WORTHING BOROUGH COUNCIL
COMMUNITY INFRASTRUCTURE LEVY
SCHEDULE EXAMINATION

RESIDENTIAL – QUESTIONS 4 to 11

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4. Are the residential land values assumed in the NCS Assessment (as based on the Land Values Appraisal Study) realistic and representative of sites on which development is likely to occur in Worthing?

<u>Response</u>

The residential land value allowances (for greenfield and brownfield sites) used in the NCS appraisal are benchmark values based on the methodology set out at paragraphs 3.10-3.34 of the Viability Assessment Report. The study also uses market comparable land values from transactional evidence as a sense check but advocates that actual CIL rates are based on the greenfield and brownfield viability results.

The reason that a benchmarking approach to land value allowances is adopted in the NCS study is that historic market land values may not reasonably reflect a fair allowance for the purpose of viability appraisal in planning. They cannot account for the future imposition of a development land tax like CIL and rarely reflect the true cost of affordable housing and planning policy impacts. There are also many other elements that influence the purchasers of land that may skew the true value for the purposes of viability assessment.

The 'true' value of land will always be based on the sale value of the completed development that emerges from the site and that is the basis of the NCS approach.

The key for any viability appraisal in planning is establishing a land value that provides a 'competitive return 'to the landowner as required by the NPPF – and not the maximum land value achievable based on comparable evidence. The Harman Report – 'Viability Testing Local Plans' which is recognised as providing best practice guidance, recommends that land values in viability appraisal should be based on Existing Use Value plus a premium to incentivise landowners to sell. Harman is a little ambiguous on how this premium should be established. NCS therefore adopt the 'share of uplift' principle – which was later confirmed as appropriate under the terms of the NPPF in the Shinfield Appeal case (also see the Council's response to Q2).

The benchmark land value allowances for greenfield development are based on a premium over existing greenfield use – which is taken to equate to agricultural value at £15,000 per hectare. For brownfield development the existing use value is assumed to equate to industrial value (this is explored further later in the Council's responses).

Recent investigation undertaken by the Council's consultants showed up two errors in the appraisals. Firstly a very minor error in some of the greenfield appraisals which failed to add the existing greenfield value of £15,000 per hectare to a share of the uplift. This reduced a few of the greenfield results by £1-£3 and is therefore considered *de minimis.*

However, the brownfield results were based on an industrial value of £799,000 per hectare (which was the industrial residual value calculated from the sales value less development cost in the commercial viability appraisals) rather than the correct market comparable figure of £500,000 (i.e. what industrial equivalent land actually costs to purchase in Worthing).

The corrected appraisal is attached and the results are summarised below which illustrates significantly higher brownfield residential development viability:

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	-£1,473	-£306	£137	£73
Brownfield	£7	-£1,507	-£338	£46	-£11
2 Medium					
Greenfield	£290	£173	£169	£307	£274
Brownfield	£192	£132	£124	£207	£181
3 High					
Greenfield	£300	£173	£591	£268	£418
Brownfield	£202	£132	£551	£168	£326

It is very difficult to cover every scenario for brownfield development in any urban area as residential sites will emerge from many different types of uses. The brownfield base value (reflecting industrial use) is intended to represent the value of underperforming sites or derelict land in a range of uses that is likely to come forward for alternative residential use.

In view of the representations received the Council is aware of the concerns expressed over apartment developments in Worthing, particularly sites that may be in existing residential use where the industrial equivalent base value may be inappropriate.

The identified apartment sites that contribute significantly to the delivery of housing in the plan period are as follows:

1) Teville Gate 260 - Mixed use site including multi-storey car park retail units and derelict buildings (no existing residential use)

2) The Causeway 154 – Vacant office (no existing residential use) *(note – since the granting of this permission plans have been prepared to convert the offices to 40 flats – under the Prior Notification route)*

Both of these sites have planning permission and will probably be unaffected by CIL.

3) The Aquarena 85 – Former swimming pool and leisure centre (no existing residential use)

4) Bus Depot 42 – Bus depot (no existing residential use)

5) Grafton Site 100 - Multi-storey car park, open space, bowling alley (no existing residential use)

6) Union Place - 250 - Surface car park (plus individual commercial / residential units and Guildbourne Shopping Centre) – (some residential but this would be unlikely to be affected if site is redeveloped).

In addition to the above, there are other commercial sites (surface car park, disused gas holder etc) identified in the Core Strategy and supporting evidence that may offer opportunities for some apartment development but this will also need to be balanced against the Council's objective of delivering more family homes.

Based on the above evidence the base value approach adopted in the NCS appraisal is not considered to be unreasonable. Nevertheless for completeness the Council has instructed NCS to undertake some additional appraisals to reflect brownfield residential development that might emerge from existing residential uses. This is discussed in the response to Question 5/6.

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5. Does the NCS Assessment adequately appraise the residential development likely to come forward during the remainder of the Core Strategy Plan period, in particular brownfield residential development and residential redevelopment of land currently in residential use? During the remainder of the plan period what

proportion (in broad terms) of residential development, yet to be granted permission, is anticipated to take place on (a) existing residential land (b) commercial/other brownfield uses (c) greenfield land?

and

6. Would the proposed CIL charge be likely to make residential redevelopment schemes on land currently in residential use unviable?

It is very difficult to cover every scenario for brownfield development in any urban area as residential sites will emerge from many different types of uses. However, the Council considers that the scenarios tested within the Viability Assessment adequately appraise the types of residential development likely to come forward during the Core Strategy plan period.

In the Council's response to question 5 of the Inspector's initial questions further information was provided in relation to the location of future development and the current use of those sites. It is now possible to update this further to provide a more current reflection of the key residential sites identified in the emerging Strategic Housing Land Availability Assessment (see table overleaf).

The table illustrates that the vast majority of these sites lie in commercial or other brownfield use:

a) 37 of 969 dwellings - Existing residential land (4%)

b) 932 of 969 dwellings - Commercial / other brownfield use (96%)

c) 0 of 969 dwellings – Greenfield (0%)

Strategic Housing Land Availability Assessment Review - as at 1/4/14

Site (Including SHLAA ref)	Site Capacity (net)	Time Frame (years)			Ward	CIL VA	Current Use
		0-5	**6 -10**	**11-15**		**Value Areas**	
The Aquarena (AOC 1) (WB08207)	85	25	60	-	Central	Medium	Former swimming pool
Bus Depot, Library Place (AOC2) (WB08046)	42	0	42	-	Central	Medium	Bus depot
Grafton site (AOC3) (WB08180)	100	0	100	-	Central	Medium	Multi-storey car park, open space, bowling ally
Union Place (AOC4) (WB08041)	195	-	35	160	Central	Medium	Surface car park (plus individual commercial / residential units and Guildbourne Shopping Centre)
Former Police Station (AOC4) (WB08042)	55	-	55	-	Central	Medium	Former police station (now vacant)
Teville Gate (AOC5) (WB08039)	260	260	-	-	Central	Medium	Mixed use site inc. multi-storey car park , retail units and derelict buildings
Gas Holder, Lyndhurst Rd (AOC7) (WB08048)	85	25	60	-	Central	Medium	Redundant gas holder and depot buildings
MGM House (WB08181)	7	-	7	-	Heene	Medium	Offices
2 Hastings Road (WB08028)	6	6	-	-	Marine	High	Residential
S/O Stoke Abbott Road (WB08044)	20	20	-	-	Central	Medium	Surface car park
185-187 Findon Road (WB08068)	12	12	-	-	Offington	High	Car show room and garage
6 Southey Road (retrospective) (WB13012)	9	9	-	-	Heene	Medium	Offices
25-26 West Parade (WB13009)	22	22	-	-	Marine	High	Residential
Jolly Brewers, 39 Clifton Rd	20	20	-	-	Central	Medium	Public House
7 The Steyne (WB13020)	9	9	-	-	Central	Medium	Residential
Land North of Northbrook College (Phase 3) (WB13018)	42	42	-	-	Northbrook	Medium	Mixed: Informal parking, open grassland and temporary classrooms
Total 2013/14	**969**	**450**	**359**	**160**			

Residential development on brownfield land in Worthing has been considered further in response to this question. It is acknowledged that some residential development is likely to emerge from sites that are not derelict or in uses equivalent to an industrial value and that, as shown above, some development may emerge on sites in existing residential use.

The key then is to establish a reasonable base value for 'existing residential use'. It is clear that new residential development on existing residential land will usually only take place where sites are underperforming (perhaps single dwellings in large plots) or the existing stock is of poor quality, derelict or vacant. Good quality housing with substantial existing value is very unlikely to be replaced.

The base value therefore assumes that the value for existing residential use will be at the lower end of the residential value scale in Worthing and therefore a value of £1 million per hectare has been adopted in the additional appraisals. This reflects the market comparable value for the low value sub market area identified in the land value study and is therefore considered reflective of the sort of low quality residential land that alternative residential development might emerge from.

The results of the additional Existing Residential Use to New Residential Viability Appraisals are illustrated in the table below:

	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					
Residential - Residential	-£85	-£1,615	-£373	-£47	-£97
2 Medium					
Residential - Residential	£92	£90	£83	£89	£86
3 High					
Residential - Residential	£102	£90	£510	£64	£230

It may be noted that the high rise Apartment results are the same for the medium and high value sub-market areas. This is because, following a review of the appraisals, the Council's consultants determined that high rise apartment development in Worthing is most likely to emerge in locations which command sea views (regardless of high or medium zone location) and would generate largely similar sales values. In turn, the land value allowance was altered to be the same (i.e. the medium value land allowance was increased to reflect that used in the high value zone) – giving the same CIL result. Low Rise Apartment site land values will vary dependent on medium and high value location, hence the different results.

It is acknowledged that the low value sub-market area results are negative but for the reasons which are more fully explained in the response to Question 10 it is considered that these results should not dictate the setting of CIL charges. In addition, as explained above, all of the identified residential sites that are likely to emerge in the plan period are in the high and medium value zones.

The results in the medium value sub market area for all types of residential development show that the viability margin is only just below the proposed CIL rate. Similarly in the High Value sub-market area the results suggest that only executive housing might be significantly threatened by the proposed rate. (see also the additional viability appraisals for ‘residential to residential’ at the response to Q7 below).

However, this does not give a true reflection of the real impact of CIL. If it is assumed that residential sites will be redeveloped then it must also be assumed that there will be significant amounts of existing development, the floorspace of which will be used to mitigate the CIL chargeable area of new development.

Where existing housing is replaced by new housing it is considered that many sites are likely to be almost CIL neutral once existing floorspace has been deducted from the chargeable area.

It is accepted that the existing floorspace mitigation will be less for apartment development that increases the density of sites. Nevertheless based on an assessment of historic apartment development in Worthing it is clear that many apartment schemes have replaced or are replacing existing development of similar scale (e.g. Warnes, The Eardley, The Beach Hotel). Therefore, it is considered that the proposed rates will not threaten the type of development likely to emerge over the plan period. Additional evidence can be submitted at the Hearing to support this contention.

In summary, and in answer to the key points raised by Questions 5 and 6, it is the brownfield viability results (based on existing commercial use) in the medium and high value zones which will account for the vast majority of CIL affected development over the plan period and these results are best placed to indicate residential CIL rates that will not seriously threaten the economic viability of development. These rates are illustrated on the following table:

	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
2 Medium					
Brownfield	£192	£132	£124	£207	£181
3 High					
Brownfield	£202	£132	£551	£168	£326

It is therefore considered that the proposed rate of £100 per sqm provides a substantial viability buffer in line with best practice in setting CIL rates and will not seriously threaten the overall delivery of housing in Worthing over the plan period. Furthermore, and as explained in the response to Q7 below, the viability buffer is further extended if the profit assumptions for affordable housing are amended in line with updated CIL guidance.

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7. Is a 20% developer's profit assumption realistic for apartment developments?

<u>Response</u>

Yes, it is considered that a 15-20% developer's profit allowance range on Gross Development Value represents an industry standard range.

A 20% allowance would generally be used in poor economic circumstances where bank lending is cautious and full contingencies are required. As market circumstances improve this allowance will generally reduce towards 15%. The market has improved very significantly in 2014 and improvement is projected to continue to the extent where it could be argued that a 17-18% allowance might be more appropriate.

Specific best practice for developers profit allowances is difficult to point to in view of the constant market fluctuations. However the Homes and Communities Agency Development Appraisal Tool User Guidance August 2013 states at para 4.3: '*Developers overheads and return for risk' - A fixed overhead amount plus a percentage of open market capital value (including private rented units). A percentage of affordable housing build costs; as the developer is holding no sales risk then we expect a contract type profit based on costs. NB: Even if the developer for a particular scheme is a 'not for profit' RP, it still requires a yield to cover the risk of investing, and for any internal funds committed.*

The example of a DAT Appraisal below indicates appropriate developer returns of 15% on the market housing and 3.7% for the Affordable element:

		Live model values	Reduce s106 payments	Reduced rental yield	Reduced Annual Costs	Reduced build cost
INPUTS	Press to Run Scenario, Record and Restore		% change in Capital (Sales) Value	% change in Capital (Sales) Value	% change in Capital (Sales) Value	% change in Capital (Sales) Value
Open	Build phase 1	N/A	0	0	0	0
Shared	All unit type Sale values	N/A	0	0	0	0
	Initial Tranche	35%	35%	35%	35%	35%
			% change in Building Costs	% change in Building Costs	% change in Building Costs	% change in Building Costs
ALL	% change (applied to all unit types)		-5%	-5%	-5%	-5%
			Revised Percentage	Revised Percentage	Revised Percentage	Revised Percentage
Affordable RENT	Percentage of market rent	80%	80%	80%	80%	80%
	Man. Costs (% of AFFORDABLE rent)	20.0%	15.0%	15.0%	15.0%	20.0%
	Voids / bad debts (% of rent)	2.5%	2.5%	2.5%	2.5%	2.5%
	Repairs Fund (% of rent)	20.0%	15.0%	15.0%	15.0%	20.0%
	Rent Yield Capitalisation (%)	6.00%	5.00%	5.00%	6.00%	6.00%
FINANCE	Interest Rate (%)	6.00%	6.00%	6.00%	6.00%	6.00%
	additional s106 (negative for reduction)		-100000	0	0	0
	Enter date of additional s106 payment		41275			
	DEVELOPER'S OVERHEAD AND RETURN FOR RISK (before taxation) & Overhead					
	Open Market Housing (% of CV)	15.0%	15.0%	15.0%	15.0%	15.0%
	Affordable Housing (%)	3.7%	3.7%	3.7%	3.7%	3.7%
	Land value	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
OUTPUTS	Present Value of Surplus (Deficit) at month 0	477,550	1,502,088	1,402,088	1,119,428	910,049

The Council considers that these HCA rates are at the lower end of the range and has been more generous in its allowances at 20% for market housing. The current appraisals also allow a 20% profit on the affordable housing element, which in the light of subsequent guidance may be overly generous to the developer.

There is no reason to suggest that apartment development should be treated any differently to general housing. In fact apartment development often carries less speculative sales risk as units are commonly sold ‘off plan’ prior to completion of the scheme.

Since the original CIL Viability Appraisal work was undertaken for Worthing BC, the viability model adopted by NCS has been updated and refined to reflect updated CIL guidance and best practice in viability appraisal in planning. The current model utilised by NCS adopts the approach to developers profit return advocated by the Homes and Communities Agency in their Development Appraisal Tool Guidance.

As outlined above the HCA guidance recognises that it would be inappropriate to allow a full speculative risk return on the affordable housing element of any residential scheme because this type of development is effectively pre-sold, carries no sales or funding risk and should only therefore attract a ‘contractors only’ profit allowance. The industry standard for this allowance is approximately 6% return.

To illustrate the impact that this change in approach would have alternative appraisals for the more CIL marginal scenarios (‘residential development emerging from residential land’) have been undertaken based on differential developers profit allowances at 20% for the market housing and 6% for the affordable housing. The outcomes are set out in the table below. This is the approach now adopted on all CIL and Local plan viability appraisal work currently being undertaken by NCS for Local Authorities across the UK.

Alternative Viability Appraisal Methodology (revised Developers Profit Allowance for Affordable Housing)

Charging Zone/Base Land Value	Mixed Residential Development	High Rise Apartments	Low Rise Apartment Block	Executive Housing	Suburban Housing
1 Low					
Residential - Residential	-£29	-£1,545	-£306	£8	-£32
2 Medium					
Residential - Residential	£168	£230	£174	£162	£173
3 High					
Residential - Residential	£189	£230	£618	£148	£330

The Updated Methodology Appraisal results indicate that the proposed CIL rate of £100 would not threaten any residential development that might emerge from existing residential sites in the medium and high value sub-market areas.

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8. Are there errors in the NCS Assessment appraisal of low rise apartments in high value areas as contended by Roffey Homes Ltd?

<u>Response</u>

The Council has provided revised appraisals correcting some of the assumption errors as set out in the response to Q4 above. The revised results still show a very significant difference between the CIL viability for low rise apartments in the medium and high value sub-market areas (brownfield rates of £124sqm and £551 sqm respectively).

This is what would be expected in view of the identical construction rate and the variation in sales values. The sales rate and residual land value assumptions in the medium and high value areas are as follows:

	Sales	Residual Land Value
Medium	£2700	£3,386,000
High	£3230	£4,410,000

There is a 19% increase in the sales value and a 30% increase in the land value allowance. The land value allowance is off-set by the benchmarking approach adopted in the study but it is essentially the significant increase in sales value that provides the additional margin for CIL charges.

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9. Are the assumptions/calculations used in the NCS Assessment appraisal of sheltered/retirement housing realistic/correct? In particular:

- **(a) floorspace/build costs**
- **(b) land costs**
- **(c) average unit size**
- **(d) empty property costs**
- **(e) sales rates**
- **(f) sales/marketing costs**

Is there evidence which indicates that the proposed residential CIL rate would make sheltered/retirement housing unviable?

Response

It is considered that all the assumptions adopted in the NCS Sheltered Housing Appraisal are reasonable and realistic. Nevertheless the sheltered housing appraisal has been updated as it is acknowledged that it would be more appropriate to assess on-site affordable housing delivery so that all affordable units are apartments rather than the standard mix of apartments, 2 and 3 bed housing units (as set out in the original appraisal).

The revised results are as follows. For the reasons outlined at Q10 below the low zone results have been ignored for the purpose of rate setting:

Maximum CIL Rates per sqm	
Charging Zone/Base Land Value	**Sheltered Housing**
2 Medium	
Greenfield	£194
Brownfield	£142
Market Comparable	£19
3 High	
Greenfield	£356
Brownfield	£300
Market Comparable	£182

a) **Floorspace** - The floorspace allowance assumes 30% ‘dead space’ (where there is build cost associated with non-revenue producing communal space and ancillary facilities).

Construction Costs - The build costs allow a premium over standard residential rates at £1200sqm in line with Gleeds advice.

b) **Land Value** - The land value allowances follow the benchmarking methodology adopted in the standard appraisals as outlined above in response to Q4 above.

c) **Unit Size -** the average unit size is considered to be reflective of a typical sheltered apartment size. In their response, The Planning Bureau Ltd (representing McCarthy & Stone and Churchill Retirement) (CD4-10) acknowledge that the unit size tested by NCS is only 3sqm less than their respective position. It is not considered that apartment size will significantly affect the viability margin results particularly given the relatively small differential between the unit size tested and that being suggested by the representor.

d) **Empty Property Costs** - it is not considered reasonable or appropriate to set differential CIL rates because the retirement housing operator can’t sell properties as quickly as they would like. The 6 month sales void is considered quite generous. The representation claims a sales rate of 1 unit per month. It is difficult to accept that a 60 unit retirement apartment scheme takes 5 years to sell. In reality it is common practice for significant off plan reservations to be achieved in sheltered housing schemes (oral evidence will be offered at the Hearing to support this).

f) **Sales Marketing Costs** – The sales and marketing costs are considered reasonable. Retirement apartment sales agency tend to be undertaken ‘in house’ from a sales suite negating external agency fees and the costs claimed by the representor are considered to be excessive.

Based on the revised appraisals it is considered that the proposed CIL rate of £100sqm rate would not threaten the economic viability or delivery of Sheltered Housing.

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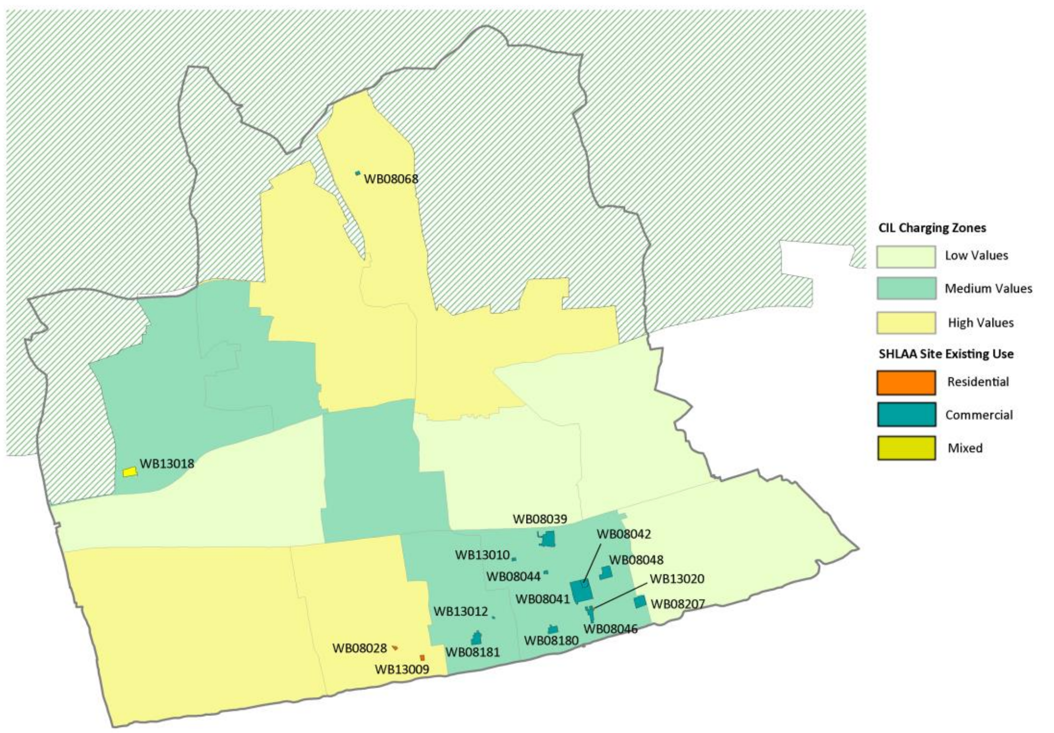
10. The NCS Assessment indicates that (accounting for the proposed £100 CIL rate) most residential development in low value areas would not be viable. In the light this would a zero rate for residential development in low value areas be appropriate?

<u>Response</u>

The NCS report states that 75-80% of new residential development is envisaged to take place in the medium and high value areas of the Borough. However, additional research undertaken by the Council and set out in the table in the response to questions 5 & 6 confirms that no identified sites are within the Low Value sub-market area. This is illustrated on the map below which shows that all of the development opportunities identified are located within high and medium value wards.



Whilst these SHLAA sites represent a key element of the future housing land supply in the Borough it should also be noted that windfall developments will continue to come forward. Given their nature, these opportunities are not easy to identify. However, Appendix 1 of the Council's response to the Inspector's initial questions (CD06-2) sets out the sites in Worthing with extant permission for 6+ dwellings. It is accepted that, given that these sites (1,529 dwellings) already have permission they will not be charged CIL. However, the data does provide an indication of trends and the areas of the Borough where development is most likely. It is clear that most of these development sites lie within the medium and high value zones.

Nevertheless it is acknowledged that some windfall development may emerge from the low value sub-market area identified in the initial NCS research and the Council has therefore instructed NCS and their valuation surveyors HEB to revisit the sales values likely to be generated in these areas.

HEB has confirmed that the sales values identified in the low value sub-market are more reflective of the overall value of property in the sub-market based largely on second hand stock, much of which is of relatively low quality. At the time of the initial research there was very little transactional evidence in the low value sub-market area which necessitated the values reflecting a 'flavour' of existing stock values.

Now that the housing market has improved and sites are beginning to come forward, additional research into new build development being undertaken within the low zone sub-market confirms that new build residential will drive values more in line with the medium-high value sales rates identified in the study. The evidence is based on the current sales values being achieved at the following sites:

<u>Cissbury Chase – Barrett Homes (Low Value Sub-Market area)</u>

£2,582 per sqm - £3,400sqm   Average £3,132sqm

<u>Yeoman Chase - Bloor Homes   (Medium Value – Edge of Low Value)</u>

Recent Completions £2,454 per sqm - £3,074 sqm   Average £2,677sqm

In addition, current average house price data (Source: ZOOPLA Sept 2014) provides the following area statistics for Broadwater (the best fit low zone data point available). This shows a current average house price (all property types, existing stock) of £2,726sqm.

As such, the low zone viability results contained in the original viability assessment are not necessarily considered to be reflective of new build development likely to emerge in Worthing over the plan period. The medium sub-market results are considered to be more relevant to the consideration of the lowest viability margin, when considering CIL Rates.

It should also be recognised that windfall sites of the type considered likely to emerge in the low value area tend to be on previously developed land and therefore the impact of CIL will be reduced by floorspace deductions for existing buildings.

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11. Would the proposed residential CIL rate threaten the ability to develop viably the sites and scale of residential development identified in the Local Plan? If you contend that it would what specific change to the schedule are you seeking and what appropriate available evidence is there to support it?

Response

Based on the viability results in the study and the additional work undertaken in response to the Inspectors' questions the Council considers that the proposed CIL will not threaten the economic viability of the vast majority of residential development likely to emerge over the plan period.

It has been shown that all key development sites identified lie within the medium and high value sub-market areas identified in the study and the proposed CIL rate of £100 per sqm provides a very significant buffer to the potential rates that could be viably levied based on the viability study results.

It is therefore considered that the proposed charging rate will not threaten the scale or type of housing delivery proposed by the Local Plan.
