x 1 BF, 2 x 2 BF, 5 x 2 BH, 5 x 3 BH, 2 x 4 BH
30 Mixed	2 x 1 BF, 4 x 2 BF, 10 x 2 BH, 10 x 3 BH, 4 x 4 BH
30 Flats (Sheltered)	15 x 1 BF, 15 x 2 BF
100 Mixed	13 x 1BF; 13 x 2BF; 24 x 2BH; 38 x 3BH; 12 x 4BH
250 Mixed	32 x 1BF; 32 x 2BF; 60 x 2BH; 95 x 3BH; 30 x 4BH

Note: BH = bed house; BF = bed flat; Mixed = mix of houses and flats.

- 2.2.3 The assumed dwelling mixes were based on the range of information reviewed, combined with a likely market led mix. They reflect a range of different types of development that could come forward across the National Park so as to ensure that viability has been tested with reference to the potential housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the National Park by scheme location / type whilst and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.
- 2.2.4 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types in the National Park context.
- 2.2.5 The residential scenarios were chosen to reflect and further test viability across a broad range of scenarios whilst also allowing us to test a range of affordable housing thresholds. In all cases it should be noted that a “best fit” of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers. The affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet.
- 2.2.6 The dwelling sizes assumed for the purposes of this study are as follows (see figure 4 below):

Figure 4: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
1-bed flat	50	45
2-bed flat	67	60
2-bed house	75	75
3-bed house	85	95
4-bed house	110	125

- 2.2.7 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. No single size or even range of assumed sizes will represent all dwelling types. Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to price and assess schemes and is consistent with CIL principles. It provides a more relevant context for considering the potential viability scope and also, purely as an additional measure, reviewing the potential CIL charging rate outcomes as a proportion of the schemes value (see Chapter 3 for more detail).
- 2.2.8 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m 'Value levels' basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

Commercial / Non-Residential Development Scenarios

2.2.9 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the NPA; following the basis issued in its brief. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 5 sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from different types of commercial development considered potentially relevant in the National Park.

2.2.10 In essence, the commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. Figure 5 below summarises the scenarios appraised through a full residual land value approach; again Appendix I provides more information.

Figure 5: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m ²)	Site Coverage	Site Size (Ha)
Large Retail (A1)	Supermarket - Town centre	2000	40%	0.50
A1- A5 - Small Retail	Other retail - town centre	300	70%	0.04
A1-A5 - Small Retail	Out of centre/villages - convenience / other retail	300	50%	0.06
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	200	40%	0.05
B1(a) Offices - Town Centre	Office Building	500	60%	0.08
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	250	40%	0.06
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	500	35%	0.14
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	2000	55%	0.36
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type)	1800	50%	0.36
C2 - Residential Institution	Nursing home / care home	3000	60%	0.50

Note: 300 sq. m retail ('small retail') scenarios representative of smaller shop types also permitting Sunday Trading Act related trading hours (see also subsequent information in this report).

2.2.11 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the National Park and are as

subsequently agreed with the NPA. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from Estates Gazette Interactive (EGi), the VOA Rating List and other web-based searching. We also received some additional indications through our process of seeking local soundings. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of “sense check” to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.

- 2.2.12 In addition to testing the commercial uses of key relevance above, further consideration was given to other development forms that may potentially come forward locally. These include for example non-commercially driven facilities (community halls, medical facilities, schools, etc.) and other commercial uses such as motor sales / garages, depots, workshops, surgeries / similar, health / fitness, leisure uses (e.g. cinemas / bowling) and day nurseries.
- 2.2.13 Clearly there is potentially a very wide range of such schemes that could be developed over the life of the first CIL charging schedule. Alongside their viability, it is also relevant for the NPA to consider the likely frequency and distribution of these; and their role in the delivery of the emerging development plan overall. For these scheme types, as a first step it was possible to review (in basic terms) the key relationship between their completed value per square metre and the cost of building. We say more about this in Chapter 3.
- 2.2.14 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale, etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the usual development sense being reviewed here and related to any CIL contributions scope. We are also able to consider these value / cost relationships alongside the range of main appraisal assumptions and the results that those provide (e.g. related to business development). This is an iterative process in addition to the main appraisals, whereby a further deteriorating relationship between values and costs

provides a clear picture of further reducing prospects of viable schemes. This starts to indicate schemes that require other support rather than being able to produce a surplus capable of some level of contribution to CIL.

2.2.15 Through this process we were able to determine whether there were any further scenarios that warranted additional viability appraisals. Having explored the viability trends produced by examination of the cost/value relationships we found that in many other cases, completed scheme values were at levels insufficient to cover development costs and thus would not support any level of CIL, certainly not on any regular basis.

2.3 Gross Development Value (Scheme Value) - Residential

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of scheme viability to the requirement for a range of potential CIL charging rates (including geographical values variations and / or with changing values as may be seen with further market variations). In the case of The South Downs National Park and given the values variations seen in different parts of the National Park through the initial research stages, the VLs covered typical residential market values over the range £2,750 to £5,000/sq. m (£255 to £465/sq. ft.) at £250/sq. m (£23/sq. ft.) intervals. These are set out within Appendix I - VLs 1 to 10.

2.3.2 The CIL rates were trialled by increasing the rate applied to each scenario over a scale between £0 and £250/sq. m. By doing this, we could consider and compare the potential for schemes to support a range of CIL rates over a range of value levels. From our wider experience of studying and considering development viability and given the balance also needed with other planning obligations including affordable housing, exploration beyond the upper end £250/sq. m potential charging rate level trial was not considered relevant in the South Downs National Park. The CIL trial rates range would have been extended following initial testing outcomes, had this been considered necessary.

2.3.3 We carried out a range of our own research on residential values across the NPA's area (see Appendix III). It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we also considered existing information contained within previous research

documents and from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. This is in accordance with the CIL Regulations and Guidance which states that proposed CIL rates should be informed by ‘appropriate available’ evidence and that ‘a charging authority should draw on existing data wherever it is available’. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.

- 2.3.4 A framework needs to be established for gathering and reviewing property values data. In researching residential values patterns we considered that the Settlements Hierarchy taken from the NPA’s Settlement Hierarchy Study (2013)⁷ and provided to DSP by the NPA was the best and most reflective, appropriate framework for gathering information.
- 2.3.5 The settlement hierarchy’s purpose is to identify the current role and function of settlements based on the number and type of facilities and services they provide, to inform the spatial strategy of the Local Plan. Settlements are separated into ‘Tiers’ to identify groups of settlements with broadly similar sustainability characteristics indicated by their score. The South Downs National Park Authority has adopted a five tier settlement hierarchy as recommended by the NPA’s Housing Requirements Study⁸ with Tier 1 containing the more sustainable settlements and Tier 5 containing the less sustainable settlements. In using the settlements hierarchy we were able to consider the level of values seen within the National Park (with a focus on those most relevant to new-build housing) and the general values patterns (i.e. how values in each of these settlement areas looked relative to the levels seen in the other areas).
- 2.3.6 Our desktop research considered the current marketing prices of properties across the National Park and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types. This information was further supplemented by an updated review of Land Registry information, on-line property search engines and new build data where available. Together, this informed a National Park-wide view of values appropriate to this level of review and for considering the sensitivity of values varying. This research is set out at Appendix III.

⁷ SDNPA – South Downs National Park Authority Settlement Hierarchy Study (June 2013)

⁸ DTZ – South Downs National Park Housing Requirement’s Study (October 2011)

- 2.3.7 The area covered by the National Park is significant and as expected overall the research indicated that values vary quite significantly within and between each settlement area. This is as expected – a common finding whereby different values are often seen at opposing sides or ends of roads, within neighbourhoods and even within individual developments dependent on design and orientation, etc. Values patterns are often indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of future NP development strategy. It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to The South Downs National Park. Neither is the relatively small number of current new-build schemes from which to draw information. However these factors do not affect the scope to get a clear overview of how values vary typically between the larger settlements and given the varying characteristics of the National Park; as set out in these sections and as is suitable for the consideration of the CIL and affordable housing.
- 2.3.8 The research and data sources behind our assumptions on values (as at Appendix III) - Background Data - are not included in the main part of this report. However, Figure 6 below indicates some key themes on values patterns across the National Park as observed through our research:

Figure 6: Indicative Settlement Relationship to Value Level (VL)

Market Value (MV)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	
£/sq. m range	£2,750	£3,000	£3,250	£3,500	£3,750	£4,000	£4,250	£4,500	£4,750	£5,000	
£/sq. ft. range	£255	£279	£302	£325	£348	£372	£395	£418	£441	£465	
Indicative Relevance of Value Levels (VLs)	<< Overall South Downs NP area – range >>										
	<< Liss – range >>										
	<< Midhurst, Petworth, Petersfield, Lewes – range >>										
	Lower end new-builds / falling market Liss & (potentially) Midhurst only			Core part of values range considered most relevant to SDNP delivery							
		<< Liss >>									
		<< Midhurst >>									
				<< Lewes & Petersfield – typical >>							
		<< Smaller settlements – rural areas – typically highest values >>									

- 2.3.9 The values assumed will affect the consideration of viability of CIL and affordable housing across the National Park and ultimately the level of CIL and affordable housing that can be charged without unduly affecting the viability of development. As will be outlined in Chapter 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability levels seen through varying property values. Through on-going discussion and consideration of the various data sources, this evolved to a settled, evidenced view of the key characteristics of the National Park - to inform potential options for an appropriate local approach to both CIL charging and affordable housing policy.
- 2.3.10 In addition to the market housing, the development appraisals also assume a requirement for affordable housing. We have tested and reviewed a range of potential affordable housing policies from 10% to 50% alongside on all site types tested as well as a potential sliding scale approach to affordable housing policy with the affordable housing proportion increasing with increased development size (up 15 units with a fixed proportion on sites of 15 or more units). The study also investigates the possibility of a requirement for a financial contribution towards affordable housing on sites of less than 5 dwellings or an alternative financial contribution on sites of between 5 and 9 units. For the affordable housing, we have assumed that approximately 70% is affordable rented tenure and 30% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the overall scheme mixes and affordable housing proportion in each scenario).
- 2.3.11 In practice many tenure mix variations could be possible; as well as many differing levels of rents derived from the affordable rents approach as affected by local markets and by affordability. The same applies to the intermediate (assumed shared ownership) element in that the setting the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) retained equity and the interaction of these two would usually be scheme specific considerations. Shared ownership is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.
- 2.3.12 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case

of shared ownership tenure). Currently the HCA expects affordable housing of either tenure on s.106 sites to be delivered with nil grant input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant.

2.3.13 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the ‘payment to developer’, ‘RP payment price’, ‘transfer payment’ or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site specific viability issues (including specific work on SPD, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals. We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge. Consultation with South Downs National Park Authority officers and key RP’s active locally was also undertaken to ascertain reasonable affordable rented and shared ownership values and financial appraisal input assumptions.

2.3.14 In broad terms, the transfer price assumed in this study varies between 32% and 75% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The average LHA rate for each unit type taken from Winchester, Portsmouth, Chichester, Worthing and Brighton & Hove BRMAs for the varying unit types was used as our cap for the affordable rental level assumptions.

2.3.15 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the RP’s own development strategies and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting

viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

2.3.16 Again, it is worth noting that affordable housing will not be liable for CIL payments. This is the case under the regulations nationally; not just in the South Downs National Park context. The market dwellings within each scenario will carry the CIL payments burden at the NPA's specified rate(s).

2.4 Gross Development Value – Commercial / Non-residential

2.4.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions needed to be made with regard to the rental values and yields that would drive the levels of the completed scheme values that would be compared with the various development costs to be applied within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).

2.4.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, EGi and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.

2.4.3 Figure 7 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.

2.4.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the National

Park. This enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. This is consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions (unless floor-space in excess of 100 sq. m is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). In many cases, however, limited or nil new build information for use of comparables exists, particularly given recent and current market circumstances. Therefore, views have had to be formed from local prevailing rents / prices and information on existing property. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a South Downs National Park only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.

- 2.4.5 These varying rental levels were capitalised by applying yields of between 6.0% and 7.5% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined with 7.5% base yield (6.5% for large retail formats and hotels) were appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.
- 2.4.6 It is important to note here that small variations can have a significant impact on the GDV that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions in the local context (but envisaging new development and appropriate lease covenants etc. rather than older stock), could well act against finding that balance.

2.4.7 This approach enabled us to consider the sensitivity of the results to changes in the capital value of schemes and allowed us then to consider the most relevant results in determining the parameters for setting non-residential CIL rates across the National Park. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3.

Figure 7: Rental Value for Commercial Schemes

Development Type		Value Level (Annual Rent Indication £/sq. m)		
		Low	Medium	High
Large Retail (A1)	Supermarket - Town centre	£225	£250	£275
A1- A5 - Small Retail	Other retail - town centre	£125	£150	£175
A1-A5 - Small Retail	Out of centre/villages - convenience / other retail	£75	£125	£175
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	£50	£75	£100
B1(a) Offices - Town Centre	Office Building	£125	£150	£175
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	£75	£100	£125
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£60	£80	£100
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£55	£75	£95
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type)	£4,000*	£5,000*	£6,000*
C2 - Residential Institution	Nursing home / care home	£160	£180	£200

*per room per annum

Economic and market conditions

2.4.8 We are making this viability assessment following what appears to be the end of a period of significant recession which has seen a major downturn in the fortunes of the property market – from an international and national to a local level, and affecting all property types (residential and commercial). At the time of writing we appear to have come through a period of relatively weak and uncertain economic conditions with the economy and property market in particular beginning to show signs of continued recovery. At the point of closing-off the study, there continues to be mixed messages with the Eurozone still in difficulty but the British economy is

showing signs that the market is beginning to pick up with house price growth rising at the fastest rate for 3 years⁹ boosted by the Government's Funding for Lending scheme and some forecasts indicating UK house price inflation of 24% by the end of 2018¹⁰.

- 2.4.9 The RICS Commercial Market Survey for Q3 of 2013 - stated that *'The Q3 RICS UK Commercial Property Market Survey points to further improvement in both the occupier and investment markets. In the occupier segment, demand rose and availability fell, pushing up rent expectations for the second successive quarter. Meanwhile in the investment market, a higher number of enquiries are underpinning capital value expectations at the headline level.'*

Within the occupier market, demand increased across each sector whilst available space contracted for a second consecutive quarter. Demand performance was exceptionally strong within London however; all four broad regional blocks experienced a significant rise in tenant interest. In line with demand performance, the RICS rent expectations series sustained its upward trend, with a greater net balance of respondents anticipating rents to increase in the coming three months. This represents the first quarter in which rent expectations have been positive for all sectors, at the same time, since mid-2007. A strengthening market has lessened the need for inducements and this has been reflected in a negative reading for this series for the first time in six years.

Conditions continue to improve in the investment market with the net balance reading for both enquiries and expected transactions moving further into positive territory. On the back of this, capital values are projected to increase at the headline level over the coming quarter.

The outlook for the retail sector, particularly weak in recent surveys, is now showing some improvements. Both rent and capital value expectations for the quarter ahead turned positive at the national level, on the back of a pick-up in demand.

⁹ http://www.lloydsbankinggroup.com/media1/press_releases/2013_press_releases/halifax/040713_HPI.asp

¹⁰ Knight Frank Residential Research – UK Housing Market Forecast (Q42013 Edition)

By way of contrast, the industrial sector continues to strengthen with increased demand and reduced availability being reported. Rent expectations are now positive across all four regional blocks for this sector of the commercial market.'

- 2.4.10 As with residential development, consideration was given to the South Downs National Park National Park context for whether there should be any varying approach to CIL charging levels for commercial and other developments locally. On review, it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between general location (area) within the National Park. This was borne out on review of the commercial values data and results, as per the examples included at Appendix III.
- 2.4.11 As can be seen, there is great variety in terms of values within each of the main settlement areas and across the full range of locations in the National Park. However, there were tones of values which informed our rental and other assumptions for the appraisals, based on the upper end rental indications seen for business uses (offices and industrial / warehousing) as appropriate for high quality new build schemes and on the variety of indications seen for retail. In both cases these were taken from a combination of the VOA Rating List, EGi and other sources as far as were available whilst keeping the review depth proportionate and economic in the study overview context. In respect of other commercial / non-residential development types again a National Park-wide overview was considered appropriate.
- 2.4.12 Overall, we found no clearly justifiable or readily definable approach to varying the potential CIL charging on commercial / other development types through viability findings based on location / geography – without risking the approach becoming overly complex. Whilst certain specific scheme types could create more value in one location compared with another in the National Park, typically there was felt to be no clear or useful pattern which might be described for that. In preference to a more complex approach, given the lack of clear evidence pointing towards that, the project ethos was to explore potential CIL charging rates for these various development types in the case of making them workable National Park-wide. We therefore continued our work based on a uniform approach National Park-wide to exploring the CIL charging rate scope in viability terms for commercial uses. It must be accepted that there will always be variations and imperfections in any level of overview approach; with or without area based differentiation.

2.5 Development Costs – General

- 2.5.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site specific cases can be. As with the residential scenarios, an overview of the various available data sources is required and is appropriate.
- 2.5.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.
- 2.5.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in setting CIL charging rates and ensuring those are not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.6 Development Costs – Build Costs

- 2.6.1 The base build cost levels shown below (Figure 8) are taken from the BCIS and are based on a blended rate from West Sussex, East Sussex and Hampshire BCIS indices. Costs shown for each development type (residential and commercial) are provided in Appendix I.

Figure 8: Build Cost Data (BCIS Median, Blended West Sussex / East Sussex / Hampshire Location Factor relevant at time of research)

Development use	Example property type	BCIS Build Cost (£/sq. m)*
Residential (C3)	Houses - mixed development	£919
	Houses – one-off (3 units or less)	£1,338
	Flats - generally	£1,026
	Flats - Sheltered housing	£1,078
Large Retail (A1)	Supermarket - Town centre	£1,111
A1- A5 - Small Retail	Other retail - town centre	£755
A1-A5 - Small Retail	Out of centre/villages - convenience / other retail	£755
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	£755
B1(a) Offices - Town Centre	Office Building	£1,399
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	£1,262
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£758
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£721
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type)	£1,224 - £1,712**
C2 - Residential Institution	Nursing home / care home	£1,356

*excludes external works and contingencies (these are added to the above base build costs)

**all-in cost – range from budget to 4*+

2.6.2 Unless stated, the above build cost levels do not include contingencies or external works. An allowance for externals has been added to the above base build cost on a variable basis depending on the scheme type (typically between 5% and 15% of base build cost). These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

2.6.3 For this broad test of viability it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be

highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, external costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

- 2.6.4 Further allowances have been added to the total build cost in respect of achieving higher sustainable design and construction standards (either in relation to building regulations or equivalent requirements – e.g. Code for Sustainable Homes / BREEAM). In the residential scenarios, this was applied to all dwellings assuming that construction standards met the requirements for the Code for Sustainable Homes enhancement to level 4 (CfSH L4). Sensitivity testing on further changes to Part L of the Building Regulations has also been undertaken assuming future compliance equivalent to the energy requirements of CfSH L5 and CfSH L6 (zero carbon). We have utilised information within the Cost of the Code for Sustainable Homes document¹¹ although we note that updated cost advice has been provided by EC Harris as part of the Government’s consultation on Housing Standards review. Those costs are significantly less than DSP have allowed for within this study. In practice such cost allowances could in fact be directed towards other sources of cost increases over the base build cost assumptions should those become relevant and add further buffering to the assumptions set used. Appendix I provides more detail.
- 2.6.5 An allowance of 5% of build cost has also been added to cover contingencies. This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.
- 2.6.6 Survey and normal site preparation costs have been allowed for on a notional basis (£4,500 per unit for smaller residential scenarios; variable within the larger residential and commercial scenarios).
- 2.6.7 The interaction of costs and values levels will need to be considered again at future reviews of CIL. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we have seen build costs fall, but moving ahead they are expected to rise again, if only over the

¹¹ DCLG - Cost of Building to the Code for Sustainable Homes - Updated Cost Review (August 2011)

longer term. Costs peaked at around Q4 2007 / Q1 2008 but fell significantly (by more than 10%) to a low at around Q1 2010 (similar index point to that seen at around Q1- Q2 2004 levels). The index shows that, after modest rises in the first half of 2010, tender prices have been at relatively consistent (flat) levels. This trend is forecast to continue with steady tender price increases forecast through to early 2017 (rising from about a 1 – 2% per annum increase in 2013 to 3.7% at the end of 2017). Clearly only time will tell how things run-out in comparison with these forecasts.

2.6.8 The latest available BCIS briefing (4th November 2013) stated on build cost trends:

'The General Building Cost Index remained unchanged in 2nd quarter 2013 compared with the previous quarter, but rose by 1.3% compared with a year earlier.

Materials prices remained unchanged in the year to 2nd quarter 2013 and nationally agreed wage rates rose by 1.6%. General inflation rose by 3.1% over this period.

Materials prices are only expected to rise by 1.5% over the first year of the forecast, with less upward pressure coming through currently from the cost of raw materials. As the construction economy and the economy as a whole start to pick up, it is anticipated that the rate of materials price rises will get stronger over the next four years, rising from an annual 2.6% in 3rd quarter 2015 to 3.5% in 3rd quarter 2018. However, global demand, and in particular demand from the emerging economies, is not expected to put undue upward pressure on materials prices throughout the forecast period.

With a further, albeit small decline in new work output expected for 2013, the average of wage awards over the first year of the forecast period is expected to remain fairly subdued. Thereafter, with construction demand and the economy as a whole strengthening, the average of wage awards is predicted to rise steadily upwards through to the end of the forecast period.

New orders for construction work rose by 20% in 2nd quarter 2013 compared with 1st quarter 2013, and by 33% compared with the same quarter in 2012.

With the government still steering the same course on austerity measures, and with the continued weakness in the economy as a whole, it is anticipated that total new work output will fall again in 2013, albeit a small fall. A fairly modest recovery is

expected in 2014, with the rate of growth increasing in each of the remaining years of the forecast, as the wider economy improves.

With tender prices now having bottomed out, but with construction demand still in the order of 17% below its pre-recession peak, tender prices over the first two years of the forecast period are expected to rise relatively slowly, but ahead of building cost increases. As demand for construction work gathers pace over the second half of the forecast period, it is anticipated that tender price rises will be steeper, with contractors in an improving market trying to recoup some of their losses made in the long recessionary period. Tender prices at the end of the forecast period will be in the order of 20% above the previous peak in 2007.¹²

Annual % Change	1Q11	1Q12	1Q13	1Q14	1Q15	1Q16	1Q17
	to	to	to	to	to	to	to
	1Q12	1Q13	1Q14	1Q15	1Q16	1Q17	1Q18
Tender Prices	+0.5%	+6.3%	+3.4%	+3.7%	+4.4%	+7.6%	+8.5%
Building Costs	+0.6%	+1.3%	+1.9%	+2.5%	+3.4%	+3.5%	+3.7%
Nationally Agreed Wage Awards	+0.6%	+1.6%	+1.9%	+2.9%	+3.4%	+3.9%	+3.9%
Materials Prices	-0.4%	+0.4%	+1.5%	+2.6%	+2.9%	+3.2%	+3.5%
Retail Prices	+3.2%	+3.1%	+3.4%	+2.9%	+3.2%	+3.4%	+3.3%
Construction New Work output*	-11.4%	-0.5%	+2.5%	+4.2%	+5.6%	+6.8%	+7.3%

* Year on Year (3Q11 to 3Q12 = 2011 to 2012)

(Data Source: BCIS)

2.7 Development Costs – Fees, Finance & Profit (Residential)

2.7.1 The following costs have been assumed for the purposes of this study alongside those at section 2.6 above and vary slightly depending on the scale and type of development (residential or commercial). Other key development cost allowances for residential scenarios are as follows (Appendix I also provides a summary):

Professional fees: Total of 10% of build cost

Site Acquisition Fees: 1.5% agent’s fees
0.75% legal fees

¹² BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (November 2013)

Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).

Finance: 7.0% p.a. interest rate *(assumes scheme is debt funded)*
Arrangement fee variable – basis 1-2% of loan

Marketing costs: 3.0%-6.0% sales fees
£750 per unit legal fees

Developer Profit: Open Market Housing – 20% GDV
Affordable Housing – 6% of GDV *(affordable housing revenue).*

2.8 Development Costs – Fees, Finance & Profit (Commercial)

2.8.1 Other development cost allowances for the commercial development scenarios are as follows:

Professional and other fees: 12% of build cost

Site Acquisition Fees: 1.5% agent's fees
0.75% legal fees
Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)

Finance: 7.0% p.a. interest rate *(assumes scheme is debt funded)*
Arrangement fee variable – 1-2% loan cost

Marketing / other costs: *(Cost allowances – scheme circumstances will vary)*
1% promotion / other costs *(% of annual income)*
10% letting / management / other fees *(% of assumed annual rental income)*
5.75% purchasers costs – where applicable

Developer Profit: 20% of GDV

2.9 Build Period

2.9.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by examples where available. The following build periods have therefore been assumed. Note that this is for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme type and size, having the effect of increasing the periods over which finance costs are applied (see Figure 9 below):

Figure 9: Build Period

Scheme Type	Build Period (months)
1 House	6
2 Houses	6
5 Houses	6
10 Houses	9
10 Flats	9
15 Mixed	12
30 Mixed	18
30 Flats (Sheltered)	18
100 Mixed	24
250 Mixed	60
Large Retail (A1)	12
A1- A5 - Small Retail	6
A1-A5 - Small Retail	6
A1-A5 - Small Retail	6
B1(a) Offices - Town Centre	12
B1(a) Offices - Rural	6
B1, B2, B8 - Industrial / Warehousing	6
B1, B2, B8 - Industrial / Warehousing	9
C1 - Hotel	14
C2 - Residential Institution	16

2.10 Other planning obligations - Section 106 (s.106) Costs

2.10.1 Current guidance encourages a charging authority to produce a list of infrastructure projects which are intended to be wholly or partly funded by the Community Infrastructure Levy ('Regulation 123 list'). The purpose of the list is to ensure that

local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance¹³ states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

2.10.2 On discussion with the NPA it was considered that a great majority of existing Planning Obligation requirements on future schemes would be taken up within the CIL proposals, but nevertheless that small scale site-specific requirements (perhaps dedicated highways improvements / alterations, open space related or similar requirements) could remain alongside CIL in some circumstances. The appraisals therefore included a notional sum of £3,000 per dwelling (for all dwellings – including affordable - and all schemes) on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements.

2.10.3 On larger, strategic scale development allowances would need to be made for increased levels of infrastructure (through s106) assuming the requirement for on-site provision in these cases. Through discussions with NPA officers it was decided that schemes of this scale were unlikely to come forward within the National Park within the life of the first charging schedule. Should this position change then a review of larger scale strategic sites and associated infrastructure / on-site s106 requirements would be needed.

2.11 Indicative land value comparisons and related discussion

2.11.1 As discussed previously, in order to consider the likely viability scope for a range of potential (trial) CIL contribution rates in relation to any development scheme, a comparison needs to be made between the outturn results of the development appraisals (in terms of RLV) and some benchmark or known land value. As suitable context for a high level review of this nature, DSP's practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons. This allows us to consider a wide range of potential scenarios and outcomes and the

¹³ DCLG – Community Infrastructure Levy Guidance (April 2013)

viability trends across those. This approach reflects the varied land supply picture that the NPA expects to see, including the occurrence of greenfield sites and schemes coming forward on previously developed former commercial / employment land as well as reuse and intensification of existing residential sites and garden areas.

- 2.11.2 The scale of the difference between the RLV and comparative land value level (i.e. surplus after all costs (including policy costs), profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to judge the potential CIL funding scope and affordable housing proportion. It follows that, in the event of little or no surplus, or a negative outcome (deficit), then we can see that, alongside the other costs assumed, there is little or no CIL or affordable housing contribution scope once all other assumed normal costs have been allowed for.
- 2.11.3 This also needs to be viewed in the context that invariably (as we see across a range of CIL viability studies) the levy rates are usually not the main factor in the overall viability outcome. Market conditions and whether a scheme is inherently viable or not (i.e. prior to CIL payment considerations) tend to be the key factors. Small shifts in the CIL trial rate only significantly affect viability in the case of schemes that are only marginally viable and so at a tipping-point of moving to become non-viable once CIL is imposed or other relatively modest costs (in the context of overall development costs) are added. Sales values, land value expectation and policy costs such as affordable housing or the move towards zero carbon development will tend to create much larger viability impacts on schemes. As the inherent viability of schemes improves then even a larger increase in the CIL trial rate is often not seen to have a very significant impact on the RLV and therefore likely viability impact by itself. As the trial CIL rate increases it is usually more a matter of relatively small steps down in reducing viability and so also considering the added risk to developments and the balance that NPAs need to find between funding local infrastructure and the viability of development in their area.
- 2.11.4 In order to inform these land value comparisons or benchmarks we sought to find examples of recent land transactions locally. However, no firm evidence of such was available from the various soundings we took and sources we explored. We reviewed information sourced as far as possible from the VOA, previous research / local studies / advice provided by the NPA, seeking local soundings, EGi; and from a range of

property and land marketing web-sites. Details of the research are provided in Appendix III.

- 2.11.5 Each of the RLV results is compared to a range of land value levels representing potential values for sites of varying types of PDL previously developed land – i.e. brownfield) and greenfield sites; envisaging a potential spectrum of sites from greenfield through lower and then upper value commercial land and sites with existing residential use. Again, scheme specific scenarios and the particular influence of site owners' circumstances and requirements will be variable in practice.
- 2.11.6 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report, with data provided only on a limited regional basis in the later reporting. None of the information in the latest report is sufficiently local to the South Downs National Park for anything other than a general / relative picture between regions and certain locations which are listed. Information has been sourced from existing data and research together with general indications and soundings - all as far as were available to source.
- 2.11.7 As can be seen at Appendices IIa and IIb (residential and commercial scenarios results respectively), we have made indicative comparisons at land value levels in a range between £370,000/ha and £2,000,000/ha so that we can see where our RLVs fall in relation to these levels and the overall range between them.
- 2.11.8 Where greenfield or other lower value land were to be relevant then the results can be used in exactly the same way; to get a feel for how the RLVs (expressed in per ha terms) compare with a lower land value levels of say £500,000/ha. The minimum land values likely to incentivise release for development under any circumstances is probably in the range £370,000 - £500,000/ha in the South Downs National Park context. Land values at those levels are likely to be relevant to development on greenfield land (or enhancement to amenity land value) and therefore relatively commonly occurring across the National Park. This range could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA to be valued at £15,000 - £20,000/Ha in existing use). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. Consultation with agents has confirmed that land values up to

£500,000 per hectare (or less) would be relevant as a minimum land value in option agreements. This is not to say that land value expectations would not go beyond these levels – they could well do in a range of circumstances. We are also aware of garden / amenity land being valued indicatively at say £500,000 - £850,000/Ha, purely as a further indication of a potentially lower value scenario in certain circumstances and in general of the range of comparisons that could be relevant overall.

2.11.9 As well as a level of value relating to an existing or alternative use driving a site's value ('EUV' or 'AUV'), there may be an element of premium (an over-bid or incentive) required to enable the release of land for development. The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggests that *"the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development"*. This benchmark is referred to as threshold land value in that example: *"Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely"*. Further it goes on to say that *"There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied"*.

2.11.10 RICS Guidance¹⁴ refers to site value in the following *"Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan... The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations"*.

2.11.11 In the Local Housing Delivery Group report¹⁵ chaired by Sir John Harman, it is noted that *"Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and*

¹⁴ Financial Viability in planning – RICS Guidance note (August 2012)

¹⁵ Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values”.

2.11.12 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable rates which balance viability factors with the infrastructure needs side.

2.11.13 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner expectation.

2.11.14 Essentially this approach leads to the comparison of the RLV results in £s per hectare (having taken into account all values and costs including varying levels of CIL and affordable housing) to a range of potential land values representing various greenfield, previously developed land (e.g. former commercial uses) or existing residential (residential intensification) benchmark land value indications. The range of land value comparisons is set out beneath the results tables (at Appendices IIa and IIb) and further information is set out within the wider research as included at Appendix III. The results trends associated with these are seen at Appendices IIa and IIb as explained in Chapter 3 below.

3 Findings

3.1 Introduction, values patterns and relationship with the development strategy associated with the emerging Local Plan.

A guide to the results and appendices tables

3.1.1 Results summaries are included within the tables at the Appendices, as follows:

- Appendix IIa (residential scenarios – tables 1a to 1p);
- Appendix IIb (commercial / non-residential scenarios – tables 2a and 2b);

3.1.2 In each case these reflect the scenarios explained in Chapter 2 and summarised at Appendix I.

3.1.3 Within Appendices IIa and IIb the tables refer to the likely relevance / occurrence of the scenarios. The process included consideration of the varying site types relevant to schemes on greenfield land and PDL of varying types (e.g. from former commercial / non-residential existing uses to land with established residential use such redevelopment of existing housing). Across this range of site types, a range of land values will be relevant. Most of the development scenarios considered could occur on host sites with a variety of characteristics. This is a feature of development in the Park area, given that as an indication there are unlikely to be individual sites providing more significantly than around 250 or so new homes, and that most developments will be well within that level. Larger sites could comprise greenfield, PDL or a mix of the two.

3.1.4 The viability assessment of potential affordable housing policy positions and potential CIL charging rate(s) scope is based on the running of sensitivity tests. Each of these corresponds with an individual row of figures within each coloured section of the Appendix IIa table 1a to 1p results overviews. Each of the Appendix IIa table shows for that development scenario (as titled at the top alongside the Table number) the affordable housing (AH) proportion (%) tested at each value level across the range of trial CIL charging rates (£0 to £250/sq. m).

- 3.1.5 In respect of scenarios of fewer than 5 dwellings (i.e. schemes of 1 and 2 houses shown at Tables 1a to 1d) the AH assumption of a financial contribution is used and shown; as tested across a range 10% to 50% equivalent moving from the top to bottom sections of each of those 4 tables.
- 3.1.6 For the 5 dwellings scenarios (table 1e) the results are shown according to the AH financial contribution (tested at 10% to 50% equivalent) or on-site AH provision (in those cases testing limited to 20% and 40% owing to workability with numbers rounding and so based on providing 1 or 2 units AH from the 5 total). Again in general the AH obligation level tested increases with moving from top to bottom of the table set (Appendix II, table 1e).
- 3.1.7 Across the range of scenarios based on 10 or more dwellings (as at tables 1f to 1p) each table set contains 4 sections with the results from a 20%, 30%, 40% and 50% on-site AH set out moving from top to bottom on each page.
- 3.1.8 Within that overall set, results for the further 15 and 30 dwellings sensitivity tests representative of increased sustainable construction / carbon reduction standards are also included at tables 1i and 1l (15% build cost uplift representative of CfSH L5 energy or equivalent) and tables 1j and 1m (35% build cost uplift representative of CfSH L6 energy or equivalent) respectively. As with all other trial scenarios, those sensitivities were also tested across the range of AH %s (10 to 50%) enabling the viewing of varying potential cumulative costs impacts based purely on these current stage assumptions.
- 3.1.9 Tables 2a and 2b at Appendix IIb include the equivalent results tables for the commercial / non-residential scenarios – only where full development appraisals were carried out (retail, offices, industrial / warehousing, hotel and residential institution (nursing / care home). Table 2a summarises the results from the 6.5% yield tests. Table 2a follows the Table 2b basis, but shows the results of relevant scenarios using a 7.5% yield assumption instead.
- 3.1.10 Only the results relating to key commercial / non-residential development trials are included at Appendix IIb. This is because the early exploratory process quickly showed there to be no point developing the full testing process beyond initial stages where certain scenarios were seen to be clearly unviable as development uses based

on the range of assumptions applied. We will pick up this area with further commentary later in this chapter.

3.1.11 In the case of the commercial results outline at Appendix IIb, the two sets covering alternative yield trials of 6.5% (Table 2a) and 7.5% (Table 2b) relate to exploring the sensitivity of the results to these factors. The 6.5% yield represents a more positive assumption for viability (results in a higher capitalisation rate applied to the range of rental assumptions). In practice this is a factor that will vary. In terms of making our overview, we consider that within this range the 6.5% yield results may be more representative for developments providing larger format new retail (likely to be limited to town based supermarket schemes in the National Park context), and hotel floor space, should those development uses be relevant in the short term (likely life of the first Charging Schedule). On the other hand, 'B use' scenarios (business developments) – offices and industrial / warehousing – would typically be associated with a lower rental capitalisation rate (higher yield %). We consider that the 7.5% yield trials, in the main, represent a sensitivity test layer for the commercial / non-residential schemes with positive overall viability outcomes (as will be seen from the results and discussed later in this chapter, those basically limited to some retail scenarios in the Park area context). In contrast, it is likely in the current climate that the 7.5% yield trial may well represent too positive a scenario in some cases, and particularly for the B uses together with others outside retail and hotel schemes in the Park area. However, these trials served the purpose of exploring how positive the assumptions would need to become to support viability where poor initial outcomes were seen and, hence, potentially, how far they would need to move so as to provide scope for CIL charging. It follows that if those and other scenarios (including for hotels and similar uses) produce poor results with these assumptions then we can see that the results would deteriorate further (become increasingly negative) with a range of less favourable yield (or other) assumptions that might be seen in practice.

3.1.12 In summary Appendix IIa and IIb results tables show:

- Left side column: Scheme scenario. This summarises the dwelling numbers / scheme type and, for residential scenarios at tables 1a to 1p, the AH policy requirement or sensitivity variation tested. For each results set the assumed AH% is stated; the proportion (% or equivalent % in the case of an AH financial contribution, of the scheme total number of dwellings) and whether assumed through direct on-site provision or financial contribution ('AH FC').

- Across the top grey row: other assumptions headings and the increasing ‘trial CIL charging rates’ tested from £0/sq. m to £250/sq. m applied across all scheme scenarios and variations at £25/sq. m intervals for residential (Appendix IIa) and over the range £0/sq. m to £195/sq. m at £15/sq. m intervals for the commercial scenarios (Appendix IIb).
- Within the table section for each residential scenario type and AH assumption variation: Increasing market sales value level (VLs 1 to 10). Overall, this covers values from £2,750 to £5,000/sq. m (approximately £255 to £465/sq. ft.). This range enables us to consider viability as influenced by location and by the market (e.g. including values falling or rising from current typical levels) and therefore on the potential for the varying levels supporting development viability with reference to delivery of the emerging plan development strategy proposals and CIL funding scope. It should also be noted that for the 30 unit apartments scenario included at this stage, envisaging retirement (sheltered housing), we looked at higher VLs at 6 plus – reflecting our view of the expected premium level pricing of most new-build schemes of that type; a common observation made through our wider work (table 1n within Appendix IIa refers).
- VL1 represents the lowest market values sensitivity test, through a scale including the highest market values sensitivity test at VL10. VL1, however, is largely to be regarded as lower-end sensitivity test for residential, in the main outside the range of typical values considered relevant to delivery moving forward, and therefore represents the effect of a falling market from the current lower-end (limited relevance to Liss and perhaps to Midhurst but re the latter based on current limited indications only).
- We consider that the range of values currently most relevant to the emerging plan and to the CIL that will support it, is represented by VLs 4 to 8 overall. This core part of the range incorporates likely typical new build values for Lewes and Petersfield, with expected similar levels of values to be achieved in Petworth and Midhurst moving forward and those levels also readily achievable on moving to a range of smaller settlements that could supply new housing (albeit at a level significantly less critical scale to the plan delivery overall). As the research shows, in practice values are variable from scheme to scheme but for CIL purposes it is appropriate to consider a higher-level overview for the rate(s) setting context,

particularly over such a large geographic area. In this instance, aiming to differentiate for the whole range of values variation subtleties is very likely to over-complicate matters and not be justified.

- Under each commercial / non-residential scheme type: Increasing value (again meaning sales value - GDV) – L (low); M (medium); H (high). The medium value levels were considered to be the key area regarding current balanced interpretation of results. ‘L’ and ‘H’ allow us to consider the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location; and / or market movements. As with the yield trials, in the case of poor viability outcomes, they provide context by helping us to gauge the extent to which the values would need to increase to provide viable scheme results where the medium level results are poor or marginal. Similarly, we can develop a feel for how sensitive the better viability indications are to a reduction in values as could be seen through further weakening of commercial property market conditions.
- Main areas of results in table sets 1 and 2: RLV appraisal results for each set expressed in £s within the white / grey and white areas (top section – residential tables 1a to 1p); left-side section (commercial – tables 2a and 2b) and in £/ha within the coloured table areas (lower section – residential; right-side section - commercial) given the assumed scenario type, density / site coverage, etc. generated by each individual appraisal within the set.
- Within each of those sections, the coloured table cells (see below) act as a guide to the trends seen across the range of results as represent the scenarios relevant to considering the scope for potential CIL charging in the context of the emerging plan. The trial CIL rates – in £/sq. m - shown across the top row are applied as a key part of the process of exploring the effect on likely viability combined with the key policies as affect viability – sensitivity tests on affordable housing.
- The overall trends therefore show lower RLVs and therefore increased viability impact (reduced viability outcomes) as those trial CIL charging rates increase (moving from left to right) and, more so, as the AH % increases moving from top to bottom within each Appendix IIa table set.

- As discussed earlier, realistically this testing of trial CIL rates has to be carried out in steps to control to reasonable parameters the extent of the appraisal modelling exercise. Provided that these trial rates span a sufficient range, and the steps between each trial level are not too large, an element of interpolation can be applied and considered. It is not necessary, and would not be practical or economic to further extend this process. In this case, we considered potential charging rates of £0 to £250/sq. m for residential and up to £195/sq. m for commercial scenarios to give a sufficient range for review; we could see that higher rates were likely to be unsuitable. In our experience and from a review of emerging results, this provided us with suitable parameters and context for review with the NPA. The emerging results did not warrant further exploration of higher potential CIL charging rates alongside the proposed plan policy directions.
- It is important to note that the colour-coding shown on the tables at Appendices IIa and IIb provides only a rough guide – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science - this guide to the trends must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability. In practice, switch-points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable and therefore achieving the most appropriate points for finding balance between CIL rates and the high level of the local infrastructure needs; all in the context of the emerging plan development strategy so far as it was possible to make financial assumptions at this stage; in advance of the proposals for more detailed policy and delivery document details.
- The colours therefore indicate general trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from red (representing poor outcomes – negative or very low RLVs failing the lowest tests considered – i.e. clear non-viability) to the boldest green-coloured results (indicating the greatest level confidence in viability across a wider range of land value comparisons representing different host site types). With considering viability in this way, there are no precise cut-offs. In practice a range of outcomes within the non-red table areas could prove viable. The footnotes to the Appendix IIa and IIb tables describe these as a series of ‘viability tests’, referring to the various land value comparison levels considered:

- Dark green cells - considered to provide very good viability prospects; the best results from the range produced.
- Mid-green cells - considered to provide good viability prospects in a range of circumstances meeting a wide range of likely former commercial use and lower residential values expectations / high level of scope for enhancement to greenfield land use values; but possibly not reaching sufficient levels for high-value commercial / non-residential (e.g. potentially large format retail / similar scenarios). Therefore whilst these results indicate workable schemes on a range of PDL site types, they may be viewed with a lower confidence level overall than the darker green shaded RLV indications (as above).
- Palest green cells – Positive RLVs, but which are under our higher land value comparisons and therefore indicating reduced confidence in results. Potentially representative of scenarios that may be workable on lower value PDL (commercial) or (with greater confidence) on greenfield sites.
- Red coloured table cells (results) – negative or very low RLVs – schemes in financial deficit or in any event representative of clearly poor viability outcomes – no prospect of viable schemes based on the collective assumptions used in each case. In most of the table rows that have part red shading, it can be seen that the CIL trial rate is seen to have relatively little impact on scenarios that are inherently unviable. In a small number of cases, however, it can be seen that a nil or very low CIL rate might contribute to supporting a level of viability in greenfield or other lower land value scenarios. That effect could be relevant for example in the case of any larger scale developments also carrying significant site-specific costs sought through s.106, or where similar cost impacts are involved in bringing those forward.
- Footnotes at the bottom – reminder of land value benchmarks (comparisons) applied in arriving at the colour-shading of the RLVs to provide a guide to the results trends; all bearing in mind the context and explanations provided within this report. With increasing land value comparison covering the overall range £370,000/ha (lower end of potential greenfield enhancement land value range) to £2m/ha (upper PDL level), those are noted there as ‘Viability Tests’ 1 to 5. In practice we consider that the upper test here (test 5 at £2m/ha) will not need to

be exceeded too frequently within the South Downs National Park context. However, it can be seen that the RLV outcomes from a range of mid to higher value scenarios exceed this level in any event. This relates to the possibility of high demand given the development constraints and resultant development pressure on some areas, especially for some site types and individual scheme circumstances. With a continued strengthening market, as we continue to see further signs of, these factors could be an influence in supporting land values beyond the benchmarks to the higher levels that are seen to be produced through a wide range of our appraisal results.

- 3.1.13 In addition, each results Appendix contains sample appraisal summary information. Bearing in mind the study purpose and nature, these are not the full appraisals or sets, given the volume and added complexity of information that would involve reproducing. They are intended to provide an overview of the basic calculation structures and the outcomes; and to further help an understanding of how residual land valuation principles have been used here. The summaries included represent a selection of scheme / use types with a focus where, ultimately, positive CIL charging scope and recommendations have been made. Appraisal summaries are not included for the full range of scenarios that were considered non-viable or insufficiently viable to clearly support CIL, looking at this at the current time (again see the results tables).
- 3.1.14 The results discussion within this section, and the recommendations that follow, are based on the review of current stage assumptions based on the emerging delivery strategy proposals for the NPA's Local Plan, so far as the delivery details are currently known. This is the focus because to consider CIL we also have to build-in the likely effect of the plan policies for the cumulative impact on viability. So the commentary refers to the emerging plan in so far as the key viability impacts of policies on affordable housing and potentially on sustainability are concerned; alongside the CIL viability implications, because the range of viability influences from these needs to be taken account of together.
- 3.1.15 Government guidance states that the CIL charging rates should not be set up to their potential limits (up to 'the margins of viability', or similar phrases). On reviewing the results and for the NPA taking this further into the wider consideration of its Preliminary Draft Charging Schedule (PDCS) CIL rate(s) proposals, a number of key principles have been and will need to be considered as set out below (at 3.1.16 to 3.1.36) .

- 3.1.16 Costs will vary from these assumptions levels with site specifics and over time (particular build and related costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some scope may be needed where costs are higher through such factors as site-specific abnormals and / or increasing national level carbon reduction agenda requirements longer term, scheme-specific design / materials, etc. When viewed overall, the various assumptions made represent market norms from our wide experience of strategic and site-specific viability assessment work and from established information sources; but tailored to the South Downs National Park where more specific / local information pointed to particular assumptions or adjustments being used. Through applying our well established and tested approach the assessment is strategic in a way that is relevant to informing and supporting the development of the plan and to informing the associated approach to CIL proposals by the South Downs NPA.
- 3.1.17 Land owners' requirements will vary. While, as stated, those will need to be realistic (and as part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from existing or alternative uses in the prevailing market), they could be outside the ranges we indicated as benchmarks purely for the use of making our overview; including at higher levels.
- 3.1.18 The wider economic backdrop remains challenging and although at the point of writing-up this study there are some increasingly established signs of an improved level of housing market stability / uplift; as noted through bank and government figures, house prices indices and also through some performance reporting coming out from the house-building sector. In addition, the continued development activity and interest in promoting sites suggests a relative strength locally in any event. Nevertheless, the uncertainties and experiences of the last few years could remain or could still increase to some extent; these are unknowns. We cannot rely on any assumptions related to increasing house prices and improved viability that may flow out of that trend; the use of the residential values levels (VLs) range in that way purely provides indications on a sensitivity basis so that to underpin the recommendations we are looking at the range of values expected, from the information currently available. A return to greater market uncertainty could see reducing sales volumes and further impacts on prices – directly impacting the GDV assumptions; hence the range of residential value levels (VLs) explored for sensitivity

review purposes – either up or down. The same principles have been considered and applied in respect of the commercial / non-residential scenarios.

3.1.19 Certainly a significant factor for the residential scenarios, as is always the case, will be the NPA's approach to affordable housing (AH) provision secured from market developments; whether through on-site (direct) building or financial contribution (AH FC) for use on affordable housing enabling activities on other more suitable sites. Affordable housing is likely to continue to be a priority for the Park; continued from the typical levels of 30 to 40% sought by the Councils whose areas the NPA abuts, and whose former policies remain relevant at present to the picture in the park area. This assessment aims to test these levels and potential alternatives so as to provide advice on suitable AH target %s as well as on the CIL levels.

3.1.20 Therefore, in all cases these policy requirements have been tested by allowing for them alongside the trial CIL rates and other wider planning objectives of the NPA so far as those are known or able to be aligned to assumptions at the current stage of review. HCA funding for affordable housing appears to be uncertain at best and likely to continue being limited in application for the foreseeable future. Again, appropriate revenue assumptions have been made so that no affordable housing grant / other similar subsidy sources have been factored-in. The reported outcomes are not reliant on grant. Where available, added grant would improve the viability positions indicated, or could help to restore affordable housing proportions or tenure mixes to some extent where those would otherwise need to be below target requirements in order to maintain viability (e.g. in instances of higher sites costs, significant development abnormalities or other requirements).

3.1.21 Developer's profit level requirements (and in some cases related funders' stipulations) could well vary. Particularly in the case of commercial schemes, we could see lower profit level requirements than those we have assumed; potentially significantly lower. However, we felt it appropriate given particularly depressed recent commercial market conditions overall to acknowledge that there may need to be some scope in this regard; or in respect of other commercial scheme costs / risks. This, again, is part of setting assumptions which fit with arriving at a balanced approach overall and do not mean that the consideration of CIL charging rates involves pushing to the margins of viability. It is important to avoid removing cost from collective assumptions so that scheme prospects become too dependent on those particular assumptions proving absolutely correct in practice. When it comes to

site specifics, all individual appraisal inputs will vary and, therefore, how they interact will vary too.

- 3.1.22 The potential CIL charging rates need to be considered alongside other factors relevant to the locality and the development plan delivery.
- 3.1.23 Amongst these, the location and frequency of site and scheme types forming key parts of the local growth planning is key – i.e. considering where in the main development will be coming forward (in relation to the values patterns for example).
- 3.1.24 The types and frequency of schemes likely to be relevant under the emerging plan will influence the selection of the NPA's approach to implementing the CIL; and may subsequently vary for future CIL charging schedules. In practice, the variation of schemes types could be very wide – including for commercial / non-residential development, where schemes could be seen in many shapes and sizes, widely varying uses and combinations thereof. However, it is necessary to consider the local relevance of those in terms of the plan delivery as a whole alongside their likely typical scope to support viability. Focus needs to be on the main relevant types, given that plan delivery and the NPA's proposals for new housing and economic development / visitor based schemes across its administrative area as a whole are of greatest importance.
- 3.1.25 Under the emerging plan, with the sensitivities associated with the setting, it appears that strategic scale delivery associated with large site-specific infrastructure requirements is unlikely to be relevant. Whilst, therefore, CIL could be most relevant to the scattering of generally smaller development proposals (within or not very much larger than the size range explored in this assessment), there is a possibility of some larger sites playing an important role in the overall scale of delivery. If so, some of those could be on or partly on PDL and could have significant development costs. As the NPA's picture on the sites likely to be contributing to the delivery becomes clearer, the implications of CIL charging alongside the site-specific costs and planning obligations will need to be considered. In any event this could in some cases mean that other aspects may need to be negotiated with CIL in place at levels suitable for other site types.

- 3.1.26 The modelling does not need to be sufficient to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the expected SDNPA delivery.
- 3.1.27 Some individual schemes (residential and commercial) may not be able to support the collective requirements; they may not be viable either prior to or following the imposition of CIL (alongside other costs and requirements). Such viability outcomes are unlikely to be solely due to CIL charging, however. They are more likely to be associated with market conditions (arguably the biggest single factor) as impact a particular scheme, affordable housing, scheme design / construction / specification requirements (including but not limited to sustainable construction) and wider planning objectives. Usually, the collective costs impact on schemes will be relevant for consideration where issues arise, so that some level of prioritisation may be required – bearing in mind that the CIL will be non-negotiable.
- 3.1.28 Under the CIL principles this is accepted, so that the inevitable non-viability of some individual schemes need not prejudice the plan delivery and the approach to CIL. This also means, however, that the viability of schemes that are critical to overall plan delivery needs to be assured, including to the extent that the approach to CIL as it affects such sites must not have too significant an effect on their viability so as to place their delivery at risk.
- 3.1.29 Conversely, this means also understanding that in theory some schemes / scheme types may have been able to fund a greater level of CIL than the recommended levels (and / or greater levels of other obligations). This is again in the context of seeking an appropriate local balance in setting the charging rate(s); not adding undue risk to delivery and therefore moving forward with the local economy and development to support that, whilst collecting contributions towards meeting the infrastructure needs associated with the required new development. The latter points here tie in with the Government's latest CIL Guidance (April 2013 - as noted earlier) as they relate also to local authorities putting in place a CIL regime that will not only avoid prejudicing the plan delivery as a whole, but will contribute positively to the development of the area.
- 3.1.30 As above, the variety of site and scheme types that is expected to come forward is an important consideration – meaning reviewing the scale of results in the context of a range of potential locations and land value comparison levels. We do not consider it

appropriate to rely on comparisons at a single land value level for each scenario as development will come forward in various forms and on a range of site types over time. In assessing results it has been necessary to consider viability outcomes across the results range and against various land value comparison levels. In some cases it can be seen that the land value comparisons are greatly exceeded, showing that higher levels of land value expectations could be met in those scenarios (assumptions sets) if needed under certain circumstances. Whilst the reducing boldness of the green colour-coding within the results tables indicates scenarios that are unlikely to be viable against the higher land value benchmarks, those outcomes meet or exceed requirements where lower land values could be sufficient. The range of results should be viewed in this wide context.

- 3.1.31 The reality is that site-specifics will involve a wide range of land value scenarios. Whilst in the main these will be within or well within this upper benchmark given that a range of former commercial sites and small scale greenfield sites are likely to be relevant, higher levels should also be considered, however, in order to provide the full context for review of results. As noted previously, many results support higher land values than the benchmarks.
- 3.1.32 Consideration is to be given to the scale of local infrastructure needs that require funding contributions and development viability amount to opposing tensions. The NPA needs to strike the right balance with its approach to CIL and other policy requirements in order to reach the most appropriate mix of ingredients to allow and promote appropriate development by ensuring that the viability impacts are not too great, and yet ensuring that an optimal level of affordable housing and infrastructure is also provided. There is a notable funding gap in the National Park; meaning that the NPA does need to secure a meaningful but realistic level of funding through CIL as a key ingredient of the overall growth and funding packages, in support of its development strategies; focussed on the emerging plan.
- 3.1.33 CIL charging calculations relate to net new development – added floor-space. As is typical, in practice we understand that in line with the CIL regulations a number of developments in the National Park will entail some level of “netting-off” of existing floor-space within the charging calculations. This means that the selected CIL rate will not be applied to the full scale of new development in many cases. This could be by way of replaced or re-used / part re-used buildings. Our appraisals have not factored-in any netting-off in this way, because this will have a highly variable influence on

scheme outcomes. The netting-off effect is expected to further contribute to ensuring that schemes remain deliverable and that the charging rates(s) are not set 'right at the margins of viability'¹⁶ as part of this overall theme.

3.1.34 Local authorities (the charging authorities, including the NPA) have significant scope to consider exactly how they will assess what the right balance is given the particular characteristics of their area.

3.1.35 A common theme running through all of the results (residential and commercial) is that they are highly sensitive to varied appraisal inputs and to the land value comparisons considered as potential benchmark ranges. A relatively small adjustment, particularly in some assumptions areas, can have a significant effect on the outcome.

3.1.36 It is important to note, when we refer to highly variable outcomes / sensitive results, that:

- These are not factors that only affect local plan and CIL considerations in the South Downs National Park. They have to be recognised in any similar study and applied through practical local application of the Government's approach – through the NPPF and the CIL regime – regardless of location;
- These characteristics would apply regardless of the CIL rate(s) set, so that with particular scheme difficulties (for all development types) setting a significantly lower CIL rate would not necessarily resolve any viability issues; we could still see a range of unviable or marginally viable schemes with even a zero (£0/sq. m) CIL rate – as the results show for many non-residential scheme types (Appendix IIb) and the lowest value / highest AH% residential sensitivities.

3.2 Values - patterns and levels

3.2.1 The following sections first consider residential development and then commercial / non-residential.

¹⁶ DCLG – Community Infrastructure Levy Guidance – April 2013

3.2.2 Adjustments from asking price, as are usual to some extent, are often handled by way of bespoke incentives to particular purchasers, rather than by headline price adjustments. In whichever form, adjustments will vary by developer, by scheme and often by individual plot in practice. Nevertheless, we consider that a 5% deduction from asking prices in most cases is likely to represent a reasonable current approach to the re-sales value estimate, especially given the recent more positive market trends and continued signals that we are seeing. This depends of course on the approach to marketing price setting, and will be influenced by the nature of the market, however we consider it a reasonable current stage assumption amongst the range of property values information that we reviewed to inform the study.

3.2.3 Any clear values patterns that influence viability and are critical to the relationship between viability and housing (or other development) supply in terms of ensuring overall plan delivery are to be respected. However, it also needs to be understood that there are bound to be imperfections in defining any viability zones or similar (linked to any differential CIL charging rates). In practice values can change over very short distances (even within schemes, between different sides or ends of roads, with different aspects, particular surroundings, school catchments or other specific local influences).

3.2.4 These blurring factors are seen in the South Downs National Park on several levels – from the site / street or local area specific level to the higher level characteristics, however in terms of general values patterns (as seen through overall market research), we found the following general picture relevant to considering the viability of both affordable housing (for setting target %) and CIL (for setting rates and considering differentials):

- No areas within the Park have low house prices, even within a South East context; the noting of lower values is only in a relative sense;
- Values within the majority of the rural areas / smaller settlements that are typically at least as high as the ranges seen for the larger settlements; and often significantly higher than all but the higher values seen in the main settlements of Lewes, Petersfield, Liss, Midhurst and Petworth;
- Typically higher values than Liss for all other main settlements (Liss typically lower value), with Lewes and Petersfield values indicated to be usually higher than Midhurst;

- Whilst the limited extent of current new-builds being marketed suggests lower values for Midhurst than Petersfield or Petworth, based on a wider range of development in DSP's local experience we would expect no great divergence between the values in any of these places so that particular scheme location and type would probably be more likely to influence value;
- Lewes can exhibit the highest of the urban area values, but those appear to be matched or even exceeded in some Petersfield locations, and elsewhere;
- A variety of values is seen in all main settlements and across the rural areas, but fitting broadly with the above findings bearing in mind that an overview has to be made;
- All in all, and given its likely low level of importance for new development overall, we considered that the range of evidence pointed towards justification for seeking higher CIL charges from the rural areas / smaller settlements, toning those levels down for the more critical main settlement developments (at least some of which would be on PDL, especially at Lewes) and looking also at a differential for Liss which is likely to play an important role within the emerging development strategy and has typically lower values amongst the main settlements that will see significant development;
- As is usually the case, however, there is some blurring of this general picture.

3.2.5 This overall values patterns view was tested further with an emphasis on the likely level of values to be associated with new build schemes in the Park's context. The new-build housing values assumptions were informed by a range of sources including further analysis of the 'RightMove' sourced data, review of our new-builds specific information, consideration of agents' views where available (as outlined at Appendix III) and also review of previous research conducted for the NPA. The above overview picture remained relevant and, looking at this now our view is that, overall, our VLs 4 to 8 most closely represent the values levels applicable to a range of new build schemes across the Park area that are likely to deliver the majority of the new build housing envisaged.

3.2.6 As a reminder, this picture is again demonstrated by the following, as per the overview basis also included at Figure 6 within Chapter 2 of this report:

Figure 10: Residential value levels range and patterns

Market Value (MV)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	
£/sq. m range	2,750	3,000	3,250	3,500	3,750	4,000	4,250	4,500	4,750	5,000	
£/sq. ft. range	255	279	302	325	348	372	395	418	441	465	
Indicative Relevance of Value Levels (VLs)	<< Overall South Downs NP area – range >>										
	<< Liss – range >>										
	<< Midhurst, Petworth, Petersfield, Lewes – range >>										
	Lower end new-builds / falling market Liss & poss. M’hurst only			Core part of values range considered most relevant to SDNP delivery							
		<< Liss >>									
		<< Midhurst >>									
				<< Lewes & Petersfield – typical >>							
				<< Smaller settlements – rural areas – typically highest values >>							

(Source: DSP 2013)

3.2.7 An overview of this information moves us away from what could become an overly complex approach to considering simpler residential CIL rates differentiation by geographical location / settlement type, especially bearing in mind that a multi-zoned approach would still not cover all variances. We consider it more appropriate to look at the NPA’s understanding of the Park areas / settlements and their likely roles in accommodating new development. As referred to in Appendix III, the NPA’s emerging settlement hierarchy has been considered in this respect, as that is also expected to guide the main focus for development to the most sustainable locations (i.e. in the main the larger settlements of Lewes and Petersfield (‘Tier 1’) and Liss plus to a lesser extent Midhurst and Petworth (‘Tier 2’)).

3.2.8 Given this emerging strategy, the most relevant locations for development and the likely range of scheme types; this suggests alignment to a simpler approach to CIL implementation based on:

- a suitable charging rate for the main settlements – Tier 1 and 2 (as above, and except Liss – see below);
- a suitable differential (lower) charging rate suggested as applicable to Liss only;
- a third charging rate, set at a higher appropriate levels for all other locations (“wash over” rate applicable to the smaller settlements within the rural areas – beyond the boundaries of the Tier 1 and tier 2 settlements). This approach fits with the relatively low levels of delivery likely to come from the typically higher value smaller settlements amongst those in the rural areas – also involving consideration of likely CIL receipts, and;
- whether, given current progress on the emerging strategy, there will be any strategic scale development scenarios that are relevant to the CIL (in terms of their timing), and at this stage particularly to the first charging schedule period, that also require differential treatment for CIL purposes given the likely extensive nature of those and their requirements to also support on-site / site-specific mitigation costs under s.106.

3.2.9 Since the same values patterns and range of outcomes affect the viability that also underpins affordable housing provision / contributions, the following sections will also cover DSP’s findings on affordable housing in order to present some suggested parameters for targets on that prior to revisiting the CIL charging scope in more detail.

3.2.10 Similar consideration of the relevant values ranges and any clear patterns was also given in respect of the various commercial / non-residential development use types reviewed.

3.2.11 DSP considered that the main types of commercial / non-residential development, and particularly the viable types relevant to potential CIL charging, would be likely to occur in a limited range of location types within the park and local plan context. Between these (e.g. main settlement towns for supermarket development) it would be difficult to distinguish values and costs for these uses with any real clarity at this level of review. The locations would be associated largely with the two main urban areas (Tier 1 settlements of Lewes and Petersfield) and potentially with any new proposals for other particular locations such as at Liss, Midhurst or Petworth (Tier 2).

We understand that even these are not strong possibilities for new development of this type, but that such developments are highly unlikely to occur elsewhere in any event. Beyond those, development would most likely amount to smaller individual schemes coming forward on an ad hoc basis, with the NPA considering any wider planning objectives that might be compromised by overly onerous policy proposals or by CIL charge setting given our results.

3.2.12 In terms of local relevance and seeking an appropriate balance in the SDNP context, overall our research supports a simple approach to limited non-residential / commercial CIL charging whereby any differentiation should be as needed based on viability associated with varying development use; and not by location as well. This view is reinforced by and linked to the nature of the commercial scenarios results which, as will be discussed below and can be seen at Appendix IIb, currently do not show CIL charging scope in respect of the key area of B use (business) development regardless of the specific assumptions in any event. Any drivers for differential CIL charging by location away from residential development would therefore be down to the more marginal uses, if charged, and so would be of very limited relevance.

3.3 Overview of results – residential scenarios – Affordable Housing and policy context for considering CIL

3.3.1 The viability review process for CIL means that it is necessary to allow for the emerging plan policies / strategy approach so far as those are known. In any event affordable housing creates the key impact for consideration, in common with other studies. It is necessary to consider the viability outcomes that those assumptions produce by reference to the type and location of sites likely to come forward. The following commentary is therefore provided by reference to the assumed VLs, as those rise through the range reviewed (VL1 – 10), and are considered relevant to the various locations / areas that will be relevant to the plan delivery overall, in varying degrees.

3.3.2 We look at these by reference to the review scenarios undertaken to date based on the information available although necessarily acknowledging that site-specific review of particular proposals, and especially with regard to the details of any further strategic scale development scenarios, will need to take place. The NPA has work on-going on the further building and updating of its Infrastructure Development Plan (IDP) understanding and this will need to be factored into the rolling review type

process that we envisage, usually carried out through joint working with the service providers and any larger site promoters.

- 3.3.3 The current stage involves reviewing the findings as best represented, based in the main on assumptions rather than on known or fixed factors, by the relevant areas of the scenarios range and value levels (VLs) over which the plan policies and DSP's range of trial CIL charging rates have been tested. The indications of potential occurrence by locality are simply that. In practice a range of scheme types could come forward in most localities, and particularly within or around the main settlements (Tier 1 and potentially Tier 2), so the discussion is aligned to example scenarios, considered representative of sample situations from the emerging overall site supply picture. The use of the VLs in conjunction with Figure 10 above (3.2.6) informs and supports the review of this.
- 3.3.4 It is not possible or necessary to cover all results variations, so here we provide an overview. The commentary is based first on the potential range of affordable housing (AH) policy proposals that are now being considered within the NPA's work on its emerging plan; i.e. potential financial contributions from schemes of fewer than 10 dwellings; on-site provision requested at 10 plus dwellings (at 10 to 50% equivalent) and 20 to 50% taking effect at 10 dwellings or more. The aim is to inform the NPA's emerging plan policy on Affordable Housing so that the Authority has information and a basis for developing that and a starting point against which to consider its CIL proposals. Ultimately, it is necessary to fix the AH % policy targets in order to consider CIL, and the CIL viability process must assume that those targets are incorporated in full.
- 3.3.5 This process does not tie-down the NPA to a particular affordable housing approach at this stage however, it is simply necessary in order to provide clarity on the CIL charging scope and to set-out what AH basis is assumed in putting-forward the CIL rates recommendations. Inevitably, this also involves acknowledging the amount of CIL being assumed alongside the AH assumptions and results, but we will return to CIL more directly in later sections (see 3.4 below) and also through our recommendations.
- 3.3.6 In practical delivery and management terms, at least 1 affordable dwelling has to be provided in an on-site AH scenario. DSP's experience is that on-site affordable housing generally comes with a range of difficulties on sites of fewer than 5 dwellings

where the provision of a single affordable home amounts to 20%. Even this scenario may be unwieldy for Registered Provider (RP- i.e. housing association), local authority or similar management on an economic and sustainable basis, especially over a widely dispersed area. In the South Downs context, which we consider is different in terms of many of its characteristics and requirements to most of the other National Parks, we are of the view that a site of 5 dwellings represents the very minimum practical point at which, here, on-site AH provision should be required as firm policy. Instead, we suggest that an affordable housing financial contribution (AH FC) approach is considered.

- 3.3.7 The viability results reinforce this in any event because whilst with the base build costs assumption the 1 and 2 unit schemes (Appendix IIa tables 1a and 1b) appear to be able to bear up to say 30% affordable housing (equivalent contribution) at the lower to mid values, this picture changes with the increased cost sensitivities – increased build costs for smallest developments (tables 1c and 1d). Regard should be had to those here.
- 3.3.8 For example the 1 and 2 units scenarios at VL 5 (£3,750/sq. m show that a £2m/ha plus land value (relevant to a wider range of sites) is achievable at up to £225/sq. m CIL with a 10% AH FC (first set of tables 1 c and 1d). With a 20% AH FC, the CIL scope reduces to around £100/sq. m. By the time the AH FC reaches 30% equivalent, we need to rely on VL6 values (£4,000/sq. m) to reach CIL potential of up to about £125/sq. m. whilst creating that level of land value, so the number of workable scenarios reduces. At VL 5 values, only with £0/sq. m CIL does the RLV get very close to the same level. We consider a 30% or more AH requirement placed on sites of up to and including 5 units would be excessive.
- 3.3.9 These outcomes point in our view to a maximum of a 20% AH FC at 5 dwellings (or potential 1 AH unit on-site) but we firmly suggest that consideration is given to a 10% AH FC for use with schemes of fewer than 5 dwellings. A 10% AH FC would be appropriate across schemes of 1 to 4 dwellings; increased AH FCs not considered appropriate as the CIL charging scope and other planning objectives could become too squeezed and viability could become potentially difficult on all but the higher value scenarios. Overall, smaller schemes are not necessarily any more or less viable than larger ones (comparison comes down to site-specifics) and they can provide an appropriate level of affordable contribution. However, whilst there is no clear case for an arbitrary threshold beneath which no contributions are made, this should be

kept in balance with the CIL (together with other planning aims) and the NPA should be aware of the potential sensitivities associated with some of the smallest developments.

- 3.3.10 At 5 dwellings, and suggested for application to schemes across the 5 to 9 dwellings range, the results point to scope to increase the AH proportion or equivalent to 20%; with suggested consideration given to an approach that is based mainly around financial contributions rather than reliant in a fixed way on on-site provision.
- 3.3.11 With 20% affordable housing, depending on the specifics, a 5 unit scheme can support £50 to £100/sq. m CIL and an RLV of £2m/ha based on VL4 values. The VL5 assumption, a typical mid-range value likely to be relevant frequently (for example in Petersfield) supports 20% AH FC with up to around £225/sq. m or CIL, again depending on the specifics.
- 3.3.12 Further following our suggested “sliding scale” type principles for AH targets, there is no single clear point at which a higher AH% would become appropriate. However, the 10 unit scenarios (table 1g) indicate the overall strength of viability. At VL4, the 40%AH (on-site now) assumption provides RLVs exceeding the commercial land values range through the full extent of the CIL trial rates testing, to £250/sq. m. In comparison, at VL3 (potentially more relevant to some Liss scenarios for example) the CIL funding scope reduces to about £100/sq. m. if that level of land value is required (£1.5m/ha).
- 3.3.13 If a small uncomplicated greenfield site were to be envisaged, these results suggest that the £500,000/ha RLV level after meeting all costs could be met with 40% AH and approximately £175 to £200/sq. m based on lowest values sensitivity trial – VL1. All appraisals incorporate £3,000/dwelling s.106 alongside the CIL and other assumptions. We consider this to be a cautious assumption, certainly in comparison with the base assumption for most of ours and others’ CIL studies. However, it shows that if the s.106 burden (for site-specific infrastructure / mitigation) were to increase then the CIL scope would need to be reconsidered unless only the higher value scenarios were to be relied upon. As in all cases, the NPA will need to consider the viability findings alongside its developing view of the site types and dwelling numbers coming forward in a range of locations across the Park area as its strategy develops further.

- 3.3.14 Values at around VL5 support a £2m+/ha RLV with 40% AH and CIL at up to approximately £225/sq. m. (again at table 1g within Appendix IIa).
- 3.3.15 The further scenario results, those for larger schemes tests, point to 40% being the maximum recommended but suitably challenging target for AH in the national park. Looking at the 15 units mixed dwellings (table 1h), the greenfield land values range is exceeded with up to £100/sq. m CIL based on VL1; and with all levels of CIL tested (to at least £250/sq. m) at VL2. The same scenario at 40% AH (table 1h) shows VL4 values producing an RLV of £1.5m/ha plus at up to £175/sq. m. RLV indications of £2m/ha plus are shown at up to £100/sq. m CIL based on VL5. RLVs between those points (i.e. exceeding the commercial land values range) are shown with CIL beyond the maximum level tested (at £250/sq. m). So with lower to mid values, a wide range of potential scenarios appear likely to be workable with 40% AH and a meaningful level of CIL (minimum of £100/sq. m in lower sales value scenarios or mid-value scenarios with highest land value expectations; up to and beyond £250/sq. m in higher value areas).
- 3.3.16 The 50% AH tests are seen to significantly reduce the RLVs and therefore the viability outcomes. In essence an increase in VL (a £250/sq. m step up in the sales values) is needed to produce similar results to those from the 40% AH assumption. So to achieve the range of £1.5m/ha plus land values we need to be using VL5 values (at up to approximately £200/sq. m CIL) or at VL4, as at 3.3.15, reducing the CIL scope to around zero (£0/sq. m). We can clearly see, therefore, that a 50% AH target reduces the results sufficiently so as to narrow-down the range of potentially viable sites and scenarios and it has a restrictive impact on the CIL charging scope apart from where the values reach or exceed VL7.
- 3.3.17 This trend continues through all larger scheme scenarios, indicating the 40% to be a more appropriate headline target applicable at a threshold of not less than 10 dwellings in our view, but still one which could prove challenging in some PDL scenarios with lower sales values alongside a CIL of say £100/sq. m or more.
- 3.3.18 At whichever level the AH targets are settled, and even if at a very low %, all viability issues may not be removed. Poor viability, i.e. a weak relationship between the development values and costs, may be inherent in the scheme and / or site. In any event they must be treated as targets, to be operated practically where the viability circumstances show flexibility to be necessary. Circumstances may dictate local

priorities and the most appropriate balancing of other objectives, etc. Some compromises will inevitably be necessary irrespective of the particular AH policy positions. The NPA's approach will need to recognise these aspects of the overall viability picture, particularly as the delivery detail and guidance develops around the plan and its development strategy. This applies to all elements of the sliding scale type approach, including financial contributions.

3.3.19 Affordable housing, along with the market conditions and other factors (as noted previously) consistently has a far greater effect on viability than CIL does. We observe this throughout our extensive work on CIL and it is relevant to stress this in the South Downs National Park context too. CIL typically has a relatively small impact on overall scheme viability. This is seen reading from left to right in the results tables, compared with reading vertically between rows for scenarios representative of varying sales values or variant affordable housing trials.

3.3.20 In summary on affordable housing targets, our suggestions are for the SDNPA to consider a sliding scale approach, acknowledging the role of viability and the need to operate flexibly, seeking not more than:

- Sites providing 1 – 4 dwellings: 10% equivalent AH by way of financial contribution (AH FC);
- Sites providing 5 – 9 dwellings: 20% AH (role of AH FCs and potential for on-site AH considered);
- Sites of 10 or more dwellings: 40% AH (strong presumption for on-site provision, unless otherwise agreed that an alternative provides a more sustainable and suitable local solution).

3.4 Residential CIL approach - overview

3.4.1 We will now provide further detail to build on the outline scenario reached at 3.2.8 above.

3.4.2 Aside from any necessary approach in due course to also differentiate for any CIL relevant larger scale development locations based on the viability findings, the outcomes point to the NPA considering a differential approach limited to that needed to cater for the likely viability differences between residential schemes occurring between:

- (1) The Tier 1 and Tier 2 settlements (with the exception of Liss);
- (2) Liss;
- (3) Rest of SDNPA area – “wash over rate” applicable to all other areas

3.4.3 As the research shows, values within and immediately around the main settlements can vary significantly. Petersfield and Lewes share these characteristics; values can be higher, similar or lower (or a mix of these) when looking between them. All in all, we consider that there is little difference between the two on making the overview that is necessary for CIL purposes. Variation is driven by particular site and scheme characteristics, as it is in many locations within the Park boundary. As another example of the blurring of general values patterns, whilst some values amongst the lowest seen for the Park were found in Midhurst, experience shows that it also demonstrates values reaching much higher levels equivalent to those seen in the other towns and in the smaller settlements in some cases. Based on local experience, we do not consider it appropriate to factor in Midhurst as a lower value location where a lower CIL might be set, and it appears set to provide relatively limited new housing in the overall emerging plan context. The blurring that has been noted could be continued across an increased range of new build schemes of varying types as could occur in a mix of locations within each settlement.

3.4.4 Overall, we consider that with the exception of Liss (where typically lower values are likely to be relevant to overall plan delivery), an attempt to differentiate within and between the Park’s main settlements could get over-complex and yet still not effectively capture the variances that are in practice likely to be led by site-specifics.

3.4.5 Whilst the higher values in some instances within Lewes and Petersfield might suggest scope for marginally increased CIL charging rate(s) there, the mixed nature of sites and reliance at least to some extent on PDL sites (especially at Lewes) can place other pressures on viability, through land value expectations and potential abnormal costs, etc. These are likely to balance out against the positive effect of higher values to some extent. However, we understand that in local plan relevance terms the same combination of increased PDL site value expectations, other brownfield costs and potentially lower range sales values is unlikely to impact significantly there.

- 3.4.6 Reviewing of the relevance of likely development delivery as described by the NPA in its Brief, confirms our view that differential residential CIL rates should be considered for the National Park but suggests the scope of that differentiation is limited to the position summarised at 3.2.8 and 3.4.2 above.
- 3.4.7 For the purposes of this study stage, and advising on an appropriate CIL rate for the PDCS, strategic scale sites are not considered relevant and have not been appraised therefore. These are usually greenfield sites, but may also be on PDL or part PDL, that require the provision of significant infrastructure and generate significant (non-affordable housing) Section 106 costs that would be required in addition to any CIL. The on-site infrastructure / specific s.106 mitigation requirements (not including affordable housing) are typically such that a scheme either requires subsidy or a reduction in the s.106 affordable housing requirement to maintain a sufficient level of viability at the same time as supporting the site works and infrastructure costs. Should this type of scenario become relevant to the local plan delivery, likely at a reduced local scale only, then the NPA may well need to consider it specifically to ensure that undue added viability impact is not placed on development that is critical to the plan delivery, so that it as a whole is not placed at risk. From our discussions with SDNPA officers, we are not aware that any such proposals are relevant to the plan.
- 3.4.8 Within the range of residential results, at table 1n the relatively high density retirement type apartments scenario outcomes viewed at the mid values considered for those indicate scope for some deterioration in viability through any further adjusted assumptions, and therefore considerable buffering scope, pointing to outcomes exceeding the highest land value comparisons considered – across the range of CIL trial rates. At the lower, but not lowest, values considered for this scenario (VL7) the results indicate that the commercial land values range is exceeded with up to £225/sq. CIL combined with a 40% AH assumption. Whilst, as with all other scenarios tested, the outcomes are sensitive to values falling away, lower values are not the norm for such schemes.

Sensitivity to increased build costs – sustainability / carbon reduction

- 3.4.9 To complete the results commentary on residential CIL scope, as noted at 3.1.8 Appendix IIa also contains results related to increased sustainable construction / carbon reduction costs; at tables 1i and 1j (15 units) and 1l and 1m (30 units). At this stage, these are provided for wider information. Whilst the increased costs assumption for CfSH L5 energy or equivalent shows within tables 1i and 1l to reduce results notably compared with the table 1h base results for that scenario, as expected the most significant viability impact comes from the CfSH6 energy (or equivalent) assumption that drives the results seen within tables 1j and 1m.
- 3.4.10 As an example, the table 1h VL6 (£4,000/sq. m sales value) base result with 40% AH and £150/sq. m CIL of approximately £2.31m/ha falls beneath the £2m/ha higher benchmark to £1.99m/ha with the CfSH L5 assumption (table 1i). That equivalent result reduces further to approximately £1.29m/ha – i.e. to within the commercial land values range rather than exceeding it, with the CfSH L6 assumption. With lower sales values, but still needed at VL4+ to sustain any level of viability, we can see that the scenario becomes potentially workable only on greenfield or lower value former commercial / other sites in the range approx. £0.5m to £1m/ha. The range of workable scenarios is restricted by the assumption at 40%, unless very significant land price adjustments are made, and in fact it can be seen that a very significant reduction in AH requirements would be needed in order to restore some level of viability across the mid-value scenarios. The reduction of CIL, even down to a very low level or zero does not have a very significant effect in balancing things out. This is because by itself CIL has been shown to have a much lower viability impact than affordable housing or marked changes in values.

Wider information - Government consultations and reforms - Housing standards

- 3.4.11 The Government (DCLG) issued a comprehensive 'Housing Standards Review' consultation prior to the study completion period in 2013. This creates some uncertainty as to the future direction of thinking on such aspects, certainly making firm findings or recommendations on this very difficult to provide. Nevertheless, we took the view that the provision of this further sensitivity test information as discussed above at 3.4.9 to 3.4.10 still provided a useful feel for the potential impact of further costs applied to the best of our knowledge and experience at this point. Further information can be provided for the NPA's review if required on this.

3.4.12 For wider context in reviewing these results sensitivities, it is worth noting that this clear deterioration of results with increasing requirements is not unusual by any means. There is a national level issue building around the viability impact of the CfSH or equivalent building regulations improvement requirements; even though the approach to using currently known / estimated costs with current / projected trial level values may well not be reflecting how this will move with developing technologies and a greater market place for those. Having also noted the further uncertainties around the Government's proposed wholesale review of housing standards; only further time will allow us to see how these aspects develop and settle down to further inform the review of viability.

3.4.13 These same principles apply to other areas that increase scheme costs.

3.4.14 At the current time, we can only advise that the NPA should consider any aspect of its policy (and the practical operation of it) that develops beyond the scope of building regulations or other requirements, and should monitor and keep under review such areas. This means review in the context of other collective requirements on development (affordable housing %s or make-up, just for example), as have been reflected in this study; not just single policy effects in isolation.

Wider information - Government consultations and reforms – CIL Reform Proposals

3.4.15 Earlier in 2013 the DCLG consulted on a series of proposed reforms to CIL. Announcements late in the year suggested that the reforms will be confirmed through amendments to the CIL Regulations and provision of revised Guidance early in 2014.

3.4.16 Amongst the reform points set to be confirmed, subject to certain details self-build housing will not be subject to CIL charging. This may well be a notable factor in the Park context where individual builds take place. It is likely to be a factor to be aware of rather than anything that can be affected locally, so for potential consideration by the NPA as it considers its CIL proposals, since it may have the effect of reducing the number of small schemes contributing to the CIL receipts as they would have previously. This in turn, if a large proportion of local builds, could influence the NPA's view on the overall plan relevance of the remaining small schemes.

3.4.17 A key aspect of the CIL reforms is the change to allow differential rates to be set with reference to scale of development. Whilst DSP's view and experience is that this does not necessarily affect our recommendations on aspects such as retail, which we will cover later in this chapter and have previously considered by development use type (differing retail offers and characteristics of developments), this could have some significant effects on residential CIL charging depending on how the NPA's affordable housing policy targets settle. Where there are sites with and without affordable housing based on a clear trigger (threshold) of a number of units / site size beneath which there are no AH requirements, there is a key viability differential related to scale of development. This is an aspect that we have considered in a recent viability assessment for a client where adopted policy creates an abrupt step in viability; an "of/off" affordable housing impact. In the South Downs current context however, we are, for now at least, working on the basis that the NPA is likely to continue to place a high priority on affordable housing and to spread those obligations to some degree across smaller developments too – on a sliding scale type basis. That being the case, then there is a significantly less clear viability differential than where a "cut-off" type threshold (i.e. a straight "with and without" affordable housing scenario) exists based on policy. Given, alongside this, the sensitivities potentially involved in delivering affordable housing / affordable housing financial contributions from some smaller developments and the large level of CIL trade-off that is required to fund increased affordable housing (e.g. going from say 20% AH to 40% AH), a CIL differential is not considered to be warranted for this aspect at this stage. This effect of the relative impact from the affordable housing compared with that from the CIL can be viewed within the results. The SDNPA may however wish to consider this further depending on the settling-down of the CIL Amendment Regulations (particularly whether there are any unforeseen details) and the local affordable housing policy approach once confirmed. If appropriate / necessary, however, this aspect could be considered further at future Plan / CIL development stages.

3.4.18 In the SDNPA case, therefore, the proposed equitable approach to spreading the burden of affordable housing requirements across all sites through a sliding scale, combined with relatively simple CIL charging proposals, should avoid the need or justification for further complicating the CIL charging regime to reflect this added scope for differentiating.

3.4.19 There is a further related point to bear in mind, however. Recent planning press announcements also suggest that the Government may be considering some form of

national scheme size default or threshold for affordable housing. If this is the case ultimately, so that locally evidenced affordable housing policies for smaller sites are not possible or are different in some way, then, unless further amendments are made to the CIL Regulations, the NPA may well wish to consider how a relative improvement to viability on the smaller sites might translate into a balancing by way of a higher CIL charge on those. Once again, this is all a case of seeing how things develop at a national policy level and then reacting accordingly if appropriate. The type of information provided in this report, including the range of comparative results from different assumptions combinations, could be used by the Council in this regard and could be readily updated in future if required.

3.4.20 Given this range of local characteristics and circumstances, the CIL rates setting process in The South Downs National Park has been based around the considerations associated with the need to:

- Consider a 3-zones CIL charging approach (for the main settlements – Tiers 1 and 2, Liss and other areas – Tier 3) unless strategic scale development with its associated higher costs becomes relevant to the local CIL, in which case additional considerations may also need to be incorporated;
- Consider the overall range for CIL charging rates as per the parameters put forward in our emerging findings assessment stages discussed with SDNPA officers) – i.e. broadly in the range £100 to £200/sq. m overall;
- Avoid setting CIL rates at too high a level given that such an approach would mean that higher-end values would need to be relied upon too often, and overall delivery including affordable housing may come under too much pressure. Assuming a low level of reliance, overall, on the smaller settlements for new housing supply, a £200/sq. m “wash-over” rate represents an appropriate upper CIL charge for the South Downs National Park given the above review of results and allowing further for not setting the charging at the margins. The corresponding suggestion for the main (Tier 1 and 2) settlements of Lewes, Petersfield, Midhurst and Petworth is £150/sq. m and for Liss (only) is a CIL rate of £100/sq. m;

- Keep in mind the affordable housing context discussed above and considered alongside these CIL rate proposals – suggested sliding scale approach at 3.3.19 under a headline target of 40% AH;
- Critically, the selection of rates around these guidelines will be informed also by the emerging plan relevance (of different delivery areas and development types), potential CIL yields vs. administrative burdens, appropriate level of clarity / simplicity, etc., as well as by the viability considerations. The NPA will need to show how it has arrived at an appropriate balance given the particular requirements and characteristics of the National Park;
- **Overall, DSP puts forward for the NPA’s consideration suggested CIL charging rates for residential (C3 development use) as follows:**
 - **National Park-wide / prevailing “wash-over” rate put forward at not more than £200/sq. m provided the smaller settlements’ role in overall housing supply is limited; with a differential rate put forward for:**
 - **Tier 1 and 2 settlements (except Liss) – £150/sq. m;**
 - **Liss - £100/sq. m**

3.4.21 Clear maps will need to be prepared for consultation, showing the extent of the proposed charging zones once the various considerations are formed in to a proposed approach for the NPA’s Preliminary Draft Charging Schedule (PDCS). The NPA will need to consider the mapping of the boundaries for the differential rates informed by the types of sites coming forward in various locations; and most importantly bearing in mind the nature of any development at the main settlement fringes, related to our viability advice.

3.4.22 The following paragraphs offer additional observations relating to our findings, CIL viability assessment and Examination in Public (EIP) stages experience.

3.4.23 The CIL principles are such that ideally Charging Schedules should be as simple as possible; i.e. as simple as the viability overview and finding the right balance locally will permit. Whilst a more differential approach in theory has the potential to reflect more closely the changing values and viability scenarios moving around the National

Park and even within the larger settlements (as the more detailed picture of values is blurred away from the general trends), such variety always occurs and in fact the effects will be highly localised or even site and scheme specific in many cases. This need to look at high level value and viability patterns, rather than seeking to reflect highly localised effects, is consistent with CIL principles.

3.4.24 For clarity, these residential findings are considered to also apply to sheltered / retirement housing development. In our experience this form of market apartments based development is capable of supporting similar CIL viability outcomes and competing very effectively with general market / non-retirement housing developments and other uses for suitable sites. By sheltered housing we are referring to the generally high density apartment-based schemes providing retirement housing in self-contained dwellings, usually with some element of common space and warden support; but where no significant element of care is provided. As a characteristic in common with other mainstream residential development, these schemes generally trigger affordable housing requirements on a negotiated basis (which in our experience may often be provided by way of negotiated financial contributions given the potential development mix, management and service charge issues than might otherwise arise in some scenarios by seeking to integrate an affordable housing element). They are regarded as falling under Use Class C3 (dwelling houses). They are distinct in our view from care / nursing homes which would generally fall within Use Class C2 as have also been considered, through a different scenario type, for this study purpose.

3.4.25 To reiterate, there may be instances of lower value residential schemes (of a range of types) and localities / particular schemes where developments struggle for viability in any event (i.e. prior to the consideration of CIL). It is important to stress that this could occur even without any CIL or similar (s.106) contribution / obligation. Wider scheme details, costs and obligations or abnormal costs can render schemes marginally viable or unviable before factoring-in CIL. As a common finding across our studies, no lower level set for CIL (i.e. even if at £0/sq. m) could ensure the deliverability of all these individual schemes on a guaranteed basis. In some cases, viability is inherently low or marginal, regardless of CIL or other specific cost implications. In this sense, CIL is unlikely to be solely responsible for poor or non-viability. These are not just local factors; we find them in much of our wider viability work. The same principles apply to commercial schemes too. The key test in terms of the CIL principles is that the rates selected do not put at undue risk the overall plan

delivery; it is accepted that some schemes may not work and that those do not in themselves necessarily prejudice the bigger picture on overall plan delivery.

3.4.26 Associated with this, it will be necessary for the NPA to monitor outcomes annually as part of its normal monitoring processes, with a view to informing any potential / necessary review of its CIL in perhaps 2 to 3 years' time or so, as other Government or local policy developments may take place; and / or potentially in response to market and costs movements, or indeed any other key viability influences over time.

3.4.27 The results of the residential appraisals are typically most sensitive to the value levels assumed for the market housing that will drive scheme viability (as those may vary according to locations and / or varying market conditions). However, following the most significant influence of the market, other factors that typically have a significant effect on viability outcomes are:

- Affordable housing – included at the proposed compliant test levels within all appraisals (widely tested for sensitivity);
- Build costs – generally, but including related to sustainable design and construction;
- Scheme type and density;
- Land value expectation / requirement;
- Other costs side influences – profit levels, finance, fees, etc.;
- The incidence, alongside usual development costs and obligations, of costs that are considered abnormal and where relevant may vary significantly by site.

3.4.28 Given the incidence of some larger new-build property types, especially within some smaller rural settlement schemes in The South Downs National Park, in our exploratory stages we carried out additional background appraisals on the single unit residential scenarios. These are not included within the final reporting owing to the need to produce a realistically scoped scale of work and documentation; as with many other angles where in theory this type of work could be expanded to even

greater levels of detail, beyond the 'appropriate available evidence' expectations of the CIL guidance on considering viability.

3.4.29 On this point, however, we found that, for lower value scenarios, increasing the dwelling size reduced the RLV and viability outcome further; and for higher viability scenarios (scenarios starting with more positive outcomes) the opposite was seen – viability indications were improved. As seen through those appraisals, with other aspects fixed, this is basically a case of increasing the direction of an existing outcome – either way (depending on whether as a starting point it is a viable scenario given the typical relationship between costs and values seen at the particular point on the values scale). The indications are that larger dwelling sizes, as may be seen more on the smallest / lower density schemes, will tend to show better viability outcomes providing they are in situations and locations that support values at the mid to upper range values typical for the National Park; and providing that the development costs are not too high. We think that usually this will be the case; the values will support the costs. Larger dwelling types assumed at higher specifications might well be associated with higher costs levels. Higher build and other development costs associated with the property type will of course have a balancing effect on viability. In general, as above, varying costs is a factor which needs to be kept in mind.

3.4.30 In reviewing the findings and putting forward the above, although not part of the viability testing, in the background we have also had some regard to the proportional cost of the potential (trial) CIL rates relative to scheme value (GDV). These aspects are considered further where some guide information and comparisons are provided towards the end of this chapter.

3.5 Values and other characteristics – Findings: Commercial

3.5.1 A similar review process was considered with respect to commercial and non-residential scenarios. Again, this involved a refreshed look first at whether or not there were any particular values patterns or distinct scenarios that might influence the implementation of a CIL charging schedule for the South Downs National Park (non-residential aspects).

3.5.2 As with residential, the starting point aim should be a simple approach to the charging regime as far as development viability, and the relationship of that to the emerging plan relevance, permits.

- 3.5.3 In essence, after considering the forms of development most relevant and the research on values, we decided that the focus for differentiation should be on varying development use types as informed by the viability findings. Variance also by locality was considered not to be justified for commercial / non-residential uses. If a route including that were chosen, in our view the local CIL charging approach could well become unnecessarily complex. As with residential, we found no clear justification for further complexity in the circumstances. Further and potentially unnecessary differentiation could not be expected make the approach more reflective of actual viability variations in any event.
- 3.5.4 In arriving at this, a number of aspects were considered alongside the values research (see Appendix III). This also helped to determine the scope of the commercial / non-residential scenarios modelling carried out overall.
- 3.5.5 **Here we summarise key high-level commercial / non-residential points and findings** (more detail then follows in later report sections):
- Retail: While DSP understands that at present the emerging plan identifies no significant requirements for retail, we completed the range of testing that usually forms the basis of our CIL studies because a range of scenarios could come forward and an equitable approach would be necessary to all developments that could support CIL. Our high level understanding is that in terms of retail development, the primary focus of the plan will be to maintain and improve the offer within the National Park's centres when opportunities arise; so that the development strategy will be a more general one. Nevertheless, this could have implications for considering CIL rate setting. This is in terms of ensuring that undue disincentives to such improvements are not created and, potentially, in accordance with the more recently added CIL tests around the levy making a positive contribution to the development of the area.
 - In practice, as reflected by the development strategy, any new retail development (as opposed to the usual "churn" of existing units) is most likely to occur on an ad hoc basis. In the context of the small centres within the Park, Town centre retail development, other than for Supermarkets or other larger formats such as any retail warehousing, would be likely to have poor to marginal viability based on current assumptions and on-going commercial market uncertainty. The results show that the poor level of viability likely to be

associated with increased town centre retail development costs points towards the need to nil rate development of new shops other than supermarkets / superstores and retail warehouses. Given the scenarios developed to date and without particular proposals to consider, this does not warrant more specific testing at this stage. The range of sensitivities applying differing rental and yield combinations point to difficult viability scenarios, looking at this now.

- Although larger format retail unit development (larger supermarkets, superstores and retail warehousing) is not specifically envisaged in the local context at the present time and is unlikely to come forward in significant quantities, it could occur through market forces subject to the meeting of the emerging plan and national principles on impact assessments and suitability of location, etc. The only potential for development of this nature to occur was considered to be supermarket development in the main settlements (Lewes and Petersfield, perhaps others), although based on discussions with NPA officers even this seems unlikely in the short term. In viability terms, should they come forward these forms of development would not support the level of CIL that we and other consultants have identified for such developments in some locations owing to the lower rental profiles here than we tend to see in more significant shopping locations. They are considered generally able to support CIL charging rates approximately equivalent to the lower to mid-levels considered appropriate for residential (approximately £120/sq. m in this case). The NPA will need to consider the viability findings alongside the recurring themes that we have noted – i.e. around the local relevance of development types; the likely frequency and nature of development. In our view, such a CIL rate could not be considered prejudicial to the overall emerging plan delivery.
- The appraisals run following extensive research show that other forms of retail development would not reliably support CIL charging in the Park area, and the NPA's selected approach probably needs above all to be responsive to potential smaller shops development, especially within the main town and other centres, so as not to add undue delivery risk to any marginal proposals (as they look likely to be at best in the short term).
- Business development (offices and industrial / warehousing – of all types): Experience from elsewhere along with firmed-up early stage findings for The South Downs National Park suggested again that viability outcomes here would

not be sufficient to support CIL charging from this range of ('B' class) uses at the present time at least. This is a finding in common with all of our viability studies to date. If realistic assumptions are used then those and the resulting viability outcomes would be unlikely to improve sufficiently to enable clear evidencing CIL charging scope, regardless of any area based variation or particular use type. Therefore, we formed the view that any area based differentiation would not be relevant for these uses. There are no major commercial centres. Even in the better locations / scenarios our findings indicate that there is no clear CIL charging scope without adding further risk to schemes that at best struggle for viability. This takes into account the level of uncertainty and risk inherent in such schemes at present, prior to considering fixed (non-negotiable) CIL levels being added to scheme costs.

- Hotel and care home development scenarios were considered, overall with a similar tone of findings from each of these. As noted at the Appendix I scenarios / assumptions summary, hotel appraisals were run to allow us to consider the sensitivity of outcomes to the relationship between their value and build costs, following the review of web based, BCIS and any other available information. With assumptions considered relevant at the current time, these scenarios were considered non-viable – as shown by the extensive red coloured results areas on tables 2a and 2b at Appendix IIb.
- So, again, we felt that the assumptions needed to be moved too optimistically to provide results that might still be regarded as marginal in some instances so that, overall, sufficient confidence in viability outcomes could not be evidenced to the point of supporting clear CIL charging scope. Improvements to appraisal inputs would need to be relied on. Although some particular development models could work, so long as land value expectations are not too high, others appear not to be workable unless assumptions are stretched in favour of viability. It appears that some hotel development types are able to compete for sites in the market during cycles when the residential development market is struggling but, as the residential market picks up, in general many more sites are likely to go out of reach for hotel development. Although firm information is scarce, this pointed to circumstances where, overall, we consider that at the current time it would be inappropriate to place additional burden on, therefore risk to developments that viewed currently may be at best marginal, and given a non-viable starting point in many cases based on current assumptions. In any event, differentiation

between particular (for example potentially more viable) types would be very difficult to define and could produce inequity. Overall, in the National Park context of visitor promotion, it may be important not to add further development risk to any emerging proposals.

- Similarly, we found that what we considered to be potentially over-optimistic assumptions had to be made in order to consistently provide development viability outcomes that support clear CIL charging scope for care homes developments. Detailed information on development is particularly hard to come by for this sector, but from our research it appears that the longer term business model associated with the trading / operational (revenue) side of this business is often what underpins or largely underpins the progressing of schemes for this use; as opposed to the development activity alone.

3.5.6 In summary, the meaningful CIL charging potential from commercial / non-residential development in The South Downs National Park is likely to be restricted to considering any relevance of and scope around any ad hoc larger format retail development that may occur. Whilst potentially a very modest rate for small scale retail (small shops) could be looked at our view is that the few positive results do not support that and at this stage caution is recommended regarding the viability of the latter given the typical rental values and the appraisal outcomes driven by those at this stage. These aspects are all put forward with respect to the first charging schedule, and therefore involve a fairly short term view - subject to future review.

3.5.7 Consistent with most other viability studies that we have dealt with, our viability findings seek to provide wider information enabling the NPA to consider various approaches – including on the characteristics of and related advice on differentiation for varying retail formats (as those provide different offers and effectively are different development uses). If not now, this may be relevant at a future stage as part of continuing to seek the right balance to the CIL approach for the South Downs National Park. Further information is set out at 3.6 below. That may help to inform the PDCS drafting.

3.5.8 As would be expected, the commercial / non-residential appraisal findings are wide-ranging when viewed overall. For this strategic overview rather than detailed valuation exercise we have essentially considered the interaction of rent and yield as presenting a view of sample ranges within which capitalised net rents (completed

scheme sales values - GDVs) could fall. Then we considered the strength of the relationship between the GDV and the development costs – the essence of the CIL viability study.

- 3.5.9 In this way we have explored various combinations of assumptions (including capitalised rental levels) which produce a range of results from negative or marginal outcomes (meaning nil or at best very limited CIL charging scope) to those which produce meaningful and in some cases considerable CIL charging scope. To illustrate the trends that we see, the coloured tables at Appendix IIb use the same “coding” type principles as the residential results tables (strongest green colouring indicating the best viability prospects through to red areas indicating non-viability based on the assumptions used). Once again, these provide a guide to the strength of the results and the trends across them at varying value levels and trial (potential) CIL charging rates, but must not be interpreted too strictly.
- 3.5.10 Another factor to which the commercial outcomes are greatly sensitive is the site coverage of a scheme, i.e. the amount of accommodation to be provided on a given site area; the equivalent of residential scheme density. This can affect results considerably, combined with the assumed land buy-in cost for the scheme. We saw the effect of these factors in looking at the residential scenarios too.
- 3.5.11 Factors such as build costs clearly have an impact as well but, for the given scheme scenarios, are not likely to vary to an extent which makes this a more significant single driver of results than the values influences (rents and yields) outlined above. In practice, it will be the interaction of actual appraisal inputs (rather than these high level assessment assumptions) that determines specific outcomes. As with actual schemes though, again it is the interaction of the various assumptions (their collective effect) which counts more than individual assumption levels in most cases. There are some commercial or non-residential use types where build costs, or build and other development costs, will not be met or will not be sufficiently exceeded by the completed values (GDVs) so as to promote viable development.
- 3.5.12 Having looked at varying forms of commercial / non-residential development for the CIL viability rates recommendations, the review process and findings also inform the NPA’s on-going work on the local plan and its delivery details. The study inevitably has to take a view of looking at all of this now, influenced by the recent recessionary conditions and on-going economic backdrop constraints in mind. These cannot be

fully projected out of the picture at the current time or, most likely, in the coming few years.

3.5.13 The NPA will need to keep all of this under review, a repeated theme here, and in the meantime will also need to work-up up its delivery strategies for employment supporting development so as to maximise opportunities as the market is able to respond and work creatively over time.

3.5.14 We will now provide further detail on the assessment findings for the commercial development scenarios considered, bearing in mind that in practice scheme types and viability outcomes will be highly variable. In all cases, it is not necessary for the NPA to link its approach to particular Use Classes – descriptions and added clarity to the CIL Charging Schedule may be better made by referring to locally relevant development types.

Further detail on commercial / non-residential – potential CIL charging scope

3.6 Retail scenarios (across Use Classes A1 – A5; i.e. also covering food and drink, financial services, etc.)

3.6.1 The ‘small retail’ unit appraisal results showed a significantly weaker viability picture compared with the indications from the larger format retail scenarios (upper sections of Appendix IIb tables 2a and 2b). This applied to all scenarios reviewed for the development type.

3.6.2 More generally speaking, whilst the retail scenarios overall showed amongst the best viability outcomes from the wide range seen, if the smaller shops scenarios are considered relevant to the plan delivery then this factor should be included in the consideration of the CIL charging rates. This would be reflected either through a very low or, more appropriate from a viability viewpoint, a nil charging rate set for small format retail – applied to the whole of the National Park area.

3.6.3 As a high level outcome this general viability distinction between larger and smaller retail formats is consistent with most of our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work in many cases. This tone of results is shown by the range of red shaded ‘small retail’ results areas at tables 2a and 2b (representative of any new units at shopping parades /

neighbourhood centres, individual units, farm shops, village or rural provision), compared with the larger format retail results and particularly those at table 2a associated with the 6.5% yield tests.

- 3.6.4 The results show that with our mid ('M') values assumptions at 6.5% yield the large retail scenario (town based supermarket) RLV beats the upper end commercial land value comparison (£1.5m/ha) all way through to the highest commercial CIL trial at £195/sq. m (and beyond). An RLV of £2m/ha is reached with £120/sq. m CIL. Table 2a within Appendix IIb shows these results.
- 3.6.5 In comparison, the best 'small retail' scenario outcome at table 2b there shows that the £2m/ha land value level may only be met using the 'H' rental and the 7.5% yield assumption with a £15/sq. m CIL applied. Whilst the 'H' rental values for those small town centre units support a range of RLVs within the commercial land values range the 'M' values support at best only greenfield enhancement land values or very low level former commercial land values. That is with up to around £30/sq. m CIL assumed, and the results even then are considered relevant only to a narrow range of circumstances rather than to town centres. The maximum RLV generated for the out of centre / village small retail scenarios shown below that is equivalent to approximately £1.39m/ha, so not enough to beat the commercial land values range used for viability test 3 (see the table footnotes). The estimated farm shop type outcomes show lower levels of viability still; red coloured table areas with very poor results.
- 3.6.6 DSP has experience of single and differential CIL charging rates approaches for retail development. We consider that a CIL charging rate for the larger retail types (supermarket and retail warehousing formats) could certainly be taken up to around the mid-range residential charging rate findings, so that £120/sq. m reflects a rate not set right at the margins of viability but in any event non-prejudicial to overall plan delivery.
- 3.6.7 Although a supermarkets / superstores and retail warehousing / similar based charging rate might be taken higher than this in theory, the prospect that relatively high land values may be associated with this form of development needs to be kept in mind, together with the significant overall development costs. There are a range of factors which, together, suggest that setting retail up to the higher CIL trial rate levels explored (i.e. up towards £195/sq. m) may not be appropriate in the local context at

this stage. We can see, for example at table 2a, that at the lower rent level sensitivity ('L') trial with the 6.5% yield, the supermarket scenario results were significantly lower (RLVs falling within the commercial land values range once a CIL of more than £30/sq. m was applied).

3.6.8 Again, the NPA will need to consider the plan relevance of the various retail types; and potentially the following factors:

- The extent to which retail of any form is overall plan relevant. If certain or all forms are likely to be coming forward on an ad hoc basis only (i.e. outside the plan policies scope) then potentially it may be considered that any non-viability of individual schemes is not critical under the CIL principles;
- Non plan relevance would also suggest the prospect of a low level of increase in CIL receipts from setting a higher charging rate for certain development uses;
- However, as part of considering the impacts of its CIL proposals (both positive and negative), the NPA may also wish to consider the relevance of any unintended consequences for other forms of development, such as smaller shops in the larger centres, shops provided through farm diversification or other smaller settlements / rural areas / tourism and visitor based provision.

3.6.9 We also aim to provide wider information, having taken the exploration of this area of the study further (for any charging rates options based on differentiation by type) in the event that consideration of a differential rates approach is taken forward as a result of the NPA's future work on this. If there is to be differentiation by use type, then (to reinforce the points made previously) the viability evidence is such that consideration should be given to a significantly lower or, more appropriately, a £0/sq. m. charging rate for smaller shops developments at this time.

3.6.10 As we noted previously, during the review for this assessment, the Government (DCLG) had recently completed its consultation on further potential reforms to CIL. One aspect of the consultation proposals concerned explicit scope for charging authorities to be able to set differential CIL rates by reference to varying scale of development as well as varying development use (as has been discussed above in relation to residential development). Whilst DSP's experience is that differentiation has been possible for scale where that relates to varying development use (i.e. retail

offer, site and unit type associated with that), it appears possible that this element of the reforms could expand and cement the scope to consider differentiation on CIL charging rates for retail development. Overall, as with the residential findings, the NPA may well be able to consider options for its approach to CIL charging.

3.6.11 In order to provide the NPA with additional information should it be needed in due course, whilst reviewing this potential differentiation further and appraising the smaller retail category, we explored the sensitivity of that scenario type to varied size (floor area). These outcomes are not included in detail in this report, but further information can be supplied to the NPA by DSP if required. In any event, this may be as much about considering the differing retail offers and development types associated with those, and therefore general principles around CIL and differentiation, rather than the viability outcomes alone.

3.6.12 Since altering the assumed floor area to any point between say 200 and 500 sq. m would not trigger varying values or costs at this level of review, basically the reported values / costs relationship stays constant; so that we did not see altering viability prospects as we altered its specific floor area over that range but assumed development for the same use type (same type of retail offer). This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit alone. The key factor differentiating these types of retail scenarios from the larger ones is the value / cost relationship related to the type of premises and the use of them; they are simply different scenarios where that relationship is not as positive as it is in respect of larger, generally out of town / edge of town stores. Specific floor area will not produce a different nature of use and value / cost relationship. In our view, any differentiation is more about the distinct development use, the different retail offer that it creates and the particular site type that it requires, etc. The description of the use and its characteristics may therefore be more critical than a floor area threshold or similar. The latter could also be set out to add clarity to the definition and therefore to the operation of the charging schedule in due course.

3.6.13 Only if differentiating between these smaller and larger retail formats, for example because of their plan relevance, we consider that creating a link with the size of sales floor space associated with the Sunday Trading provisions (3,000 sq. ft. / approx. 280 sq. m) may provide the most appropriate threshold. This assumes the threshold being

used for clarity and to further explain the nature of the development use that the viability and CIL differential is linked to.

3.6.14 It is considered that, where these schemes may come forward in the National Park (currently assumed to be on an ad hoc basis only), they could be seen in a variety of circumstances; but with none of those being fundamental to overall plan delivery. They could be promoted on a range of site types in The South Downs National Park. Where associated with mixed uses where they will need to provide as positive a contribution to overall viability as possible.

3.6.15 **Overall for retail, therefore, we consider that these findings viewed alongside our wider work on this development use point to the NPA considering:**

- Differential rates for larger format retail (at £120/sq. m) and smaller format retail (put forward at £0/sq. m);

3.6.16 A single retail rate considered at the higher level (£120/sq. m) would be likely to place undue additional development risk on smaller scale shops development, and so is unlikely to be appropriate in the South Downs National Park. This is based on our understanding that smaller shops will be encouraged alongside other provision by virtue of the likely plan strategies focussed on the vitality of town and local centres rather than on larger proposals likely to need impact assessment etc.

3.6.17 There are a range of retail related uses, such as motor sales units, wholesale type clubs / businesses, which may also be seen locally, although not regularly as new builds because these uses often occupy existing premises. Whilst it is not possible to cover all eventualities for ad hoc development, and that is not the intention of the CIL principles, we consider that it would be appropriate in viability terms to also link these to the retail approach that is selected based on the main themes of plan delivery, all as above.

3.6.18 Similarly, we assume that any new fast food outlets, petrol station shops, etc., provided for example as part of retail developments, would be treated as part of the retail scheme.

3.6.19 Other uses under the umbrella of retail would be treated similarly. Individual units or extensions would be charged according to their size applied to the selected rate as per the regulations and standard charging calculation approach.

3.7 Business Development – Office / Industrial / Warehousing scenarios (including uses within Use Classes B1, B1a, B2, B8)

3.7.1 In terms of likely scheme viability, these findings are much simpler to discuss than those for retail.

3.7.2 Again, actual proposals could be highly variable in nature (through from more “standard” industrial, warehousing and office developments to developments for high-tech / research and development or similar uses).

3.7.3 However, consistent with our other recent and work in progress, the overview results convincingly show that there is no foreseeable scope for any meaningful level of CIL charge to be applied to such schemes in the South Downs National Park (at least not without adding further delivery risk to schemes in what is already a very challenging market scenario). This is seen through the entirely red colour-coded results range at Appendix IIb tables 2 and 3. Those scenarios are assumed with 6.5% and 7.5% yields, which we consider provide a rental capitalisation that could be represent quite an optimistic view at least in some cases. In that sense, the 6.5% yield tests provide a very positive view that in practice may be relevant in few circumstances for B use development in the current market. There it can be seen that even with the highest rentals trialled and assuming greenfield land relevance with nil CIL, from our assumptions range we see poor results that clearly indicate insufficient confidence in any real level of development viability. The anticipated values are not sufficient to out-weigh the development costs – inherently poor viability scenarios on these current assumptions. Although it might be proposed that it is not the relatively small impact of CIL making these scenarios unviable, the range of poor viability results (without CIL) shows that CIL would add further delivery risk. Clearly the findings do not support CIL charging scope.

3.7.4 All in all, we consider that, in order to create any meaningful CIL scope, the collective assumptions need to be moved to points that are too optimistic overall to be seen regularly at the current time - and we feel that this is likely to be the case for these

development types for the foreseeable short-term future; so that it could be reviewed again in a few years' time for a subsequent Charging Schedule update.

- 3.7.5 In practice we could very likely see less favourable yield and rental combinations than those we have reviewed, especially after allowing for any incentives to new occupiers, etc. We would not consider it appropriate to assume more favourable rental capitalisation than from a 6.5% to 7.5% yield for these scheme types in the current on-going climate of economic uncertainty.
- 3.7.6 **In summary, with regard to CIL, we recommend that a zero (£0/sq. m) charging rate be considered for these (Business) development types at the current time. This applies whether in or out of established business development areas and includes any provision in the smaller settlements and rural areas; suggested applied Park-wide.**
- 3.7.7 Clearly this tone of viability findings for business development uses, which is similar to that we have found in all other locations that we have studied to date, has implications for all prospective charging authorities to consider as far as they are able in terms of wider local plan implications, seeking to encourage investment and secure delivery.
- 3.7.8 In this regard, again we are able to make only general comments about wider considerations as the NPA moves forward with the private sector and other agencies to promote and deliver growth associated with new housing; and to support jobs and the local economy. The same types of principles may well also be relevant in considering any necessary promotion strategies for other forms of needed development. These points will be considered further in rounding on commercial / non-residential schemes viability.

3.8 Hotels and Residential Institutions – Care homes and similar

Hotels

- 3.8.1 The hotel scenarios reviewed represent a range of outcomes that show a great degree of sensitivity to the development values and costs assumed for driving the appraisals.

- 3.8.2 We consider that the 6.5% yield test scenarios (as included at Appendix IIb table 2a) could well be more relevant to this development type than those that were also run at a 7.5% yield trial. Universally poor viability outcomes were seen based on the assumptions used.
- 3.8.3 **We recommend that at the current point a zero (£0/sq. m) charging rate be considered for this development use type.** In looking for the right balance, it appears that the likely limited CIL yield (contribution to funding gap) potential that might be evidenced by more optimistic assumptions for hotel development would not outweigh the added risk to the viability of any new build / extension proposals. Again, this could be revisited in future.
- 3.8.4 The NPA should keep this under review, however, so as to see how experience in practice may influence any future review. Readily available information sources are limited on this development use, and local experience of how the market operates over time may prove useful in this respect.

3.9 Care homes

- 3.9.1 We have focused our appraisal basis on a notional Care Homes scenario at this stage. Proposals falling under this category (envisaged within Use Class C2 as opposed to C3 – see 3.4.24 above) could again be highly variable in nature, as well as in terms of the values and other assumptions potentially applicable to varying scheme specifics. As in many areas it is a form of provision considered relevant as part of the overall accommodation and care offer that may be made available based either on the re-use of existing premises or in the form of new-builds.
- 3.9.2 We have not been able to identify nor been provided with any recent development examples or other comparables / guides as to likely financial assumptions associated with this form of development in the National Park. In the absence of such information, it has been necessary to make high level assumptions; nevertheless, as fits this level of study. In a similar way to the reviews carried out for other development types, it was possible to consider what would need to change within the assumptions to create scenarios with reasonable viability prospects on a regular basis.

- 3.9.3 On the assumptions applied, we have found a very similar tone of viability indications to those associated with hotels, in this case with a range of poor results again (hence shown red-shaded at Appendix IIb tables 2a and 2b again). Therefore, similarly, our assumptions and findings currently suggest poor viability prospects as a form of development in the local context (rather than necessarily as part of a wider business model) unless assumptions are moved significantly in favour of viability by increasing values and / or reducing costs from the levels assumed in early stages appraisals. Therefore, this theme was not developed further. Again, experience in practice could show that such development will occur with more regularity, but at the present time we are not able to evidence a sufficient level of viability to support CIL charging
- 3.9.4 Based on very similar thinking to that above in relation to hotels, therefore, currently we are not able to support through detailed evidence any meaningful level of CIL scope in respect of such developments. Within the general monitoring scenario, however, the NPA should keep this under review so as to see how experience in practice may influence any future review – as for hotel developments. **A zero (£0/sq. m) CIL charging rate is recommended at this stage however.**
- 3.10 Other development use types – including Community Uses and other uses potentially relevant to the National Park – Agriculture, leisure, visitor facilities, etc.**
- 3.10.1 Following our extensive iterative review process, throughout this assessment we can see that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before CIL scope is considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).
- 3.10.2 In such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability. Such scenarios are generally unviable in the sense we are studying here – as a starting point. This is because they have either a very low or no real commercial value and yet the development costs are often similar to equivalent types of commercial builds. We regularly see that the even the build costs, and certainly the total costs, exceed levels that can be supported based on any usual view of development viability. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them.

- 3.10.3 As will be seen below, there are a wide range of potential development types which could come forward as new builds, but even collectively these are not likely to be significant in terms of “lost opportunity” as regards CIL funding scope. We consider that many of these uses would more frequently occupy existing / refurbished / adapted premises.
- 3.10.4 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in the main they are likely to be a long way from producing any meaningful CIL scope.
- 3.10.5 There are of course a range of other arguments in support of a distinct approach for such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure. They may even be the very types of facilities that the pooled CIL contributions will ultimately support to some degree. For all this, so far as we can see the guiding principle in considering the CIL regime as may be applied to these types of scenarios remains their viability as new build scenarios.
- 3.10.6 **In any event, from our viability perspective, a zero (£0/sq. m) CIL rate is recommended in these instances.**
- 3.10.7 As a part of reviewing the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from entries in the VOA’s Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS. As has been discussed above, where the relationship between these two key appraisal ingredients is not favourable (i.e. where costs exceed or are not sufficiently outweighed by values) then we can quickly see that we are not dealing with viable development scenarios. The lack of positive relationship is often such that, even with low land costs assumed, schemes will not be viable. Some of these types of new developments may in any event be promoted / owned by charitable organisations and thereby be exempt from CIL charging (as affordable housing is).
- 3.10.8 Figure 11 below provides examples of the review of relationship between values and costs in a range of these other scenarios. This is not an exhaustive list by any mean, but it enables us the gain a clear picture of the extent of development types which

(even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and complication in the local CIL regime. These types of value / cost relationships are not unique to the South Downs National Park. Very similar information is applicable in a wide range of locations in our experience, although there are particular types of development uses likely to be relevant to a National Park area, such as visitor facilities.

Figure 11: Other uses – example guide value / cost ranges and relationships

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m)	Base build cost indications –BCIS**	Viability prospects and Notes
Cafés	£40 - £200 per sq. m	£400 - £2000 per sq. m	Approx. £845 - £3,220	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	£15 - £60 per sq. m	£150 - £600 per sq. m	Approx. £1,125 - £1,580	Clear lack of development viability
Day Nurseries	£60 - £100 per sq. m	£600 - £1,000 per sq. m	Approx. £1,300 - £1,800	Insufficient viability to clearly and reliably outweigh the costs
Equestrian Stables / Livery	£250 - £600 per unit		Approx. £650 - £1,430/sq. m	Insufficient evidence of viability to clearly and reliably outweigh the costs
Garages and Premises	£25 - £50 per sq. m	£250 - £500 per sq. m	Approx. £180 - £1,100	Low grade industrial (B uses) - costs generally exceed values
Halls - Community Halls	£10 - £25 per sq. m	£100 - £250 per sq. m	Approx. £1,250 - £1,690 (General purpose Halls)	Clear lack of development viability – subsidy needed
Leisure Centre - Health and Fitness	£100 - £120 per sq. m	£1,600 @ 7.5% yield	Approx. £800 - £1,780	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Leisure Centre Other - Bowling / Cinema	£115 - £125 per sq. m	£1,533 @ 7.5% yield	Approx. £660 - £1,480	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Museums	No comparable information available		Approx. £1,085 - £2,315	Likely clear lack of development viability – subsidy needed

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m)	Base build cost indications –BCIS**	Viability prospects and Notes
Storage Depot and Premises – e.g. Agricultural	£30 - £40 per sq. m	£300 - £400 per sq. m	Approx. £460 - £700 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	£80 - £170 per sq. m	£800 - £1700 per sq. m	Approx. £1,165 - £1,640 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs
Visitor Centres	No comparable information available		Approx. £1,465 - £2,300	Likely clear lack of development viability – subsidy needed

*£/sq. m rough guide prior to all cost allowance (based on assumed 10% yield for illustrative purposes - unless stated otherwise).

**Approximations excluding external works, fees, contingencies, sustainability additions etc.

3.10.9 With the exception, potentially, of any retail linked types such as mentioned at 3.6.17 to 3.6.19 above (should the NPA consider those sufficiently relevant to the plan delivery and include those with the CIL charging scope), our recommendation is for the NPA to consider a zero (£0/sq. m) CIL rate in respect of a range of other uses such as these. As in other cases, this could be reviewed in future - in response to monitoring information. Our over-riding view is that the frequency of these other new build scenarios that could support meaningful CIL scope is likely to be very limited.

3.10.10 As alternatives, and we understand that there is no guidance pointing either way, the NPA could consider leaving such other proposals to “default “ to a nominal rate; or to a higher rate to capture contributions from a small number of developments - but with the risk that others could present difficulties.

3.11 Charge Setting and CIL Rate Review

3.11.1 To further inform the NPA’s CIL charging rates setting and on-going work, we have also considered the range of potential CIL rates that have been viability tested in terms of their proportion of (percentage of - %) completed development value (sales value or ‘GDV’).

3.11.2 The following figures (contained with the tables at Figures 12 and 13 below) do not relate to the viability testing (they are not viability tested outcomes or recommendations) beyond the fact that we have considered these straight calculations at a selection of the potential CIL (trial) rates that were tested for viability. The values assumptions (GDVs) used to calculate the following proportions are as assumed within the study (see chapter 2 and Appendix I).

3.11.3 Percentage of GDV figures are only provided here for the residential and example commercial / non-residential uses (viability study scenarios) that are capable of supporting CIL charging in accordance with our findings (CIL rate as % of GDV figures for other non-viable uses are not provided). See Figures 12 and 13 below.

3.11.4 In our experience, CIL rates in the order of those proposed for the SDNPA are relatively small when viewed in the context of the gross development value with, for example, the Lewes and Petersfield proposed charging rate equating to approximately % to % of GDV. In many other areas we see the CIL rate as a percentage of GDV tending to be within the range 3-5% of GDV. To put this into context, house prices increased by 5.5% in the 12 months to October 2013¹⁷ with further similar annual house price growth indicated to occur in the each of the next few years on average¹⁸.

Figure 12: Trial CIL charging rates as % of GDV – Residential

Scheme Type	Trial CIL Rate (£/sq. m)	Value Level – Intermediate VLs provided as example indications			
		VL2	VL4	VL6	VL8
Capital Value (GDV - £/sq. m)		£3,000	£3,500	£4,000	£4,500
Residential	£25	0.83%	0.71%	0.63%	0.56%
	£50	1.67%	1.43%	1.25%	1.11%
	£75	2.50%	2.14%	1.88%	1.67%
	£100	3.33%	2.86%	2.50%	2.22%
	£125	4.17%	3.57%	3.13%	2.78%
	£150	5.00%	4.29%	3.75%	3.33%
	£175	5.83%	5.00%	4.38%	3.89%
	£200	6.67%	5.71%	5.00%	4.44%
	£225	7.50%	6.43%	5.63%	5.00%
£250	8.33%	7.14%	6.25%	5.56%	

(Source: DSP 2013)

¹⁷ Office for National Statistics (ONS) – House Price Index

¹⁸ Savills Residential Property Focus for Q4 2013 for example suggests approximately 21% to 25% growth in house prices to 2018.

Figure 13: CIL charging trial rates as % of GDV – Commercial (for retail development uses for which CIL charging / potential charging is discussed in the report)

Scheme Type	CIL Rate (£/sq. m)	7.5% Yield			6.5% Yield		
		L	M	H	L	M	H
Capital Value (GDV - £/sq. m)		£2,993	£3,325	£3,658	£3,460	£3,845	£4,230
Supermarket	£15	0.50%	0.45%	0.41%	0.43%	0.39%	0.35%
	£30	1.00%	0.90%	0.82%	0.87%	0.78%	0.71%
	£45	1.50%	1.35%	1.23%	1.30%	1.17%	1.06%
	£60	2.01%	1.80%	1.64%	1.73%	1.56%	1.42%
	£75	2.51%	2.26%	2.05%	2.17%	1.95%	1.77%
	£90	3.01%	2.71%	2.46%	2.60%	2.34%	2.13%
	£105	3.51%	3.16%	2.87%	3.03%	2.73%	2.48%
	£120	4.01%	3.61%	3.28%	3.47%	3.12%	2.84%
	£135	4.51%	4.06%	3.69%	3.90%	3.51%	3.19%
	£150	5.01%	4.51%	4.10%	4.34%	3.90%	3.55%
	£165	5.51%	4.96%	4.51%	4.77%	4.29%	3.90%
	£180	6.02%	5.41%	4.92%	5.20%	4.68%	4.26%
£195	6.52%	5.86%	5.33%	5.64%	5.07%	4.61%	
Capital Value (GDV - £/sq. m)		£1,663	£1,995	£2,328	£1,923	£2,307	£2,692
Small retail A1 - A5 Town Centre	£15	0.90%	0.75%	0.64%	0.78%	0.65%	0.56%
	£30	1.80%	1.50%	1.29%	1.56%	1.30%	1.11%
	£45	2.71%	2.26%	1.93%	2.34%	1.95%	1.67%
	£60	3.61%	3.01%	2.58%	3.12%	2.60%	2.23%
	£75	4.51%	3.76%	3.22%	3.90%	3.25%	2.79%
	£90	5.41%	4.51%	3.87%	4.68%	3.90%	3.34%
	£105	6.32%	5.26%	4.51%	5.46%	4.55%	3.90%
	£120	7.22%	6.02%	5.16%	6.24%	5.20%	4.46%
	£135	8.12%	6.77%	5.80%	7.02%	5.85%	5.02%
	£150	9.02%	7.52%	6.44%	7.80%	6.50%	5.57%
	£165	9.92%	8.27%	7.09%	8.58%	7.2%	6.1%
	£180	10.83%	9.02%	7.73%	9.36%	7.8%	6.7%
£195	11.73%	9.77%	8.38%	10.14%	8.5%	7.2%	
Capital Value (GDV - £/sq. m)		£998	£1,663	£2,328	£1,154	£1,923	£2,692
Small retail A1 - A5 Out of Town Centre / Village	£15	1.50%	0.90%	0.64%	1.30%	0.78%	0.56%
	£30	3.01%	1.80%	1.29%	2.60%	1.56%	1.11%
	£45	4.51%	2.71%	1.93%	3.90%	2.34%	1.67%
	£60	6.01%	3.61%	2.58%	5.20%	3.12%	2.23%
	£75	7.52%	4.51%	3.22%	6.50%	3.90%	2.79%
	£90	9.02%	5.41%	3.87%	7.80%	4.68%	3.34%
	£105	10.52%	6.32%	4.51%	9.10%	5.46%	3.90%
	£120	12.02%	7.22%	5.16%	10.40%	6.24%	4.46%
	£135	13.53%	8.12%	5.80%	11.70%	7.02%	5.02%
£150	15.03%	9.02%	6.44%	13.00%	7.80%	5.57%	

Scheme Type	CIL Rate (£/sq. m)	7.5% Yield			6.5% Yield		
		L	M	H	L	M	H
	£165	16.53%	9.92%	7.09%	14.30%	8.6%	6.1%
	£180	18.04%	10.83%	7.73%	15.60%	9.4%	6.7%
	£195	19.54%	11.73%	8.38%	16.91%	10.1%	7.2%
Capital Value (GDV - £/sq. m)		£665	£998	£1,330	£769	£1,154	£1,538
Small retail A1 - A5 Farm Shop / Rural unit etc.	£15	2.26%	1.50%	1.13%	1.95%	1.30%	0.98%
	£30	4.51%	3.01%	2.26%	3.90%	2.60%	1.95%
	£45	6.77%	4.51%	3.38%	5.85%	3.90%	2.93%
	£60	9.02%	6.02%	4.51%	7.80%	5.20%	3.90%
	£75	11.28%	7.52%	5.64%	9.75%	6.50%	4.88%
	£90	13.53%	9.02%	6.77%	11.70%	7.80%	5.85%
	£105	15.79%	10.53%	7.89%	13.65%	9.10%	6.83%
	£120	18.05%	12.03%	9.02%	15.60%	10.40%	7.80%
	£135	20.30%	13.53%	10.15%	17.56%	11.70%	8.78%
	£150	22.56%	15.04%	11.28%	19.51%	13.00%	9.75%
	£165	24.81%	16.54%	12.41%	21.46%	14.3%	10.7%
	£180	27.07%	18.05%	13.53%	23.41%	15.6%	11.7%
	£195	29.32%	19.55%	14.66%	25.36%	16.9%	12.7%

(Source: DSP 2013)

3.11.5 The NPA may wish to use the above information to consider the potential CIL charging rates parameters recommended, and the wider potential rates / options, as part of its balancing of objectives and overall assessment.

3.11.6 As an example a £150/sq. m residential CIL charge for Lewes and Petersfield amounts to approximately 3.3% to 4.3% GDV. For the typically higher value rural area smaller settlements a £200/sq. m CIL charge, assuming development non-critical to the plan overall, represents approximately 4 to 5% GDV. For Liss, a £100/sq. m residential charge represents around 3 to 3.5% GDV.

3.11.7 A £120/sq. m proposed CIL charge is seen to represent approximately 3.12% GDV for the larger format retail (supermarket / similar) scenario.

3.12 Summary – CIL Charging Rates and AH viability – Reminder of recommendations

- 3.12.1 Above all, in terms of the emerging plan proposals, DSP recommends that the NPA builds and keeps under review this type of information and its Infrastructure Development Plan (IDP) work – in order to keep the proposals moving forward with the site promoters and developers, based on up to date information as far as practically possible.
- 3.12.2 It has been necessary for us to acknowledge the various viability sensitivities, which are likely to mean that outcomes move around given the many variables.
- 3.12.3 Whilst we have made comments about affordable housing and sustainable construction impacts in this way, the key point will be for the NPA to work up an adaptable approach for delivery. This will need to be expressed in its final policy positions.
- 3.12.4 There is a great deal of detail to be built-up and worked-through, all of which will be likely occur over a number of market cycles, several Governments and changing sets of planning and environmental requirements, etc. In this context we consider that it is not possible to give unqualified support to most plan proposals particularly in early stages, pending detail to be worked up; nor would this be expected. The engagement to date between the NPA and its neighbouring authorities, service suppliers, developers, land owners and their advisers in respect of a range of proposals and sites provides positive signs of the delivery scope, and this should be a key indicator of the potential and a vital continued aspect of the planning and delivery processes across the range of development types relevant to the emerging plan.
- 3.12.5 In the meantime, particularly in respect of commercial / employment development creation, some challenges must be acknowledged in most local authority areas. In addition to seeking to ensure that the CIL approach does not further impede investment, the NPA could consider the following types of areas and initiatives (outside the scope of this report, but put forward as practical indications):
- Consideration of market cycles – plan delivery is usually about longer term growth as well as short term promotion and management of growth opportunities that will contribute to the bigger picture;

- A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;
- Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;
- Specific sites / locations and opportunities – for example in relation to the plan proposals and what each are most suitable for;
- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) development;
- Scenarios for particular / specialist uses that are often non-viable as developments but are business-plan / activity led;
- As with residential, consideration of the planning obligations packages again including their timing as well as their extent.
- A likely acceptance that business development overall is unlikely to be a contributor to general community infrastructure provision in the short-term at least.

3.12.6 On CIL, in summary, from a viability point of view we recommend the following for consideration by South Downs National Park Authority in taking forward its Affordable Housing Policy headlines and setting of proposed CIL charging rates within a preliminary draft charging schedule (see Figures 14 and 15 below):

Figure 14: Recommendations Summary - Affordable Housing (AH) Target %s

Scheme size (no of new dwellings)	AH mode	AH Target (allied to CIL recommendations)
1 - 4	AH Financial Contribution	10%
5 - 9	AH Financial Contribution / potentially consider on-site (not rigid)	20%
10+	Strong presumption for on-site provision	40%

Figure 15: Recommendations Summary - CIL charging rates

CIL Charging rates Parameters & Rates for Consideration
C. Residential
<p>Based on the findings and discussion including at 3.2 – 3.4 of this report, and the above AH positions (subject to NPA review and confirmation):</p> <p>Overall parameters - £100 to £200/sq. m.</p> <p>Recommend a 3 zones approach, based on key characteristics:</p> <ul style="list-style-type: none"> - Overall “wash-over” rate – smaller settlements / rural areas - rate of not more than £200/sq. m, applicable to all scenarios National Park-wide except for in respect of differentiation for: - Tier 1 and 2 settlements excluding Liss - £150/sq. m (Lewes, Petersfield, Midhurst, Petworth) and; - Liss – £100/sq. m (assuming requires differentiation being relevant to overall plan delivery).

D. Retail
<p>Based on the findings and discussion including at 3.5 – 3.6 of this report: Overall parameters – £0 – £120/sq. m.</p> <p>Recommend larger format retail – retail warehousing and supermarkets – a charging rate of up to £120/sq. m.</p> <p>This rate would also be applicable to extensions of any size.</p> <p>All other retail at £0/sq. m.</p> <p>Any differentiation by type of retail should be linked to use rather than simply based on size (see 3.6.12 and associated text).</p>
C. <u>Business Development - Office and Industrial of all forms</u>
<p>Based on the findings and discussion including at 3.7 of this report: At the current time, although subject to future review - £0/sq. m</p>
F. <u>Hotels and Care Homes</u>
<p>Based on the findings and discussion including at 3.8 – 3.9 of this report: At the current time, although subject to future review - £0/sq. m</p>
G. <u>Community (and all other) uses</u>
<p>Based on the findings and discussion including at 3.10 of this report: Nil rate (£0/sq. m), on balance, in preference to a low / nominal “default” rate</p>

(Source: DSP 2013)

3.12.7 Provisional version residential charging zones maps should be considered in response to this reporting and should be made available as part of the consultation stages if the NPA decides to move forward with a differential rates charging set-up (by geographical zones) for residential development as put forward in this report (with precise boundaries dependent on the type and location of town-fringe sites; their nature in relation to our viability advice

- 3.12.8 **Additional recommendation: To consider monitoring and review.** Although there is no fixed period or frequency for this we recommend that the NPA begins to consider its more detailed implementation strategies around CIL, including how it will monitor and potentially review CIL collection and levels – informed by the experience of operating it in practice. In our view, monitoring or equivalent processes should take place whilst also maintaining an overview of the market context and development plan policies alongside which CIL will have been operating. The DCLG guidance touches on the intended open and transparent nature of the levy and in doing so states that charging authorities should prepare short monitoring reports each year.
- 3.12.9 **Additional recommendation:** As has been the case with s.106 obligations, **to consider the scope (as far as permitted) to phase CIL payment timings** where needed as part of mitigation against scheme viability and / or delivery issues. Through all of our development viability work, particularly in relation to larger developments and especially longer running / phased residential schemes, we observe the impact that the particular timing of planning obligations have. The same will apply to the payments due under the CIL. Front loading of significant costs can impact development cash flows in a very detrimental way, as costs (negative balances) are carried in advance of sales income counteracting those. Considering the spreading of the cost burden to some extent - as far as may be permissible - even on some smaller schemes, may well provide a useful tool for supporting viability in the early stages.
- 3.12.10 **Additional recommendation:** Following the same principles and potentially of great importance to the larger sites / strategic locations delivery over time, the timing and phasing of infrastructure works and planning obligations in general will need balancing with funding availability and viability positions as updated through on-going review.
- 3.12.11 Allied to this, the NPA may wish to consider the extent to which pooled funds might be used to forward-fund or part fund key early infrastructure elements that may be required to facilitate schemes progressing, or proceeding more smoothly. This is not a new principle. Discussions with developers on the timing of affordable housing provision and / or financial contribution obligations, for example, could also continue to be important in this regard. In some cases, an affordable housing element provides valuable and relatively secure cash flow; in others there may be overall scheme benefits from phasing its provision differently.

- 3.12.12 **Additional recommendation:** Given that CIL takes the form of a fixed, non-negotiable charge once implemented, the NPA will need to continue to operate its wider planning objectives and policies sufficiently flexibly – approach to be carried in to the delivery detail of the emerging plan. This should enable it to adapt where necessary to viability and other scheme constraints where developers can share their appraisals to demonstrate the need for flexibility on the overall planning obligations package. Abnormal development costs and other factors could also influence this process in particular instances. Prioritisation of objectives may be necessary, and such outcomes would be highly scheme specific – tailored to particular needs where proven to be necessary.
- 3.12.13 **Additional recommendation:** The Government’s CIL guidance (DCLG consolidated latest version April 2013) outlines the linkages between the relevant plan (currently emerging development plan), CIL, s.106 obligations and spending of the CIL on infrastructure. One key aspect, as has been the subject of discussion at previous CIL examinations in our experience, is that the NPA will need to develop its strategy to clarify the relationship between CIL and s.106. It will need to be able to reassure developers that there will be no double-counting (“double-dipping”, as it has been referred to) between the operation of the two regimes in terms of the infrastructure projects that each set of funds (or works provided in-lieu) contributes to. This includes the content of the Regulation 123 list for CIL (confirming the projects or types of infrastructure that CIL funds will be spent on, and therefore precluding the use of s.106 for those same items).

Main text of study final report ends.

January 2014.

Appendices follow.