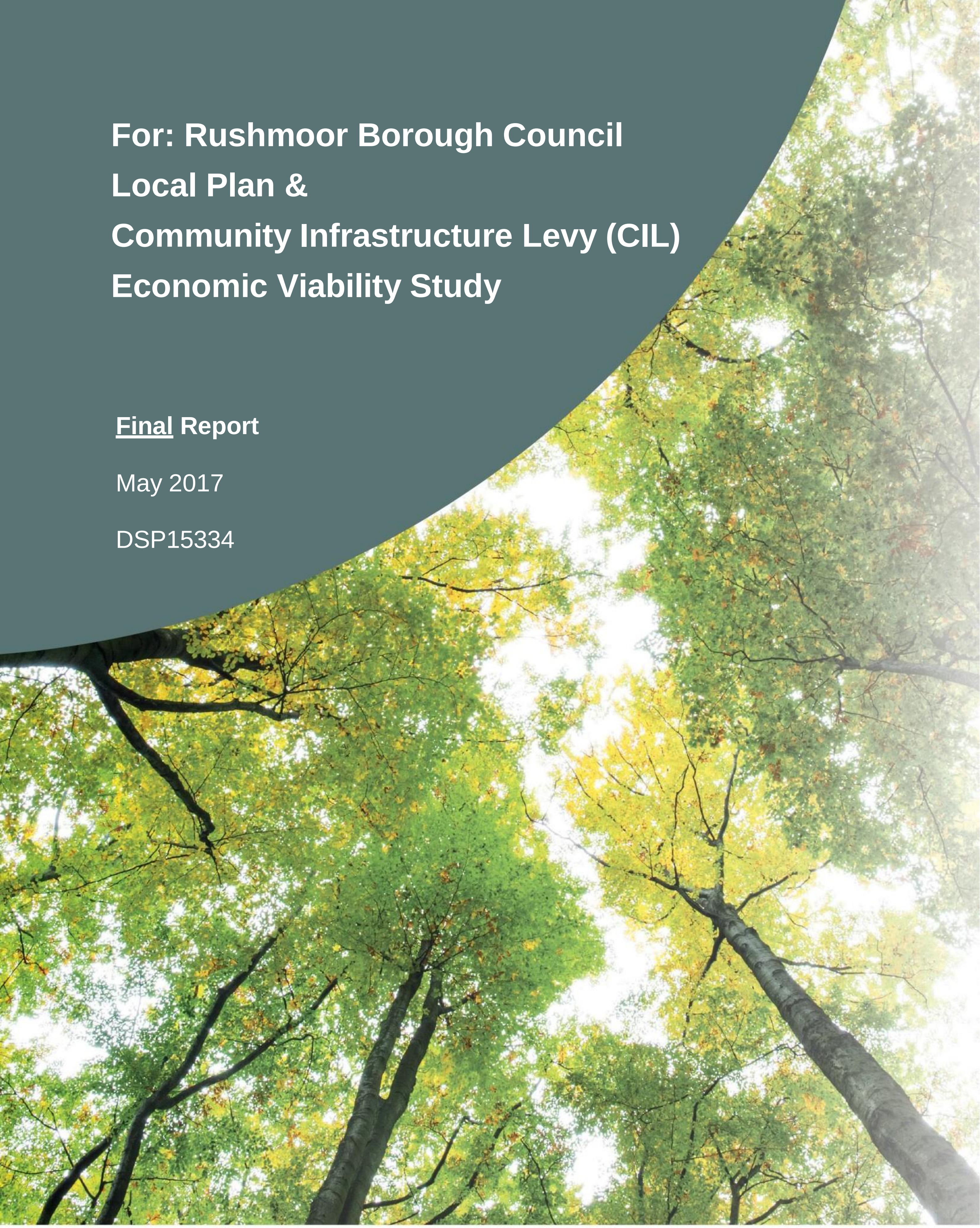
For: Rushmoor Borough Council Local Plan & Community Infrastructure Levy (CIL) Economic Viability Study

Final Report

May 2017

DSP15334



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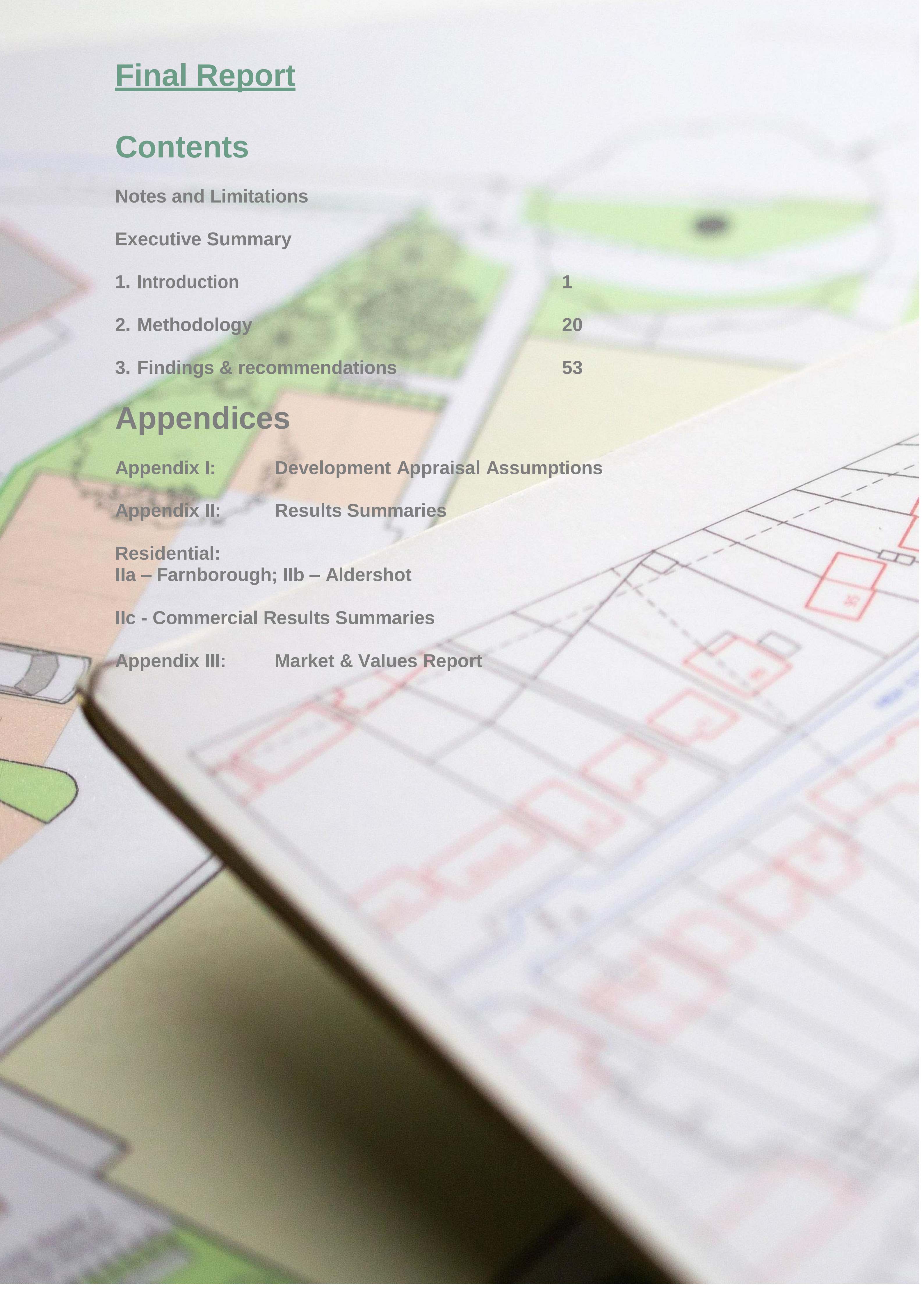

Final Report

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Notes and Limitations

1. This has been a desk-top exercise based on information provided by Rushmoor Borough Council (RBC) supplemented with information gathered by and assumptions made by DSP appropriate to the current stage of review and to inform the Council's on-going work with regard to the preparation of the Rushmoor Borough Local Plan and the possible implementation of a Community Infrastructure Levy (CIL) Charging Schedule for the Borough.

2. This review 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 whole plan viability, affordable housing and CIL economic viability as well as providing site-specific viability reviews and advice. In order to carry out this type of assessment a large number of assumptions are required alongside the consideration of a range of a large quantity of information which rarely fits all eventualities.

3. Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated – the indicative surpluses (or other outcomes) generated by the development appraisals for this review will not necessarily reflect site specific circumstances. Therefore, this assessment (as with similar studies of its type) is not intended to prescribe land values or other assumptions or otherwise substitute for the usual considerations and discussions that will continue to be needed as particular developments with varying characteristics come forward. This is also true in respect of the long timescales in Local Plan development and implementation over which the economy and development climate (national and more local influences and impacts) are very likely to vary. Nevertheless, the assumptions used within this study reflect the policy requirements and strategy direction of the Council as known at the time of carrying out this review and therefore take into account the cumulative cost effects of policies where those are relevant.

4. It should be noted that every scheme is different and no review of this nature can reflect the variances seen in site specific cases. 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 further informing the Council's policy development.

5. This report sets out options to inform policy development including potential CIL charging rates from a viability perspective whilst taking into account national policies that may impact on development viability.

6. It must be recognised that a planning-led basis for securing planning obligations relies on market-led processes. As a general point and so not just referring Rushmoor Borough Council's progression of proposals here, we have to place an emphasis on the need for a practical approach to be taken by the Council, having due regard to development viability. By this we mean, as may be appropriate where justified in particular cases, the Council needing to be adaptable also to market housing scheme needs - being prepared to negotiate and consider varying solutions; as part of its responsive to varying scheme types and circumstances. The various components of a scheme will need to be considered in terms of the level of need for market and affordable homes, their successful integration and tenure mixes. This will involve considering, as an example, local needs, scheme location, type, design, management, affordability, dwelling mix, tenure, funding and numbers rounding in formulating the detail taken from the targets basis. The Council may need to consider the interrelation of those effects and how those impact on and benefit schemes as part of the collective development requirements. The Council may, where justified and appropriate, need to consider how to optimise provision in the given circumstances.

7. In carrying out this assessment from the necessary strategic viewpoint, it is assumed that there will be a variety of market conditions during the life of the Local Plan, including periods in which we will see more and less stable and confident economic and property market conditions.

8. The review of development viability is not an exact science. There can be no definite viability cut off point owing to variation in site specific circumstances. These include the land ownership situation. The National Planning Policy Framework (NPPF) states that "*To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable".* It is not appropriate to assume that because a development appears to produce some land value (or in some cases even value equivalent to an existing / alternative use), the land will change hands and the development proceed. This principle will in some cases extend to land owners expecting or requiring the land price

to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner's enjoyment / use of the land, and a potential premium relative to existing use value or perhaps to an alternative use that the site may be put to. In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop. Overall, land value expectations will need to be realistic and reflective of the opportunities offered by, and constraints associated with, particular sites and schemes in the given circumstances and at the relevant delivery timing; with planning policies being reflected amongst these factors. The planning requirements will be necessarily reflected in the land values that are ultimately supportable.

9. This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership Ltd; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

10. To the extent that the document is based on information supplied by others, Dixon Searle Partnership Ltd accepts no liability for any loss or damage suffered by the client or others who choose to rely on it.

11. In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the Council's policies continue to be applied practically from case to case.

Executive Summary

Context and purpose

1. Rushmoor Borough Council (RBC) is preparing a new Development Plan Document (DPD) – The Rushmoor Local Plan – covering the period to 2032. RBC appointed experienced consultancy Dixon Searle Partnership (DSP) to provide development viability advice and evidence in support of this process. The Council has reached Draft Submission version stage and proposes to consult on that next version of its Plan preparations during the summer of 2017.

2. This report sets out the scope of and approach to DSP's resulting assessment work. Our work has been carried out over a period of ongoing review with Council officers, overall running between June 2015 and May 2017. During this process, emerging findings have been discussed and explored, with a various iterations and options considered – covering a wide range of tests including different potential combinations of Plan policy and development costs.

3. The purpose of the exercise, responding directly to the requirements of the National Planning Policy Framework (NPPF) and national Planning Practice Guidance (PPG) was to help inform both the Council's work on its new Local Plan DPD, and a potential accompanying Community Infrastructure Levy (CIL) Charging Schedule.

4. This has been undertaken with a view to adding to RBC's wider evidence base, so that it may be considered as part of that. The assessment and this resulting report been prepared through close working with RBC officers, contact with a range of other stakeholders, and put together in the context of latest available information. That is both on development values and costs, and given DSP's review of an up to date picture, so far as possible, on both local and national / emerging planning and housing policy areas.

Assessment approach

5. The assessment involved key aspects of research and information review (which were kept open during the assessment, on a reactive basis as far as was practical), assumptions setting, undertaking a great many appraisal calculations and sensitivity tests; followed by analysis, review and reporting.

6. The approach used was typical to that of DSP's similar studies, as well as those of other specialist consultants, based on a sound methodology found suitable through a wide range of examinations covering local authority areas having very varied characteristics.

7. This wider experience was combined with application to the Rushmoor Borough characteristics and the Council's emerging policy proposals, so that the spread of viability appraisals and resulting findings cover scenarios and policy testing that are relevant to the borough and to the Council's consideration of its development strategy.

8. The appraisals were formed using the well-established principles of residual valuation. This is so called because the review investigates the scope to support suitable levels of land value (and therefore to help ensure so far as possible the release of sites for development) once all development and policy related costs (including potential CIL charges) are deducted from the completed development (sale) value. The result in the case of each individual test is a 'residual land value' (RLV) which is compared against various levels of 'benchmark land value' representing different potential development scenarios; land value comparisons are made as part of informing judgements on the strength and meaning of the results.

Viability and Plan making requirements

9. The appraisal and review process is therefore all about the strength of the relationship between development values and costs; and how that varies by location and development type across the borough so as to potentially inform the Council's new Local Plan and potential subsequent work on a CIL (or a similar infrastructure contributions set up, bearing in mind the Government is currently reviewing both the principles and details involved in the CIL).

10. The aim of national guidance and of this assessment process is to seek to ensure that Plans are deliverable as a whole, and that is the relevant test for CIL rates setting too. Care is to be taken to see that the viability of development is not excessively affected by collective requirements and costs; so that local policies within a Council's control are not set at a level that is too high when all relevant development costs are considered.

11. Within their control and outside the influence of the economy and property market (the most significant factors), the key cost implications for the assessment and the Council to

consider are those from affordable housing and the CIL as well as s.106; and how those interact.

12. Affordable housing has a significant viability impact because it costs broadly the same as market housing to build, but produces a much lower level of value/income. CIL typically has a lower impact, but can still be a significant factor as it operates as a fixed (non-negotiable) charge.

13. A carefully assessed balance is required, but the arrival at that will usually depend to some extent on a Council's local needs and priorities, as well as on a range of other factors. The assessment considers a wider range of other viability influences too – both existing and potential.

Findings – brief outline

14. Through the assessment process and this report, DSP has put forward a range of information and findings for RBC's consideration. While it should be noted that these are to inform the Council's Local Plan and a potential CIL or similar, there is no requirement for the findings to be followed exactly in all respects. As above, there will be a range of other evidence and influences for the Council to take into account too.

15. The report covers the detail, but a brief outline of main findings is as follows:

Viability in Rushmoor

a. In considering proposals for an updated development strategy, there is scope to identify a range of site and location types which should prove to be viable, distributing new development and producing a balance between larger and smaller sites.

b. In terms of typical development values as well as other aspects of how the local market operates, there is a close relationship between Farnborough (including North Camp) and Aldershot. However, whilst there is significant overlapping of the typical values available to support development viability, generally the values achieved in Farnborough are likely to be higher than those in Aldershot.

c. This results in a range of results and positions, but overall suggests either a need to consider a policy and /or CIL differential between the two towns; or to set policies so that they will be sufficiently responsive across the borough rather than being too onerous in relation to the typically lower values amongst the local characteristics (a borough-wide approach workable for both Aldershot and Farnborough).

Affordable housing policy

d. As noted above, the key area of policy having a significant viability influence within RBC's control is that of affordable housing.

e. Whether ultimately settling on a differential or borough-wide affordable housing policy headline approach, the assessment findings point to a need to adopt a reduced target for the town centres – Aldershot and Farnborough.

f. In brief summary, our findings and the scope of recommendations for affordable housing policy are as follows:

	Aldershot	**Farnborough**	**Borough-wide as applicable**
Sites < 11 dwellings	N/A	N/A	N/A
Sites 11+ dwellings	Not exceeding 30%	Not exceeding 35%	Not exceeding 30%
Town Centres	Suggested reduced - 20%	Suggested reduced - 20%	N/A

CIL charging rates – potential scope - Overview

g. Based on the above borough-wide affordable housing headline (30%) and reduced town centre targets (@ 20%), our viability findings and the scope of recommendations for CIL charging, at present, are as follows (summary table below):

	Aldershot	Farnborough	Borough-wide as applicable
Residential – C3 (£/sq. m)	Likely not exceeding £140 - 160	Likely not exceeding £180 - 200	Likely not exceeding £140 - 160
Retail – larger format (only) – Supermarkets and retail warehousing	Likely not exceeding circa. £100/sq. m	Likely not exceeding circa. £100/sq. m	Likely not exceeding circa. £100/sq. m
All other forms or development	£0	£0	£0

Other considerations

h. The report also provides commentary on a range of other matters as viability influences. These include the local mitigation regime related to the Special Protection Area (SPA), enhanced accessibility being sought across a proportion of new dwellings, other optional elements of the latest housing and technical standards and also a preliminary look at the potential inclusion of other forms of housing such as 'starter homes' and self-build.

Next steps

i. DSP will be pleased to provide ongoing support as RBC further progresses its new Local Plan and potential related CIL or similar infrastructure contributions / planning obligations related work, including consultations and the consideration of feedback received etc. in due course.

Executive Summary Ends

1. Introduction

1.1 Introduction to the Study

1.1.1 The purpose of this report is to provide viability advice to support the preparation of the Rushmoor Local Plan and potential introduction of a Community Infrastructure Levy (CIL) for the Borough.

1.1.2 In view of changes to national planning policy and guidance the Council is now preparing a comprehensive Local Plan to cover the period 2011 – 2032 which will refresh the policies in the Core Strategy and will also include site allocations and development management policies.

1.1.3 This study feeds into the development of the new Local Plan in terms of testing the viability and identifying a viable level of affordable housing and other Plan policy requirements, as well as recommending the level of CIL to be adopted where viable to do so.

1.1.4 This study has been carried out between June 2015 and May 2017 with work developed to inform the Council's development of policies but with conclusions reflecting the most up to date evidence and assumptions feeding into development appraisals and associated results produced shortly before publication (April 2017).

1.1.5 Although the Government's Housing White Paper was published prior to the completion of this study (but towards the end of the study period) we consider that there is insufficient detail available so as to inform assumptions beyond those made within this study.

1.2 Background to the Study – New Local Plan

1.2.1 Rushmoor Borough Council is currently preparing a new Local Plan to cover the period up to 2032 to replace the adopted Rushmoor Borough Core Strategy (2011)[1] and the saved policies of the Rushmoor Local Plan Review. This will guide the location, scale and type of development in Rushmoor Borough as well as providing detailed development management policies to be used in determining planning applications.

[1] Rushmoor Borough Council – Rushmoor Plan Core Strategy (Adopted October 2011).

1.2.2 The first stage of public consultation, known as the 'preferred approach', took place in June and July 2015. The Council expects to publish a draft Submission Local Plan later in 2017 for consultation; followed by Adoption in 2018.

1.2.3 The Local Plan must be prepared in accordance with the requirements set out in National Planning Policy Framework (NPPF) and the accompanying Planning Practice Guidance (PPG). Viability testing is an important part of the plan-making process. The NPPF introduced a clear requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. In addition, further guidance on this requirement is covered by the national Planning Practice Guidance and other publications.

1.2.4 Alongside previous work undertaken, including by others where applicable, this study contributes to a suite of documents providing the viability evidence to inform and support the emerging Development Plan of the Council.

1.2.5 It is in the interests of the Council, local communities, developers and all other stakeholders to ensure that the proposed policies, sites and the scale of development identified in the plan are viable - to ensure a sound Plan through the examination process. In light of the above, the Council has therefore commissioned this viability assessment which will assess policies in the Local Plan that have cost implications; provide a viability appraisal of the site typologies likely to come forward through the Local Plan and provide a report detailing the outcome of the appraisal modelling to ensure that the proposed sites and the scale of development identified in the Plan would not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened.

1.3 Background to the CIL and Rushmoor context

1.3.1 In 2012 the Council started work on the preparation of a CIL and consulted on a Preliminary Draft Charging Schedule. However, a decision was made in 2014 to put the preparation of a CIL Charging Schedule on hold. The Council has been concerned about the introduction of CIL for two main reasons:

- The difficulties of funding Special Protection Area (SPA) mitigation measures through the Community Infrastructure Levy, as some developments would not generate any Community Infrastructure Levy money (for example, conversions that generate no additional floorspace) and would not therefore fund their own mitigation.

- Anticipated income levels are likely to be lower than income received through s106 because of the types of development that are exempt from the Community Infrastructure Levy, and the fact that on qualifying developments, the levy is only chargeable on net additional floorspace.

1.3.2 Therefore, until the Council has greater certainty about the future of the Community Infrastructure Levy under the current, or a future, government, a decision has been made to delay further work towards the introduction of a Community Infrastructure Levy charging schedule for the borough. As part of this Study, however, the up to date viability work provided may well help inform any future decisions about introducing CIL charging here.

1.3.3 The Council currently collects S106 contributions towards a range of infrastructure. A number of these are currently pooled including those towards transport, public open space and the provision of Suitable Alternative Natural Greenspace (SANG) which are required to mitigate the impact of new residential development on the Thames Basin Heaths Special Protection Area.

1.3.4 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, Rushmoor Borough Council would be the charging authority. The online Planning Practice Guidance (PPG) at https://www.gov.uk/guidance/community-infrastructure-levy now contains the guidance relating to the CIL. The majority of the relevant paragraphs were last updated on 12 June 2014, but subsequent amendments have seen further limited updates – part revisions on 01 April 2015 and latest on 16 November 2016.

1.3.5 CIL takes the form of a charge that may be payable on 'development which creates net additional floor space'[2]. 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.

[2] https://www.gov.uk/guidance/community-infrastructure-levy
(Paragraph: 002 Reference ID: 25-002-20140612 Revision date: 12 06 2014)

1.3.6 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.[3]

1.3.7 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area.

1.3.8 The 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 receive 25% of the revenues from the CIL arising from the development that they have chosen to accept. Under the Regulations the money would be paid directly to the neighbourhood planning bodies and could be used for community projects. Planning Practice Guidance provides further information on spending of Levy receipts including distribution to local neighbourhoods[4].

1.3.9 Where a CIL is in place, neighbourhoods without a neighbourhood development plan will receive a capped share of 15% of the levy revenue arising from development in their area.

1.3.10 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.

1.3.11 The CIL Guidance contained within the PPG goes on to state that the levy rate(s) need to be set so that they do not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan (Local Plan in England). '*Charging authorities will need to draw on the infrastructure planning evidence that underpins the development strategy for their area. Charging authorities should use that evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area.*'[5]

[3]Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.
[4]https://www.gov.uk/guidance/community-infrastructure-levy
(Paragraph: 072 Reference ID: 25-072-20140612 Revision date: 12 06 2014)
[5]https://www.gov.uk/guidance/community-infrastructure-levy
(Paragraph: 008 Reference ID: 25-008-20140612 Revision date: 12 06 2014)

1.3.12 The Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the anticipated Local Plan level of growth to be accommodated across the Borough as a whole. This ensures that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It sets out key infrastructure and facility requirements for new development, taking account of existing provision and cumulative impact.

1.3.13 Infrastructure is taken to mean any service or facility that supports the Rushmoor Borough Council area and its population and includes (but is not limited to) facilities for transport, 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 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 and other costs of policy compliance in addition to testing potential CIL charging rates. In this sense, the collective planning obligations (including 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 also needs to be considered in determining whether CIL charging rates need to be varied from the adopted position, bearing in mind that CIL is non-negotiable.

1.3.14 In most cases, where adopted, CIL replaces s.106 as the mechanism for securing developer contributions towards required infrastructure. Indeed, Government guidance on CIL states that it expects LPAs 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 local planning authority 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.

1.3.15 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.

1.3.16 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).

'The levy is expected to have a positive economic effect on development across a local plan area. When deciding the levy rates, an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments.

This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see Regulation 14(1), as amended by the 2014 Regulations), charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area.

As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. The same principle applies in Wales.' [6]

1.3.17 Key amendments to the CIL Regulations (The Community Infrastructure Levy (Amendment) Regulations 2014 came into force on 24th February 2014. These regulations introduced:

- new mandatory exemptions for self-build housing, and for residential annexes and extensions;

- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);

- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;

- a new 'vacancy test' - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months);

[6] https://www.gov.uk/guidance/community-infrastructure-levy
(Paragraph: 009 Reference ID: 25-009-20140612 Latest Revision date: 12 06 2014)

- a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to 'aim to strike the appropriate balance';

- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

1.3.18 Further Amendments were introduced in 2015. The CIL Regulations (including amendments) have been taken into account in the preparation of this report and in our opinion the preparation of this study meets the requirements of all appropriate Guidance.

1.4 Rushmoor Borough Council Profile

1.4.1 Rushmoor Borough is a small urban authority that lies approximately 30 miles south-west of London in north-east Hampshire adjacent to the Surrey and Berkshire borders. It is a relatively small (3,905ha), highly urbanised, and densely populated Borough with a comparatively well-defined built up area made up of the two major settlements of Aldershot and Farnborough whose boundaries adjoin one another.

1.4.2 As set out in the Council's Draft Local Plan Preferred Approach (DLPPA), the Borough includes the Aldershot Garrison, home of the British Army as well as Farnborough Airport; the UK's only dedicated business airport.

1.4.3 The northern and eastern parts of the Borough are mainly urban in character. The Borough is bounded on the east by a combination of the Blackwater Valley relief road and the River Blackwater. The land in the west of the Borough has, in general, an international, national or local nature conservation designation, is Ministry of Defence training land or part of Farnborough Airport.

1.4.4 As of November 2016, the Council's Objectively Assessed Housing Need (OAHN) for housing for Rushmoor Borough is 436 new dwellings per annum between 2014 – 2032 resulting in a need for a total of nearly 7,850 new dwellings over the plan period. This housing growth target is seen as sufficient not only to meet demographic needs for Rushmoor Borough but also the forecast growth in jobs for the area.

1.4.5 The Council's Draft Local Plan sets out policies in relation to employment and town centre retail. It states that:

'The Borough's Strategic and Locally Important Employment Sites will be protected and supported for employment uses as set out in policies PC1, PC2 and PC3 to ensure that the employment land needs of the Borough and wider Hart, Rushmoor and Surrey Heath Functional Economic Area (FEA) can be met. These sites will contribute to meeting the forecast increase in the total number of B class jobs of 12,500 in the FEA over the plan period. Development in Farnborough, which is designated as a 'growth town' within the wider Enterprise M3 Sci-Tech corridor, will make a significant contribution towards meeting this growth.

Town Centre Uses:
Rushmoor's hierarchy of town centres, district centre and local neighbourhood facilities will be maintained and enhanced by encouraging a range of uses, consistent with the scale and function of the centres. In particular:

a. Town centre uses will be located within Aldershot and Farnborough Town Centres to support their vitality, viability and regeneration, in line with Policies SP1 and SP2
b. New retail development must protect or enhance the vitality and viability of the town centres, district centre and local neighbourhood facilities
c. Retail development will be focused in Aldershot and Farnborough Town Centres, within the primary shopping areas. If such sites are not suitable, available and viable, locations for retail development will be assessed sequentially, in accordance with national policy
d. North Camp will be protected and enhanced as a district centre, providing for local needs and specialist retail uses, in line with Policy SP3
e. The retail and local service function of local neighbourhood facilities (as defined in Policy LN6 and on the Policies Map) will be protected to provide for local day-to-day needs'

1.4.6 Around 3,850 new dwellings have been permitted at a new urban extension (Wellesley); the remainder of housing growth is expected to be delivered in the urban areas of Aldershot (outside Wellesley and Farnborough).

1.5 Purpose of this Report

1.5.1 Viability testing is an important part of the plan-making process. The National Planning Policy Framework (NPPF) introduced a clear requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. The national Planning Practice Guidance (PPG) and other publications cover further guidance on this requirement. National Planning Practice Guidance (PPG) (CIL section Para 8) also states that "*Charging authorities should set a rate which does not threaten the ability to develop viably the sites and scale of development identified in the relevant plan (Local Plan in England and London Plan in London)*". The NPPF states that where practical, CIL charges should be worked up and tested alongside the Local Plan. As such the Council appointed Dixon Searle Partnership (DSP) to provide the viability evidence necessary to assess and inform local plan policies and proposals and to support the possible preparation of a Community Infrastructure Levy.

1.5.2 This study investigates the potential scope for introducing a CIL in Rushmoor Borough whilst assessing and advising on potential Local Plan policies. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the Borough; 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 Council with advice as to an appropriate level of CIL including whether the rates should be varied relative to site size and type. The assessment also tests and advises on an appropriate level of affordable housing and other policies across the Borough whilst also assessing the viability of different types of development as a whole.

1.5.3 The assessment will provide the evidence base for the viability of the Local Plan policies, informing and supporting the deliverability of the plan overall.

1.5.4 This approach does not require a detailed viability appraisal of every site anticipated to come forward over the plan period but 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 that are likely to have a close bearing on development costs.

1.5.5 To this end, the study requires the policies and proposals in the draft Local Plan to be brought together to consider their cumulative impact on development viability including an appropriate level of CIL.

1.5.6 One of the key areas, always having a key viability impact, will be the Council's approach to affordable housing. The adopted affordable housing policy currently requires 35% of new homes to be provided as affordable on sites of more than 15 net dwellings with a target tenure mix of 60% social rented and 40% intermediate affordable. The assessment approach applies sensitivity testing to policy costs including a range of affordable housing proportions and at different thresholds combined with allowances for meeting the requirements for other optional housing standards including access to and use of buildings, water efficiency and space standards.

1.5.7 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.

1.5.8 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 (sales income) generated by the completed scheme (the gross development value – GDV).

1.5.9 The residual valuation technique has been used to run appraisals on sample scheme typologies representing development scenarios that are likely to come forward across the Borough under the emerging development strategy.

1.5.10 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.

1.5.11 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 £200/m². 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. All policies that have a potential impact on the cost of development have also been included within the viability testing.

1.5.12 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, affordable housing and other policies 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 and IIb (residential) and IIc (non-residential / commercial).

1.5.13 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, with an appropriate level of affordable housing assumed (i.e. so that the review considers a viable combination of affordable housing requirements and CIL alongside all usual development costs). As part of this process we have reviewed the current positions and provide commentary on how the existing policy position sits in terms of viability when current costs and values and national standards are taken into account.

1.5.14 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.

1.5.15 In the background to considering the scale of the potential charging rates and their proportional level in the local 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.

1.5.16 This report sets out our findings and recommendations for the Council to consider in taking forward its further development work on the local implementation of a potentially new CIL. As noted, the approach taken also provides the Council with information and evidence to inform and support its on-going work on and delivery of the Draft Local Plan.

1.6 Policy & Guidance

1.6.1 This viability assessment has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance applicable to studies of this nature. This study has also had regard to the national Planning Practice Guidance.

1.6.2 The NPPF was published in 2012 superseding previous Planning Policy Statements (PPSs). The NPPF sets out the overall approach to the preparation of Local Plans. It states that planning authorities 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 that 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.

1.6.3 The NPPF provides specific guidance on ensuring Local Plan viability and deliverability, in particular, paragraphs 173-174 state:

'*Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable.*

Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'.

1.6.4 Having regard to this guidance the council needs to ensure that the Local Plan, in delivering its overall policy requirements and potential CIL, can address the requirements of the NPPF. Specific changes to the NPPF are currently under consultation as are potential changes to the Community Infrastructure Levy. This report cannot pre-judge the outcome of the consultation and any changes that may be made to the NPPF.

1.6.5 Further guidance is set out in the Planning Practice Guidance (PPG) which re-iterates these messages where it says '*Plan makers should consider the range of costs on development. This can include costs imposed through national and local standards, local policies and the Community Infrastructure Levy, as well as a realistic understanding of the likely cost of Section 106 planning obligations and Section 278 agreements for highways works. Their cumulative cost should not cause development types or strategic sites to be unviable. Emerging policy requirements may need to be adjusted to ensure that the plan is able to deliver sustainable development*'[7].

1.6.6 In addition, relevant information is contained in the publication 'Viability Testing Local Plans – Advice for planning practitioners' published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the 'Harman' report). That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in the Plan making process.

1.6.7 The Council is conscious that the government's reform of the planning system has placed significant limitations on the Council's ability to set locally-specific standard and policy requirements. Following consultation on the Housing Standards Review (August 2013), on 27th March 2015 in a written Ministerial Statement the Government formally announced a new approach to the setting of technical housing standards in England. This has been accompanied by a new set of streamlined standards.

1.6.8 The DCLG statement said: '*From the date the Deregulation Bill 2015 is given Royal Assent, local planning authorities and qualifying bodies preparing neighbourhood plans should not set in their emerging Local Plans, neighbourhood plans, or*

[7] Planning Practice Guidance (Ref. ID: 10-007-20140306).

supplementary planning documents, any additional local technical standards or requirements relating to the construction, internal layout or performance of new dwellings. This includes any policy requiring any level of the Code for Sustainable Homes to be achieved by new development; the government has now withdrawn the code… For the specific issue of energy performance, local planning authorities will continue to be able to set and apply policies in their Local Plans which require compliance with energy performance standards that exceed the energy requirements of Building Regulations until commencement of amendments to the Planning and Energy Act 2008 in the Deregulation Bill 2015. This is expected to happen alongside the introduction of zero carbon homes policy in late 2016. The government has stated that, from then, the energy performance requirements in Building Regulations will be set at a level equivalent to the (outgoing) Code for Sustainable Homes Level 4. Until the amendment is commenced, we would expect local planning authorities to take this statement of the government's intention into account in applying existing policies and not set conditions with requirements above a Code level 4 equivalent'[8].

1.6.9 The new approach introduced optional Building Regulations requirements. Alongside optional increased water efficiency standards, the 2015 edition of Building Regulations (dwellings) - Approved Document M (Access to and use of buildings) - took effect on 1 October 2015 and contained updated guidance. In particular, it introduced three categories of dwellings:

- Category 1 - Visitable dwellings
- Category 2 - Accessible and adaptable dwellings
- Category 3 - Wheelchair user dwellings

(Note: Categories 2 and 3 apply only where required by planning permission – the optional element implementable by the Local Authority's approach subject to local justification).

1.6.10 In addition, a new security standard has now been included in the Building Regulations (Part Q).

1.6.11 The review also clarified statutory Building Regulations guidance on waste storage - to ensure that it is properly considered in new housing development.

[8]DCLG - Rt Hon Eric Pickles Written Statement to Parliament 'Steps the government are taking to streamline the planning system, protect the environment, support economic growth and assist locally-led decision-making'.

1.6.12 The effectively optional regulations and space standards may only be applied where there is a local plan policy, based on evidenced local need for them; and where the viability of development is not unduly compromised as a result of their application.

1.6.13 For context and further background, in November 2014, following a Ministerial Statement, the Government revised national policy on s.106 thresholds as follows:

- '*contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1000sqm (gross internal area).*

- *In designated rural areas, local planning authorities may choose to apply a lower threshold of 5-units or less. No affordable housing or tariff-style contributions should then be sought from these developments. In addition, in a rural area where the lower 5-unit or less threshold is applied, affordable housing and tariff style contributions should be sought from developments of between 6 and 10-units in the form of cash payments which are commuted until after completion of units within the development. This applies to rural areas described under section 157(1) of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty.*

- *Affordable housing and tariff-style contributions should not be sought from any development consisting only of the construction of a residential annex or extension to an existing home.*

- *Additionally, local planning authorities should not seek section 106 affordable housing contributions, including any tariff-based contributions to general infrastructure plots, from developments of Starter Homes. Local planning authorities will still be able to seek other section 106 contributions to mitigate the impact of development to make it acceptable in planning terms, including addressing any necessary infrastructure*'.

1.6.14 The national policy changes also included a 'vacant building credit'. This intended to incentivise the use of brownfield (previously developed) land, by reducing the affordable housing through a credit based on the floor area of any existing vacant buildings.

1.6.15 The introduction of these policies via the Written Ministerial Statement (WMS) and subsequent changes to the PPG were subject to a legal challenge by West Berkshire Council and Reading Borough Council. The legal challenge was successful and those policies quashed as of August 2015. This led to the re-introduction of lower affordable housing thresholds (where viable to do so) or allowed Councils to continue to adopt lower thresholds through the Local Plan process.

1.6.16 In May 2016, however, the Court of Appeal overturned that decision so that the s106 and affordable housing threshold based on a national minimum development size were re-introduced. In carrying out this viability assessment we have therefore assumed that, in accordance with this, affordable housing will not be sought from schemes of 10 or fewer dwellings (subject also to maximum gross floor space requirements – at 1,000 sq. m new development).

1.6.17 The NPPF at paragraph 50 also states on affordable housing (in respect of local authorities' approaches):

> *'where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time.'*

1.6.18 Within the Glossary of the NPPF, the Government defines affordable housing as follows:

> ***'Affordable housing:*** *Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.*

__Social rented__ housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.

__Affordable rented__ housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

__Intermediate housing__ is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

Homes that do not meet the above definition of affordable housing, such as "low cost market" housing, may not be considered as affordable housing for planning purposes.'

1.6.19 The evolving area of housing mix is wide-ranging. Previously and through the introduction of the Housing and Planning Act 2016 (which became law in May 2016), Government announcements have indicated that the last paragraph above may be changed in the near future so that low cost market homes may be treated as affordable homes for the purposes of planning. Indeed, Section 159 of the new Housing and Planning Act 2016 states:

"(1) Regulations made by the Secretary of State may impose restrictions or conditions on the enforceability of planning obligations entered into with regard to the provision of—

1. *(a) affordable housing, or*
2. *(b) prescribed descriptions of affordable housing.*

(2) Regulations under this section—

3. *(a) may make consequential, supplementary, incidental, transitional or saving provision;*
4. *(b) may impose different restrictions or conditions (or none) depending on the size, scale or nature of the site or the proposed development to which any planning obligations would relate.*

(3) This section does not apply in relation to a planning obligation if—

(a) planning permission for the development was granted wholly or partly on the basis of a policy for the provision of housing on rural exception sites, or

(b) the obligation relates to development in a National Park or in an area designated under section 82 of the Countryside and Rights of Way Act 2000 as an area of outstanding natural beauty.

(4) In this section "affordable housing" means new dwellings in England that—

(a) are to be made available for people whose needs are not adequately served by the commercial housing market, or

(b) are starter homes within the meaning of Chapter 1 of Part 1 of the Housing and Planning Act 2016 (see section 2 of that Act)"[9].

1.6.20 As further detail develops, through regulations, other national policy moves to encourage or secure the provision of various forms of housing may need to be considered. The Starter Homes initiative (for example) together with specialist housing (e.g. for the elderly and regarding accessibility) and custom-build will be other aspects of overall housing provision to consider as proposals develop.

1.6.21 In addition to the above, the Chancellor announced in his Budget speech in 2015 that affordable housing providers will now have to cut social housing rents by 1 per cent each year for four years from April 2016; a reversal of the rental formula which previously allowed RPs to raise rents in line with the consumer prices index (CPI) plus 1 per cent. As part of this viability update, we have also reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes to a developer). However, we have not, at this stage, taken into account any changes to the definition of affordable housing, other than the introduction of Starter

[9] Housing & Planning Act 2016

Homes (by way of initial indicative sensitivity testing) given that there is still no detail or Regulation on which to base any viability modelling at this stage.

2 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 Rushmoor Borough through the collection of financial contributions charged via the Community Infrastructure Levy and reviewing the cumulative impact of policies emerging through the Council's new Local Plan. This includes testing various affordable housing proportions and the thresholds (related to numbers of dwellings/ development sizes) above which affordable housing may be sought.

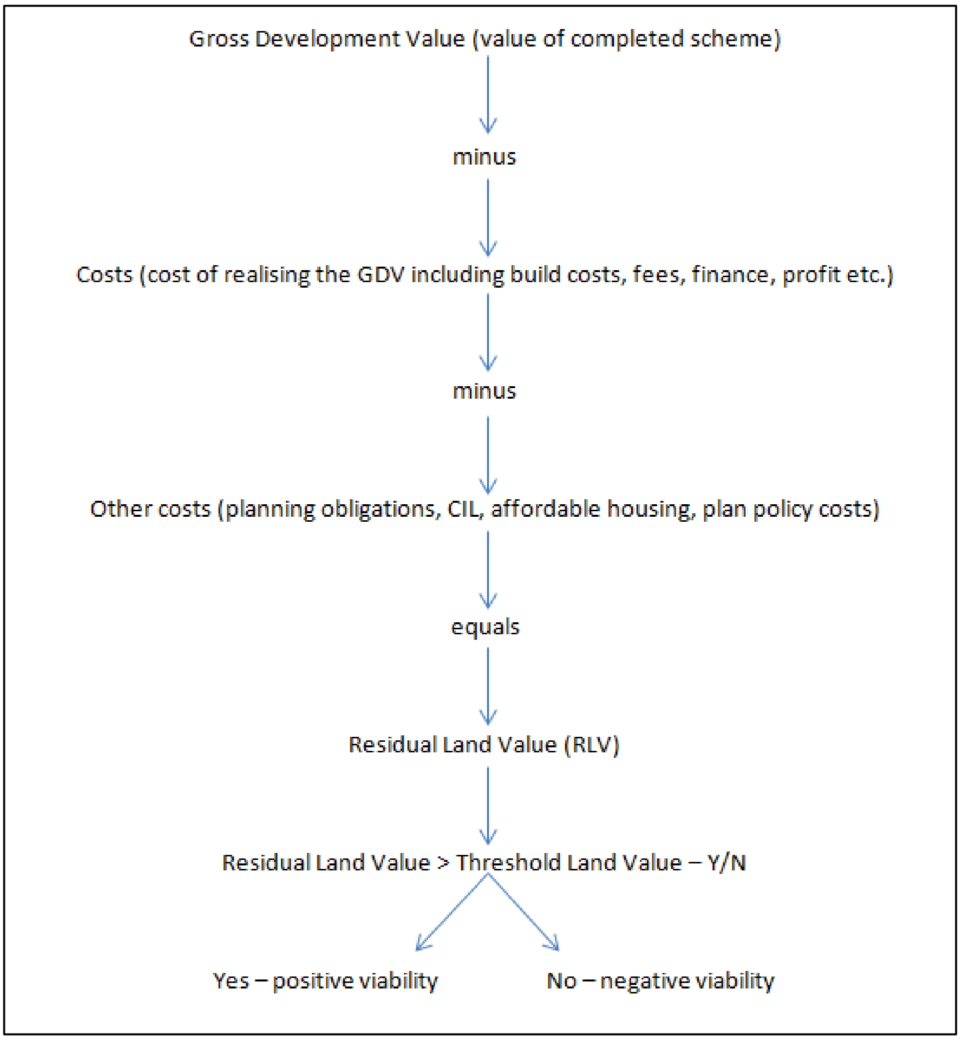
2.1.2 There will be a number of policies that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on those coming forward through the emerging Local Plan. By doing so we are able to investigate and consider how the cost of these 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 Prior to fixing assumptions, necessarily at a point in time, and running appraisals using those (as outlined in the following paragraphs) we undertake an extensive information review, property market research, development industry stakeholders' survey. As a part of this, we undertake a review of the potential policy proposals which enables us to assess which are considered likely to have a particular development cost impact, or additional cost implications over and above typical costs (for example utilising the costs information from established sources such as the Building Cost Information Service of the RICS (BCIS)). Appendix I to this document also provides a quick reference guide to the assumptions used and includes a policy review schedule indicating the view taken with respect to the proposed policies so far as those are known at the time of this assessment.

2.1.4 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.

2.1.5 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



2.1.6 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).

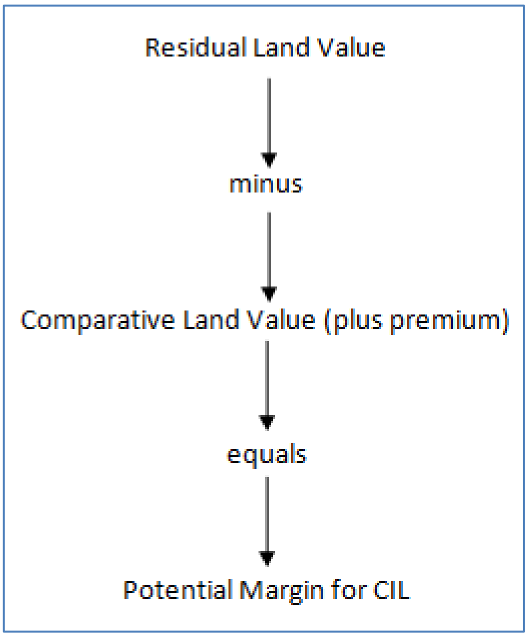
2.1.7 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including 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 the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.

2.1.8 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 from the DCLG, Valuation Office Agency (VOA) reporting, previous and current evidence held by the Council and its immediate neighbours and any available sales, or other evidence on value, are used for this purpose in making our assessment. There is a typically low level of activity on land deals and as in all areas, consequently the use of comparables to inform land value assumptions is difficult. In any event, any available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a level of land value need to be understood. 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 Rushmoor 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 from the particular appraisal result or results set that is under review.

2.1.9 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 costs (as with varying commercial development types) and increasing trial CIL rates.

2.1.10 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).



2.1.11 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 various project stages we consulted with the Council'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 through which DSP sought to get feedback on study assumptions and to provide the opportunity for engagement and for provision of information to help inform the assessment.

2.2 Key Policy Areas for Testing - Summary

<u>Energy & Water</u>

As a result of the Housing Standards Review, RBC will need to ensure that any specific policy in regard to water consumption is set so as not to be more stringent than limiting water consumption to 110 litres/person/day. For this assessment we have assumed that the Council would seek to encourage or require water usage levels beneath the base level now applicable through Building Regulations (125 litres/person/day) and introduce the minimum level of usage (i.e. 110 litres per person per day (lpppd)) but for that no additional cost allowance is required[10]. The Council would need to provide the evidence of need to support the introduction of this policy locally.

2.2.1 This study assumes that the Sustainable Design / Construction Standards are based on meeting the requirements of the building regulations in terms of energy use due to the Government's withdrawal of the Code for Sustainable Homes. Appendix I provides the detail but data taken from the DCLG Housing Standards Review Impact Assessment (average £ per unit E/O cost) for meeting the energy requirements for former Code for Sustainable Homes (CfSH) Level 4 equivalent has been used as a proxy for building regulations compliance.

2.2.2 No other sensitivity testing has been carried out in relation to higher levels of the CfSH or zero carbon as a result of the Government announcement to delay the introduction of national zero carbon policy and the scrapping of the allowable solutions element of national policy.

Affordable Housing

2.2.3 The introduction (via a Written Ministerial Statement) in 2014 of a national affordable housing threshold was quashed by the High Court after a legal challenge by Reading and West Berkshire Councils in July 2015. The Council's adopted affordable housing policies require affordable housing from sites of more than 15 dwellings. Given the re-introduction, via the Court of Appeal, of a national minimum affordable housing threshold of 10 or fewer units, the Council would not normally be able to set a policy requiring affordable housing on sites of 10 dwellings or fewer although a number of Local Authorities continue to successfully argue that significant weight can be given to a reduced affordable housing threshold based on evidence of significant affordable housing need in an area.

2.2.4 Affordable housing has been included in this viability assessment based on a range of thresholds starting at 5 units or more to provide wider context for the Council should a sub-national level affordable housing threshold be pursued.

[10] N.b. extra over costs of attaining water efficiency standards of 110lpppd are in the region of £6-£9 per dwelling according to the DCLG Housing Standards Review Cost Impacts Study (September 2014). In our opinion this would have such a marginal impact on scheme viability that it has not been included in this assessment.

2.2.5 A relevant mix of affordable housing tenure has been taken account of throughout (based on targeting70% affordable rent/30% intermediate tenure, with provisional consideration also given to the potential inclusion of starter homes within a mix, based on early stages sample sensitivity testing only, given the many unknowns about this currently). More detail on the affordable housing assumptions is provided below and at Appendix I.

Nationally Described Space Standard

2.2.6 The Government's Technical Housing Standards have introduced national space standards for C3 housing which can be used in a Local Plan policy if there is sufficient evidence of need and viability.

2.2.7 The national space standards have been included in the modelling for this viability assessment as a standard assumption. Again, see Appendix I for detail.

Access to and use of Buildings

2.2.8 The Government's Housing Standards Review has also resulted in changes being made with reference to Lifetime Homes and the Wheelchair Housing Design Standard. Accessibility is now incorporated into Part M of Building Regulations, applied by Local Planning Authorities as conditions and checked for implementation through the Building Control process.

2.2.9 Again, as with residential space standards and enhanced water consumption standards, there needs to be evidence for both need and viability. Within the emerging Local Plan there is an expectation that a proportion of dwellings will meet Building Regulations Part M4, Category 2 and Part M4 Category 3 subject to viability testing.

2.2.10 As part of the viability testing process, the Council requested that sensitivity testing be carried out to look at the likely viability impact of including policies on access to and use of buildings and the proportion that could be requested. We set out below the likely additional costs for including policies that meet the optional Category 2 and 3 requirements of Part M4 of the Building Regulations and those have been used in our sensitivity testing.

2.2.11 As part of the Government's Housing Standards Review consultation, cost analysis was produced by EC Harris (and subsequently updated) relating to areas that included Access. Within the 2014 update to that review document, approximate costs of complying with the optional Category 2 requirements of Part M4 were included. This indicates various costs for different types of dwelling and on different forms of development. For the purposes of this report, the average extra over access related cost per dwelling is a total of approximately £2,447 for houses and £1,646 for flats for meeting Part M4 (2) standards. This is based on an average extra over cost per dwelling (£682/dwelling) alongside the average access related space cost per dwelling (but without allowing for cost recovery) at £1,444/ dwelling.

2.2.12 For Part M4 (3) the same report indicates average extra over (E/O) costs to be in total £15,691 for flats and £26,816 for houses.

2.2.13 Within this viability assessment, sensitivity tests have been carried out on the assumption that 10% - 100% of new dwellings meet Part M4(2) standards and 5% - 20% meet Part M4(3) standards and combinations thereof. This has been carried on a scheme of 50 units and noting that Part M4(2) and Part M4(3) would not be required on the same individual unit.

Starter Homes & Custom Build

2.2.14 Although the detail is yet to be provided through Regulation and / or Guidance, the Housing and Planning Act 2016 introduces a requirement for Local Planning Authorities in England to promote the supply of Starter Homes. The exact proportion is not set out in the Act but previous consultation suggests that it will be in the region of 20% of new homes on all new developments (with certain exceptions)[11]. Starter homes exception sites are also still referred to within the PPG as a form of Starter Homes supply but it is not clear what relationship this has with the requirement for all sites to provide a proportion of Starter Homes. Related to the type of previously developed land ('PDL') - i.e. brownfield sites - on which the Starter Homes initiative is envisaged to be primarily focused, DSP's view is that land values should be reflective of the site characteristics, development type and mix - as in all other cases. Developments specifically aimed at this model would not be providing an affordable housing quota, s.106 or CIL funded infrastructure and in our view based on 80% market sale values is, at the very least, likely to be no less viable on such a site than a combination of full market and regular affordable housing in the sense that has been required to date.

[11] Since the publication of the Government's Housing White Paper in February 2017 it appears more likely that a lower proportion of starter homes may be set (at a minimum of 10% of the overall mix). Further detail yet to be provided at the point of finalising this study.

2.2.15 Looking at Starter Homes as set out loosely in the Act (i.e. not exception site Starter Homes but Starter Homes as a proportion of normal residential development) further information is needed from the Government before the full impact on viability can be fully tested. For this viability update, sensitivity testing has been carried out assuming that the first 20% of affordable new dwellings (a "top-slice") are to be Starter Homes, with the remainder (subject to the positioning of the affordable housing policy headline proportion) as traditional affordable housing (i.e. a combination of affordable rent and intermediate housing, but with an emphasis on the rented element particularly if Starter Homes are to substitute the intermediate housing first).

2.2.16 From DSP's experience of considering custom build to date (albeit limited to early stages exploratory work on viability) we consider that the provision of plots for custom-build has the potential to be a sufficiently profitable activity so as not to prove a significant drag on overall site viability. Broadly, from review work undertaken so far we would expect it to be at least neutral in viability terms, with the exact outcomes dependent on site-specific details – as with other aspects of the development process.

2.3 Scheme Development Scenarios

2.3.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and non-residential / commercial developments (development scenarios). The scenarios were developed and discussed with the Council following a review of the information it provided combined with the requirements of the Council's Brief. Information included the adopted Core Strategy, Preferred Approach Local Plan, Strategic Housing Market Assessment, progress reports, annual monitoring reports, 5 year housing supply paper, details of viability reviews 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 Borough bearing in mind the probable life of any revised future CIL Charging Schedule. In addition, the scale of development coming forward across the Borough also needed to be considered.

<u>Residential Development Scenarios</u>

2.3.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision and other policy cost areas / optional technical housing standards as discussed above (see Figure 3 below, and Appendix I provides more detail):

Figure 3: Residential Scheme Types

Scheme / Typology	Overall Scheme Mix
1 House	1 x 4BH
5 Houses	1 x 2BH, 3 x 3BH, 1 x 4BH
5 Flats	2 x 1BF, 3 x 2BF
10 Houses	2 x 2BH, 5 x 3BH, 3 x 4BH
11 Houses	2 x 2BH, 6 x 3BH, 3 x 4BH
15 Houses	5 x 2BH, 7 x 3BH, 3 x 4BH
15 Flats	7 x 1BF, 8 x 2BF
25 Houses	7 x 2BH, 12 x 3BH, 6 x 4BH
25 Flats	10 x 1BF, 15 x 2BF
30 Flats (Sheltered)	22 x 1BF, 8 x 2BF
50 Mixed	4 x 1BF, 7 x 2BF, 7 x 2BH, 22 x 3BH, 10 x 4BH
50 Mixed 20% Starter Homes Sensitivity Test	4 x 1BF, 7 x 2BF, 7 x 2BH, 22 x 3BH, 10 x 4BH
100 Mixed	7 x 1BF, 14 x 2BF, 14 x 2BH, 44 x 3BH, 21 x 4BH
250 Flats	98 x 1BF, 152 x 2BF
250 Mixed	39 x 1BF, 35 x 2BF, 40 x 2BH, 93 x 3BH, 43 x 4BH

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

2.3.3 The assumed dwelling mixes are based on the range of information reviewed, including taking into account the recommendations contained within the Strategic Housing Market Assessment (SHMA) [12] for the Hart, Rushmoor and Surrey Heath housing market area.

2.3.4 The scenarios reflect a range of different types of development that could come forward across the Borough 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 area by scheme location / type whilst 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.

[12] Wessex Economics: Hart, Rushmoor & Surrey Heath Strategic Housing Market Assessment 2014-2032 (November 2016)

2.3.5 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types in different combinations according to particular site characteristics. 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 particularly. The affordable housing numbers (content) and tenure (as noted above – 70/30 mix in favour of affordable rent) assumed within each scheme scenario can be seen at Appendix I – Assumptions overview spreadsheet.

2.3.6 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	50
2-bed flat	70	70
2-bed house	79	79
3-bed house	93	100
4-bed house	112	130

2.3.7 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. If dwelling space standards are to be introduced by Rushmoor Borough Council within the emerging Local Plan, that can only happen where there is a proven need to do so and also on the basis that viability considerations are taken into account. We have therefore assumed for the purposes of this assessment process that the nationally described space standard will be introduced. 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 assess, compare and price schemes. It provides a more relevant context for considering the potential viability scope.

2.3.8 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 therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

2.4 Commercial / Non-Residential Development Scenarios

2.4.1 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council; 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 Borough.

2.4.2 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 (m²)	Site Coverage	Site Size (Ha)
Large Retail	Large Supermarket - out of town	2500	40%	0.63
Large Retail	Retail warehouse	1000	25%	0.40
Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	300	70%	0.04
Small Retail	Local convenience stores and local shops	300	50%	0.06
Business - Offices - Farnborough Typical	Office Building	1000	100%	0.10
Business - Offices -Aldershot Typical	Office Building	1000	100%	0.10
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	500	40%	0.13
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	2000	40%	0.50
Hotel (budget)	Hotel - edge of town centre / edge of town	5000	40%	1.25
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).

2.4.3 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 Borough. 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), CoStar Commercial Real Estate Intelligence, the VOA Rating List and other web-based review as well as feedback from consultation. 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.

2.4.4 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.

2.4.5 Clearly there is potentially a very wide range of such schemes that could be developed over the life of this CIL charging schedule. Alongside their viability, it is also relevant for the Council to consider the likely frequency and distribution of these; and their role in the delivery of the 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.

2.4.6 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.

2.4.7 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 unlikely to support any level of CIL.

2.5 Gross Development Value (Scheme Value)

2.5.1 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 geographical values variations and / or with changing values as may be seen with further market variations. In the case of Rushmoor Borough and given the values variations seen in different parts of the Borough area through both the initial research stages and previous work undertaken by others, the VLs as updated to include latest information available whilst finalising this report cover typical residential market values (average prices across a scheme) over the range £3,450/sq. m (approx. £320/sq. ft.) to £4,600/sq. m (approx. £427/sq. ft.) overall. These are set out by area at Appendix I and referred to as Value Levels - VL1 (lowest sensitivity test) to VL3 highest for each main settlement area. In reality it is noted that although values are slightly stronger in Farnborough, in terms of expected new build values there is an over-lapping of the values – a continuum rather than distinct ranges being seen for Aldershot and Farnborough/North Camp. In summary the new-build values ranges used by settlement / locality are now as below - see Figure 6, and representing values increased by approximately 15% over the levels informed by the original June / July 2015 research that supported our emerging findings reporting for the Council in February 2016. Overall, the approach to revisiting the development values and costs assumptions over an extended study period keep the information and assessment as up to date and topical as reasonably possible. Appendix III sets out the background to this.

Figure 6: New Build (Housing Sales) – Updated Values Assumptions Summary

Dwelling type & Value Average	Farnborough Range (£/sq. m)		
	VL1	VL2	VL3
Houses	£3,750	£4,000	£4,300
Flats	£4,000	£4,300	£4,600

Dwelling type & Value Average	Aldershot Range (£/sq. m)		
	VL1	VL2	VL3
Houses	£3,450	£3,700	£4,000
Flats	£3,700	£4,000	£4,300

2.5.2 The CIL rates were trialled by increasing the rate applied to each scenario over a scale between £0 and £200/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 £200/sq. m potential charging rate level trial was not considered relevant in the Borough. The CIL trial rates range would have been extended following initial testing outcomes, had this been considered necessary.

2.5.3 We carried out a range of our own research on residential values across the Council'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 including previous viability studies forming the evidence base for existing policies and preliminary CIL work; 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.

2.5.4 A framework needs to be established for gathering and reviewing property values data. The residential market review has been based on the Wards that make up the Borough so that the data could be aggregated and disaggregated to view values by Ward, settlement or across the Borough as a whole. This provided the best and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen linked to the likely provision of development across the Borough. It was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.

2.5.5 Overall the research indicated that although values vary 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.), in general values were relatively consistent but with overall differences seen in average values between Aldershot an Farnborough (the former slightly lower than the latter – again Appendix III provides more detail).

2.5.6 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 the future Borough development strategy and linked back to the variation in policy with regard to the potential CIL charging schedule. 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 Rushmoor Borough. However these factors do not affect the scope to get a clear overview of how values vary typically, or otherwise, between the settlements and localities, given the varying characteristics of the Borough; as set out in these sections and as is suitable for the consideration of Local Plan and CIL viability and deliverability.

2.5.7 The values that are used within the development appraisals affect the consideration of viability of policies and ultimately the level of CIL 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 linked to areas of the Borough.

2.5.8 Importantly, in addition to the market housing, the development appraisals also assume a requirement for affordable housing. As this study seeks to test the viability of Local Plan policies holistically, we have tested and reviewed a range of potential affordable housing policies from 20% to 40%. For the affordable housing, as has been noted above, 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).

2.5.9 In reality tenure will normally be decided based on an up to date Strategic Housing Market Assessment (SHMA) ensuring that properties meet local needs at the time of the application. In practice many tenure mix variations could be possible; as well as many differing rent levels derived from the affordable rented (AR) tenure approach - as affected by local markets and by affordability. The same applies to the intermediate (assumed shared ownership) affordable housing element in that the setting of 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 (SO) is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.

2.5.10 Again as noted previously, at this stage there is some uncertainty over the future definition of affordable housing for planning purposes including homes defined as Starter homes under the Housing and Planning Act 2016. Regulations have yet to be developed and there remains significant uncertainty as to how Starter Homes will be bought in to the mix in practice. As this assessment work progressed, it was expected that Starter Homes may be required as the 'first' 20% ("top-slice") of any affordable housing on a site and may also be regarded as a minimum (subject to viability). On finalising this report, this picture appears to have now moved on somewhat, although much uncertainty remains as to the starter homes element that will in some form become part of overall dwelling mixes it appears[13]. For wider information and owing to having to fix such assumptions at a point in time, we have however continued to include our provisional sensitivity testing within the results as part of this assessment - on the (possibly now superseded) assumption that the first 20% of dwellings in the appraisal are set aside for starter homes. This assumes sales values at 80% of market value (capped at a discounted price of £250,000). We have assumed that the starter homes will be regarded as market housing product by the development industry and as such have applied the same market assumptions (profit, fees, agency costs etc.) as for the market housing. The remaining affordable housing (if any) on the site is then assumed to be in the form of traditional affordable rented / intermediate affordable housing – the assumptions behind which are discussed below.

2.5.11 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 Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant or equivalent subsidy 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 or other public subsidy / equivalent.

2.5.12 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 SPDs, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals – looking at the capitalised value of the estimated net rental flows (value of rental income after deduction for management and maintenance costs, voids allowances and the like). 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.

[13] Although the recently published Housing White Paper indicates a lower proportion – a minimum of 10% of the overall mix - may be relevant moving ahead – all details subject to confirmation.

2.5.13 In broad terms, the transfer price assumed in this study varies between approximately 30% and 65% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties rents for the varying unit types were provided by the Council's Housing department for each of the main settlements.

2.5.14 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including an 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, external 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.

2.5.15 As discussed briefly above, as part of this viability assessment, we have also reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes to a developer) by making an allowance that reduces the calculated payment assuming housing providers will have to cut social housing rents by 1 per cent each year for the next four years from April 2016 - 2020. Research carried out on behalf of DSP indicates that the impact could lead to a reduction of around 10% compared to pre-April 2016 figures although again, the impact is highly variable and based on the willingness of RPs to take on affordable rented units – often influenced by internal policies and approach to risk management.

2.5.16 Again, it is worth noting that although the SPA related costs impact all dwellings and are accounted for as such, affordable housing will not be liable for CIL payments. This is the case under the regulations nationally; not just in the Rushmoor Borough context. The market dwellings within each scenario will carry the CIL payments burden at the Council's specified rate(s).

2.6 Gross Development Value – Commercial / Non-residential

2.6.1 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 are needed. Typically these are made with regard to the rental values and yields that would drive the value of completed schemes 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).

2.6.2 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, CoStar 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.

2.6.3 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.

2.6.4 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 Borough. 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 no 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 and past research carried out on behalf of the Council. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a Rushmoor Borough only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.

2.6.5 These varying rental levels were capitalised by applying yields of between 5.0% 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 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.

2.6.6 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.

2.6.7 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 Borough. 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: Assumed rental Value for Commercial Schemes

Development Type		**Value Level (Annual Rental Indication £/sq. m)**		
		Low	Medium	High
Large Retail	Large Supermarket - out of town	200	250	300
Large Retail	Retail warehouse	200	250	300
Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	200	215	230
Small Retail	*Local convenience stores and local shops	70	100	130
Business - Offices - Farnborough Typical	Office Building	180	215	250
Business - Offices - Aldershot Typical	Office Building	140	175	210
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	80	90	100
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	80	90	100

Development Type		Value Level (Annual Rental Indication £/sq. m)		
Hotel (budget)	Hotel - edge of town centre / edge of town	150	190	230
C2 - Residential Institution	Nursing home / care home	160	180	200

* Convenience stores with sales area of less than 3,000 sq. ft. (280 sq. m), assuming longer opening hours.

2.6.8 As with residential development, consideration was given as to 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 district so far as the likely location of such development is concerned, with any variation potentially captured by key retail areas more likely located beyond the district borders. This was borne out on review of the commercial values data and results, as per the examples included at Appendix III.

2.6.9 As can be seen, there is great variety in terms of values within each of the main settlement areas and across the Borough. However, there were typical values that 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, CoStar 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 Borough-wide overview was considered appropriate.

2.6.10 Overall, we found that in the event of identifying scope to charge a CIL on commercial or non-residential development in viability terms, there is no clearly justifiable or readily definable approach to varying that through viability findings based on location / geography. Whilst certain specific scheme types could create more value in one location compared with another in the Borough, typically there was felt to be no clear or useful pattern which might be described for that. It must be accepted that there will always be variations and imperfections in any level of overview approach; with or without area based differentiation.

2.7 Development Costs – General

2.7.1 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 scheme scenario building, an overview of the various available data sources is required.

2.7.2 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.

2.7.3 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 within all appraisals. This is another factor that should be kept in mind in looking at the viability of the Local Plan

and the cumulative effect of local policies in combination with national requirements and setting a reasonable and viable level of CIL; helping to ensure that the latter 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.

2.8 Development Costs – Build Costs

2.8.1 The base build cost levels shown below are taken from the BCIS. In each case the figure has been rebased using the Rushmoor location. Costs assumed for each development type are provided in Appendix I. For the purposes of this exercise we have added an allowance for housing schemes of 10 units or less and made a deduction for flatted schemes of 10 units or less based on advice provided by the RICS BCIS within a report commissioned by the Federation of Small Businesses (FSB)[14]. See Figure 8 below.

[14] RICS BCIS Report for The Federation of Small Businesses – Housing development: the economies of small sites - the effect of project size on the cost of housing construction (August 2015)

Figure 8: Build Cost Data – BCIS Data
(BCIS Median, Rushmoor location factor relevant at time of research)

Development Type		BCIS Build Cost (£/sq. m)*
Residential C3	Mixed Developments - generally (£/sq. m)	£1,225
	Estate Housing - generally (£/sq. m)	£1,118
	Flats - generally (£/sq. m)	£1,396
	(Sheltered Housing - Generally) (£/sq.m)	£1,465
	(One-off housing - =<3 units) (£/sq. m)	£1,753
Large Retail	Large Supermarket - out of town	£1,569
Large Retail	Retail warehouse	£798
Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	£1,018
Small Retail	Local convenience stores and local shops	£1,018
Business - Offices - Farnborough Typical	Office Building	£1,784
Business - Offices - Aldershot Typical	Office Building	£1,665
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	£679
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	£689
Hotel (budget)	Hotel - edge of town centre / edge of town	£1,870
C2 - Residential Institution	Nursing home / care home	£1,881

*Excludes external works, contingencies and any FSB cost allowance on small sites (these are added to the above base build costs)

2.8.2 Unless stated, the above build cost levels do not include for external works / site costs, contingencies or professional fees (added separately). An allowance for externals has been allowed for on a variable basis within the appraisal 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.

2.8.3 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, externals 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.

2.8.4 In all cases further allowances have been added to the total build cost in respect of meeting optional technical housing standards as discussed earlier in this chapter.

2.8.5 An allowance of 5% of build cost has also been added in all cases, to cover contingencies (i.e. unforeseen variations in build costs compared with appraisal or initial stage estimates). This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.

2.8.6 The interaction of costs and values levels will need to be considered again at future reviews of CIL and the Local Plan. In this context it is important to bear in mind that the base build cost levels may vary over time. In the recent past recessionary period we saw build costs fall, but moving ahead they have in many cases risen relatively sharply and seen readjustment.

2.8.7 At the time of reporting the latest available BCIS briefing (December 2016) stated on build cost trends:

‘*There is a consensus that the uncertainty created by the leave [EU] vote will lead to a slowdown. The length and depth of that slowdown will depend on various political decisions, any of which are equally possible. We have therefore produced forecasts based on three scenarios. These reflect the different political outcomes from the exit negotiations from the EU and are equally likely:*

- *an 'upside' scenario based on the assumption that we will remain in the European free trade area with freedom of movement of labour;*

- *a 'downside' scenario based on the assumption that we do not have favourable* *access to the European Union market and there are restrictions on the movement of labour;*

- *a 'central' scenario based on some restrictions to trade but a largely unchanged access to labour.*

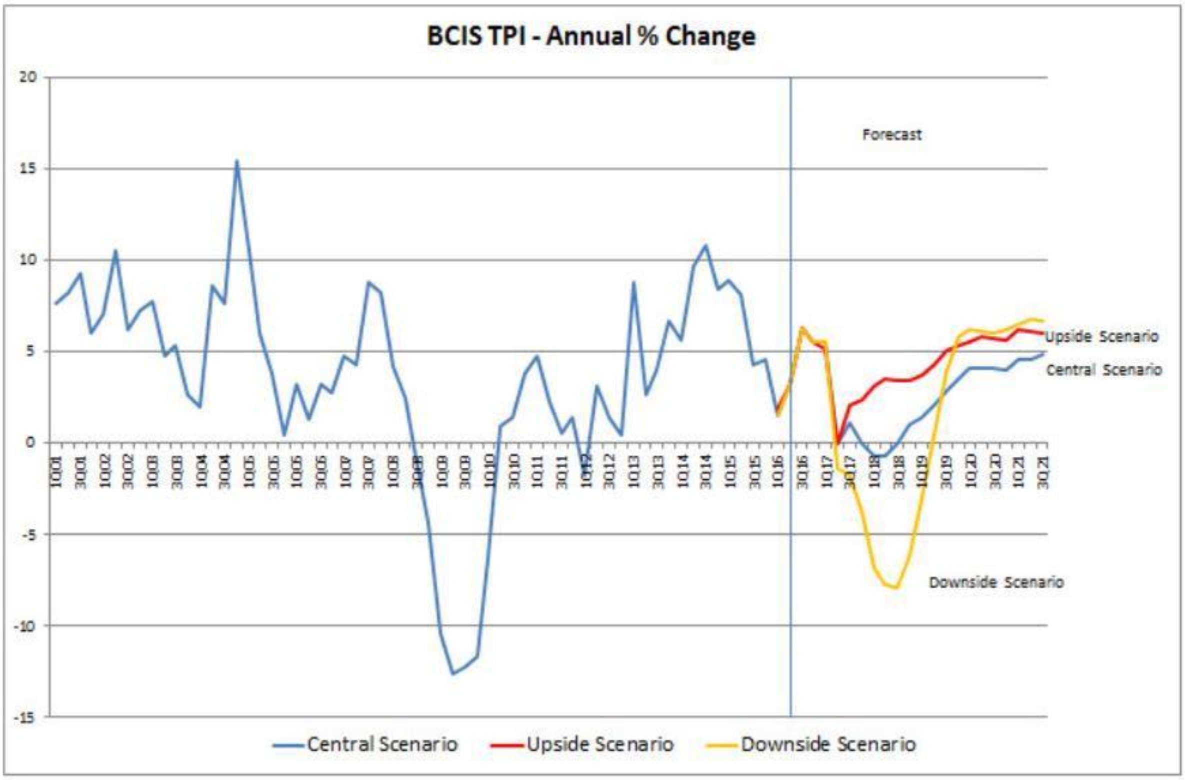
The terms 'central', 'upside' and 'downside' reflect the impact of the scenarios on construction demand.

We are publishing the 'central' scenario as the forecast for the price and cost indices but it should be borne in mind that each scenario is equally possible.'[15]

[15] BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (December 2016)

	Percentage change				
	3Q16 to 3Q17	3Q17 to 3Q18	3Q18 to 3Q19	3Q19 to 3Q20	3Q20 to 3Q21
'Central' scenario					
TPI	+1.1	0	+2.8	+4.1	+4.9
GBCI	+4.0	+3.2	+3.1	+3.3	+3.5
New work output*	-0.7	-0.9	+1.9	+4.5	+6.2
'Upside' scenario					
TPI	+2.1	+3.4	+5.0	+5.7	+6.0
GBCI	+4.0	+3.8	+4.0	+4.1	+3.9
New work output*	+0.9	+3.3	+6.1	+6.8	+5.3
'Downside' scenario					
TPI	-1.8	-7.9	+3.9	+6.0	+6.7
GBCI	+4.0	+3.2	+3.7	+4.7	+4.7
New work output*	-9.6	-8.2	+4.3	+5.6	+8.1

*Year on year (3Q16 to 3Q17 = 2016 to 2017), constant prices 2013



Source: BCIS

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

2.9.1 The following costs have been assumed for the purposes of this study alongside those discussed 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 - *for the purposes of this assessment only* (Note: 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* *Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).*
Finance:	6.5% 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).*

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

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

Professional and other fees:	*10% 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:	*6.5% 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

<u>Developer Profit</u>: *20% of GDV*

2.11 Build Period

2.11.1 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. Appendix I provides the detail.

2.12 Community Infrastructure Levy & Other Planning Obligations

2.12.1 Current guidance states the following with regard to CIL: '*At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions'*[16]. 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 Guidance 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.

[16] https://www.gov.uk/guidance/community-infrastructure-levy#Community-Infrastructure-Levy-rates (Paragraph: 017 Reference ID: 25-017-20140612 Revision date: 12 06 2014

2.12.2 A great majority of existing planning obligation requirements are likely to be taken up within the CIL proposals, but nevertheless sites are still required to contribute to site-specific mitigation measures (for example open space / highways / transport and similar requirements). The appraisals therefore include an additional 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 – effectively as an additional contingency in respect of any residual s.106 requirements. The inclusion of this as an additional cost (fixed for the assessment purpose only) alongside the CIL testing and other costs allowances stated (including re SANG and SAMM, as below) is considered robust from our wide experience of these matters and ensures scope for all necessary obligations to support development.

2.12.3 Suitable Alternative Natural Green Space (SANG) and Strategic Access Management & Monitoring (SAMM) costs have also been included throughout (in respect of all dwellings within all scenarios) based on figures provided by RBC. This approach reflects the fact that development cannot proceed without these mitigation provisions in place. The relevant costs are as follows (all are £ per dwelling costs):

SANG:
1-bed (1.4 occupancy) =£4,667.60
2-bed (1.85 occupancy) = £6,167.90
3-bed (2.5 occupancy) = £8,335
4-bed (2.85 occupancy) = £9,501.90
5-bed (3.7 occupancy) = £12,335.80

SAMM:
1 Bed = £399
2 Beds = £526
3 Beds = £711
4 Beds = £807

2.13 Indicative land value comparisons and related discussion

2.13.1 Land value in any given situation should reflect the specifics on existing use, planning potential and status / risk, development potential (usually subject to planning) and constraints, site conditions and necessary works, costs and obligations. It follows that the planning policies and obligations, including any site specific s106 requirements, will also have a bearing on land value; as has been recognised by Local Plan and CIL Examiners as well as Planning Inspectors.

2.13.2 In order to consider the likely viability of any development scheme relevant to the Local Plan and its policies (including CIL), the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be somehow measured against a comparative level of land value. This is a key part of the context for reviewing the strength of the results as those change across the range of assumptions on sales values (GDVs), s.106 costs and other sensitivity tests (crucially including the effect of affordable housing policy targets applied fully in the case of the residential tests and the level of CIL tested).

2.13.3 This comparison process is, as with much of strategic level viability assessment, not an exact science. It involves judgements and the well-established acknowledgements that, as with other appraisal aspects, land value circumstances and requirements will in practice vary from scheme to scheme as well as being dependent to some extent on timing in relation to market conditions and other wider influences such as Government policy. The levels of land values selected for this comparison context are often known as 'benchmark' land values, 'viability tests' or similar (as referred to in our results tables – Appendix II and within the following report Chapter 3). They are not fixed in terms of creating definite cut-offs or steps in viability, but in our experience they serve well in terms of adding a layer of filtering to the results, to help enable the review of those; they help to highlight the tone of the RLV results and therefore the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change – with key relevant assumptions (variables) in this case being the GDV level (value level – VL), affordable housing proportion and CIL.

2.13.4 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 in this way. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the land supply picture that the Council expects to see.

2.13.5 The local housing requirement and Local Plan emerging strategy for growth indicates a likely overall supply role for a range of sites across the Borough, concentrated in the towns of Aldershot and Farnborough. The strategy for growth will likely be predicated on many small to medium sites (outside of the Wellesley existing consented site) primarily on previously developed former commercial / employment land, non-conforming uses as well as in some cases reuse and intensification of existing residential sites and garden areas (windfalls).

2.13.6 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 scope across the various development circumstances to meet other policy costs / requirements. It follows that, in the event of little or no surplus or a negative outcome (deficit), we can see a poor viability relationship and vice versa. The land value comparison levels are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. In our experience, sites will obviously come forward based on very site specific circumstances – including in some cases beneath the levels assumed for this purpose.

2.13.7 This also needs to be viewed in the context that invariably (as we see across a range of CIL viability studies) the CIL 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. Typically, small shifts in the CIL trial rate significantly affect viability only in the case of schemes that are already marginally viable (prior to considering CIL) 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 Councils need to find between funding local infrastructure and the viability of development in their area.

2.13.8 In order to inform the land value comparisons or benchmarks we have reviewed existing evidence, previous viability studies and sought to find examples of recent land transactions locally. Limited evidence of such was available from the various soundings we took and sources we explored. In the usual and appropriate way for such a study, we reviewed information sourced as far as possible from the DCLG, VOA, previous research / local studies / advice provided by the Council, through seeking local soundings, EGi, Co-Star; and from a range of property and land marketing web-sites. Details, so far as available, are provided in Appendix III.

2.13.9 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data. Nevertheless in areas where it is available, the data can provide useful indicators, certainly in terms of trends. The VOA however does publish residential land value estimates for policy appraisal on behalf of the DCLG. The data for Rushmoor (but taking into account the numerous caveats and basis for those values) has also been considered.

2.13.10 As can be seen in Appendix II (residential and commercial scenarios results), we have made indicative comparisons focussing on land value levels in a range between £0.6m/ha and £2m/ha so that we can see where our RLVs fall in relation to these levels (including both above and below) and the overall range between them.

2.13.11 These benchmarks are based on a review of available information. In this case the approach was informed primarily by the principle of using a range of benchmarks (in common with DSP's usual and established practice) as per previous work undertaken locally together with any information from site specific reviews and, as noted, any further information gathered through our exercise of seeking local soundings (stakeholders' survey – as outlined in Appendix III).

2.13.12 The figure that we consider to represent the minimum land value likely to incentivise release for development under any circumstances in the Rushmoor Borough context is around £600,000/ha based on gross developable site area. Land values at those levels are likely to be relevant to development on smaller through to larger secondary employment sites and therefore potentially relatively commonly occurring across the Borough. RLVs falling short of that are considered to be indicative of marginally viable schemes at best, with results beyond that starting to indicate more confidence in delivery prospects across a wider range of mostly former commercial site types. Overall however, we have taken the view that the most relevant land value comparison (benchmark) is around £1.1 - £1.4m per ha.

2.13.13 It is important to note that at these levels and all levels indicated by the RLV results being compared with them (see the tables at Appendix IIa, b and c), the land values shown indicate the receipts available to landowners after allowing within the RLV appraisals for all development costs. This is to ensure no potential overlapping / double counting of development costs that might flow from assuming land values at levels associated with serviced / ready for development land with planning permission, etc. The RLVs and the indicative comparison levels ('viability tests') represent a "raw material" look at the land, with all development costs falling to the prospective developer (usually the site purchaser).

2.13.14 We have assumed that few if any sites would come forward on greenfield sites and as such have made no reference to those in this study – lower land value benchmarks would however be appropriate in those cases.

2.13.15 Land value judgements for the assessment purpose are based on seeking to ensure a competitive return to a willing landowner, as is recognised through the RICS guidance on 'Financial Viability in Planning' (RICS GN 94/2012 – as noted below), the NPPF requirements and other papers on viability assessment.

2.13.16 The consideration of land value – whether in the RICS' terms (see below) or more generally for this context, involves looking at any available examples ('comparables') to inform a view on market value and may well also involve considering land value relating to a current or alternative use ('CUV' or 'AUV'). In addition, there may be an element of premium (an over-bid or incentive) over 'CUV' or similar required to enable the release of land for development – i.e. to take a site out of its current use, but not necessarily applicable where a site has become redundant for that use.

2.13.17 The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggested 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*'.

2.13.18 RICS Guidance[17] 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*

[17] Financial viability in planning – RICS Guidance Note (August 2012)

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'.

2.13.19 In the Local Housing Delivery Group report[18] 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 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'.

2.13.20 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.

2.13.21 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.

[18] Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

3 Findings and Recommendations

3.1 Values assumptions and development of the assessment

3.1.1 Based on research undertaken primarily around June – July 2015, DSP's first stage of reporting – emerging findings – was put forward to RBC in February 2016.

3.1.2 When undertaking such a study over an extended period, particularly aligned to Local Plan development, it is positive to have looked at the market and values, as well as at development costs, as the overall project progresses and the viability advice contributes to a Local Authority's wider information base over a period of time.

3.1.3 Therefore, both the values and costs assumptions informing the assessment as now refreshed for the formal reporting stage have been updated from those used at the February 2016 emerging findings stage.

3.1.4 Updating the earlier stage assumptions informs the range of value levels (VLs) now used to represent new build housing across the Borough were noted at 2.5.1 / Figure 6, and are shown also at the Appendix I assumptions overview. Appendix III sets out the research. Again, rounded numbers have been used in expressing the VLs in £/sq. m terms.

3.1.5 The Land Registry indicated a circa 17% increase in prices locally from the initial research point to the latest data available at October 2016 (Land Registry data for August 2016) – we have not updated values in finalising the study. Although at the point of this report write-up (May 2017) there is still no clear evidence of a "Brexit effect" on local property markets, the ongoing wider economic uncertainty as a result does seem to coincide with a degree of slowing of the rise in house prices in recent months.

3.1.6 There are essentially 2 main layers to our own residential values research levels; informed by the overall values patterns as seen from the full range of property being marketed for sale at the time of reviewing (generally resales dominated) and new-builds (a smaller sample, but often providing the best indicators as to the values likely to be relevant to new housing in the borough).

3.1.7 Looking at the first of these, at the February 2016 assessment stage the average price of property for sale at the time of review across the Farnborough and North Camp ward areas (northern half of the borough) of Fernhill, Cherrywood, St John's, West Heath, Empress, Knellwood and St Mark's was approximately £3,135/sq. m based on the assumptions used for analysis (approx. £291/sq. ft.)

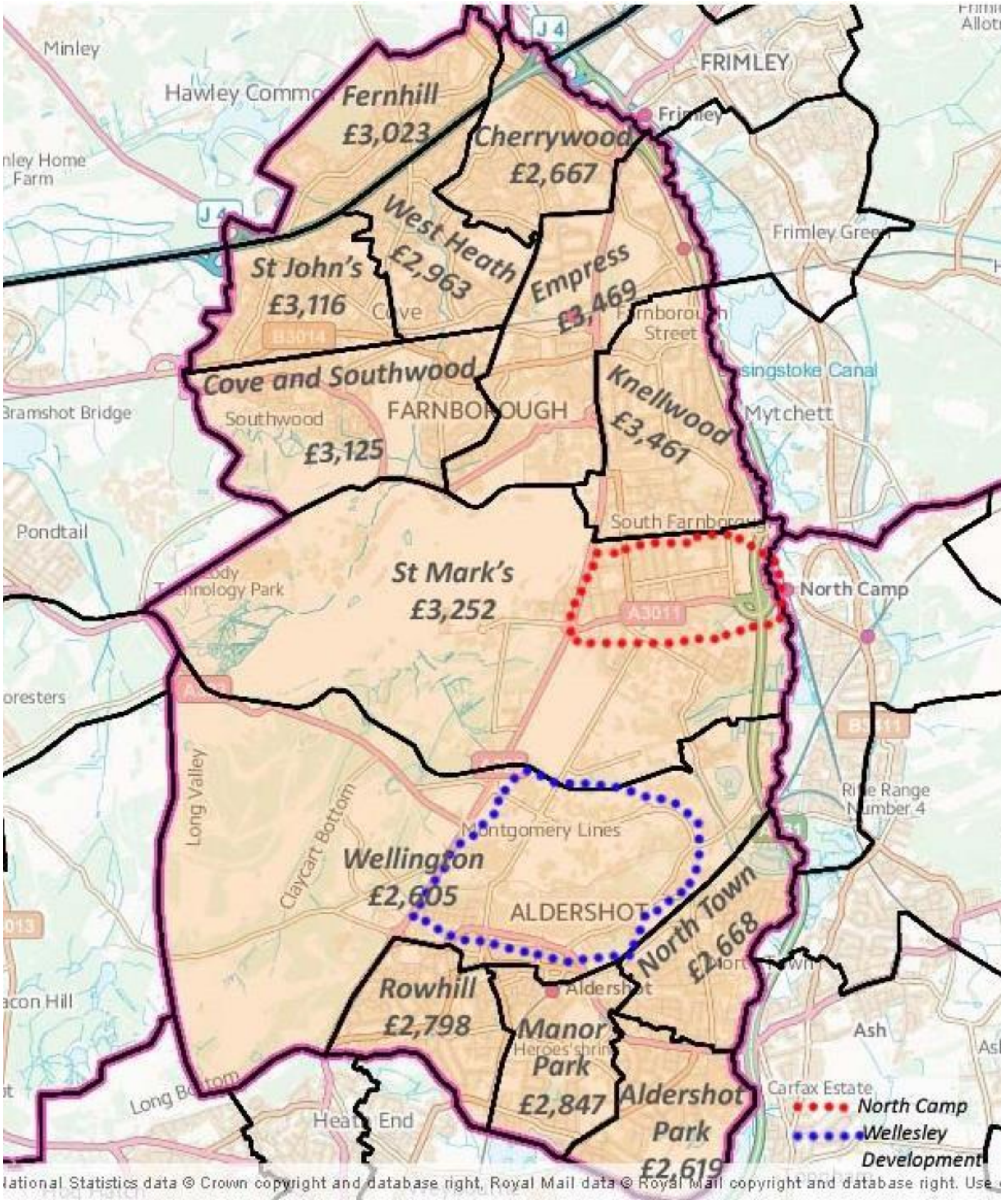
3.1.8 On an equivalent basis, looking at values to the south of the borough - representative of Aldershot and looking across the ward areas of Wellington, North Town, Rowhill, Manor Park and Aldershot Park (i.e. the areas in which development could occur to the south of the Airfield and North Camp) - we observed overall property prices at an average of approximately £2,707/sq. m (i.e. approx. £251/sq. ft.)

3.1.9 These are high level indications. This represented a differential based on overall averages and this mode of review of about 13-14% between typical values for Aldershot (south of the borough) and Farnborough (north).

3.1.10 Overall, the indications from this were that in terms of an overview of established residential values patterns at the strategic level appropriate to Local Plan and CIL viability review, Farnborough values are typically perhaps 10-15% higher than those in Aldershot; but the differential is not considered to be larger than this. It must be noted that some subsequent indications are of a lower differential – as noted further below.

3.1.11 However, this overview is illustrated by the following map diagram (prepared by DSP using our analysis of researched house price data as at February 2016) – see Figure 9 below:

Figure 9: Map of overall market house prices based on Ward areas (as referred to at 2.5)[19]



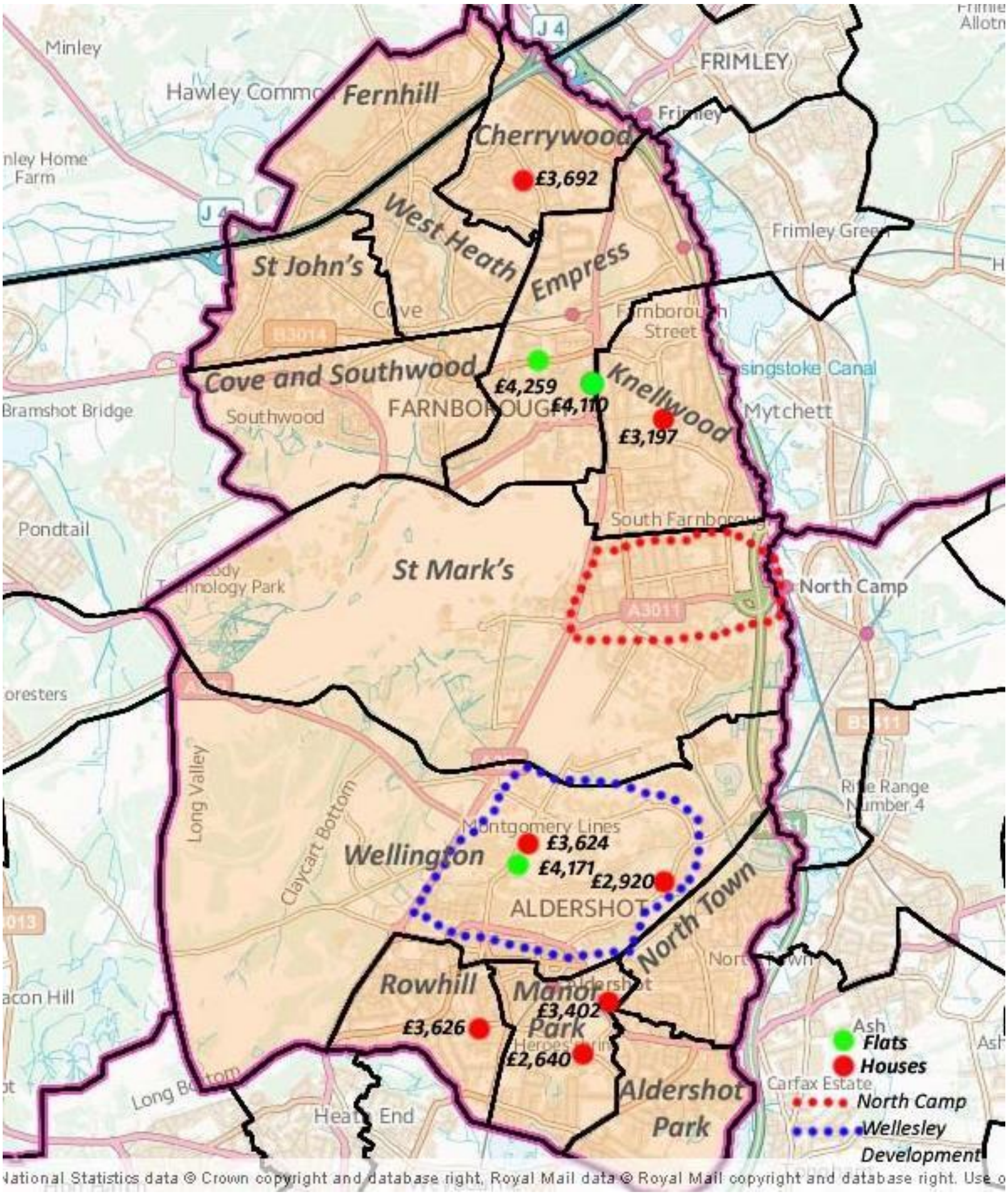
3.1.12 Except in the case of the Knellwood Ward area (Farnborough) and Manor Park (Aldershot), new-build values were indicated to be notably higher on a £/sq. m basis than overall market/typical resale property levels. At the time of looking, Knellwood new builds were typically less expensive than the prevailing market levels on this basis;

[19] North Camp and Wellesley general locations are indicative only – as part of strategic overview.

Manor park values did not appear to vary notably between resales and new-builds indications. Appendix III provides some further information, including on these broad comparisons.

3.1.13 Indicatively mapping the 2015 new-builds house price data collected by DSP (developments selling at that point – again see draft Appendix III (section 6)), as used to inform the first stage of assessment review (emerging findings for RBC) as at February 2016, we saw the following picture (see Figure 10 below):

Figure 10: Map of 2015 research new-build (only) house prices based on Ward areas (as referred to at 2.5 above)

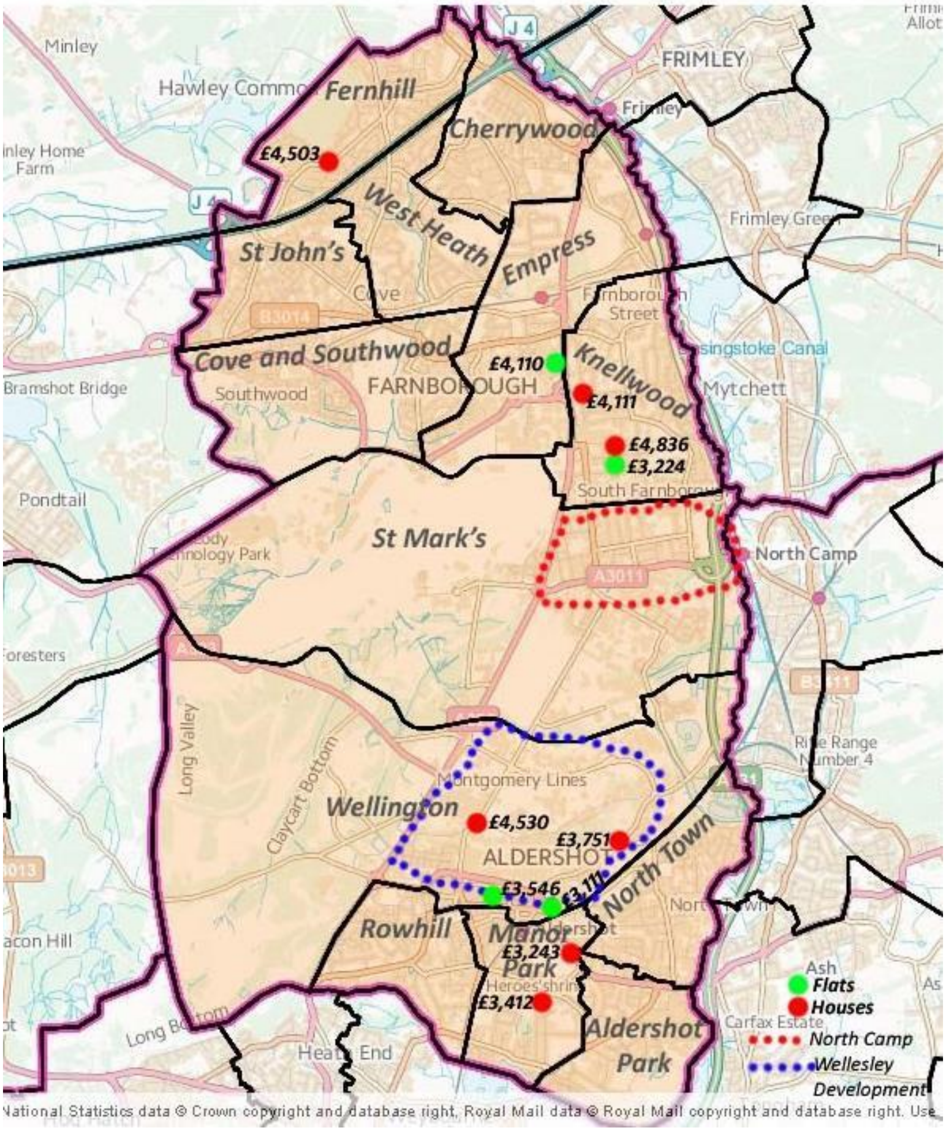


3.1.14 Whilst this also indicates a general probability that the values achievable in the north of the borough (i.e. Farnborough and North Camp) will be higher than those secured generally for new-builds in the south (essentially Aldershot), the second map above shows a less clear picture on values patterns - when looking at new builds pricing.

3.1.15 There was insufficient new-builds data from the July 2015 research to verify this. There were initial indications that new housing within the Wellesley strategic development area will not necessarily achieve higher prices than wider Aldershot addresses, but that was at an early stage in regard to fuller analysis.

3.1.16 For the February 2016 emerging findings we did not refresh the view of the values patterns seen from the overall market review, as above. However, the new-build values research was revisited at that stage (again see Appendix III). Looking at average new-build prices again, on the same review basis, we found the picture seen below at Figure 11 - for comparison with the above:

Figure 11: Map of 2016 research new-build house prices based on Ward areas (as referred to at 2.5)



3.1.17 In our view, although again based on a relatively small set of data, this updated new-builds picture indicated a greater reflection of the values patterns seen from the overall market research. In this case, we noted 2 instances where Aldershot developments were producing similar average prices to those seen in Farnborough. Otherwise, however, a degree of variance was seen – i.e. moving to typically higher values indications in the north of the borough (i.e. values typically slightly higher in Farnborough than in Aldershot).

3.1.18 As examples so far as available from our latest values research (information available at October 2016) and with reference to Appendix III, we found the following new build pricing information albeit based on a small sample, which in each case reflect 5% deducted from the advertised marketing price to more closely represent a negotiated sale price (averages):

Farnborough / North Camp (northern ward areas):

- Fernhill
    - Apartments @ £4,585/sq. m (approx. £426/sq. ft.);
    - Houses @ £3,944/sq. m (approx. £366/sq. ft.);

- St Johns
    - Houses @ £3,900/sq. m (approx. £362/sq. ft.);

- Empress
    - Apartment @ £3,737/sq. m (approx. £347/sq. ft.);
    - Houses @ £3,824/sq. m (approx. £355/sq. ft.);

- Cove and Southwood
    - Apartment at £4,437/sq. m (approx. £412/sq. ft.);
    - House at £4,702/sq. m (approx. £437/sq. ft.)

- St Marks
    - Apartments @ £4,522/sq. m (approx. £420/sq. ft.)

Aldershot (southern ward areas):

- Wellington
    - Apartments @ £3,049/sq. m (approx. £283/sq. ft.);
    - Houses @ £3,948/sq. m (approx. £367/sq. ft.)

3.1.19 Looking to assemble data sets by reference to available or sold property is always subject to the variable nature of properties available / recorded at a particular point in time. Sales viewed over an extended period can be misleading as values changes over time and information can become out of date quite quickly – as seen above, from the recent changes in the Land registry House Price Index.

3.1.20 Whilst based in most cases on a small number of examples, except in the case of Wellington Ward (north side of Aldershot, and coinciding with the Wellesley area) the latest research indicated that the values for typical new build houses may be more consistent across the borough than those for flats, with Farnborough likely still to support higher prices in general but perhaps in particular for apartments. With the Council's continuing Town Centre strategy for both Aldershot and Farnborough, we consider it conceivable that more aspirational / higher value apartments could well be seen moving ahead. Indeed both the assessment results and wider experience suggest that relatively high values are necessary amongst the mix to support typically costly town centre development. There may also be higher value apartments based redevelopments at lower densities away from the two town centres.

3.1.21 Although there may well be a detectable positive difference in values moving northwards from Aldershot to Farnborough, this will not always be the case on comparing individual developments. This has therefore continued to be reflected in our selection and use of the value levels (VLs) assumptions at which we have tested the scenarios. However, the values picture ought to continue being reviewed periodically so that the Council could consider how best to refer to the wide range of sensitivity tests prepared for this assessment.

3.1.22 At the current time, we consider it an appropriate approach to review the results in the context of the mid-value level, VL2, representative of good quality new housing and the alternative, attractive offer that new-build developments will often tend to provide.

3.1.23 New-build schemes tend to set their own values which do not necessarily fit the prevailing levels in an area. Also, in practice values patterns will not usually respect boundaries as such - values tend to vary very locally, influenced by schools, views, proximity to amenities and facilities etc.

3.1.24 At this stage we consider that it will also be important to bear in mind the sensitivity of the results to lower levels of sales values, particularly in regard to Aldershot where this could influence policy development considerations and / or the potential CIL charge setting scope that will now be considered.

3.2 Review of residential results - context

3.2.1 In our view and experience the values discussion above is likely to lead to some options and therefore choices available to RBC to either have differential policies and / or CIL; or run with a uniform approach applicable borough-wide. It may be relevant also to consider that slightly higher achievable new build property prices in Farnborough may to some extent drive higher land price expectations leading to a counter effect to higher values.

3.2.2 We will give consideration below to a range of other factors that are relevant in providing an overview of the results; looking to give RBC further guidance on policy development and CIL parameters. These are considerations in all of our strategic viability studies for local authorities, so not unique to Rushmoor in terms of principles, and include the following:

3.2.3 The significant impact on viability from affordable housing (AH) policies - fundamentally because affordable housing costs essentially the same to develop as market housing but produces a much lower level of revenue, as identified in Chapter 2 above.

3.2.4 The lower level of impact associated with CIL payments. This means that usually a significant level of CIL charging needs to be "traded" for a relatively small gain in AH quantum or its tenure mix (i.e. improved affordability).

3.2.5 Subsequent to the May 2016 reinstatement of the written ministerial statement based national threshold policy (at 11 dwellings or more / more than 1,000 sq. m development) and with the varied nature of site supply (i.e. looking set to continue to include a range of larger sites and strategic development) in Rushmoor, it is assumed that typically AH policy would not apply to developments of fewer than 11 dwellings here.

3.2.6 However, we have appraised test scenarios going down to a single (1) dwelling. This is relevant to any potential future CIL charging, which would apply to all new dwellings except affordable homes and self-builds. The effect of an AH policy threshold may be a significant switch in viability, whereby a differential rate of CIL could be charged as a consequence of improved viability without AH sought.

3.2.7 Potential national policy developments on affordable housing – in terms of the emerging / likely changes to the nature of the affordable housing content of a market-led development (i.e. the likely "top-slicing" of the s.106 AH quota for starter homes – the previous Government's proposed "low cost sale" tenure model still set to be expanded upon in subsequent to the release of the Government's Housing White Paper, all as noted above).

3.2.8 There could be an option to vary the AH housing target percentage sought by development size, in response to the viability assessment, and in line with DSP's advice to some other Local Authorities where they seek to put in place some form of sliding scale of AH requirements and / or differentiate between localities.

3.2.9 Whether looking at the AH or CIL there is also a site supply issue to consider. Smaller developments (of 10 or fewer dwellings for example) may tend to be brought forward on existing residential or residential intensification sites (purchasing residential properties and increasing density) and generally cost more. The sites may also be amongst those with the highest existing use values and thus, overall, can be as challenging in viability terms as larger more complex schemes. This can weigh against any CIL differentiation (increased charging rates) beneath an AH policy threshold that is set at the 11 dwellings rather than at a high level.

3.2.10 Siting and nature of schemes – in terms of general characteristics more so than actual location – i.e. town centre / PDL redevelopment vs other typically less complex forms of development or potentially occurring on lower cost sites;

3.2.11 Overall, AH policies should be framed as targets – both informed by and balancing housing needs and viability. Provision may be negotiated site by site, subject to viability – as it will be in some cases at present. On the other hand, CIL charges are fixed – non-negotiable. The consideration of the collective costs of development is key, as run through this assessment, so that the delivery of the housing and other growth proposed through the Local Plan is not placed unduly at risk. Under the CIL setting criteria, the charging rates must not be taken to the margins of viability. As above, there will be decisions for RBC to take about overall priorities and about any variations in those for particular circumstances.

3.2.12 The nature of CIL is such that as simple an approach as possible should be adopted in our experience – considering how a charging schedule may be set up with as little differentiation as possible, for example. There are bound to be imperfections in its set up whether or not differentials are selected. The non-viability of a particular scheme or scheme type with CIL at the proposed rate(s) may not be important overall; the test is that development that is critical to the delivery of the Local Plan overall is not placed at undue risk through the implementation of a CIL.

3.2.13 In looking at the results and reviewing the outcomes, the emerging CIL rates for residential development obviously need to be allied to the affordable housing proportion – that needs to be fully reflected. To a significant degree this is a circular issue as one inversely affects the other and the combination of the eventual charging rate(s) / affordable housing proportion will rely on a decision by the Council taking into account the trade-offs.

3.2.14 On reviewing the results at Appendices IIa to c it is often important to consider the RLVs as absolute (£) sums and not just in £/Ha terms – especially for small schemes and town centre developments, where the small land take and /or higher density and different nature of development may make comparison on a RLV £/Ha alone basis less meaningful.

3.2.15 Overall, our aim at this stage is to continue providing RBC with wide information – allowing the consideration of options and potential scenarios.

3.2.16 It might be necessary or advisable for RBC to move forward with options / dual approaches in some respects, at least pending the settling down in coming months, all being well, of some of the potentially highly influential national policy developments / themes. Alternatively, the Council could take the view that it will seek to settle its policy directions under the new LP, and then follow-up by reconsidering the CIL scope that drops out of a more settled picture on that as well as on national policy ('national policy' references here including affordable housing impacts as well as the Government's current CIL Review). However, even with that "deal with LP policies" first type route, those have to be set with collective costs of development allowed for, so an anticipated level of cost on CIL and/or s.106 and other matters still needs to be factored-in.

3.2.17 This may all warrant further consideration by RBC.

3.3 Guide to the Appendix II tables - residential

3.3.1 Appendix IIa provides a series of tables – numbered set 1 - running through the test scenarios in ascending size 1 to 250 dwellings, as outlined at each table heading. The tables numbers run from 1a through to 1u representing the range of VLs used for Farnborough (including North Camp).

3.3.2 Appendix IIb provides a corresponding set of tables – numbered set 2 – covering the slightly lower VLs range considered appropriate for use representative of Aldershot, but otherwise based on the same consistent assumptions sets and combinations.

3.3.3 In each case the AH test % scenario is shown in the far left side grey coloured column, varying from 0% moving down towards or to 40% AH depending on scheme size and test scenario. Note that at this stage where AH is assumed as included within schemes of fewer than 11 dwellings, that has been assumed by way of a financial contribution in place of on-site AH.

3.3.4 The trial CIL charging rate test scenarios are then shown increasing from £0/sq. m (i.e. nil CIL) to £200/sq. m moving from left to right and in combination with the AH % varying, as above.

3.3.5 In each case, the VL sensitivity tests are also included, so that also as a key results review aspect, we can see the effect of varying sales values assumptions in combination with both a rising AH % and increasing trial CIL rate.

3.3.6 The tables from 1a to 1l together with 1q to 1s (and similarly 2a to 2l plus 2q to 2s) show the results from the core tests looking at the above viability influences impacting alongside the base assumptions – in those cases including on AH tenure (to a current target compliant mix of affordable rent and intermediate assumed in the form of shared ownership) and on the Building Regulations standard provisions on access.

3.3.7 Then towards the rear of those main Appendix IIa and IIb table sets, the other tabled RLV outcomes show:

- The starter homes sensitivities - at tables 1m and 2m;
- Building Reg.s M4(2) sensitivity testing – at tables 1n and 2n;
- Building Reg.s M4 (3) sensitivity testing – at tables 1o and 2o;
- M4(2) and (3) combined sensitivity testing – at table sets 1p and 2p;
- Town centre mixed use trial (apartments with retail) sensitivity – at tables 1t and 2t;
- As per tables 1t and 2t but sensitivity testing the potential impact of basement or other similar car parking provision (abnormal – increased cost over and above surface car parking provision) – tables 1u and 2u.

3.3.8 In the case of all added sensitivity tests, as noted here, the particular results may be compared back to those within the base sets - so that the viability impact of that change (e.g. switch to include 20% Starter Homes, increased accessibility requirements and so on, as above) can be gauged.

3.3.9 All results tables contain 2 sections for each set of AH% review tests carried out. The upper section (white background/unshaded) shows the actual residual land value (RLV) results (i.e. in £s) – indications produced by each of the great many individual appraisals – appraisal approach as described in Chapter 2 above. Beneath those, the same results are converted into indicative £/ha (RLVs) which are set out in the table sections that include the green shading.

3.3.10 The green shaded areas are aimed to highlight the strength of the results (strength of the assumed development value to cost relationships) and show trends as the key influences on viability as well as the additional sensitivities influence those; either individually (for example by following the effect of the AH% increasing – downwards through a table based on a single trial CIL rate or the effect of CIL costs increasing at an assumed fixed AH% - looking left to right across a table) or collectively (i.e. moving between table sections or tables). Negative RLVs, the poorest outcomes, are indicated by the white/unshaded areas, with the palest green shading then indicating positive RLVs moving into results that begin to meet the viability tests – see the following sections below.

3.3.11 The filtering of the results is done by reference to a series of potential land value 'benchmarks' that we also refer to as 'viability tests' – over a series of steps between £0.6m /ha and £2m/ha set out in a graduated way and also shown as a table 'key'. This range of benchmarks/viability tests represents the fact that in practice there are no clear or fixed single cut-off levels that a wide range of potential scenarios need to reach in terms of land value. Viewed in this way, the shading through increased intensity of the green shading shows the likelihood of increasing confidence in viability across a wider range of site types and locations. We noted above that we consider in Rushmoor's case the re-use of redundant commercial sites is likely to mean land values in the range say £1.1-1.4m/ha are likely to be necessary in many cases; a figure of around £1.3m is arrived at working back from the VOA's latest figures that assume planning in place without AH and other planning obligations; so reflecting the indicative cost of those (as are allowed for in this assessment) and also reflecting planning risk.

3.3.12 At this stage our view, therefore, is that reaching approximately 'viability test' 3, at an indicative £1.6m/ha, should enable land to be released and most sites to come forward in the Rushmoor planning context. As above, this is not to present this as any form of fixed cut-off and we can see from the wide range of RLV results that many scenarios will in any event support higher land values should they need to. Others may well still be viable at lower levels of land value (viability tests 1 or 2 - £0.6m to £1m/ha).

3.3.13 Although RBC officers have indicated that there is likely to be a significant reliance on PDL for housing sites, the Council will be able to use the information flexibly if more of a mix or a significant element of greenfield development becomes part of the local strategy. Typically, lower levels of land value would be applicable for that, at a level not exceeding viability test 1. Similarly there may be other site scenarios where the lower benchmarks are relevant dependent on existing uses together with a value uplift – for example re-use of allotments, underused urban area amenity space, car parks and garage compounds, etc.

3.4 Review of residential results – Farnborough (& North Camp)

Appendix IIa (Tables 1a to 1u)

3.4.1 **Single dwelling – table 1a.** Mainly due to the significantly higher level of build cost assumed, the results show that higher values (in £/sq. m) will generally be required to support this type of development. Typically single dwellings would come forward with a greater floor area than modelled which would improve the viability compared to that shown.

3.4.2 Tested at 0% AH, the key indication here is that if the Council were to seek to apply a threshold of fewer than 11 dwellings, with the typical Rushmoor values range there appears little or no scope to support a meaningful AH contribution in these instances; or at this stage to justify an upward CIL rate differentiation beneath the AH threshold that affects such proposals. A significant number of these may be self-builds in some form, with CIL charging not applied. Viability in practice could also be improved through netting-off any relevant existing floorspace from the CIL liability calculation; having a variable positive impact on viability that has not been accounted for anywhere in the assessment being a highly site-specific effect.

3.4.3 **5 houses – table 1b.** Our results indicate that a combination of more than 20% AH (i.e. 1 unit equivalent, tested as a financial contribution) AH with more than £60 to £80/sq. m CIL would probably be unworkable without values reaching at least VL2. This appears to be a maximum combination of outcomes potentially viable at VL1 bearing in mind the need to consider here the absolute result (£) as well as the RLV £/ha indications.

3.4.4 With 0% (nil) AH, we can see the potential for a maximum CIL rate at approximately £200/sq. m, and potentially a little higher), so the trade-off between CIL and AH is clear. More than 20% AH looks likely to be unworkable in most cases (aside from in higher value instances, and then potentially only in combination with a reduced or very low CIL).

3.4.5 **5 flats – table 1c.** Here we can see that although the RLVs expressed in £s/ha look strong, as expected the actual RLVs (in £s) are lower than those generated by the 5 houses scenarios. Overall, provisionally we would say that broadly the same conclusions could be drawn. Influencing viability positively, the BCIS FSB based build costs adjustment (reduction from base) for small flatted schemes (up to 10 units) is reflected in these outcomes, as are the higher density assumption and the positive sales values assumptions. However, as is often the case in our experience, we see flatted schemes viability at reduced levels compared with housing. This is the result of a range of other factors influencing outcomes relative to housing schemes - including increased build costs and a longer period to first sales.

3.4.6 **10 houses – table 1d.** As we would expect to see (owing to continued use of the higher BCIS FSB report based housing build costs at this scheme size), these scenarios show the same tone of findings as seen from the 5 houses tests. Again we can see the significant reduction in the apparent CIL charging scope (from £200/sq. m+ to around £60-80/sq. m) that is likely to be supportable if AH requirements were to be introduced, for example at 20%. That is based on VL1, the lowest value tests undertaken for Farnborough. The possibility is that higher values could support more positive outcomes, however. For example VL2 looks likely to support 30% AH equivalent in combination with a CIL rate of up to around £140/sq. m whilst exceeding viability test 3 at £2m/ha.

3.4.7 Overall this indicates that a 20 to 30% AH target in combination with CIL not exceeding circa £140/sq. m maximum could be workable and considered amongst the options for such sites, subject to particular local application of the effective national "default" policy on AH thresholds. With that uncertainty in mind, it is interesting also to consider the results at 11 dwellings, the effective minimum guide national threshold (first point at which AH would generally be triggered), as follows.

3.4.8 **11 houses – table 1e.** We appraised this scenario as the national minimum AH/planning policy threshold position, but also because this is the point at which, according to the BCIS FSB report, build costs would generally become lower on average than for smaller schemes. The viability improvement from the latter factor can be seen on comparison with table 1d as above – it is notable using the assumptions applied.

3.4.9 In general we can see that whilst 35%/40% AH (both mean 4 AH units from 11 total, after rounding) looks potentially workable alongside a maximum of around £180 - £200/sq. m CIL, this relies on VL2 values if we assume a need to get to £2m/ha equivalent for land. On that basis, VL1 values reduce the CIL scope to nil with the 4 AH units or equivalent included. This therefore appears a potentially insecure outcome and we can see that it becomes a notably more comfortable outcome at 30% AH (i.e.

with 1 AH unit fewer) with the maximum CIL scope then well exceeding £200/sq. m at VL2 or maintained at up to around £80 - £100/sq. m to reach £2m/ha based on VL1 values.

3.4.10 With 20% and then nil AH assumed, moving upwards at table 1e, we can see how (national policy permitting) it may well be possible to consider a meaningful CIL charging differential in the event of having no AH policy impact on such sites (at 11+ dwellings). That would be supportable also with values at VL1, maybe lower. So if the AH threshold is to be set at some level higher than 11 dwellings, a level of CIL charging differential (by scale of development) could be considered in our view. For example if the AH threshold did not impact until say 15 or more dwellings, schemes falling in the range 11+ to the threshold level could certainly be considered for (upward) CIL differentiation.

3.4.11 **15 houses – table 1f.** The same effect is seen from these tests, where 30% or more AH is seen to significantly further impact viability and begin to restrict the CIL charging scope notably, compared with the outcomes from the 0% and 20% AH tests. On review of the results from the 15 dwellings, were that to be considered in relation to selection of an alternative AH threshold (continued as per adopted policy), 20% AH looks supportable with potentially well in excess of £200/sq. m CIL at VL 2 and up to £180 - £200/sq. m at VL 1. So, again, the capacity to bear collective costs is quite sensitive to the values achievable. At 30%, AH meeting the £2m/ha test requires a VL2 assumption and reduces the indicative CIL potential to around £140 - £160/sq. m. It appears that VL1 supports little or no CIL with 30% AH.

3.4.12 Looking at 35% or 40% AH (i.e. 5 or 6 units from the 15 total), the indications are of further clear impact on the CIL scope, with that not exceeding the range £80 - £100/sq. m with both the £1.6m/ha (at VL 1) and £2m/ha (at VL 2) viability tests in mind.

3.4.13 **Overall on the smaller sites, we would recommend that if applying AH policy to sites of fewer than 10/11 dwellings (which we understand is a potential option not likely to be pursued by RBC at this stage), an AH % sliding scale should be considered in any event.** This principle would become more relevant still on looking at the balance between meeting affordable housing needs and any future CIL. A reduced AH% could assist with that balance, unless it is accepted that the CIL charging scope may be severely limited on such sites. While, as above, we have identified a possibility of differentiating with higher charging rates applicable to sites that do not bear costly affordable housing policy requirements, such scope would be greatly reduced unless any affordable housing were sought based on a lower target proportion (%). **At this stage, this relates simply to being mindful of the impact on potential future CIL charging scope when setting affordable housing and other costly policy requirements.**

3.4.14 **Whilst Local Authorities may make a case for a lower threshold based on local housing need and the profile of sites coming forward (where supportable also on viability grounds) we understand that this is not a consideration at RBC at the current time. Our wider experience is that there is a considerable "first time impact" on viability from the introduction of affordable policies for the first time in any event, as in the case of lowering a threshold. RBC should consider these aspects if considering the case for a sub-national policy threshold.**

3.4.15 **In our view the same viability influences are also potentially relevant in supporting more CIL (an upward CIL differential) on sites of more than 11 dwellings where a nil or reduced AH % is sought – i.e. compared to any higher headline AH % level that is selected to apply to larger sites.**

3.4.16 **So, subject to further national policy developments, including potentially in respect of the CIL review (with proposals yet to be announced), it may well be possible to differentiate upwards the CIL charges on smaller sites that do not bear AH requirements or bear comparatively reduced AH requirements..**

3.4.17 **15 flats – table 1g.** The same relativities are observed as those seen in respect of the smaller flatted and housing scenarios reviewed above (e.g. 5 flats compared with 5 houses).

3.4.18 **Tables 1h, 1l, 1q, 1r.** On the larger scenario tests representative of estate type housing, we see a similar tone of results across the scenarios once we have introduced AH to all appraisals and varied its proportion (%). We refer here to the scenarios range say 25 houses to 250 mixed (so excluding larger flatted schemes and generally assuming lower density more traditional or mixed development outside the town centre; indicatively overall at say 40 to 50 dph on the developable areas).

3.4.19 In general, our view is that on these the lower land value benchmarks are likely to become more relevant on a more regular basis. However, if we look across the 50, 100 and 250 mixed units scenarios (i.e. including a mix of houses and flats), we can see that 40% AH with around £60 - £80/sq. m CIL is around the maximum combination that can be readily justified based on VL1 values if accommodated on PDL.

3.4.20 In this respect, we think that adopting an AH target no higher than 30 - 35% AH would be beneficial to viability and should enable a CIL rate impacting non-town centre / large flats based schemes to be considered at a higher level not exceeding say £140/sq. m to perhaps 180/sq. m. maximum. To exceed viability test 2 at £1.6m/ha, VL2 values appear to support 40% AH in combination with potentially in excess of £200/sq. m CIL maximum. However, it is likely to be important to bear in mind the sensitivity of outcomes to the lower values that may also be seen, or to reducing values.

3.4.21 **At this stage, impacting on such larger non-town centre sites (so on the housing / mixed housing and flats schemes more usually located away outside the town centres) 35% AH with not more than say £140 to £180/sq. m appears to be around the maximum level clearly supportable; at this stage we do not see a great deal more scope than this.** At this level, we would expect to continue seeing some negotiations on AH provision necessary at a site-specific level, as the viability improvement from reducing the AH % is clear to see, although no lower AH target would ensure a total move away from that necessary flexibility in operation. **To maintain CIL charging scope at levels towards those considered through previous RBC assessment work, this indicates to us a need to also consider a lower AH % headline in general. It is possible that, in the event of seeking more than 30% AH, the upper parameter for CIL charging becomes closer to say £140/sq. m than the approximate £180 – £200/sq. range.**

3.4.22 **Larger scale flats based development – primarily envisaging town centre. Table 1k (50 flats) and 1s (250 flats).** Here the indications are of a different feel coming into the potential outcomes. This is due in part to the factors identified earlier – higher development costs - e.g. the higher build costs and, particularly for the larger scenario, the cashflow involved. Another key factor is likely to be the need to consider at least the higher land value benchmark. In many of these instances we should consider the £2m/ha benchmark as a minimum and expect that appraisals would need to support higher levels, with valuable existing uses in place, much of the time. Often, site-assembly will be necessary. In most cases it is difficult envisaging such schemes reliably coming forward on the basis of lower land values.

3.4.23 Looking at the 50 apartments scenario, we can see that at VL1 more than 30% AH combined with up to only around £20/sq. m CIL means that the RLV falls beneath a level equivalent to £2m/ha (RLV sum of approx. £1.1m). With 35% AH, a CIL cost reduced to nil still leaves the RLV short of that level at VL1; reaching the lower £1.6m/ha PDL test with £40 - £60/sq. m CIL.

3.4.24 At VL2, the maximum viable combination appears to be indicated at 35% with up to approximately £120 - £140/sq. m CIL. Alternatively, 30% AH with more than £200/sq. m CIL maximum suggests a similar result. However, once again we can see the sensitivity (potential vulnerability) of this outcome to lower values – e.g. at VL1. That appears able to support no more than say £20/sq. m CIL with the 30% AH, using the assumptions applied and meeting £2m/ha approximately.

3.4.25 **Looking at these outcomes it can also be seen that reducing the AH level to 20% significantly increases the prospects of supporting other planning obligations alongside affordable housing; as is likely to be necessary.**

3.4.26 **This provides a strong indicator, in our view, that amongst RBC's considerations should be a notable AH policy (and / or CIL) differentiation for town centre / flatted based / higher density development, in order to facilitate an overall package of planning infrastructure being more reliably achieved. A 20% AH target is likely to be more appropriate for such developments.** This aspect is explored further through the other town centre related scenario types, as follows.

3.4.27 **250 flats – table 1s.** We can see that for example to get to say £160-£180/sq. m CIL we need to combine that with not more than 20% AH, indicatively, relying on VL2 values this time. Looking at potential / indicative trade-offs, 30% combined with a maximum of £20-40/sq. m CIL provides a similar RLV result. In comparison, at 35% AH with nil CIL (£0/sq. m) the RLV falls beneath £2m/ha and reached £1.6m/ha with only approximately £50/sq. m CIL (interpolating between £40 and £60/sq. m results). VL3 values are needed to support 40% AH (but then with not more than approximately £80 - £100/sq. m max. CIL).

3.4.28 **Overall, for typically more complex and costly town centre development, based primarily on larger apartment based schemes, it appears that in viability terms some notable level of differential is necessary or at least recommended for consideration, depending on RBC priorities, etc. This could be applied through the CIL (differentiation for example by way of a town centre zone – see also commercial development uses below) and /or an AH policy differential. From the above, we can see that if the AH % policy, albeit as a target, is placed at 30% or more affecting such cases, then the CIL scope is likely to be limited to around £40/sq. m maximum overall (with a lower still CIL potential associated with > 30% AH).**

3.4.29 Reinforcing the above, the clearest way to set in place a collective obligations costs differential in response to this may be to consider a 20% AH target for such sites. This would most likely then enable a simpler CIL charging schedule or s.106 approach in due course; or at least reflect that there are likely to be significant planning obligation costs and look to leave scope for those (in addition to the significant costs associated with the affordable housing).

3.4.30 Given the previously identified potential site allocations in the town centres of Aldershot and Farnborough (through the earlier Preferred Approach Stage Local Plan exploration / development and drafting) DSP considered it appropriate to further explore this potentially important feature of the emerging plan in viability terms. Additional sensitivity scenarios have been run to trial the potential effect of introducing mixed use (in the form of retail / potential restaurant space) within the ground floor of a scenario also containing 250 apartments above **(Table 1t).** To that same scenario we then also trialled, using the full range of AH % tests, the potential impact of basement or other costly "abnormal" car parking provision, as was noted above **(Table 1u)**. The outcomes indicated from these additional tests can also be compared with the base appraisal set results for the 250 unit apartments scheme – the scenario without either of these sensitivity test components included (at Table 1s, as above). As with other area of the assessment, the additional sensitivity testing can also be used to review the impact of other potential abnormal costs.

3.4.31 The addition of the retail space, on the basis assumed, does add value to the scheme – it appears likely to contribute positively to the overall scheme viability. This could also be tested by substituting retail use for an equivalent residential floor area and a different outcome may be seen. Overall the results suggest that, subject to the siting and demand for the retail/restaurant or similar space, this should prove to be a potentially viable form of development overall. An uplift in development value would however also tend to feed into a higher site value. Overall, we could envisage no worse outcomes for affordable housing viability than are likely to be associated with an apartments only scenario.

3.4.32 From the further tests undertaken to date, we consider that that 35% AH combined with any level of CIL and abnormal costs associated with car parking provision or other matters is very unlikely to be workable in this context. The deterioration in the RLVs from the added cost is clear to see, with VL2 values producing generally poor looking results with nil CIL. This points again to a need for some form of significant differential in the AH and / or CIL cost burdens that would otherwise impact viability on such schemes.

3.5 Optional Housing/technical standards

3.5.1 The Nationally Described Space Standard is allowed for as a contingency measure within the assessment, assuming that RBC will wish to consider reflecting these optional requirements in policy, consistent with the approach of most of our current clients. In our experience so far, this typically has only a very small negative impact on viability and is more of an early stage planning and design consideration rather than necessarily an obstacle to viability. In any event, the assumptions cater adequately for the usual affordable housing dwelling size requirements of the relevant providers.

3.5.2 As discussed above, the base appraisals assume all schemes to be designed and constructed to meet or exceed the minimum Nationally Described Space Standard (all dwellings), as well as HCA / affordable housing providers' expected standards as far as applicable.

3.5.3 The results indicate scope to support these if required and appropriate locally – from a viability viewpoint only (we have not considered the needs aspects, which RBC would also need to do if including the Standard within policy).

3.5.4 The base assumptions also assume all units meeting the following:

- Energy efficiency to meet Building Reg.s - equivalent to former CFSH Level 4 (confirmed as a viable measure accounted for as above);
- Water usage efficiency measures facilitating usage at not more than 110 litres per person per day (again, confirmed as a viable as accounted for above);
- Accessibility to Building Regulations base levels, but not to enhanced optional levels under Part M4 (2) and (3) – as noted above, and see below in respect of further sensitivity testing carried out on these aspects.

3.5.5 The 50 dwellings mixed scenario (as per the table 1l results) provided a basis for our M4(2) and (3) sensitivity testing, as follows:

3.5.6 **Sensitivity to M4 (2) additional cost assumptions (table 1n).** There is a small incremental effect seen from increasing the proportion of dwellings provided – assumed across the range from 0% to 100% dwellings being M4(2) compliant. The results indicate that for Part M4(2) there is a minor impact on viability, such that the sensitivity of the results to the change in costs is not one that can be easily differentiated. On that basis it is unlikely that this requirement would lead to a previously viable scheme becoming unviable. In settling any policy positions, it may be a case of comparing between individual policy combination related appraisal outputs from the results tables in order to form a view on how far the various requirements could be taken - either as individual priorities or collectively.

3.5.7 Overall, viewed as a single effect added to all the base assumptions, the cost of M4(2) compliance across the board appears potentially achievable if this is a key objective of RBC. Certainly in our view the Council could seek this wherever possible and could consider a target rather than rigid approach in case a fixed requirement across all dwellings proved too restrictive or costly, e.g. perhaps especially in the case of town centre and some other flatted development.

3.5.8 All schemes will differ, including potentially in their ability to accommodate such requirements across some or all dwellings. However, added as a requirement, in principle this does not appear too challenging to many of the likely local circumstances – if not made to onerous or rigid.

3.5.9 In general, many of our clients are at an early stage in considering optional policy enhancements. An emerging approach that has been discussed in some cases is the potential alignment of the added accessibility requirements being aligned to (or mainly to) the affordable housing element of schemes. In RBC's case, this could be equivalent to seeking M4(2) compliance across approximately 40% of the dwellings within a scheme. From the available information to date, as an example, this would not appear to be an unreasonable target type approach.

3.5.10 **Sensitivity to M4 (3) additional cost assumptions (table 1o).** However, in contrast we can quickly see that, as expected from the assumptions placing (see Appendix I), M4(3) related costs have a significantly greater impact on viability than M4(2). To illustrate this, we can see that 5% dwellings to M4(3) (table 1o) produces a very similar RLV to 50% dwellings to M4(2) (table 1n); approximately a ten-fold impact, indicatively.

3.5.11 This means that probably no more than 5 to 10% dwellings could be sought to M4(3) standards before a noticeable viability impact and probable influence on affordable housing or other planning obligations scope were produced; and especially in combination with most or all dwellings being required to meet M4(2). The indications are that with more than 10% to M4(3), the impact could exceed that from all dwellings meeting M4(2). As another indication, at VL1 with 30% AH and referring to viability test 2, with £160 - £180/sq. m CIL and 5% dwellings to M4(3), the RLV is very similar to the same scenario with 10% to M4(3) and a reduced CIL of £120 - 140/sq. m maximum. So that example “trade-off” amounts to a CIL reduced by approximately £40/sq. m in order to accommodate the additional 5% dwellings to M4(3). These are indications based on current stage assumptions.

3.5.12 Similarly, 50% dwellings to M4(2) plus 5% to M4(3) produces a similar outcome to either 100% to M4(2) or 10% to M4(3) as far as we can see. These are examples of indicative affects – policy / target combinations.

3.5.13 The potentially restricting effect of M4(3) requirements on the CIL scope (or alternatively on the AH level or AH tenure mix that could be supported) is therefore clear to see. At this stage these are results enabling comparisons, and with fixed costs added for the M4(2) and (3) measures, it is possible to interpolate or extrapolate to consider other potential positions not specifically appraised, as the results set is already very large.

3.5.14 The collective costs point is relevant here. A combination of the two potential policy elements (i.e. seeking dwellings to both M4(2) and (3) standards) does start to impact on scheme viability and their inclusion would in our view further strengthen the indications towards a more flexible / viability responsive rather than challenging setting of those.

3.5.15 These findings and points also further reinforce the suggested consideration of a potential lowering of the affordable housing requirement in respect of the town centres especially. Whist the introduction of a proportion of Starter Homes into the overall affordable housing mix could help to mitigate the viability impacts from collective policy costs, any positive viability influences from that are as yet uncertain. It will be seen that these aspects cannot be separated and further checking of the collective impacts of proposed policy positions may be needed in due course or adjustments considered depending on how those settle in response to national policy developments and to the Council’s building evidence base and review of this information.

3.5.16 In all cases, Planning Authorities need to keep in mind the cumulative (collective) impact of policies on development viability and take into account whether the need for the policy can be shown. It is important that any percentage requirement is evidenced on need rather than based on viability alone. As above, further testing can be carried out if necessary in these respects if necessary in due course

3.5.17 Alongside the viability implications, we are of the view that other factors on practical aspects and the workability of policies are also relevant here.

3.5.18 On this, numbers rounding and the "product" of the calculation dwelling number and policy percentage appears relevant, just as it does in the context of affordable housing. Additionally, in our view a planning authority should also be mindful of the potential combination of requirements and property types sought, bearing in mind that the key to delivery will be the market and the need to produce a reasonable number of properties unfettered by various use / type restrictions (thinking here of the unit numbers available after considering affordable housing, self-build (see below) and accessibility etc.). It may be that some of these policy strands could usefully be viewed together – e.g. through affordable accessible dwellings, plots for self-build prestige homes and the like. We assume in any event that again the policies would be target based, with some flexibility in particular operation.

3.5.19 At this stage however, we would not rule out the deliverability of policies to include Building Reg.s M4(2) and (3) compliance or at least an aim to meet that / those bearing in mind the site-specific flexibility needed in any event in accordance with national policy and guidance. The Council may wish to consider the local role of any threshold (e.g. overall scheme size/dwelling number) for triggering such policies; or whether they would be expected to apply to all new development, with our points at 3.5.7 and 3.5.18 relevant, for example in regard to policy combinations and perhaps especially the practical scope for those on some smaller sites.

3.6 Potential inclusion of Starter Homes.

3.6.1 As has been noted, with little known about the exact format of starter homes pending the development of the detail from the Housing White Paper, our sensitivity tests at this stage are simply initial explorations of the potential influence on viability, overall, of 20% of the dwellings switching to this form of tenure – from affordable housing tenure, where that is provided. In these purely exploratory additional initial sensitivity tests, the starter homes are assumed to make up the first 20% of the Council's AH "quota" under s.106. These are assumed to sell at 80% market sale value, subject to the relevant price caps. They are assumed to be part of the market developer's provision and therefore attract a market risk level of associated profit, marketing costs, etc. all as per the open market sale homes.

3.6.2 **50 dwellings including 20% Starter Homes (SH) – Table 1m.** On the basis described above, the outcomes from these sensitivity tests may be compared with the base results for this scenario type – i.e. results at Table 1l (following an equivalent process of comparison to that noted above in the case of the accessibility sensitivity tests).

3.6.3 Making this comparison, the inclusion of 20% starter homes (SH) which is carried through all tests from 20% AH (i.e. replacing the AH) to 40% AH (i.e. making up half of the AH) is seen to add circa £300,000 - 400,000/ha to the RLVs in these scenarios.

3.6.4 As an illustration of the viability uplift seen based on the assumptions used, approximately the same level of RLV (at around £2m/ha) results from the following scenarios:

- 20% base (policy) AH with £140/sq. m CIL at VL1;
  Compared with 20% SH plus 10% AH (30% overall) with £120/sq. m CIL at VL1
  Or with 20% SH plus 15% AH (35% overall) with approx. £40/sq. m CIL at VL1

- 30% AH base policy with £180 - 200/sq. m CIL at VL2;
  Compared with 20% SH plus 20% AH (40% overall) with just over £200/sq. m CIL at VL2.

3.6.5 Although necessarily subject to further potential review if relevant and necessary once more is known about Starter Homes (SH), at this stage of review it appears that, as appraised, adding these to the mix has the potential to boost the viable overall affordable housing level by around 10% (e.g. 20% AH potentially expanded to 30% overall i.e. 20% SH + 10%AH; 30% AH to 40% overall i.e. 20% SH + 20% AH). These can only be regarded as provisional indications, based on a first 20% (“hence the term “top-slice” that we have used) of SH in place of AH. As a cautious view, at the very least we will expect to see any future minimum level of starter homes (potentially at 10% +) to be no less viable than the intermediate tenure element (e.g. shared ownership or other sale based product) that has typically been part of affordable housing mixes to date.

3.6.6 Whilst it is early days in this respect, therefore, Starter Homes may have a role in maintaining or improving viability where the conventional forms of affordable housing are sought alongside substantial CIL charging levels and / or other costs associated with policies or abnormal sites issues, etc.

3.6.7 This may prove relevant for example in town centre scenarios where the form of tenure could be appropriate and might play a role in maintaining a higher overall proportion of AH (as newly defined) than would otherwise have been possible based on the conventional AH tenure forms (affordable rented and shared ownership for example) - with viability under pressure from the scheme characteristics such as higher than typical site values and costs. In general, assuming a range of RBC aims and priorities needing to be met, a "side-effect" of including SH units – another way of looking at this - could be scope to set CIL at a higher level than would be possible based on a similar level of conventional AH within schemes. Again, this may be an area for potential future consideration subject to greater knowledge and certainty around any relevant new tenure formats.

3.6.8 The above points on policy combinations may also be relevant in this respect.

3.7 Review of residential results – Current stage outline – Aldershot

Appendix IIb (Tables 2a to 2u)

3.7.1 We will now consider example findings relative to those for Farnborough above. All the same trends are seen. However, with the slightly lower sales values assumptions adopted for Aldershot, using the same VL number (again as per the assumptions set out i.e. 3 VLs lower to higher – VLs 1, 2 and 3), effectively all the results step down in comparison with the Farnborough indications above. With the selection of the VLs, the VL3 (highest) RLVs produced for Aldershot are the same as or similar to those produced by VL2 for Farnborough – a differential of approximately 1 x VL step. Given their sensitivity to values, this effect alone creates a significant difference between many of the equivalent results.

3.7.2 This needs to be considered in terms of overall relevance to the emerging new Local Plan, rather than in isolation, however. It will also be relevant to consider the relative simplicity of approach generally intended by the CIL regime; with the same principles broadly applying on policy development as one of the aims will be to provide clarity and certainty to the development industry and other stakeholders, and similarly to set up a readily manageable scenario that is as consistent as possible for RBC to operate.

3.7.3 In the case of Aldershot, we consider that in most cases it should not be relevant to need to exceed viability test 3, so a land value benchmark of more than £1.6m/ha. The results are viewed primarily with this in mind. However, once again, the assumed continued focus on town centre site allocations will also have a bearing on this. Again, therefore, the results should be considered in the context of higher benchmarks also being potentially applicable and, particularly in Aldershot's case, in combination with the lower value tests (VL1 or 1 to 2). On this basis, the results suggest the following.

3.7.4 **5 houses – table 2b.** As above, currently the purpose reporting of affordable housing findings for such schemes is to provide wider / context information for RBC. Our indications from this scenario are that more than 20% AH would probably not be workable with any level of CIL in many cases. So, with nil CIL, about 20% AH appears to be the maximum potentially viable at VL1 also bearing in mind the need to consider here the RLVs as well as the RLV£/ha indications.

3.7.5 With 0% (nil) AH at VL1, however, we can see the potential for a maximum CIL rate at approximately £140/sq. m – i.e. reduced from the £200/sq. m or so potentially workable from the Farnborough representative results.

3.7.6 Again the trade-off between CIL and AH is clear. Overall, it appears that the VL2 or higher values would probably be needed to support any meaningful level of AH provision with CIL also in place. In common with the reporting above, although again probably only for wider information here, more than 20% AH looks likely to be unworkable in most cases (aside from in higher value instances and then potentially only in combination with a reduced or very low CIL compared with the £140/sq. m or more that appears workable alongside affordable housing from a range of larger scenarios).

3.7.7 Overall this scenario appears to have the capacity to bear CIL at up to approximately £140/sq. m, perhaps a little more, but not in combination with AH requirements based on current tenure forms.

3.7.8 **5 flats - table 2c**. Compared with the Farnborough set at table 1c we see results at VL1, considered potentially relevant, to have reduced; and this is clearer to see especially with AH included. This time they are lower than the 5 houses RLVs. They appear higher on a £/ha basis. However, on an "either or" basis, overall a CIL of more than approximately £180/sq. m maximum or an AH requirement of more than 20-30% (1 to 1.5 unit financial equivalent) looks unworkable.

3.7.9 **10 houses - table 2d.** Again with higher than base build costs, this results set shows a similar set of indications to those from table 1d. At VL1, 0% AH with max. £140-160/sq. m CIL and 20% AH with nil CIL are potentially viable and relevant combinations to consider.

3.7.10 **11 houses - table 2e.** With reduced build costs (compared with those applied at 10 dwellings using the BCIS FSB reporting) these results indicate a capacity for 30% AH with a maximum of around £40/sq. m CIL assuming VL1. At VL2 the maximum CIL scope appears to be just over £200/sq. m. The viability uplift from assuming 20% AH compared with 30% is seen clearly. 20% AH with up to approx. £160/sq. m CIL appears supportable using VL1. With no AH requirement at this point, the maximum CIL charging scope could go to beyond £200/sq. m it appears – a considerable trade-off between CIL and AH is again noted.

3.7.11 **25 houses - table 2f.** The indication at 30 to 35% AH is a nil CIL charge if the £1.6m/ha viability test is to be met using VL1 values. Using VL2, 40% AH looks possible with about £20 to 40/sq. m CIL; 35%with approx. £100 to £120/sq. m CIL; 30% with £140 to £160/sq. m CIL and 20% with well in excess of £200/sq. m CIL.

3.7.12 Based on VL1, the larger mixed (houses & flats) schemes appear to support up to say 30% AH here, but not more if the viability test at approximately £1.6m/ha is to be met. VL2 or higher values would be required to support say 30% AH with up to approximately £160/sq. m CIL; 35% AH with a much lower, say £80 to 100/sq. m CIL; 40% AH with a significantly reduced nominal or say £20/sq. m CIL rate approximately. With lower value sites, more AH would be workable as a target in combination with a meaningful CIL charging level.

3.7.13 Overall in respect of Aldershot, it appears that much will depend on the site types and locations coming forward and their relevance to the proposed LP delivery viewed as a whole.

3.7.14 Although the likely lower achievable sale values in many cases could also mean some lower site values, it appears likely that there could be more pressure on viability in Aldershot scenarios compared with Farnborough; a lower collective costs and planning obligations set could be supportable in Aldershot typically.

3.7.15 Looking also at potentially higher site values in Farnborough, with an emphasis on mid to higher Aldershot potential new build values there appears to be limited justification overall for policy and / or CIL rate(s) differentiation between the two towns.

3.7.16 However, the Farnborough RLV results are generally stronger. Therefore, an option would be to consider differential affordable housing policy targets for the 2 localities, for example seek not more than 35% AH in Farnborough (and North Camp) and not more than 30% in Aldershot.

3.7.17 A simpler approach, equally or arguably more appropriate given the range of values seen and the very close proximity of the towns, would need to be set at the lower of these levels – i.e. 30% AH headline target, responsive to the Aldershot as well as the Farnborough results.

3.7.18 These relativities are considered further below.

3.8 Considering policy and CIL charging options

3.8.1 **Overall, typically there appears a notable difference between our 2 results sets (Aldershot and Farnborough (including North Camp)). So in any event the policy set and any development of a CIL needs to be workable from the typically reduced viability scope likely to be seen in Aldershot.**

3.8.2 **The RBC response to this could be via uniform requirements borough-wide but set with both Aldershot and Farnborough delivery in mind. Alternatively, some level of differentiation or a uniform borough-wide approach could be considered amongst the options.**

3.8.3 In a clear, simple borough-wide scenario, collective policy costs would need to be at the lower level not likely to add undue delivery risk to Aldershot developments that are important to the Plan overall.

3.8.4 **In our view it appears likely that a CIL charging rate adjustment could reflect the difference in a more refined and effective way than setting up an AH policy headline variation between the towns.**

3.8.5 **Looking at AH policy options for RBC to consider, a 35% AH target for Farnborough and 30% for Aldershot could be considered. Alternatively, putting in place a 30% headline AH target borough-wide would set out a clear and simple basis workable across sites outside the town centres; and also leaving viability capacity to support an appropriate level of CIL charging in due course.**

3.8.6 **Assuming that town centre development to include significant residential elements remains a key Local Plan theme moving forward, then our current findings further developed from emerging outcomes work show that the potential viability pressures on at least some of these proposals, given their nature, should involve the consideration of some compromises on planning obligations that will help mitigate this.**

3.8.7 **Alongside the above "headline" options, therefore, in our view a 20% AH target applicable to town centre development should be considered – for both Aldershot and Farnborough.** This is a key point as identified from the results review.

3.8.8 **Alongside a 30% AH target headline, with a suggested lower 20% sought in the 2 town centres, for Farnborough the CIL charging level could reach around the £180/sq. m level** that RBC put forward in its previous Preliminary Draft Charging Schedule; perhaps up to say £200/sq. m maximum provisionally.

3.8.9 **On this basis the CIL charging scope that currently looks workable for Aldershot based on 30% AH (headline) and a reduced 20% (town centre) is likely to be not more than approximately £140/sq. m;** perhaps to £160/sq. m.

3.8.10 Overall, given a likely range of site types involved, our view at this stage is that a CIL at approximately £140 to £160/sq. m should currently be considered the upper level that would be suitable for residential developments in Rushmoor Borough, if also looking at a simple borough-wide basis for that as well as for the affordable housing target.

3.8.11 **The results suggest that if the AH target position is to be placed at 35% borough-wide then given the mixed nature of development here it would be necessary to look at reducing the overall CIL rate aspirations significantly compared with previously assessed levels given the added costs of development now likely to be relevant.**

3.8.12 The Nationally Described Space Standard and water usage assumed limited to 110 lpppd do not have notable viability impacts but are also part of the collective picture on requirements.

3.8.13 The inclusion of a starter homes or similar alternative tenure form in future could have a mitigating effect on the collective costs impact. However, at this stage, the increased SPA mitigation costs and allowances made for accessibility and residual s.106

contingency point to looking beneath 35% for Aldershot and the town centres, and particularly if reasonable CIL charging scope or wider s.106 provision is to be accommodated as is likely to be required.

3.8.14 **With the necessary balance between needs and viability to be considered, and looking at avoiding undue additional pressure on delivery, perhaps particularly in respect of affordable housing, the policy targets should be responsive to viability.**

3.8.15 DSP will be pleased to assist with other additional tests if required by RBC in due course – e.g. through any necessary supplementary viability work to further inform the final stages of the Plan proposals development.

3.9 Retirement living / sheltered housing

3.9.1 The Appendix IIa and IIb include results at tables 1j and 2j based on adjusted appraisal assumptions around a retirement age scheme, specifically included within the scale of residential scenarios, being a form of C3 development that attracts negotiation for affordable housing requirements, etc. That scenario requires a particular set of assumptions, reflecting its typical characteristics that are distinct from general market development.

3.9.2 On numerous occasions we have considered in-depth through representations and at CIL Examinations the merits or otherwise of CIL charging on sheltered housing schemes. We do not propose any differentiation for that form of housing.

3.9.3 Based on our assessment findings here and continued experience we are of the opinion that it should not be treated differently for CIL or AH target purposes (note: all Examiners dealing with our clients' CIL Charging Schedules to date have supported this position in line with the appropriate available information).

3.9.4 Such schemes are typically more costly to develop than general market apartments, mainly because of the large proportion of non-saleable construction involved in the larger than typical communal areas. On the other hand, however, they tend to attract premium values as new builds and also typically require a lower level of car parking and other external works. So there are a range of balancing factors and, as seen from our results here, a positive set of viability indications across the range of tests.

3.9.5 Our site-specific review experience across a range of local authority areas also shows that such schemes are regularly supporting significant CIL payments based on prevailing residential rates, together with affordable housing contributions (though usually provided financially in lieu rather than via on-site means, given the particular management and affordability issues etc. – not considered further here).

3.10 Self-build / custom-build

3.10.1 As has been noted through the preparation of the methodology and assumptions reporting above, we consider that it should be possible to viably accommodate a drive for serviced, ready to develop, self-build plots as part of larger scale development – subject to monitoring of demand, which we understand can be highly variable from area to another.

3.10.2 We are of the view that capacity and viability are more likely to vary in relation to particular allocations or larger sites. Again, specific thresholds or cut-offs are difficult to identify. As an indication, and unless on specifically allocated and tailored smaller sites intended for this form of development (if infrastructure provision / development mitigation can be overcome) it appears likely that up to say 10% of plots on larger schemes (noting for example the draft policy proposal including a threshold at 20 dwellings) might represent a suitable guide for consideration of a potential maximum from a practical and market point of view.

3.10.3 Alternatively, RBC could set out the general requirement in a more flexible way, giving encouragement to the provision of such plots as part of the overall housing provision.

3.10.4 We are also aware that in some cases specific site allocations are being considered or made for small developments of self-build plots – e.g. through Neighbourhood Plans.

3.11 Strategic scale development considerations

3.11.1 At the time of preparing this assessment, DSP understands that the single genuinely strategic development / proposal, Wellesley, is progressed to the point that this is not considered relevant or likely to be impacted by any decision to pursue a CIL. We understand that S.106 planning obligations will continue to be the mode by which community infrastructure is supported there.

3.11.2 However, this and any other strategic scale proposals (based on their nature and the level of scheme specific infrastructure / development mitigation required) may need to be considered by RBC in respect of any potential for unintended consequences around combined impacts as well as in regard to ensuring the most suitable possible working arrangements can be put in place for the relevant and timely infrastructure provision. In our experience of such developments, this has usually involved the continued use of s.106, consistent with the Wellesley approach to date for example, but most likely continued in tandem with nil charge rating where a CIL comes into place.

3.11.3 As with other aspects, further consideration could be given to these aspects – additional viability information prepared if relevant.

3.12 Other indicators – informal "health-checks" on considering residential CIL charging levels (residential)

3.12.1 Purely as an additional "measure" of potentially appropriate CIL charging rates (based on our significant experience on CIL viability so far), we also consider and provide information on how any proposed charging rates compare with to the gross development value of a scheme.

3.12.2 This is quite separate from the viability testing – it simply provides extra information for thinking about the level and proportionality of the potential charging rates.

3.12.3 We include below tables which will give the Council a range of indications on what the potential CIL charging rates are equivalent to as proportions of development value (completed scheme sale value – i.e. GDV). For context, typically we look to see how our results compare to a rate equivalent to approximately 3% to 5% (5% suggested guide maximum) of GDV; i.e. usually not more. Looked at like this, CIL should not have a significantly greater influence on viability than, for example, a relatively modest level of movement in house prices or adjustments seen through other costs or value factors varying as they are bound to do over even a short period of time.

3.12.4 Working with this as an additional guide only, a £140/sq. m CIL charging rate viewed against sales values of say £4,000/sq. m – a reasonably positive overview of typical values that at this point will support new housing delivery (see the VLs range used) represents approx. 3.5% GDV. £160/sq. m amounts to 4% GDV on this basis. Purely as a background type health-check, not viability testing related, in our experience this indicates consideration of a CIL rate at towards the top of the range that is likely to be appropriate and especially on any borough-wide type approach set out for residential development.

3.12.5 This secondary view, although another guide only, does suggest consideration also of rate(s) pegged back to some degree at least in certain circumstances applying locally if the key viability differentials observed are not to be considered through affordable housing and / or other policy setting. Furthermore, those (potentially less viable) circumstances appear to be key to overall LP delivery in Rushmoor – i.e. ensuring delivery in both Aldershot and Farnborough, including at both town centres.

3.12.6 Figure 12, as follows here, provides the full set of potential (trial) CIL charging rate positions considered against (expressed as %s of) the assumed range of residential GDVs, consistent with this additional guide thinking.

3.12.7 On the basis of the above informal guiding / additional sense-checking only, within the table below we have shaded in yellow the trial CIL rate as %GDV outcomes that fall within the above noted 3-5% GDV. This is not to exclude other charging rate levels being considered, particularly including lower levels beneath this range.

3.12.8 This type of additional guide / context information has been a consistent additional ingredient of DSP's CIL viability assessments. The purpose of this and what may be taken from it or similar work may take on more significance with the DCLG's CIL Review Panel findings in recent months. That suggested the consideration of a possible 'Local Infrastructure Tarif' ('LIT') approach as a possible simplified replacement for CIL; possibly set by reference to a low proportion of local property values.

3.12.9 Only time will tell whether or how the CIL Review proposals are taken up by Government, and whether the June 2017 general Election will now have any effect on any further announcements – previously expected for the Autumn of 2017. In the meantime, RBC will wish to begin considering how this may influence its thinking around a CIL.

Figure 12: Trial CIL rates expressed as % GDV – Residential

Scheme Type	Trial CIL Rate (£/sq. m)	Value Level - Farnborough Houses			Value Level - Farnborough Flats			Value Level - Aldershot Houses			Value Level - Aldershot Flats		
		VL1	VL2	VL3	VL1	VL2	VL3	VL1	VL2	VL3	VL1	VL2	VL3
Capital Value (GDV - £/sq. m)		£3,750	£4,000	£4,300	£4,000	£4,300	£4,600	£3,450	£3,700	£4,000	£3,700	£4,000	£4,300
Residential	£20	0.53%	0.50%	0.47%	0.50%	0.47%	0.43%	0.58%	0.54%	0.50%	0.54%	0.50%	0.47%
	£40	1.07%	1.00%	0.93%	1.00%	0.93%	0.87%	1.16%	1.08%	1.00%	1.08%	1.00%	0.93%
	£60	1.60%	1.50%	1.40%	1.50%	1.40%	1.30%	1.74%	1.62%	1.50%	1.62%	1.50%	1.40%
	£80	2.13%	2.00%	1.86%	2.00%	1.86%	1.74%	2.32%	2.16%	2.00%	2.16%	2.00%	1.86%
	£100	2.67%	2.50%	2.33%	2.50%	2.33%	2.17%	2.90%	2.70%	2.50%	2.70%	2.50%	2.33%
	£120	3.20%	3.00%	2.79%	3.00%	2.79%	2.61%	3.48%	3.24%	3.00%	3.24%	3.00%	2.79%
	£140	3.73%	3.50%	3.26%	3.50%	3.26%	3.04%	4.06%	3.78%	3.50%	3.78%	3.50%	3.26%
	£160	4.27%	4.00%	3.72%	4.00%	3.72%	3.48%	4.64%	4.32%	4.00%	4.32%	4.00%	3.72%
	£180	4.80%	4.50%	4.19%	4.50%	4.19%	3.91%	5.22%	4.86%	4.50%	4.86%	4.50%	4.19%
	£200	5.33%	5.00%	4.65%	5.00%	4.65%	4.35%	5.80%	5.41%	5.00%	5.41%	5.00%	4.65%

3.13 Commercial / non-residential development

3.13.1 The assessment also covers development types beyond residential that are considered to be potentially relevant to the further development of a new RBC Local Plan and potential supporting CIL.

3.13.2 These wider scenario types are considered through a mix of full appraisals (RLV results as included at Appendix IIc) using principles consistent with the residential review work all as discussed above; and forming a high-level view of the likely strength of the relationship between development values and costs where early information points clearly to insufficient viability being available to support fixed CIL charging. The latter are considered via a table in which we consider the value/cost relationship and provide comments – see Figure 14 re these "other uses" below, and note also that those are considered to be either non-relevant in terms of risk to overall Plan delivery or may themselves in some way fall within the scope of infrastructure provision that the CIL and planning obligations seek to support.

3.13.3 As further context for a potential CIL development and for this work in a wider sense, as is typical there are few policy proposals that relate directly to (directly influence) the viability of non-residential development. This is typical in our experience. A planning / charging authority's scope of influence over development viability is usually very limited through Local Plan policies. This is such that, given the findings – and not just here in Rushmoor, working as best possible with the market, avoiding policy interventions or requirements that unnecessarily add costs and general strategies are more relevant in our view than a need to focus on policy related development viability advice as is the case with residential (as above).

3.13.4 However, where the viability advice comes in as a key element of this assessment is in respect of the potential for various forms of commercial / non-residential development to support CIL charging; as per the additional commentary provided below.

3.13.5 In Rushmoor's case, while Farnborough Airport and the associated hub of hi-tech and international business, and RBC's ongoing support of that, requires and attracts particular forms or development, viability needs to be assessed in accordance with the guidance such as it is, and consistently with the residential review approach. This means making relatively cautious / prudent assumptions again, rather than working with the knowledge that schemes have come forward and are likely to continue to do so, based on the particular drivers and assumptions specifically in place rather than the type of overview and approach necessary to inform and support the progression of a CIL charging schedule.

3.13.6 There are also wider planning criteria including aviation heritage and conservation issues associated with some of this development locally.

Guide to the Appendix IIc tables

3.13.7 Following the same general format of the Appendix IIa and IIb results summary sheets, Appendix IIc provides the RLV outcomes from the commercial appraisals, run using Argus Developer software and all on the basis as set out at Chapter 2 above (also outlined within Appendix I again).

3.13.8 Tables 3a to 3f includes the results based on ascending rental yield assumption from 5% to 7.5%, taking a view considered appropriate and found suitable from experience for providing findings and advice to inform and support CIL charge setting.

3.13.9 As with residential, in the left-side grey shaded columns we show the scenario type, followed to the right by the 'L' (lower) 'M' (mid) and 'H' (higher) rental assumption tests. The main non-shaded (white) table section then shows the RLVs (in £s) with 'negative RLV' figures not reported specifically, as clearly non-viable scenarios based on the assumptions used. Again, none of the lower or non-viable indications necessarily mean that schemes will not come forward. This is primarily about exploring the CIL charge setting scope. The RLVs expressed in £/ha terms are shown over to the right side in the table area that includes some green shading, using the same principles as for the residential at Appendices IIa and IIb. Here we see a significantly greater incidence of white / pale green RLV results areas, reflecting the reduced viability that has been found, and generally consistently so across a wide range of local authority areas in our experience.

3.14 Findings – Commercial – CIL

3.14.1 **From the research and findings indications here, based on realistic current assumptions for the borough this we need to acknowledge the viability difficulties or at best potential / marginal outcomes associated with most forms of non-residential development. This is not unusual, although this may be monitored and revisited as the Council's Local Plan development and early delivery progresses.**

CIL – Retail (types and relative to other development uses)

3.14.2 **Research has indicated that except for those forms of development normally seen as among the more viable across our and typically also other consultants' similar assessment work (i.e. larger format retail – supermarkets / retail warehousing) based on current rents assumptions, most other scenario types appear to be only marginally viable at best when viewed in the context of the need to generate sufficiently positive RLV outcomes using assumptions and judgments appropriate to considering CIL setting, including land value comparisons ('viability tests' – benchmarks).**

3.14.3 As with residential, this may need to be considered further in the context of a more developed view of what proposals are likely to be whole Plan relevant in any event and / or as the market moves.

3.14.4 **Provisionally, looking at other forms of retail development as far as may be relevant moving forward any smaller shops / local parade type development, if occurring as new-build, are unlikely to support a meaningful CIL charge. The consideration of a nil or low CIL charge being applicable to those types CIL rating is likely to be relevant in our view.**

3.14.5 **Town centre retail shows potential viability looking initially at the RLVs in £/ha terms, using the assumptions set out and bearing in mind the lower-end yield %s that we would expect to be applicable to that. As with any other scenario, it would not come forward in any event if non-viable.** However, although it might be argued that CIL charging would be unlikely to be responsible for tipping an otherwise viable scheme into non-viability, and there would often be positive viability effects owing to the netting-off of existing floorspace from the liability calculations, the RLV results (in £s terms) are mixed in the context of the likely site values. We can see also that the positive looking outcomes at a 5% yield assumption fall away notably with an increasing (less positive) yield % assumption used (i.e. looking from table 3a through towards table 3f).

3.14.6 **Overall therefore, and thinking of the likely key relevance to town centre vitality and similar policies, at the current time we would place town centre comparison or smaller convenience retailing in a similar category to the other smaller shops types, as per 3.14.4 – not considered sufficiently viable to support regular CIL charging and so a nil (£0/sq. m) or nominal / low rate at most would be likely to be appropriate as informed by viability in our view.**

3.14.7 In general, but perhaps especially in respect of retail development of varying types – and potential differentials relating to those, etc. – it may be necessary to consider these areas and the relevant supporting detail again at a subsequent point, if necessary and as may be relevant according to the detail that flows from RBC's further development of - and potentially early delivery related to - its new Local Plan policies.

Other development uses – looking beyond retail - CIL

3.14.8 **We have found that, using locally applicable assumptions appropriate for CIL viability purposes, development uses such as hotels and care homes to be non-viable and therefore not supportive of clear CIL funding scope based on work to date.**

3.14.9 **In respect of the current / short term prospects for business development (meaning 'B' class uses) viability the work to date still suggests relatively poor outcomes and some level of challenge continues to be involved in promoting development opportunities on a speculative basis.**

3.14.10 We think that any genuine, more widespread return to speculative (rather than occupier specific) development will probably be the strongest indicator of commercial market movements sufficient to support meaningful CIL charging. **At present, we consider that all 'B' Use development should be considered for nil CIL rating.** Once again, as in all other cases, this could be monitored and reviewed in future and does not necessarily mean that developments will not come forward, as they have been seen to do locally. In general, from what we can see there is also a wide-ranging supply of available existing office space in the borough and achievable rents in the borough are lower than in some other competing locations. These factors all influence new-builds viability.

3.14.11 Not only through the Local Plan but also using a wide range of other initiatives, clearly the Council and other agencies are strongly promoting and supporting opportunities for development in the most accessible, most valuable locations - working with other agencies and the private sector to help facilitate delivery as the market appetite develops for it given the current more mixed emerging and gradually spreading news within the commercial property sector.

3.14.12 It is in our view appropriate to briefly provide these sorts of messages. To present a fully healthy picture of all sectors of commercial development viability will not be realistic at this point. At present the more positive elements amongst the mixed news are mainly relevant to prime property and locations, which Farnborough is establishing itself as in some respects (hi-tech, aviation, R&D), as noted above, and Aldershot is regarded as an established and quite well connected location more for industrial type uses.

3.14.13 In evidencing our picture for the Council, as with all aspects of assumptions informing the CIL assessment assumptions, however, we are not able to support the CIL rates potential through assuming negotiated build costs, any flexible profit views, or other appraisal input movements that might be possible on progressing an actual development. Good practice on testing viability, experience and examination outcomes to date all point to the use of openly sourced data for assumptions, rather than any specifically revised alternative financial appraisal approach or assumptions view.

3.14.14 However, from wider Local Plan and economic points of view it is important to balance these messages as there are a range of drivers for schemes progressing and there is a relatively buoyant and developing picture on the commercial and employment offer in Rushmoor.

3.15 Other indicators – informal "health-checks" on considering residential CIL charging levels (commercial/non-residential)

3.15.1 Consistent with the approach taken to considering the CIL charging rate(s) scope for residential, we set out below (see Figure 13) the range of potential trial rates expressed as %s GDV. This covers retail uses here, i.e. those types where CIL charging is a possibility for consideration at this point. Wider equivalent figures, relating to all uses appraised (as per Appendices I and IIc) have been calculated and may be provided to RBC if required.

3.15.2 Again, this has not involved and does not amount to further viability testing. It is provided here purely for context and wider information, but does help with a feel for the relative scale of potential CIL charges, particularly as those increase towards the rates parameters that have been discussed for residential development. The inclusion of a % indication here does not indicate CIL charging scope – the findings are as set out above.

Figure 13: Trial CIL rates expressed as % GDV – Commercial

Scheme Type	CIL Rate (£/sq. m)	5% Yield			5.5% Yield			6% Yield			6.5% Yield			7% Yield		
		L	M	H	L	M	H	L	M	H	L	M	H	L	M	H
Capital Value (GDV - £/sq. m)		4000	5000	6000	3636	4545	5454	3332	4165	4998	3076	3845	4614	2856	3570	4284
Super-mkt	£20	0.50 %	0.40 %	0.33 %	0.55 %	0.44 %	0.37 %	0.60 %	0.48 %	0.40 %	0.65 %	0.52 %	0.43 %	0.70 %	0.56 %	0.47 %
	£40	1.00 %	0.80 %	0.67 %	1.10 %	0.88 %	0.73 %	1.20 %	0.96 %	0.80 %	1.30 %	1.04 %	0.87 %	1.40 %	1.12 %	0.93 %
	£60	1.50 %	1.20 %	1.00 %	1.65 %	1.32 %	1.10 %	1.80 %	1.44 %	1.20 %	1.95 %	1.56 %	1.30 %	2.10 %	1.68 %	1.40 %
	£80	2.00 %	1.60 %	1.33 %	2.20 %	1.76 %	1.47 %	2.40 %	1.92 %	1.60 %	2.60 %	2.08 %	1.73 %	2.80 %	2.24 %	1.87 %
	£100	2.50 %	2.00 %	1.67 %	2.75 %	2.20 %	1.83 %	3.00 %	2.40 %	2.00 %	3.25 %	2.60 %	2.17 %	3.50 %	2.80 %	2.33 %
	£120	3.00 %	2.40 %	2.00 %	3.30 %	2.64 %	2.20 %	3.60 %	2.88 %	2.40 %	3.90 %	3.12 %	2.60 %	4.20 %	3.36 %	2.80 %
	£140	3.50 %	2.80 %	2.33 %	3.85 %	3.08 %	2.57 %	4.20 %	3.36 %	2.80 %	4.55 %	3.64 %	3.03 %	4.90 %	3.92 %	3.27 %
	£160	4.00 %	3.20 %	2.67 %	4.40 %	3.52 %	2.93 %	4.80 %	3.84 %	3.20 %	5.20 %	4.16 %	3.47 %	5.60 %	4.48 %	3.73 %
	£180	4.50 %	3.60 %	3.00 %	4.95 %	3.96 %	3.30 %	5.40 %	4.32 %	3.60 %	5.85 %	4.68 %	3.90 %	6.30 %	5.04 %	4.20 %
	£200	5.00 %	4.00 %	3.33 %	5.50 %	4.40 %	3.67 %	6.00 %	4.80 %	4.00 %	6.50 %	5.20 %	4.33 %	7.00 %	5.60 %	4.67 %
Capital Value (GDV - £/sq. m)		4000	5000	6000	3636	4545	5454	3332	4165	4998	3076	3845	4614	2856	3570	4284
Retail W'housing	£20	0.50 %	0.40 %	0.33 %	0.55 %	0.44 %	0.37 %	0.60 %	0.48 %	0.40 %	0.65 %	0.52 %	0.43 %	0.70 %	0.56 %	0.47 %
	£40	1.00 %	0.80 %	0.67 %	1.10 %	0.88 %	0.73 %	1.20 %	0.96 %	0.80 %	1.30 %	1.04 %	0.87 %	1.40 %	1.12 %	0.93 %
	£60	1.50 %	1.20 %	1.00 %	1.65 %	1.32 %	1.10 %	1.80 %	1.44 %	1.20 %	1.95 %	1.56 %	1.30 %	2.10 %	1.68 %	1.40 %
	£80	2.00 %	1.60 %	1.33 %	2.20 %	1.76 %	1.47 %	2.40 %	1.92 %	1.60 %	2.60 %	2.08 %	1.73 %	2.80 %	2.24 %	1.87 %
	£100	2.50 %	2.00 %	1.67 %	2.75 %	2.20 %	1.83 %	3.00 %	2.40 %	2.00 %	3.25 %	2.60 %	2.17 %	3.50 %	2.80 %	2.33 %
	£120	3.00 %	2.40 %	2.00 %	3.30 %	2.64 %	2.20 %	3.60 %	2.88 %	2.40 %	3.90 %	3.12 %	2.60 %	4.20 %	3.36 %	2.80 %
	£140	3.50 %	2.80 %	2.33 %	3.85 %	3.08 %	2.57 %	4.20 %	3.36 %	2.80 %	4.55 %	3.64 %	3.03 %	4.90 %	3.92 %	3.27 %
	£160	4.00 %	3.20 %	2.67 %	4.40 %	3.52 %	2.93 %	4.80 %	3.84 %	3.20 %	5.20 %	4.16 %	3.47 %	5.60 %	4.48 %	3.73 %
	£180	4.50 %	3.60 %	3.00 %	4.95 %	3.96 %	3.30 %	5.40 %	4.32 %	3.60 %	5.85 %	4.68 %	3.90 %	6.30 %	5.04 %	4.20 %
	£200	5.00 %	4.00 %	3.33 %	5.50 %	4.40 %	3.67 %	6.00 %	4.80 %	4.00 %	6.50 %	5.20 %	4.33 %	7.00 %	5.60 %	4.67 %

Scheme Type	CIL Rate (£/sq. m)	5% Yield			5.5% Yield			6% Yield			6.5% Yield			7% Yield		
		L	M	H	L	M	H	L	M	H	L	M	H	L	M	H
Capital Value (GDV - £/sq. m)		4000	4300	4600	3636	3909	4181	3332	3582	3832	3076	3308	3537	2856	3070	3284
A1 Town Centre Retail (Comp)	£20	0.50%	0.47%	0.43%	0.55%	0.51%	0.48%	0.60%	0.56%	0.52%	0.65%	0.60%	0.57%	0.70%	0.65%	0.61%
	£40	1.00%	0.93%	0.87%	1.10%	1.02%	0.96%	1.20%	1.12%	1.04%	1.30%	1.21%	1.13%	1.40%	1.30%	1.22%
	£60	1.50%	1.40%	1.30%	1.65%	1.53%	1.44%	1.80%	1.68%	1.57%	1.95%	1.81%	1.70%	2.10%	1.95%	1.83%
	£80	2.00%	1.86%	1.74%	2.20%	2.05%	1.91%	2.40%	2.23%	2.09%	2.60%	2.42%	2.26%	2.80%	2.61%	2.44%
	£100	2.50%	2.33%	2.17%	2.75%	2.56%	2.39%	3.00%	2.79%	2.61%	3.25%	3.02%	2.83%	3.50%	3.26%	3.05%
	£120	3.00%	2.79%	2.61%	3.30%	3.07%	2.87%	3.60%	3.35%	3.13%	3.90%	3.63%	3.39%	4.20%	3.91%	3.65%
	£140	3.50%	3.26%	3.04%	3.85%	3.58%	3.35%	4.20%	3.91%	3.65%	4.55%	4.23%	3.96%	4.90%	4.56%	4.26%
	£160	4.00%	3.72%	3.48%	4.40%	4.09%	3.83%	4.80%	4.47%	4.18%	5.20%	4.84%	4.52%	5.60%	5.21%	4.87%
	£180	4.50%	4.19%	3.91%	4.95%	4.60%	4.31%	5.40%	5.03%	4.70%	5.85%	5.44%	5.09%	6.30%	5.86%	5.48%
	£200	5.00%	4.65%	4.35%	5.50%	5.12%	4.78%	6.00%	5.58%	5.22%	6.50%	6.05%	5.65%	7.00%	6.51%	6.09%
Capital Value (GDV - £/sq. m)		1400	2000	2600	1273	1818	2363	1166	1666	2166	1076	1538	1994	1000	1428	1856
A1 - A5 Conv. Stores	£20	1.43%	1.00%	0.77%	1.57%	1.10%	0.85%	1.72%	1.20%	0.92%	1.86%	1.30%	1.00%	2.00%	1.40%	1.08%
	£40	2.86%	2.00%	1.54%	3.14%	2.20%	1.69%	3.43%	2.40%	1.85%	3.72%	2.60%	2.01%	4.00%	2.80%	2.16%
	£60	4.29%	3.00%	2.31%	4.71%	3.30%	2.54%	5.15%	3.60%	2.77%	5.58%	3.90%	3.01%	6.00%	4.20%	3.23%
	£80	5.71%	4.00%	3.08%	6.28%	4.40%	3.39%	6.86%	4.80%	3.69%	7.43%	5.20%	4.01%	8.00%	5.60%	4.31%
	£100	7.14%	5.00%	3.85%	7.86%	5.50%	4.23%	8.58%	6.00%	4.62%	9.29%	6.50%	5.02%	10.00%	7.00%	5.39%
	£120	8.57%	6.00%	4.62%	9.43%	6.60%	5.08%	10.29%	7.20%	5.54%	11.15%	7.80%	6.02%	12.00%	8.40%	6.47%
	£140	10.00%	7.00%	5.38%	11.00%	7.70%	5.92%	12.01%	8.40%	6.46%	13.01%	9.10%	7.02%	14.00%	9.80%	7.54%
	£160	11.43%	8.00%	6.15%	12.57%	8.80%	6.77%	13.72%	9.60%	7.39%	14.87%	10.40%	8.02%	16.00%	11.20%	8.62%
	£180	12.86%	9.00%	6.92%	14.14%	9.90%	7.62%	15.44%	10.80%	8.31%	16.73%	11.70%	9.03%	18.00%	12.61%	9.70%
	£200	14.29%	10.00%	7.69%	15.71%	11.00%	8.46%	17.15%	12.00%	9.23%	18.59%	13.00%	10.03%	20.00%	14.01%	10.78%

(Figure 13 continued – Source: DSP 2017)

3.16 Consideration of other non-residential development uses – CIL

3.16.1 As noted above at 3.13.2, we have also considered at a high level the likely strength of the development value to cost relationship in the case of development uses such as leisure (e.g. leisure / fitness / gym) or other D class elements such as health / clinics / nurseries etc. Bearing in mind the key development value / cost relationship that we are examining here, we find that it is not necessary to carry out full appraisals of these because a simple comparison of the completed value with the build cost (before consideration of other development costs) points to poor to (at best) marginal development viability. This is one of the key reasons why these forms of development are generally not seen stand-alone, but tend to be provided as part of mixed use schemes that are financially driven by the residential and /or retail development. Much the same applies to elements such as health / clinics.

3.16.2 As with the residential overview and appropriate available information suitable for Local Plan and CIL viability review purposes, we are able to vary / expand the scenarios range for commercial / non-residential scenarios as we build and further test this picture to some degree if appropriate as the Local Plan proposals develop (although we also need to keep an eye on the number of appraisals and interpretation of growing results sets in terms of the reasonable extent of information – appropriate, proportion available information).

3.16.3 Figure 14 below outlines our consideration of the strength of the development value/cost relationship indicated in the case of other development uses – where it was considered not necessary to carry full appraisals.

Figure 14: Development value/cost relationship - other development uses

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost indications – BCIS**	Viability prospects and Notes
Cafés	£70 - £350 per sq. m.	£700 - £3,500 per sq. m.	Approx. £2,145 - £2,834	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	Approx. £80 per sq. m.	£800 per sq. m.	Approx. £1,700 - £2,441	Clear lack of development viability

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost indications – BCIS**	Viability prospects and Notes
Day Nurseries (Nursery School /Crèches)	£65 - £200 per sq. m.	£650 - £2,000 per sq. m.	Approx. £1,938 - £2,649	Insufficient viability to clearly and reliably outweigh the costs
Garages and Premises	£30 - £95 per sq. m.	£300 - £950 per sq. m.	Approx. £561 - £1,217	Low grade industrial (B uses) - costs generally exceed values
Halls - Community Halls	Approx. £80 per sq. m.	£800 per sq. m.	Approx. £1,773 - £2,381	Clear lack of development viability – subsidy needed
Leisure Centre - Health and Fitness (Sports Centres/ recreational centres) generally	£20 - £120 per sq. m.	£200 - £1,200 per sq. m.	Approx. £1,429 - £1,879	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	No information available but say £120 - £150 per sq. m.	Approx. £1,600 - £2,000 per sq. m. @ 7.5% Yield	N/A	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Museums	No information available		Approx. £1,182 - £3,530	Likely clear lack of development viability – subsidy needed
Storage Depot and Premises	£20 - £70 per sq. m.	£20 - £700 per sq. m.	Approx. £254 - £1,154 (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.
GP Surgeries	£105 - £135 per sq. m.	£1,050 - £1,350 per sq. m.	Approx. £1,741 - £2,325 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs based on other than high-end looking value assumptions.

*£/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.

***BCIS Q1 2017 data with a Location Factor of 116.

(Figure 14 above – Source; DSP 2017)

3.17 So in summary on commercial / non-residential development and CIL charging potential at this stage:

- **Potential positive charging scope for superstores / supermarkets / retail warehousing – rate likely in the order of that consulted on previously (probably not more than approx. £100/sq. m).**

- **All other development uses – likely at £0/sq. m.**

3.18 Further commentary – commercial

3.18.1 The above current stage outcomes and comments are consistent with findings from all our recent Local Plan and CIL viability work bearing in mind that local characteristics are also key to all of this.

3.18.2 While we have seen in the recent period that information on yields has been beginning to reflect improved prospects for some property types and locations, the results are very sensitive to these assumptions and currently it remains to be seen how the effects of the 2016 "Brexit" decision and subsequently weakened pound will fully pan out as potential influences on all these matters.

3.18.3 As above, moving ahead, further thinking could take place around the degree of assumptions movement necessary to create clear viability and whether that is realistic. This applies to all types and requires a view based on very latest available information. Currently there is very little readily available information on commercial new-builds, which is not unusual in our recent / current viability study experience.

3.18.4 In no way is any of the above intended to prescribe anything that affects discussions on site-specific cases.

3.18.5 Although key information will be contained within other assessments and data contributing to the RBC evidence base, we have some general points to offer as the Council considers the employment and other commercial/non-residential development aspects of its Plan-making process. These will be picked up briefly below.

3.18.6 At the national level, prior to the Brexit decision the commercial sector remained generally positive but the lead up to the Brexit vote had led to some uncertainty in the market. Whilst the future direction of the commercial market following the Brexit vote is uncertain, the Quarter 2 2016 RICS UK Commercial Property Market Survey showed *'a significant deterioration in market sentiment following the Brexit vote. The heightened sense of caution is visible across both investment and occupier sides of the market, with uncertainty pushing rental and capital value projections into negative territory. Whether or not the adverse hit to sentiment is a knee-jerk reaction that will unwind as the result is digested, or the start of a more prolonged downturn, remains to be seen'*.

3.18.7 Whilst commercial property market conditions were showing signs of picking up in the intervening period, the current EU scenario suggests a further period of uncertainty to follow.

3.18.8 In looking at commercial property development at present, in many instances we must acknowledge the probable short-term challenge around delivery of significant new development, and particularly on a speculative basis.

3.18.9 We also note that, as is typical, based on latest available information (currently related to the Preferred Approach Local Plan consultation stage) the Council's policy set looks likely to continue developing themes of promoting and encouraging development focussed on improvements to the offer presented by the 2 main town centres; as well as at North Camp and other centres / locations that serve a more localised catchment with shopping facilities etc.

3.18.10 In respect of commercial / employment development creation, some challenges must be acknowledged in most local authority areas but, broadly, large format retail and, to a lesser extent, smaller format retail should continue to be viable or potentially forms of development in Rushmoor.

3.18.11 In addition to seeking to ensure that the approach to planning obligations (including any future CIL) does not add further uncertainty to potential investment, the Council could continue to consider the following types of areas and initiatives (outside the formal scope of the brief for this assessment, but put forward purely 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;

- Work with the market – be responsive etc. as suitable opportunities are identified;

- Regenerate / improve and protect key existing employment areas;

- Provide land where assessed to be most needed;

- 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. Focus on the most accessible, best and most valuable locations for particular uses;

- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) or other development – balance the element in deficit or with reduced viability;

- Scenarios for particular / specialist uses – e.g. the local knowledge based employment economy; or that may be non-viable as developments but are business-plan / economic activity led;

- Explore any local specialisms or particular industries / sectors from which economic advantage and stimulation of other activity can be made;

- As with residential, consideration of the planning obligations packages again including their timing (triggers) as well as their extent.

- A likely acceptance that business development overall is unlikely to be a significant regular contributor to general community infrastructure provision in the short-term at least.

- Seek other investment and consider incentive schemes.

3.19 Wider points – Rushmoor Local Plan

3.19.1 We consider that the above identifies scope to both identify opportunities with viability potential and find the appropriate balance between affordable housing needs, other planning policy objectives and scheme viability.

3.19.2 This is consistent with DSP's wide experience of successful CIL, Local Plan and Affordable Housing viability evidence and outcomes through to examination and on to adoption stages, as well as in the detail of affordable housing and other planning policies and viability factors in operation in practice.

3.19.3 In our view, at a "Whole Plan" level, looking at the range of development scenarios and policies likely to be supporting the new Local Plan, these appear to be capable of meeting the requirements of NPPF para.s 173/174. Reviewing the potential cumulative impact of the policies under development, these appear directed towards being unlikely to negatively impact viability too significantly. This is provided that RBC maintains an approach of not adding unduly to the national baseline policies together with addressing its local affordable housing needs as far as is practical; and that landowners' expectations are also at realistic levels reflecting requirements and constraints as well as the opportunities side associated with development potential.

3.19.4 Wherever pitched, the policies will need to be accompanied and explained by appropriate wording and guidance that sets out the strategic context and nature of the targets but also recognises the role of viability in implementation. Where robustly justified by a developer, a practical approach may need to be acknowledged - which can be responsive to particular circumstances - those will continue to be highly variable with site specifics. The need for this type of approach is likely to be particularly important in the event of ongoing economic and market uncertainty such as we still appear to have at the current time, although very latest post-Brexit market indications appear now to be more mixed and more positive overall than the initial indications that we were picking up following the referendum. Only time will tell how this scenario begins to settle out, perhaps.

3.19.5 This viability evidence will need to be considered in conjunction with wider evidence on housing needs and the shape of site supply (type, location and size of sites coming forward), infrastructure needs and planning, employment land and so on.

3.19.6 Keeping the picture informing the Plan development topical, it will be also be essential to monitor, review and keep up to date evidence associated with the policies as part of creating a sound overall approach.

3.20 Affordable housing policy – recapping on viability scope and recommendations

3.20.1 Figure 15 below sets out in quick-guide table form the affordable housing policy scope resulting from and suggested by our review.

Figure 15: Affordable Housing Policy Scope – Headline % targets - Overview

	Aldershot	Farnborough	Borough-wide as applicable
Sites < 11 dwellings	N/A	N/A	N/A
Sites 11+ dwellings	Not exceeding 30%	Not exceeding 35%	Not exceeding 30%
Town Centres	Suggested reduced - 20%	Suggested reduced - 20%	N/A

3.21 CIL charging potential scope – overview

3.21.1 Figure 16 below provides a summary of the suggested upper parameters for residential and other development use based CIL charging, viewed at the current time using the assumptions set out. For residential (all forms of development falling under Use Class C3) these assume for now an AH target headline at 30% borough-wide as above, applicable with the exception to the town centres – where seeking a lower proportion is suggested in response to likely viability, at 20% AH. Those positions, as above, are put forward bearing in mind the collective costs of development, including the need to allow for rather than potentially unduly constrain the need for either a CIL (or similar in future) and / or continued use of s.106 to support the necessary infrastructure associated with new development.

Figure 16: CIL charging potential scope – overview

	Aldershot	Farnborough	Borough-wide as applicable
Residential – C3 (£/sq. m)	Likely not exceeding £140 - 160	Likely not exceeding £180 - 200	N/A Likely not exceeding £140 - 160
Retail – larger format (only) – Supermarkets and retail warehousing	Likely not exceeding circa. £100/sq. m	Likely not exceeding circa. £100/sq. m	Likely not exceeding circa. £100/sq. m
All other forms or development	£0	£0	£0

3.21.2 The above is all necessarily put forward subject to Local Plan policies settling and suggested for RBC's consideration, subject to continued monitoring and review of proposed positions in light of economic and housing / wider property market developments; as well as related to the Council's ongoing use of s.106 and local experience of development delivery.

Final Report Ends (May 2017)

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