Worthing Borough Council Community Infrastructure Levy Viability Assessment

October 2013

NCS

Nationwide CIL Service

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1.1 The report will provide an assessment of the viability of the principal categories of development in Worthing and the ability of those developments to make contributions to new infrastructure through a Community Infrastructure Levy. The first Worthing BC Viability Assessment for CIL was published by NCS in December 2012. This, along with supporting evidence, helped to inform the Council's Preliminary Draft Charging Schedule which was published for consultation in early 2013. This version of the Viability Assessment, that will inform the Council's Draft Charging Schedule, has responded to comments submitted made during the previous consultation and significant changes that have been made to CIL legislation and guidance.

Study Area

1.2 The study area covers the whole of the administrative area of Worthing Borough Council. The assessment first considers the existence of economic sub-market areas for residential and commercial development within the Borough boundary as a basis for considering whether a fixed rate CIL system would be appropriate or a differential system with variable category rates and charging zones.

Methodology

1.3 The study seeks to assess the ability of different categories of development in Worthing to make contributions via a Community Infrastructure Levy. In essence the study assesses the costs and value of development and having made an allowance for a reasonable developers profit return, determines whether any additional margin is available for CIL contributions.

1.4 The study involves a comprehensive assessment or market values for all categories of development in Worthing, together with an assessment of any sub-markets that might exist with differential areas of similar value. In the event that such sub-markets do exist they will be used to consider whether a Fixed Rate or Charging Zone based system would be appropriate.

1.5 The viability appraisal considers three principal land value benchmarks from which development is likely to emerge – greenfield, brownfield and recycled land (eg development which emerges from regenerated land in the same use).

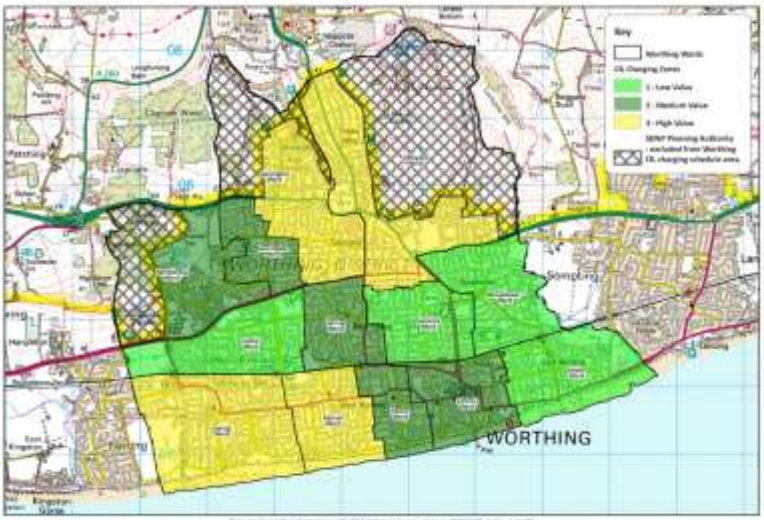
1.6 The study also includes an assessment of Worthing's infrastructure requirements to determine the Infrastructure Funding Deficit that CIL aims to bridge.

1.7 The study determines the maximum potential rates of CIL (per sqm) that could be applied to every category of development in any differential Charging Zone that might emerge. The study will also consider whether a Fixed Rate or Differential Rate CIL system is most appropriate for Worthing. The study will assess the scope for CIL by comparing test CIL rates against the projected development floorspace for each Chargeable category over the plan period. This will give an indication of total CIL revenue and illustrate that rates have been set at a level which does not exceed the identified Infrastructure Funding Deficit. Where a category or location of development is shown to be unviable, a zero CIL rate will be recommended.

1.8 For residential assessment, the study factors in the Authority's affordable housing targets. Affordable Housing is exempt from CIL charges and this is also factored into the CIL Revenue projections.

Key Findings - Residential Development

1.9 The assessment of residential land and property values in Worthing indicated that the variable economic viability of residential development in the Borough has the potential to justify a differential rate CIL system based on Charging Zones but that an alternative and simpler Fixed Rate CIL system may be equally appropriate in Worthing. The assessment of residential land and property values indicated that the Borough could be divided into three principal sub-market areas and formed the basis for the viability testing. The differential value areas, based on Ward boundaries within the Borough are illustrated on the following indicative plan (a more precise boundary for the National park can be found on the Core Strategy Proposals Map or can be provided by the South Downs National Park Authority):-



1.10 The study firstly factored in Worthing's affordable housing target of 30% with a tenure split of 35% Intermediate, 30% Social Rent and 35% Affordable Rent. The study considered five different residential development scenarios to reflect the type of residential that might emerge over the plan period. These included mixed residential (apartments, 2, 3, 4 and 5 bed housing), high rise apartments, low rise apartments, mid range 2-3 bed housing and executive housing. The executive housing scenario tested a 5 unit development below the affordable housing threshold.

Key Findings - Residential Development

1.11 The residential viability testing illustrated that, in general terms, most forms of residential development in all locations in Worthing are viable and can accommodate CIL charges, having factored in the Council's Affordable Housing targets.

1.12 The testing showed that all forms of residential development anticipated to emerge over the plan period are viable in the medium to high value areas of Worthing but that only greenfield housing is viable in the low value areas.

1.13 The appraisal demonstrated that in the medium and high value areas apartments could accommodate very significant levels of CIL (£131-£538sqm on brownfield sites and ££208-£611sqm on greenfield sites). The general housing appraisals in the medium and high value areas also demonstrated significant potential for CIL (£105 -£146 for brownfield sites and £271-£419sqm for greenfield sites). The brownfield site appraisals in the low value areas demonstrated negative viability with only greenfield general housing sites being viable.

Key Findings - Commercial Development

1.14 The valuation study concluded that any variations in the value of commercial locations in the Borough are not significant enough to warrant a differential charging zone approach to commercial CIL rates.

1.15 The viability appraisals also illustrated that most forms of categories of commercial development are not viable in current market circumstances in Worthing, which is evident by the lack of activity in these sectors.

1.16 Food supermarket retail and general retail were all assessed to be viable and capable of accommodating CIL in both greenfield and brownfield development. Food supermarket retail indicated potential rates of £779-£912 per sqm and general retail of £868-£932 per sqm. We would recommend some caution in respect of retail rates. Whilst the study has made a reasoned assessment of land values, transactional evidence is low due to lack of activity in the sector. As specific retail projects emerge it is likely that landowners will expect significant premiums in order to release sites, which may reduce viability levels significantly and this should be taken into consideration in rate setting.

1.17 The industrial appraisals indicate viability and potential CIL rates of £65 per sqm on greenfield sites but since it is likely that most industrial development is likely to emerge from brownfield sites, which demonstrated negative viability, it is not proposed to levy CIL on industrial use. All other non-residential uses demonstrated negative viability with no potential for CIL.

1.18 It should be stressed that the appraisals make a full allowance for developer's profit. Many commercial developments are undertaken direct by occupiers, where this profit allowance can be substantially reduced to reflect occupiers operational or opportunity costs. This adjustment is likely to make many forms of commercial development viable and therefore the test results should not be seen as any indicator that employment uses in Worthing are not capable of being delivered.

General Conclusions

1.19 It is acknowledged that the variations in residential value could potentially justify a differential zone approach to setting residential CIL rates. However, in a tightly constrained primarily urban area like Worthing, specific Charging Zone boundaries will always be difficult to justify. There will always be anomalies within the 'ward' test areas and specific zoning of differential value zones in such close proximity may be difficult to justify taking account of the 'area base overview approach' recommended by the CIL Guidance 2013.

1.20 Taking account of the development strategy in Worthing where the majority of development is likely to emerge in the medium and high value sub-market areas it is considered that a single CIL rate of £100 per sqm would be appropriate for residential development. It is acknowledged that a £100 CIL rate could potentially threaten the viability of some residential development in the low value sub-market area. The development strategy in Worthing envisages that approximately 75% of all new residential development is likely to emerge in the medium and high value sub-market areas of the Borough and therefore CIL rates which could potentially threaten the viability of some development in the lower value sub-market areas are considered unlikely to threaten the delivery of residential development as a whole over the plan period.

Recommended CIL Rates

1.21 Taking account of the difficulties in justifying charging zone boundaries in a constrained urban area, it is considered that a single residential rate would be appropriate in Worthing at a level that reflects overall viability across the identified sub-markets. Taking account of the viability results, the generic nature of the tests and acknowledging that much of the new development in Worthing is likely to emerge on brownfield sites we would recommend the following residential CIL rate:-

Residential	**£100sqm**

1.22 The differential between food supermarket and general retail viability is not considered significant and therefore a single CIL rate is recommended for all forms of retail development. Taking account of the factors expressed above in para 1.16 a retail CIL rate of £150 per sqm recommended. We recommend that all remaining categories of non-residential development (eg industrial, offices, leisure, community, education, institutional etc) be zero rated.

Retail (A1-A5)	£150sqm

1.23 The proposed CIL rates have been considered in context with the overall costs and values of the development they will affect in the following table. The residential example assumes a 3 Bed House in the medium value area of Worthing. The retail example assumes a 3000sqm Supermarket. Both types of development assume brownfield site delivery.

Development Type	Maximum Viable Brownfield CIL rate	Proposed CIL rate	CIL as a % of development costs	CIL as a % of GDV
Residential	£321	£100	3.9%	3.6%
Retail	£868	£150	5.5%	4.2%

1.24 The table illustrates the relatively minor impact of the proposed CIL charges. Current residential forecasts published by Savills for the region anticipate 5% increases in house prices over the next 12 months so the impact of the CIL charge on the viability and deliverability of residential development will be marginal. Commercial values are more difficult to predict but yields are starting to improve and it is considered that the proposed retail rate will not adversely impact on the delivery of new retail development.

1.25 Based on the above rates it is estimated that, based on development projections in each chargeable category, the following CIL revenues could be raised over the plan period to 2026.

Residential	£10,404,300
Retail	£6,536,250
Total	£16,940,000

1.26 The total projected CIL revenue of £16.9 Million does not exceed the currently identified Infrastructure Funding Deficit of £83.6 Million (based on the Infrastructure Funding Gap Review May 2013) and it is therefore considered that the proposed CIL rates strike the appropriate balance between funding infrastructure and maintaining the economic viability of development as required by the CIL Regulations.

2 Introduction

2.1 The Community Infrastructure Levy was introduced in 2010 as a means for Local Authorities to raise revenue from development to fund the infrastructure required to support growth in their area. The rates of CIL that are charged must relate to the Infrastructure Funding Deficit - the funding gap between the total cost of required infrastructure and the infrastructure delivered or financed by external partners and agencies.

2.2 Authorities wishing to introduce the levy should propose CIL rates which do not put at serious risk the overall development of their area. They will need to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy upon the economic viability of development across their area. Charging authorities should prepare evidence about the effect of the levy on economic viability in their area to demonstrate to an independent examiner that their proposed rates, for the levy, strike an appropriate balance.

2.3 CIL Rates are set in £ per square metre on the net increase in floorspace of any development. All new dwellings will be subject to CIL and any other development over 100 sq metres gross internal floor area (subject to some minor exceptions). A Charging Authority may set a fixed rate of CIL or differential rates for different types of development and different locations. Some categories or locations may be zero rated dependent upon economic viability evidence. The rates will be published in a Charging Schedule which is subject to public consultation and independent Examination.

The CIL Regulations and Statutory Guidance

2.4 The legislation governing the Community Infrastructure Levy is enshrined in the Planning Act 2008 (Part 11, Sec 105-225), the CIL Regulations April 2010 and CIL Amendment Regulations April 2011. The primary statutory guidance into the practicalities of establishing a CIL system is contained in the CIL Guidance April 2013. The key guidance may be summarised as follows.

2.5 The initial stage of preparing a charging schedule focuses on determining the CIL rates. When a charging authority submits its draft charging schedule to the CIL examination, it must provide evidence on economic viability and infrastructure planning (as background documentation for the CIL examination). Charging authorities are required to demonstrate that they have:

- Complied with the requirements under Part 11 of the Act, in particular sec 211(2) and (4) and regulations 13 and 14 governing setting rates. Regulation 14 requires that a charging authority, in setting CIL rates, '*must aim to strike what appears to the charging authority to be an appropriate balance between*' the desirability of funding infrastructure from CIL and '*the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area*'; and

- '*Used appropriate available evidence to inform the draft charging schedule*' (sec 212(4)(b)).

2.6 It is for charging authorities to decide how to present appropriate evidence on how they have struck an appropriate balance between the desirability of funding infrastructure from CIL and the potential effects of the imposition of CIL on the economic viability of development across their area. Charging authorities will need to summarise evidence as to economic viability in a document as part of their background evidence that shows the potential effects of their proposed CIL rates on the economic viability of development across their area.

2.7 The legislation (section 212 (4)(b)) requires a charging authority to use '*appropriate available evidence*' to inform their draft charging schedule. It is recognised that the available data is unlikely to be fully comprehensive or exhaustive. Charging authorities need to demonstrate that their proposed CIL rate or rates are informed by 'appropriate available' evidence and consistent with that evidence across their area as a whole.

2.8 Charging authorities can rely largely on existing published data to prepare the evidence on viability to inform their charging schedule, but they may also want to ensure that their proposed CIL rate (or rates) takes account of recent changes in land values over the last 12 months before they publish a charging schedule (for example by supplementing published data with limited sampling information from recent market transactions), particularly if land values have been significantly falling or rising. The best guarantee that a CIL is set at an appropriate level for practical purposes is a thorough understanding of the local property market and the nature of the sites that are likely to come forward for development. This helps to ensure that any viability assessment is properly grounded in local realities.

2.9 A Charging Authority's proposed CIL rate should appear reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence, for example, if the evidence pointed to setting a charge right at the margins of viability. Charging Authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area - 'there is some room for pragmatism'.

2.10 An Authority may adopt a fixed rate of CIL for all types of development or it may adopt differential rates of CIL for different categories of development or for different geographical zones, or a mixture of both. Whilst there is considerable leeway in interpreting the appropriate balance between generating revenue for infrastructure and impacting on the economic viability of development, there is more stringent guidance on setting rates in the event a differential CIL system is adopted.

2.11 In the event a differential rate system is adopted, the CIL Guidance states that Charging Authorities should not exempt or set a zero rate for a particular zone or category of development from CIL, unless they can demonstrate that this is justifiable in economic viability terms. However, if the evidence shows that their area includes a zone or category of development of low viability, charging authorities should consider setting a low CIL rate in that area or for that category (consistent with the evidence).

2.12 Charging schedules should not impact disproportionately on a particular sector or small group of developers**.** Differential rates must be set in such a way so as not to give rise to notifiable State Aid – one element of which is selective advantage. Thus, authorities who choose to differentiate rates by class of development or by reference to different areas, should do so only where there is consistent evidence relating to economic viability that constitutes the basis for any such differences in treatment. It will be the responsibility of charging authorities to ensure that their charging schedules are State Aids compliant.

2.13 In practical terms this guidance means that CIL must be based solely on economic viability considerations and should not be used to further planning policy or political objectives. There is potential for legal challenge to any CIL system beyond CIL Examination under European State Aid legislation and CIL rate setting in a manner that is consistent with the viability evidence is very important.

2.14 Section 206 of the Planning Act 2008 confers the power to charge CIL on 'Charging Authorities' which will be each individual LPA. The charging authority's responsibilities are to:

- Prepare and publish a 'Charging Schedule' which will set the rates of CIL which will apply in the authority's area. This will involve consultation and independent examination;
- Collect and manage CIL payments;
- Apply the CIL revenue it receives to funding infrastructure to support the development of its area;
- Report to the local community on the amount of CIL revenue collected, spent and retained each year.

3 Methodology

The Process

3.1 There are a number of key stages to CIL Economic Viability Assessment which may be set out as follows.

1) Evidence Base – Land & Property Valuation Study

3.2 Establish an area wide evidence base of land and property values for every category of development in each sub-market area. The valuation evidence will provide an indication of potential Charging Zones. The approach and methodology for the evidence base is set out in the Valuation Study at Appendix 1.

2) Evidence Base – Construction Cost Study

3.3 Establish an area wide evidence base of construction costs for each category of development relevant to the local area. The study will also indicate construction rates for professional fees, warranties, statutory fees and construction contingencies. The approach and methodology for the evidence base is set out in the Construction Cost Study at Appendix 2.

3) Charging Zone Formation

3.4 The Valuation Evidence will indicate potential sub-markets within the study area which could form CIL Charging Zones.

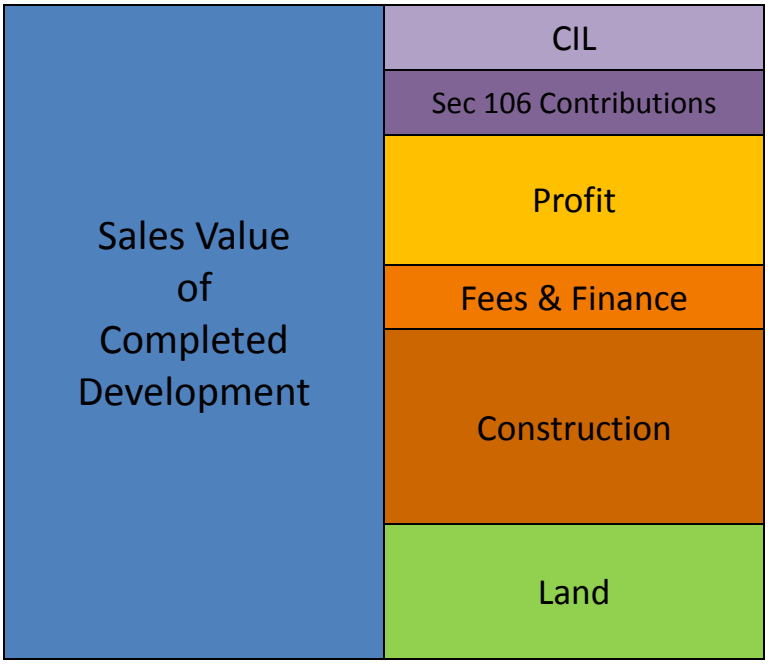
4) Viability Appraisal

3.5 Appraisal of every category of development in the identified charging zones using a Residual Appraisal Model to determine the margin available for CIL contributions.

5) Maximum CIL Rates

3.6 Tabulation of the Viability Appraisal results to illustrate the maximum rates of CIL that may be levied without threatening the economic viability of development

The Development Equation



Development Value **Development Cost**

3.7 The appraisal model is illustrated by the above diagram and summarises the 'Development Equation'. On one side of the equation is the development value ie the sales value which will be determined by the market at any particular time. The variable element of the value in residential development appraisal will be determined by the proportion and mix of affordable housing applied to the scheme. Appropriate discounts for the relevant type of affordable housing will need to be factored into this part of the appraisal.

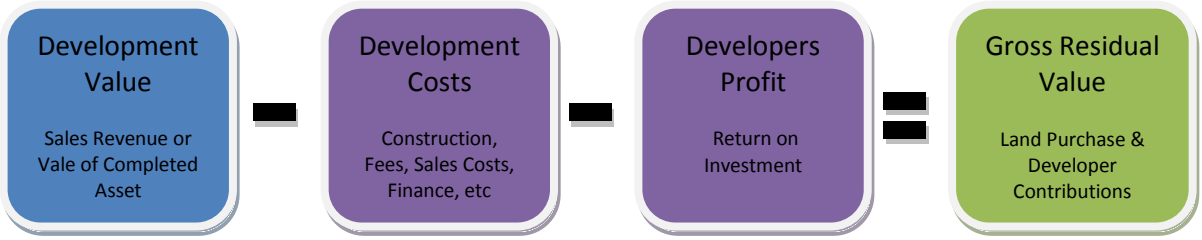
3.8 On the other side of the equation, the development cost includes the 'fixed elements' ie construction, fees, finance and developers profit. Developers profit is usually fixed as a minimum % return on gross development value generally set by the lending institution at the time. The flexible elements are the cost of land and the amount of developer contribution (CIL and Planning Obligations) sought by the Local Authority.

3.9 We assess economic viability using an industry standard Residual Model approach. The model firstly calculates development value and then subtracts the Land Value and the Fixed Development Costs to determine the margin available for Policy Based Contributions (S106, CIL etc). Importantly the methodology attempts to establish a realistic land value – one that reflects the reasonable contributions expectations of Authorities but which also provides sufficient return to persuade landowners to release sites (see Land Value Assumptions).

Land Value Assumptions

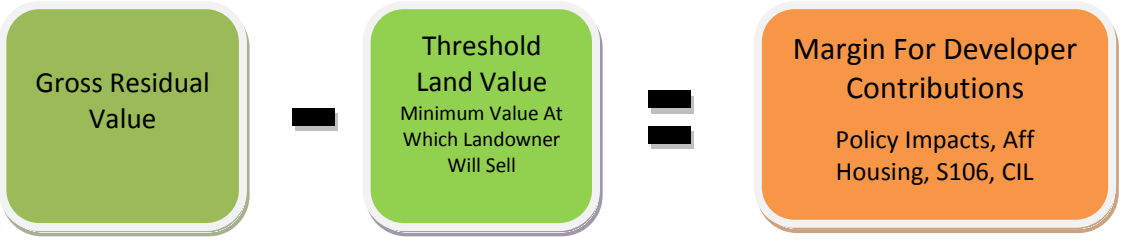
3.10 It is generally accepted that planning policy based developer contributions, will be extracted from the residual land value (ie the margin between development value and development cost including a reasonable allowance for developers profit). For the purpose of Local Plan Viability Assessment a benchmark or Threshold Land Value must be established to ascertain the remaining margin for CIL contributions.

Stage 1 – Residual Valuation

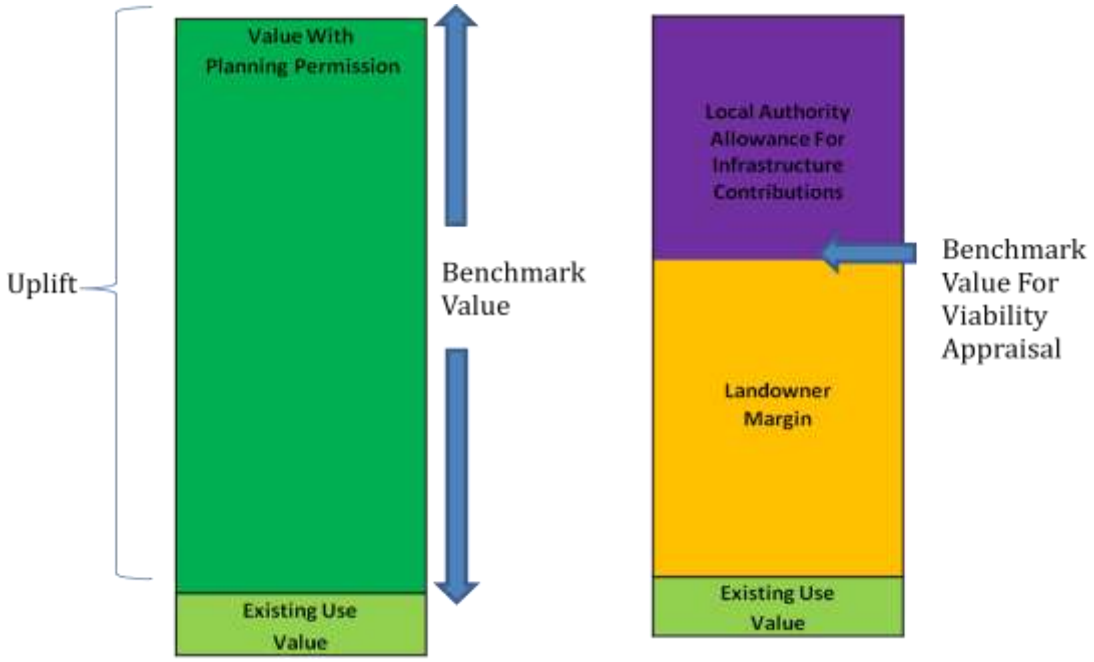


3.11 The approach to assessing the land element of the gross residual value is therefore the key to the robustness of any viability appraisal. There is no single method of establishing threshold land values for the purpose of viability assessment for CIL but the NPPF and emerging best practice guidance does provide a clear steer on the appropriate approach as discussed in the previous section.

Stage 2 – Establishing Threshold Land Value



Land Value Benchmarking (Threshold Land Values)



3.12 The above diagram illustrates the principles involved in establishing a robust benchmark for land value. Land will have an existing use value (EUV) based on its market value. This is generally established by comparable evidence of the type of land being assessed (eg agricultural value for greenfield sites or perhaps industrial value for brownfield sites may be regarded as reasonable existing use value starting points and may be easily established from comparable market evidence).

3.13 The Alternative Use Value is established by assessing the gross residual value between development value and development cost after a reasonable allowance for development profit, assuming planning permission has been granted. The gross residual value does not make allowance for the impact of development plan policies on development cost and therefore represents the maximum potential value of land that landowners may aspire to.

3.14 In order to establish a benchmark land value for the purpose of CIL viability appraisal, it must be recognised that Local Authorities will have a reasonable expectation that, in granting planning permission, the resultant development will yield contributions towards infrastructure and affordable housing. The cost of these contributions will increase the development cost and therefore reduce the residual value available to pay for the land.

3.15 The appropriate benchmark value will therefore lie somewhere between existing use value and gross residual value based on alternative planning permission. This will of course vary significantly dependent on the category of development being assessed

3.16 The key part of this process is establishing the point on this scale that balances a reasonable return to the landowner beyond existing use value and a reasonable margin to allow for infrastructure and affordable housing contributions to the Local Authority.

Benchmarking and Threshold Land Value Guidance

3.17 Benchmarking is an approach which the Homes and Communities Agency refer to in 'Investment and Planning Obligations: Responding to the Downturn'. This guide states: "*a viable development will support a residual land value at a level sufficiently above the site's existing use value (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner*".

3.18 The NPPF has introduced a more stringent focus on viability in planning considerations. In particular para 173 states:-

"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 land owner and willing developer to enable the development to be deliverable"

3.19 The NPPF recognises that, in assessing viability, unless a realistic return is allowed to a landowner to incentivise release of land, development sites are not going to be released and growth will be stifled. The Local Housing Delivery Group guidance 'Viability Testing Local Plans' states :-

"Another key feature of a model and its assumptions that requires early discussion will be the Threshold Land Value that is used to determine the viability of a type of site. This Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development, before payment of taxes (such as capital gains tax)".

Different approaches to Threshold Land Value are currently used within models, including consideration of:

- *Current use value with or without a premium.*
- *Apportioned percentages of uplift from current use value to residual value.*
- *Proportion of the development value.*
- *Comparison with other similar sites (market value).*

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values. The precise figure that should be used as an appropriate premium above current use value should be determined locally. But it is important that there is evidence that it represents a sufficient premium to persuade landowners to sell".

NCS Approach to Land Value Benchmarking (Threshold Land Values)

3.20 NCS has given careful consideration to how the Threshold Land Value (ie the premium over existing use value) should be established.

3.21 We have concluded that adopting a fixed % over existing value is inappropriate because the premium is tied solely to existing value – which will often be very low - rather than balancing the reasonable return aspirations of the landowner to pursue a return based on alternative use as required by the NPPF. Landowners are generally aware of what their land is worth with the benefit of planning permission. Therefore a fixed % uplift over existing use value will not generally be reflective of market conditions and may not be a realistic method of establishing threshold land value.

3.22 We believe that the uplift in value resulting from planning permission should effectively be shared between the landowner (as a reasonable return to incentivise the release of land) and the Local Authority (as a margin to enable infrastructure and affordable housing contributions). The % share of the uplift will vary dependent on the particular approach of each Authority but based on our experience the landowner will expect a minimum of 50% of the uplift in order for sites to be released. Generally, if a landowner believes the Local Authority is gaining greater benefit than he is, he is unlikely to release the site and will wait for a change in planning policy. We therefore consider that a 50:50 split is a reasonable benchmark and will generate base land values that are fair to both landowners and the Local Authority.

The Wokingham Appeal Decision (APP/X0360/A/12/2179141) in January 2013 has provided clear support for this approach to establishing a 'reasonable return the landowner' under the requirements of the NPPF. The case revolved around the level of affordable housing and developer contributions that could be reasonably required and in turn the decision hinged on the land value allowed to the applicant as a 'reasonable return' to incentivise release of the site. The Inspector held that the appropriate approach to establishing the benchmark or threshold land value would be to split the uplift in value resulting from planning permission for the Alternative Use - 50:50 between landowner and the community.

The Threshold Land Value is established as follows :-

Existing Use Value + % Share Of Uplift from Planning Permission = Threshold Land Value

3.23 The resultant threshold values are then checked against market comparable evidence of land transactions in the Authority's area by our valuation team to ensure they are realistic. We believe this is a robust approach which is demonstrably fair to landowners and more importantly an approach which has been accepted at CIL and Local Plan Examinations we have undertaken.

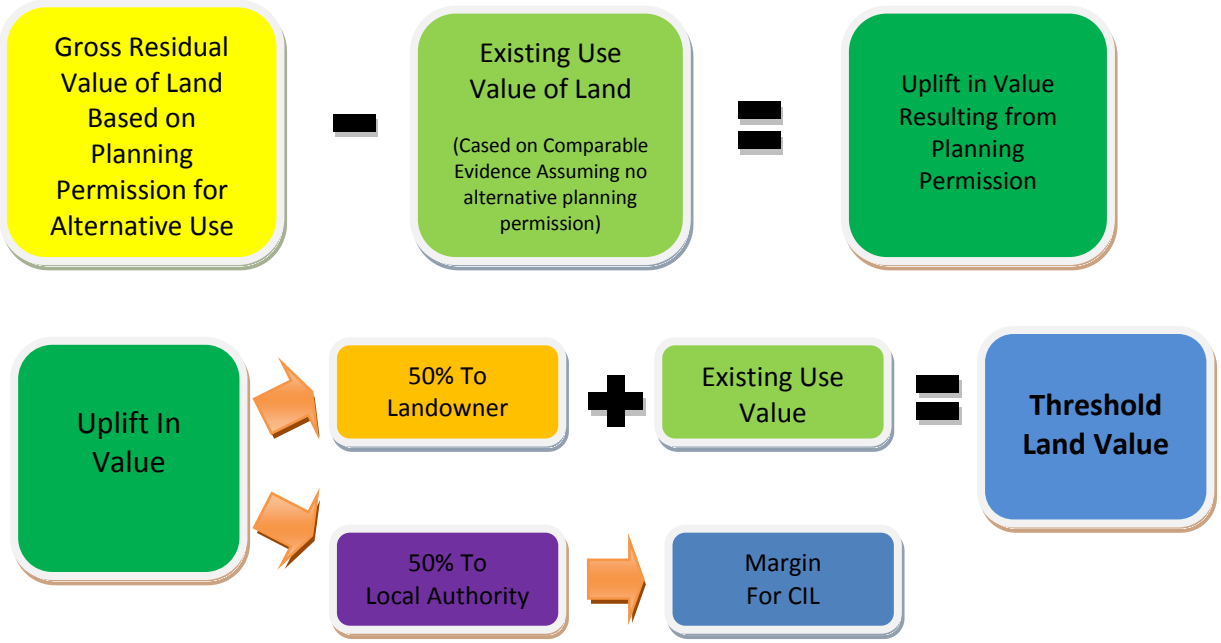
Worked Example Illustrating % over Existing Use vs % Share of Uplift

3.24 A landowner owns a 1 Hectare field at the edge of a settlement. The land is proposed to be allocated for residential development. Agricultural value is £20,000 per Ha. Residential land is being sold in this area for £1,000,000 per Ha. For the purposes of CIL viability assessment what should this Greenfield site be valued at?

Using Fixed % over EUV the land would be valued at £24,000 (£20,000 + 20%)

Using % Share of Uplift in Value the land would be valued at £510,000 (£20,000 + 50% of the uplift between £20,000 and £1,000,000) – realising a market return for the landowner but reserving a substantial proportion of the uplift for infrastructure contribution.

Benchmarking Based on % Share of Uplift in Land Value



Brownfield and Greenfield Land Value Benchmarks

3.25 In order to represent the likely range of benchmark scenarios that might emerge in the plan period for the appraisal it will be necessary to test alternative threshold land value scenarios. A greenfield scenario will represent the best case for developer contributions as it represents the highest uplift in value resulting from planning permission. The greenfield existing use is based on agricultural value.

3.26 The median brownfield position recognises that existing commercial sites will have an established value. The existing use value is based on a low value brownfield use (industrial). The viability testing firstly assesses the gross residual value (the maximum potential value of land based on total development value less development cost with no allowance for affordable housing, CIL, sec 106 contributions or planning policy cost impacts). This is then used to apportion the share of the potential uplift in value to the greenfield and brownfield benchmarks. This is considered to represent a reasonable scope of land value scenarios in that change from a high value use (eg retail) to a low value use (eg industrial) is unlikely.

3.27 In CIL appraisal work, as a sense check, the viability appraisals are also undertaken based on market comparable evidence of actual land transactions in the relevant use category. Actual market evidence will not always be available for all categories of development, the valuation team make reasoned assumptions. It is not recommended that these results are used as the basis for setting CIL rates or Affordable Housing targets since the market transaction land values may not necessarily reflect proper allowance for planning policy impacts – particularly where a policy that has a direct 'land taxation' impact (like CIL) has not previously been in existence.

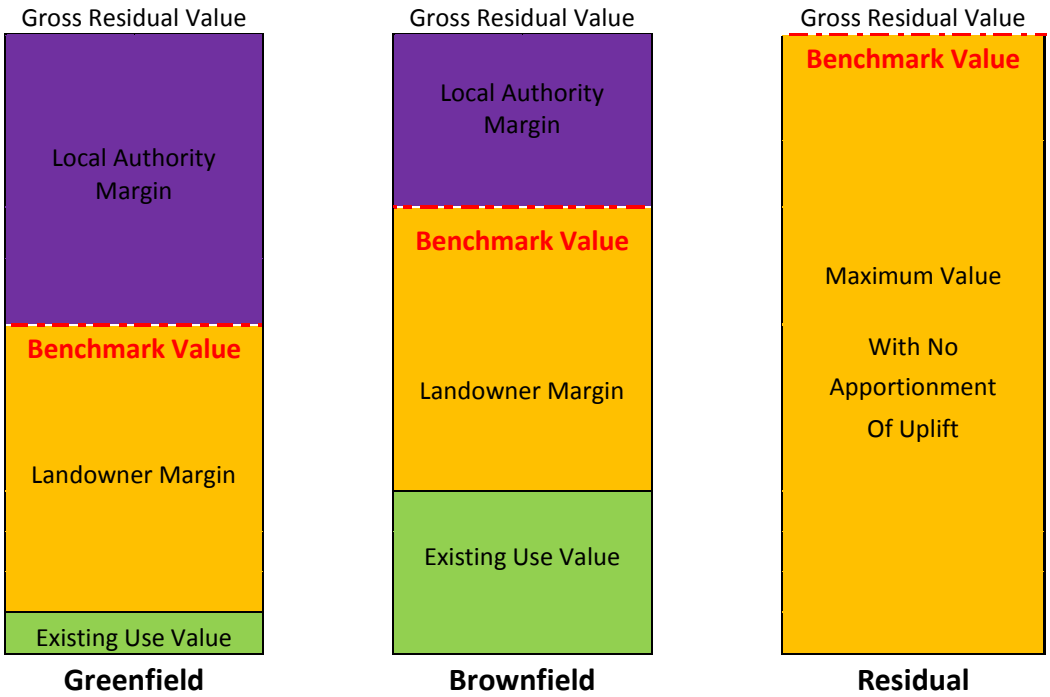
Residential

Benchmark 1	Greenfield	Agricultural – Residential
Benchmark 2	Brownfield	Industrial – Residential
Benchmark 3	Market Comparable	Based on transactional evidence where available (CIL Appraisal only)

Commercial

Benchmark 1	Greenfield	Agricultural – Proposed Use (Maximum CIL Potential)
Benchmark 2	Brownfield	Industrial – Proposed Use
Benchmark 3	Market Comparable	Based on transactional evidence where available (CIL Appraisal only)

3.28 The viability study normally assumes that affordable housing land has no value because development costs generally exceed affordable housing sales value. In very high value areas adjustments are made to this assumption to reflect affordable housing land value as appropriate.



3.29 The above diagram illustrates the concept of Benchmark Land Value. The level of existing use value for the three benchmarks is illustrated by the green shading. The uplift in value from existing use value to proposed use value is illustrated by the blue and gold shading. The gold shading represents the proportion of the uplift allowed to the landowner for profit. The blue shading represents the allowance of the uplift for developer contributions to the Local Authority. The Residual Value assumes maximum value with planning permission with no allowance for planning policy cost impacts. This benchmark is used solely to generate the brownfield and greenfield threshold values.

3.30 Whilst brownfield land evaluation with a higher benchmark land value will necessarily indicate that less margin exists for policy cost impacts.

3.31 The 'Market Comparable' land values will normally represent the highest land value assumptions of the three assessed benchmarks as they cannot make allowance for the introduction of the new policy that is being assessed and which will have subsequent impact on value, once adopted.

Residual Valuation & Development Appraisal

3.32 NCS do not rely solely on residual value appraisal to assess viability. Alternative methodologies rely on subtracting development costs and profit from development value and inputting assumed developer contributions and policy impact costs to give a residual value for land. This residual value is then compared to a benchmark value. If it is equal to or higher to the benchmark the development is deemed to be viable.

3.33 The problem with the residual value approach is that it doesn't factor in the finance cost of land – which will be the element of development cost that is incurred up front and carry finance costs through the entire development process. The omission of this finance cost could potentially give a false picture of development viability.

3.34 NCS therefore adopt a development appraisal approach rather than a residual land value approach. NCS has developed a bespoke model specifically to assess the economic viability of development. This model factors in land value (threshold land value as discussed in the previous section) as a key element of development cost. In this way the finance charges for all elements of development cost are properly assessed including land.

Residual Valuation & Development Appraisal

3.35 The NCS model is based on standard development appraisal methodology, comparing development value to development cost. The model factors in a reasonable return for the landowner with the established threshold value, a reasonable profit return to the developer and the assessed cost impacts of proposed planning policies to determine if there is a positive or negative residual output. Provided the margin is positive (ie Zero or above) then the development being assessed is deemed viable. The principles of the model are illustrated below.

Development Value (Based on Floor Area) Eg 2000sqm Unit x £1,100per sqm	£2,200,000
Development Costs	
Land Value	£400,000
Construction Costs	£870,000
Abnormal Construction Costs (Optional)	£100,000
Professional Fees (% Costs)	£90,000
Legal Fees (% Value)	£30,000
Statutory Fees (% Costs)	£30,000
Sales & Marketing Fees (% Value)	£40,000
Contingencies (% Costs)	£50,000
Section 106 Contributions/Policy Impact Cost Assumptions	£90,000
Finance Costs (% Costs)	£100,000
Developers Profit (% Return on GDV)	£350,000
Total Costs	£2,150,000
Output	
Viability Margin	£50,000
Potential CIL Rate (CIL Appraisal only)	£25 sqm

Property Sales Values

3.36 The sale value of the development category will be determined by the market at any particular time and will be influenced by a variety of locational, supply and demand factors as well as the availability of finance. The study uses appropriate available evidence to give an accurate representation of the market circumstances on which Development Plan policy will be based. Sales value evidence is based on the Valuation survey undertaken by Heb Surveyors in 2012.

Sales Values

Sub Market Area/CIL Charging Zone	Sales Value £sqm				
	Apartment	2 Bed	3 Bed	4 Bed	5 Bed
1 Low	2000	2000	2100	2150	2200
2 Medium	2700	2700	2775	2900	3015
3 High	3230	3120	3015	2960	2960

Development Categories

4.1 In order to ensure that the study is sufficiently comprehensive to inform a Differential Rate CIL system, all categories of development in the Use Classes Order will be considered, including a relevant sample of Sui Generis uses to reflect typical developments in Worthing, as follows :-

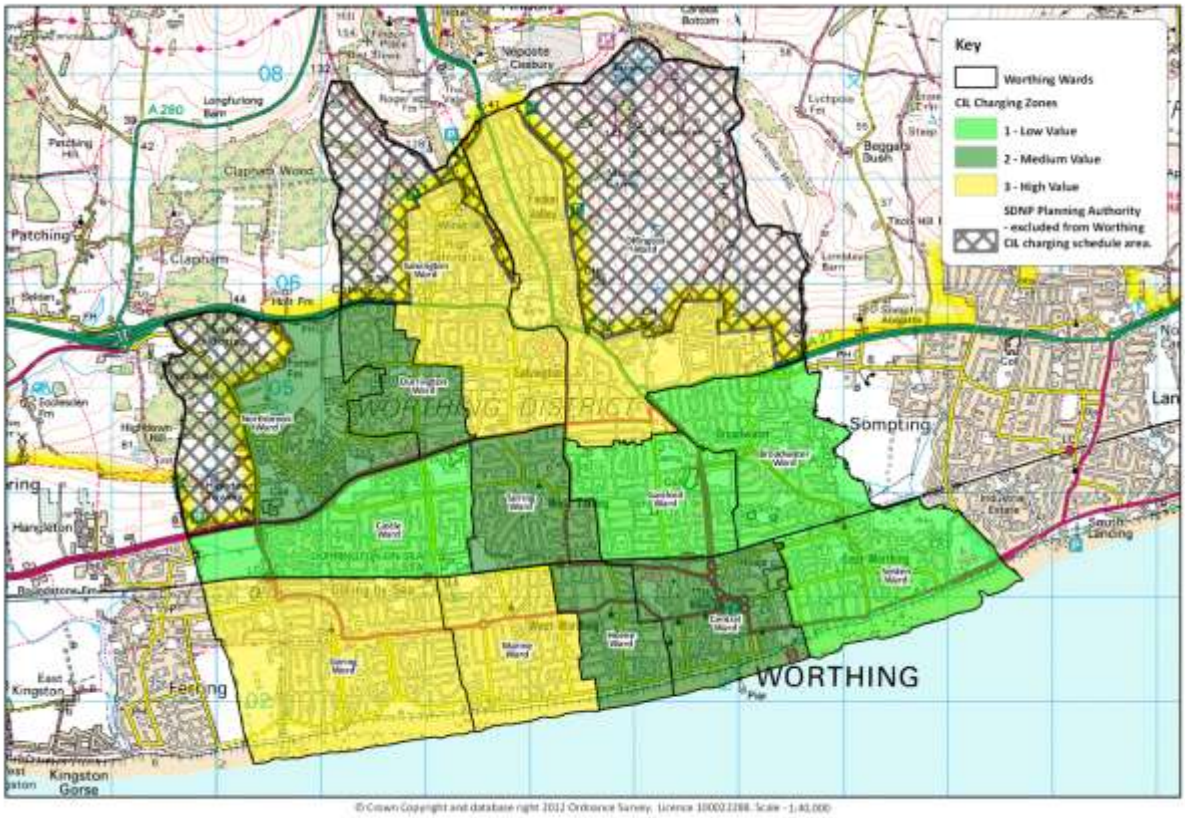
Residential (C3) - Based on varying residential development scenarios and factoring in the affordable housing requirements of each Authority. Land values are assessed based on house type plots. Sales values are assessed on per sqm rates.

Commercial - The following categories are considered. Land Values and Gross Development Values are assessed on sqm basis.

Industry (B1(b)B1(c), B2, B8)
Offices (B1a)
Food Supermarket Retail (A1)
General Retail (A1, A2, A3, A4, A5)
Hotels (C1)
Residential Institutions (C2)
Institutional and Community (D1)
Leisure (D2)
Agricultural
Sui Generis - Vehicle Sales
Sui Generis – Car Repairs

Potential Charging Zones

4.2 The valuation study considered evidence of residential land and property values across Worthing and did gather evidence which indicated the presence of differential residential values which could be broadly divided into three principal sub-market areas. These sub-markets, based on Ward boundaries within the Borough, are illustrated on the following plan :-



Residential Sub Market Areas

Lower Value Wards	Broadwater, Castle, Gaisford, Selden
Medium Value Wards	Central, Durrington, Heene, Northbrook, Tarring
Higher Value Wards	Goring, Marine, Salvington

It should be stressed that the sub-market areas represent an overview of property value and there will be distinctions within many of the Wards.

4.3 The valuation study concluded that any variations in the value of commercial locations in the Borough are not significant enough to warrant a differential charging zone approach to commercial CIL rates.

Affordable Housing

4.4 The residential viability tests factor in affordable housing in accordance with the Borough's relevant policy on proportion and mix. The following extract from a residential viability appraisal model illustrates how affordable housing is factored into the residential valuation assessment. The relevant variables (eg unit numbers, types, sizes, affordable proportion, tenure mix etc) are inputted into the highlighted cells. The model will then calculate the overall value of the development taking account of the relevant affordable unit discounts.

DEVELOPMENT SCENARIO		Mixed Residential Development					
BASE LAND VALUE SCENARIO		Greenfield to Residential					
DEVELOPMENT LOCATION		Urban Zone 1					
DEVELOPMENT DETAILS		100	Total Units				
Affordable Proportion	30%	30	Affordable Units				
Affordable Mix	30%	Intermediate	40%	Social Rent	30%	Affordable Rent	
Development Floorspace		6489	Sqm Market Housing		2,163	Sqm Affordable Housing	
Development Value							
Market Houses							
7	Apartments	65	sqm	2000	£ per sqm		£910,000
14	2 bed houses	70	sqm	2200	£ per sqm		£2,156,000
28	3 Bed houses	88	sqm	2200	£ per sqm		£5,420,800
14	4 bed houses	115	sqm	2200	£ per sqm		£3,542,000
7	5 bed house	140	sqm	2200	£ per sqm		£2,156,000
Intermediate Houses		60%	Market Value				
3	Apartments	65	sqm	1200	£ per sqm		£210,600
5	2 Bed house	70	sqm	1320	£ per sqm		£415,800
2	3 Bed House	88	sqm	1320	£ per sqm		£209,088
Social Rent Houses		40%	Market Value				
4	Apartments	65	sqm	800	£ per sqm		£187,200
6	2 Bed house	70	sqm	880	£ per sqm		£369,600
2	3 Bed House	88	sqm	880	£ per sqm		£185,856
Affordable Rent Houses		50%	Market Value				
3	Apartments	65	sqm	1000	£ per sqm		£175,500
5	2 Bed house	70	sqm	1100	£ per sqm		£346,500
2	3 Bed House	88	sqm	1100	£ per sqm		£174,240
100	Total Units						
Development Value							**£16,459,184**

4.5 The following Affordable Housing Assumptions have been agreed for the purpose of the residential viability appraisals. The assumptions relate to the overall proportion of affordable housing, the tenure mix between Intermediate, Social Rent and Affordable Rent housing types. Finally the transfer values in terms of % of open market value is set out for each tenure type.

Affordable Housing				
Sub Market Area	Proportion %	Tenure Mix %		
		Intermediate	Social Rent	Affordable Rent
1 Low	30%	35%	30%	35%
2 Medium	30%	35%	30%	35%
3 High	30%	35%	30%	35%
Transfer Values		70%	40%	60%

4.6 The affordable assumptions were applied to all residential scenario testing with the exception of the 5 unit executive housing development which is below the affordable housing threshold.

Development Density

4.7 Density is an important factor in determining gross development value and land value. Density assumptions for commercial development will be specific to the development category. For instance the floorplate for industrial development is generally around 50% of the site area to take account of external servicing, storage and parking, Offices will vary significantly dependent on location, town centre offices may take up 100% of the site area whereas out of town locations where car parking is a primary consideration, the floorplate may be only 25% of the site area. Food retailing generally has high car parking requirements and large site areas compared to floorplates.

The land : floorplate assumptions for commercial development are as follows:-

Industrial	2:1	
Offices	2:1	
General Retail	1.5:1	(shopping parades, local centres etc)
Food retail	3:1	
Leisure	3:1	

Hotels	2:1
Residential Institutions	1.5:1
Community Uses	1.5:1
Other Uses	2:1

4.8 Residential densities vary significantly dependent on house type mix and location. Mixed housing developments may vary from 10-50 dwellings per Hectare. Town Centre apartment schemes may reach densities of over 150 units per Hectare. We generate plot values for residential viability assessment related to specific house types. The plot values allow for standard open space requirements per Hectare.

4.9 The density assumptions for house types related to plot values are as follows :-

Apartment	120 units per Ha
2 Bed House	50 units per Ha
3 Bed House	40 units per Ha
4 Bed House	25 units per Ha
5 Bed House	20 units per Ha

House Types and Mix

4.10 The study uses the following standard house types as the basis for valuation and viability testing as unit types that are generally reflective of market circumstances in Worthing and that reflect the minimum space standards as set out in the Council's Space standards SPD (2012).

2 Bed Apartment	66 sqm
2 Bed House	77 sqm
3 Bed House	93 sqm
4 Bed House	106 sqm
5 Bed House	140 sqm

4.11 Housing values and costs are based on the same gross internal area. However apartments will contain circulation space (stairwells, lifts, access corridors) which will incur construction cost but which is not directly valued. We make an additional construction cost allowance of 20% to reflect the difference between gross and net floorspace.

Development Scenarios

Residential

4.12 The study tests a series of residential development scenarios to reflect general types of development that are likely to emerge over the plan period in Worthing.

4.13 For residential development, five scenarios were considered. The list does not attempt to cover every possible development scenario but seeks to be broadly representative of the type of residential development likely to emerge over the plan period.

1. Mixed Housing (Apt, 2, 3, 4 & 5 Bed Housing)	100 Units
2. High Rise Apartments (2 Bed Apts)	100 Units
3. Low Rise Apartments Block (2 Bed Apts)	25 Units
4. Executive Housing (3 & 4 Bed Housing)	5 Units
5. Suburban Housing Estate (2 & 3 Bed Housing)	40 Unit

The relevant affordable housing requirements are applied to scenarios 1,2,3 & 5. Scenario 4 is below the threshold and no affordable housing targets were applied.

Commercial

4.14 The following sample developments have been used for the viability assessments.

Industry	1000sqm Factory
Offices	2000sqm Office Building
Food Retail (supermarket)	3000sqm Supermarket
General Retail	300sqm Roadside Retail Unit
Hotels	3000sqm Mid Range Hotel
Residential Institutions	4000sqm Care Facility
Institutional and Community	200sqm Community Centre
Leisure	2500sqm Bowling Alley
Agricultural	500sqm Farm Store
Sui Generis - Vehicle Sales	1000sqm Car Showroom
Sui Generis – Car Repairs	300sqm Car Repair Garage

Code for Sustainable Homes

4.15 The study adopts CoSH 3 to reflect the base standard for residential construction in Worthing.

Construction Costs

4.16 The construction rates will reflect allowances for external works, drainage, servicing preliminaries and contractor's overhead and profit. The viability assessment will include a 5% allowance for construction contingencies.

Abnormal Construction Costs

4.17 Most development will involve some degree of exceptional or 'abnormal' construction cost. Brownfield development may have a range of issues to deal with to bring a site into a 'developable' state such as demolition, contamination, utilities diversion etc. Viability assessment is a generic test and it would be unrealistic to make assumptions over average abnormal costs to cover such a wide range of scenarios. It is considered better to bear the unknown costs of development in mind when setting CIL rates and not fix rates at the absolute margin of viability.

Planning Obligation Contributions & Planning Policy Impacts

4.18 CIL is likely to replace some if not all planning obligation contributions. The purpose of the study is to test the maximum margin available for CIL that is available from various types of development. CIL, once adopted, will represent the first 'slice' of tax on development. In Worthing, whilst CIL is intended to be the primary mechanism for collecting contributions from development, Planning Obligations may in used in some circumstances (usually larger developments) to top up contributions subject to the specific needs arising from that development and viability considerations at planning application stage.

4.19 Nevertheless the CIL Guidance 2013 indicates that Authorities should demonstrate that the development plan is deliverable by funding infrastructure through a mixture of CIL and planning obligation contributions in the event that the Authority do not intend to completely replace planning obligations with CIL.

Residual Planning Obligations for site specific mitigation	**£500 per dwelling** **£5 per sqm commercial**

4.20 Historical evidence over the last 5 years demonstrates that where planning obligations have been charged an average of £1596 per dwelling and £17 per sqm for commercial development. It is likely that CIL will replace a significant part of this funding requirement in the future so it is proposed to make a future allowance £500 per dwelling and £5 per sqm of commercial/non-residential space (also reflecting the fact that the historic figures only relate to development where S106 contributions were relevant and not to an average contribution covering all residential development).

4.21 The Plan has been reviewed by Worthing and it is considered that there are no additional planning policy cost impacts that need to be factored into the appraisals beyond the CoSH 3 construction allowance and Affordable Housing value discounts.

Developers Profit

4.22 Developers profit is generally fixed as a % return on gross development value or return on the cost of development to reflect the developer's risk. In current market conditions, and based on the minimum lending conditions of the financial institutions, a 20% return on GDV is used in the residential viability appraisals to reflect speculative risk. A 17.5% return is applied to commercial development in recognition that most development will be pre-let or pre-sold with a reduced level of risk.

5 Viability Appraisal Results

5.1 The results of the CIL Viability Testing are set out in the tables on the following pages. The residential results are illustrated based on the Council's Affordable Housing Target of 30%. The second table illustrates potential CIL rates with no Affordable Housing.

5.2 Each category of development produces a greenfield and brownfield result in each test area. These results reflect the benchmark land value scenario. The first result assumes greenfield development which generally represents the highest uplift in value from current use and therefore will produce the highest potential CIL Rate. The second result assumes that development will emerge from low value brownfield land. As explained in the Land Value assumptions Section, the Market Comparable results are provide as a sense check. They rely on a full allowance for land value that is not necessarily reflective of a 'reasonable return to the landowner' that acknowledges the policy impacts and reasonable developer contribution aspirations of the Local Authority.

5.3 It should be recognised that the CIL Rates that have emerged from the study are maximum potential rates, based on optimum development conditions. The viability tests are necessarily generic and do not factor in site specific abnormal costs that may be encountered on many development sites. The tests produce maximum contributions for infrastructure and therefore ultimate CIL charges may need to allow for additional unforeseen costs and site specific abnormals.

5.4 In response to concerns expressed over specialist elderly housing an additional viability appraisal was undertaken into the delivery of sheltered housing (assumed to be in C3 class with no extra care). The appraisal is attached at Appendix 3.

5.5 A site specific appraisal of the Union Square redevelopment was undertaken to test the impact of the proposed CIL rates on one of the key regeneration schemes in the Borough. The appraisal is attached at Appendix 4.

5 Viability Appraisal Results

Maximum Residential CIL Rates per Sqm

Charging Zone/Base Land Value	Mixed Residential Development	High Rise Apartments	Low Rise Apartment Block	Executive Housing	Suburban Housing
1 Low					
Greenfield	£96	-£1,144	-£256	£137	£73
Brownfield	-£48	-£1,199	-£310	-£9	-£62
Market Comparable	-£64	-£1,205	-£315	-£25	-£77
2 Medium					
Greenfield	£292	£397	£208	£309	£275
Brownfield	£132	£321	£131	£146	£124
Market Comparable	-£32	£244	£55	-£39	-£32
3 High					
Greenfield	£302	£360	£611	£271	£419
Brownfield	£142	£286	£538	£105	£268
Market Comparable	-£17	£211	£464	-£59	£117

Maximum Residential CIL Rates per Sqm Zero Affordable Housing

Charging Zone/Base Land Value	Mixed Residential Development	High Rise Apartments	Low Rise Apartment Block	Executive Housing	Suburban Housing
1 Low					
Greenfield	£223	-£861	-£74	£259	£216
Brownfield	£78	-£916	-£127	£110	£83
Market Comparable	£63	-£922	-£133	£94	£68
2 Medium					
Greenfield	£366	£525	£309	£368	£359
Brownfield	£219	£470	£255	£214	£223
Market Comparable	£68	£413	£196	£58	£83
3 High					
Greenfield	£328	£453	£649	£297	£449
Brownfield	£181	£398	£591	£143	£314
Market Comparable	£35	£343	£536	-£8	£178

For explanation of Market Comparable Benchmark see Para 3.26

Maximum Commercial CIL Rates per Sqm

Sub Market/Base Land Value	Industrial (B1b B1c B2 B8)	Office (B1a)	Food Supermarket (A1)	General Retail (A1-A5)	Hotel (C1)
Boroughwide					
Greenfield	£65	-£805	£912	£932	-£333
Brownfield	-£21	-£880	£779	£868	-£408
Market Comparable	£45	-£822	-£263	£853	-£408
Sub Market/Base Land Value	Residential Institution (C2)	Community (D1)	Leisure (D2)	Agricultural (A1-A5)	Sui Generis
Greenfield	-£930	-£395	-£1068	-£340	
Brownfield	-£986	-£459	-£1201		Car Repairs -£77
Market Comparable	-£965	-£410	-£1151		Car Sales -£18

6 Infrastructure Funding Deficit

6.1 An Infrastructure Funding Gap Review has been undertaken by WYG to consider whether the infrastructure required to support growth in the Borough has a sufficient funding deficit to justify the introduction of a Community Infrastructure Levy. The full study is attached at Appendix 5.

6.2 In mid 2012 WBC provided WYG with a comprehensive set of documentation from which to produce a schedule of infrastructure schemes potentially eligible for CIL funding. Schemes were assessed against a range of criteria and the results of this initial review were summarised in the 'Infrastructure Funding Gap Review' report (ref: RT77233-01) dated 11th September 2012 at Appendix 5. This review identified numerous schemes that could potentially be eligible for CIL funding, subject to obtaining further information.

6.3 WYG were therefore appointed to consult with the various infrastructure providers to seek clarification as to whether or not these schemes could be considered eligible for future CIL funding.

6.4 The Infrastructure Funding Gap Review summarises the consultation process followed and details the feedback received. The report also presents the current version of the draft Infrastructure Schedule, which has been updated based on the feedback received. A total of 43 infrastructure schemes have been identified by WBC and their partners for potential CIL funding. These are summarised and discussed in the report.

6.5 The total estimated Infrastructure Funding Deficit from these 43 schemes currently stands at circa £83.6m which is a considerable sum and significantly exceeds the value of CIL revenue expected to be generated during the Plan period. However, it is anticipated that this total deficit value will reduce as more detailed scheme information becomes available and potential alternative funding sources are confirmed.

6.6 It is the conclusion of this report that a robust Infrastructure Funding Deficit clearly exists to justify the proposed introduction of CIL. However, the Council will need to continue to develop and refine the infrastructure schedule and should identify priorities for scheme delivery to ensure that the needs of facilitating future growth are effectively balanced against future CIL revenue.

Residential Unit Projections

7.1 For the plan period 2012- 2026, the total Housing requirement is 2,664 (-700 dwellings at West Durrington). Of the balance of 2,000 dwellings, there is likely to be 2 years of delivery until CIL is in place giving a further balance of 1,700. It is estimated that approximately 20% of Worthing's housing delivery comes through changes of use and redevelopment of existing buildings (which are likely to be exempt from a CIL charge by virtue of the relief for re-use/demolition of existing floorspace). This indicates an adjusted net figure of 1,360 dwellings.

7.2 Affordable housing is exempt from CIL, though it is not considered appropriate to apply the 30% requirement in full as some of the schemes already discounted above and developments of 5 or less units would not deliver affordable housing. Therefore, it is considered that a further discount of 15% should be applied giving a net figure of dwellings likely to qualify for a CIL charge of 1,156 between 2014 and 2026.

7.3 In order to estimate residential CIL revenue over the relevant part of the plan period the recommended CIL rate is applied to an average dwelling size of 90 sqm, as illustrated in the following table. The projected revenue is based on current rates and does not allow for indexation.

Charging Zone	Residential CIL rate	Av Dwelling Size (sqm)	Eligible Dwellings 2014-2026	CIL Revenue
1 Boroughwide	£100	90sqm	1156	£10,404,300

Retail Unit Projections

7.6 Retail floorspace predictions are difficult to estimate in Worthing as much will depend on the ability to bring forward key sites – particularly the opportunity to deliver a new retail heart at Union Place which could potentially deliver 34,000sqm of new retail floorspace. The floorspace projections assume that the schemes envisaged by the Core Strategy will be delivered in the plan period but it should be recognised that this revenue could vary significantly if key schemes (such as Union Place) do not come forward for any reason.

7.7 For the purposes of this assessment the retail capacity forecasts are used from the 2010 retail study which informed the Core Strategy (based on Scenario 1 figures representing no change in market share as a consequence of new developments) as follows.

Convenience Goods: 7,250sqm
Comparison Goods: 50,850sqm

Total 2010 to 2026 = 58,100sqm

7.8 It is assumed that some delivery will take place prior to CIL adoption. Based on a pro-rata rate applied to the Plan period when CIL is likely to be in place (2014-2026) the floorspace figure has been adjusted to 43,575sqm. It is assumed that most floorspace will be delivered from new build floorspace with no significant exemption for redevelopment floorspace.

Charging Zone	Category	CIL Rate	Eligible Floorspace	CIL Revenue
Boroughwide	Retail	£150sqm	43575	£6,536,250
			Total	**£6,536,250**

Key Findings - Residential Development

8.1 The residential viability testing illustrated that, in general terms, most forms of residential development in all locations in Worthing are viable and can accommodate CIL charges, having factored in the Council's Affordable Housing targets.

8.2 The testing showed that all forms of residential development anticipated to emerge over the plan period are viable in the medium to high value areas of Worthing but that only greenfield housing is viable in the low value areas.

8.3 The study has undertaken additional research in response to concerns over the viability of apartment development in Worthing which is likely to make up a significant proportion of overall housing delivery over the plan period. The additional research revealed errors in the cost and value assumptions made in the initial study. The construction costs were deemed to be broadly correct but adjusted from £1705 sqm to £1680 to reflect the likelihood that high rise apartment development in Worthing would be in a scale range of 5-12 storeys (rather than city centre skyscraper scale which might have higher construction rates). The value allowances for high rise apartments in the medium and high zones in good locations was found to be too low and has been adjusted to £4000 sqm (seafront and seaview property would generate additional premium values beyond this).

8.4 The revised appraisal demonstrated that in the medium and high value areas apartments could accommodate very significant levels of CIL (£131-£538sqm on brownfield sites and £208-£611sqm on greenfield sites)

8.5 The general housing appraisals in the medium and high value areas also demonstrated significant potential for CIL (£105 -£146 for brownfield sites and £271-£419sqm for greenfield sites). The brownfield site appraisals in the low value areas demonstrated negative viability with only greenfield general housing sites being viable.

8.6 The study has also undertaken an additional appraisal of Sheltered Housing which would be liable to CIL as Class C3 use. It is considered that specialist extra care housing would fall into Class C2 use and therefore be exempt from CIL as a non viable zero rated category (see Commercial Development Conclusions below). The Viability Appraisal is attached at Appendix 3.

8.7 The Appraisal considered sheltered housing developments in the three sub-market areas of Worthing. The additional valuation research indicated premium sales values for this type of accommodation in Worthing and sales values of £3041-£3655 were adopted in the study in line with comparable evidence of this type of development in Worthing. Enhanced construction rates of £1200 sqm were adopted (representing a 24% increase on standard residential construction rates). An additional allowance of 30% was made for construction of non-revenue earning space (wardens flat, residents lounge, communal spaces etc).

Charging Zone/Base Land Value	Sheltered Housing Development Max CIL Rate per Sqm
1 Low	
Greenfield	£306
Brownfield	£245
Market Comparable	£238
2 Medium	
Greenfield	£306
Brownfield	£222
Market Comparable	£130
3 High	
Greenfield	£430
Brownfield	£341
Market Comparable	£256

8.8 The viability appraisal results demonstrate that Sheltered Housing in Worthing is more viable than general housing and that there is therefore no reason to consider a separate CIL category for specialist elderly housing.

Key Findings - Commercial Development

8.9 The valuation study concluded that any variations in the value of commercial locations in the Borough are not significant enough to warrant a differential charging zone approach to commercial CIL rates.

8.10 The viability appraisals also illustrated that most forms of categories of commercial development are not viable in current market circumstances in Worthing, which is evident by the lack of activity in these sectors.

8.11 Food supermarket retail and general retail were all assessed to be viable and capable of accommodating CIL in both greenfield and brownfield development. Food supermarket retail indicated potential rates of £779-£912 per sqm and general retail of £868-£932 per sqm. We would recommend some caution in respect of retail rates. Whilst the study has made a reasoned assessment of land values, transactional evidence is low due to lack of activity in the sector. As specific retail projects emerge it is likely that landowners will expect significant premiums in order to release sites, which may reduce viability levels significantly and this should be taken into consideration in rate setting.

8.12 The industrial appraisals indicate viability and potential CIL rates of £65 per sqm on Greenfield sites but since it is likely that most industrial development is likely to emerge from brownfield sites, which demonstrated negative viability, it is not proposed to levy CIL on industrial use. All other non-residential uses demonstrated negative viability with no potential for CIL.

8.13 It should be stressed that the appraisals make a full allowance for developer's profit. Many commercial developments are undertaken direct by occupiers, where this profit allowance can be substantially reduced to reflect occupiers operational or opportunity costs. This adjustment is likely to make many forms of commercial development viable and therefore the test results should not be seen as any indicator that employment uses in Worthing are not capable of being delivered.

Site Specific Appraisal – Union Place

8.14 In order to assess the impact of CIL on an actual development proposed in Worthing, as recommended by the CIL Guidance, a Viability Appraisal of the Union Place mixed use redevelopment site has been undertaken, applying the proposed CIL Charges. The Appraisal is attached at Appendix 4. The assessment is based on the following assumptions (extracted from the Council's draft sales brief and the retail study undertaken by DTZ in 2007)

Site Area	0.5Ha
Department Store	8000sqm (2 Storey)
50 Apartments	3300sqm (Low Rise)
200 Basement Parking Spaces	4500sqm (1 level)

Land Value	Retail £1,000,000	Residential £500,000	Total £1.5Million

The land value allowance significantly exceeds the general retail brownfield land value benchmark but has been adjusted to reflect the town centre location and high density mixed use nature of the site.

8.15 The Appraisal demonstrates positive viability for both the residential and retail elements of the development having allowed for the proposed CIL rates, the residual planning obligation contributions and 30% Affordable Housing delivery.

General Conclusions

8.16 It is acknowledged that the variations in residential value could potentially justify a differential zone approach to setting residential CIL rates. However, in a tightly constrained primarily urban area like Worthing, specific Charging Zone boundaries will always be difficult to justify. There will always be anomalies within the 'ward' test areas and specific zoning of differential value zones in such close proximity may be difficult to justify taking account of the 'area base overview approach' recommended by the CIL Guidance 2013.

8.17 Taking account of the development strategy in Worthing where the majority of development is likely to emerge in the medium and high value sub-market areas it is considered that a single CIL rate of £100 per sqm would be appropriate for residential development. It is acknowledged that a £100 CIL rate could potentially threaten the viability of some residential development in the low value sub-market area.

8.18 The CIL Guidance 2013 advises that :-

"Charging authorities should use an area-based approach, which involves a broad test of viability across their area as the evidence base to underpin their charge. Charging authorities should take a strategic view across their area and should not focus on the potential implications of setting a CIL for individual development sites within a charging authority's area. Regulation 14 recognises that the introduction of CIL may put some potential development sites at risk. It is for charging authorities to decide what CIL rate, in their view, sets an appropriate balance between the need to fund infrastructure, and the potential implications for the economic viability of development across their area".

8.19 In the context of this guidance, the viability assessment assumes that 30% Affordable Housing will be delivered prior to the imposition of the Community Infrastructure Levy. It should be recognised that the 30% Affordable Housing rate represents a target that may be varied subject to viability considerations. In exceptional circumstances where a £100 CIL could potentially threaten the viability of residential development (eg in the low value sub-market area) then consideration may need to be given to reducing Affordable Housing requirements for specific developments. This can be properly assessed at planning application stage by employing site specific viability appraisal.

8.20 It is important to recognise that Policy Requirements for developer contributions generally represent targets which are normally subject to further viability appraisal at planning application stage. Conversely, CIL will be a fixed levy which will not be subject to further viability appraisal at planning application stage and which should therefore be seen as the 'first slice' of contribution with affordable housing and planning obligation contributions topping up subject to viability considerations. Nevertheless, it should be made clear that the CIL viability assessments have factored in Worthing Council's policy on Affordable Housing provision. The alternative viability testing undertaken with no allowance for Affordable Housing (see Viability Testing Results at Section 5) illustrates that the low value sub-market area has potential to accommodate CIL rates of £78-£110 on brownfield housing sites and £216-£223 on Greenfield sites (having discounted apartment development). As such it is considered that a CIL rate of £100 per sqm would not threaten the viability of residential development as a whole in Worthing as competing contributions can be adjusted if necessary at planning application stage.

8.21 It should be recognised that the CIL Rates that have emerged from the study are maximum potential rates, based on optimum development conditions. The viability tests are necessarily generic and do not factor in site specific abnormal costs that may be encountered on some development sites. The tests produce maximum contributions for infrastructure and therefore ultimate CIL charges may need to allow a 'buffer' for additional contributions for site specific infrastructure.

8.22 The results in each test area reflect different benchmark land value scenarios. The first result assumes greenfield development which generally represents the highest uplift in value from current use and therefore will produce the highest potential CIL Rate. The second result assumes that development will emerge from low value brownfield land. It is acknowledged that the majority of development in an essentially urban environment like Worthing is likely to emerge from brownfield development sites and CIL rates should be set accordingly.

8.23 It is acknowledged that Apartment development is likely to form a significant part (currently estimated to be approximately 40%) of the overall delivery strategy but that this proportion may reduce in the longer term given the development opportunities available in the Borough and the strong need for family housing.. The principal apartment sites envisaged by the plan are as follows:-

Teville Gate	260
The Causeway	154
The Aquarena	85
Bus Depot	42
Grafton Site	100
Union Place -	250

Of these sites Teville Gate and the Causeway have planning permission and will not therefore be impacted by CIL. The Bus Depot, Grafton and Aquarena sites are all in premium sea front locations and are therefore considered viable in line with the apartment viability appraisal work. Union Place values are likely to reflect their central location and the viability of this development will be cross-subsidised by the more lucrative retail space on the lower floors. The appraisal of part of the Union Place development at Appendix 4 illustrates positive viability.

8.24 Overall, the development strategy in Worthing envisages that 75-80% of all new residential development is likely to emerge in the medium and high value sub-market areas of the Borough and therefore CIL rates which could potentially threaten the viability of some development in the lower value sub-market areas are considered unlikely to threaten the delivery of residential development as a whole over the plan period.

Recommended CIL Rates

8.25 Taking account of the difficulties in justifying charging zone boundaries in a constrained urban area, it is considered that a single residential rate would be appropriate in Worthing at a level that reflects overall viability across the identified sub-markets. Taking account of the viability results, the generic nature of the tests and acknowledging that much of the new development in Worthing is likely to emerge on brownfield sites we would recommend the following residential CIL rate:-

Boroughwide Residential	**£100sqm**

8.26 It is similarly recommended that a single zone approach is taken to setting commercial CIL rates. The differential between food supermarket and general retail viability is not considered significant and therefore a single CIL rate is recommended for all forms of retail development. Taking account of the factors expressed above in para 8.9 a retail CIL rate of £150 per sqm recommended. We recommend that all remaining categories of non-residential development (eg industrial,offices, leisure, community, education, institutional etc) be zero rated.

Retail (A1-A5)	£150sqm

8.27 The proposed CIL rates have been considered in context with the overall costs and values of the development they will affect in the following table. The residential example assumes a 3 Bed House in the medium value area of Worthing. The retail example assumes a 3000sqm Supermarket Both types of development assume brownfield site delivery.

Development Type	Maximum Viable Brownfield CIL rate	Proposed CIL rate	CIL as a % of development costs	CIL as a % of GDV
Residential	£321	£100	3.9%	3.6%
Retail	£868	£150	5.5%	4.2%

8.28 The table illustrates the relatively minor impact of the proposed CIL charges. Current residential forecasts published by Savills for the region anticipate 5% increases in house prices over the next 12 months so the impact of the CIL charge on the viability and deliverability of residential development will be marginal. Commercial values are more difficult to predict but yields are starting to improve and it is considered that the proposed retail rate will not adversely impact on the delivery of new retail development.

8.29 Based on the above rates it is estimated that, based on development projections in each chargeable category, the following CIL revenues could be raised over the plan period to 2026.

Residential	£10,404,300
Retail*	£6,536,250
Total	£16,940,000

*Note comments at para 7.6 in respect of retail floorspace projections

8.30 The total projected CIL revenue of £16.9 Million does not exceed the currently identified Infrastructure Funding Deficit of £83.6 Million (based on the Infrastructure Funding Gap Review May 2013) and it is therefore considered that the proposed CIL rates strike the appropriate balance between funding infrastructure and maintaining the economic viability of development as required by the CIL Regulations.

Valuation Study

Construction Cost Study

Sheltered Housing Viability Appraisal

Union Place
Viability Appraisal

Infrastructure Funding Gap Review