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# **Community Infrastructure Levy: Updated Viability Study**

Prepared for  
Dacorum Borough Council

July 2013

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# 1 Executive Summary

- 1.1 This report tests the ability of a range of development types throughout the Dacorum Borough Council area to yield contributions to infrastructure requirements through the Community Infrastructure Levy ('CIL'). Levels of CIL have been tested in combination with the Council's other planning requirements, including the provision of affordable housing. This report has been updated from the December 2012 report published with the Preliminary Draft Charging Schedule ('PDCS') to incorporate changes made as a result of comments made to the PDCS consultation.

## Methodology

- 1.2 The study methodology compares the residual land values ('RLV') of a range of developments to a range of benchmark land values. If a development incorporating a given level of CIL generates a higher value than the benchmark land value, then it can be judged that the proposed level of CIL will be viable.
- 1.3 The study utilises the residual land value method of calculating the value of each development. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance and CIL) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site.
- 1.4 The housing and commercial property markets are inherently cyclical and the Council is testing its proposed rates of CIL at a time when values have fallen below their peak but have subsequently recovered to some degree. Despite this recovery, there is some uncertainty as to the likely short term trajectory of house prices. We have allowed for this by running a sensitivity analysis which inflates sales values by 10% and build costs by 5%. This analysis is indicative only, but is intended to assist the Council in understanding the levels of CIL that are viable in today's terms but also the impact of changing markets on viability. We have also tested a fall in sales values of 5%, to enable the Council to take a view on the impact of any adverse movements in sales values in the short term. Our commercial appraisals incorporate sensitivity analyses on rent levels and yields.

## Key findings

- 1.5 The key findings of the study are as follows:

### Residential

- The ability of **residential schemes** to make CIL contributions varies depending on area and the current use of the site. Having regard to these variations, residential schemes should be able to absorb a **maximum** CIL rate of between £100 to £350 per square metre. DCLG guidance requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount (buffer) to the maximum rate, with discounts ranging from circa 30% to 50%. We would recommend a buffer of circa 30% for Dacorum. Taking a broad view across our appraisals, the maximum and suggested rates are as follows:

**Table 1.5.1: Maximum and suggested CIL rates – residential**

CIL Charging Areas	Maximum CIL (£ per sqm)	Suggested CIL (£s per sqm)
<b>Area 1</b> Berkhamsted, Potten End and Little Gaddesden	350	250
<b>Area 2</b> Tring, Wigginton, Long Marston, Flamstead, Kings Langley, Chipperfield, Bovington, Great Gaddesden and Gaddesden Row, Hemel Hempstead areas of the Station, Boxmoor, Chaulden, Leverstock Green, Felden.	300-200	150
<b>Area 3</b> Hemel Hempstead areas of Hemel Central, Adeyfield, Bennetts End, Gadebridge, Apsley and Markyate	150	100
<b>Area 4</b> Hemel Hempstead North area of Highfield, Grovehill and Woodhall	100	70

- Whilst the maximum rates are higher than the suggested rates, the inclusion of a buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and ‘shocking’ the market). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority’s judgement.
- It would be possible to combine areas into one charging zone, thereby simplifying the charging schedule into less charging zones. Options for a three, two and one zone approach are set out in table 1.5.2 below. In determining which approach to take the Council will need to consider the amount of development due to come forward in each area. That is there will be little benefit from charging a differential rate for the higher value areas should there be comparably little new development likely to come forward in these areas. See Appendix 4 for a Map of the Areas. The Council opted to consult on the PDCS on the basis that three residential charging zones would be applicable to the Dacorum area.

**Table 1.5.2 Potential CIL zone approaches - residential**

CIL Charging Areas	Three Zone Approach	Two Zone Approach	One Zone Approach
<b>Area 1</b>	Zone 1 (£250)	Zone 1 (£150)	Zone 1 (£70/100)
<b>Area 2</b>	Zone 2 (£150)	Zone 1 (£150)	Zone 1 (£70/100)
<b>Area 3</b>	Zone 3 (£70/100)	Zone 2 (£70/100)	Zone 1 (£70/100)
<b>Area 4</b>	Zone 3 (£70/100)	Zone 2 (£70/100)	Zone 1 (£70/100)

- The Council has proposed a number of housing sites on the edge of existing settlements within the Borough as set out in the Dacorum Borough Local Plan 1991-2011 and Core Strategy. Although some of these sites, particularly those in the Dacorum Borough Local Plan 1991-2011, have already secured planning permission and the associated infrastructure works have been secured through a S.106 agreement, it is important to consider the implications of setting CIL on urban extension sites in terms of site viability. These extensions to the urban area are likely to require significant contributions towards infrastructure works as set out in these planning policy documents and may be subject to detailed S.106

agreements to deliver on site infrastructure. Our recommendations on setting a CIL rate for these sites will be set out in a separate document following the advice in the DCLG Guidance.<sup>1</sup>

- Our appraisals for **C3 retirement housing and care homes** identifies that sufficient surpluses are generated in the higher value areas of the borough around Berkhamstead, Potten End and Little Gaddesden. Elsewhere, where lower values are achieved viability becomes more challenging. On this basis we recommend the Council considers adopting a CIL rate of £200 per square metre in Area 1 (as identified in the map in Appendix 4) and elsewhere in the borough a nil or nominal rate (£30 - £50 per square metre) be adopted for C3 retirement housing and care homes uses.
- **Extra Care housing and other residential institutions** are unlikely to be sufficiently viable to absorb any CIL contributions and as such we recommend the Council applies a nil rate to these uses.

### Commercial

- At current rent levels, **Office development** across the Borough is unlikely to come forward in the short to medium term as the capital values generated are insufficient to cover development costs. We therefore recommend that the Council sets a nil rate for office development.
- **Convenience based supermarkets and superstores and retail warehousing (over 280 square metres)** is likely to be viable across the Borough with a recommended maximum CIL rate of £193 per square metre. After allowing for a buffer, which we consider to be appropriate to deal with site specific issues, we would recommend the Council considers adopting a CIL rate of £150 per square metre for such uses in the Borough.
- Residual values generated by **all other retail developments (A1-A5)** are higher than current use values to varying degrees across the Borough. However, to a degree such retail development will involve the re-use of existing retail space, which will not be CIL liable. In order to capture value from schemes that add floorspace, differential rates could be adopted.
  - Residual values generated **by all other retail developments (A1-A5) in Berkhamsted** are sufficiently higher than current use values and could absorb a CIL of up to £139 per square metre. Allowing a buffer, which in our experience we consider to be appropriate to deal with for site-specific issues and changes in values over time, we recommend that the Council considers a CIL of £100 per square metre.
  - **In Hemel Hempstead and elsewhere in the Borough**, rents for **all other retail developments (A1-A5)** are considerably lower and our appraisals identify that developments are unable to viably support a CIL. We therefore recommend that the Council considers a nil rate on retail development outside Berkhamsted Town Centre.
- Our appraisals of developments of **industrial and warehousing** floorspace indicate that these uses are unlikely to generate positive residual land values. We therefore recommend a zero rate for industrial floorspace.
- At current values **Hotel developments** are identified as not being able to generate a surplus and as such we would recommend that the Council sets a nil rate for Hotel use.

<sup>1</sup> This Study document should be read alongside the Viability Assessment on Strategic and Local Allocations Report.

- **D1 and D2** uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 uses.

1.6 As set out in section 2, should the Council wish to do so they have the option to grant full or partial relief from the levy in exceptional circumstances i.e. where the cost of complying with the signed section 106 agreement is greater than the levy's charge on the development and the developer has demonstrated that the scheme is unviable. In particular this may be an option that Council would wish to consider with respect to the regeneration sites in Hemel Hempstead Town centre and on some Greenfield sites, where we understand that there are significant infrastructure requirements.

1.7 The recommended Dacorum CIL rates are summarised in Table 1.7.1 below.

**Table 1.7.1: Recommended CIL rates**

Development type	Recommended CIL rate			
<b>Residential</b>	Berkhamsted, Potten End and Little Gaddesden	Tring, Wigginton, Long Marston, Flamstead, Kings Langley, Chipperfield, Bovingdon, Great Gaddesden and Gaddesden Row. Hemel Hempstead areas of the Station, Boxmoor, Chaulden, Leverstock Green, Felden.	Hemel Hempstead areas of Hemel Central, Adeyfield, Bennetts End, Gadebridge, Apsley and Markyate	Hemel Hempstead North area of Highfield, Grovehill and Woodhall
	£250	£150	£100	£70
<b>Retirement housing and Care Homes</b>	£200	Nil/Nominal rate (£30-£50)		
<b>Extra Care housing (C2)</b>	Nil			
<b>Industrial / Warehousing (B2 and B8)</b>	Nil			
<b>Offices (B1)</b>	Nil			
	<i><b>Berkhamsted</b></i>	<i><b>Rest of Borough</b></i>		
<b>All other retail (A1-A5) (280 sq m or less)</b>	£100	Nil		
<b>Convenience based supermarkets and superstores and retail warehousing (over 280 sq m)</b>	£150			

1.8 For residential schemes, the application of CIL of is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme value, CIL will be a modest amount, typically accounting for between 1.96% and 4.5% of value (see Table 7.7.1). Some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these schemes when setting its CIL rate.

1.9 The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future changes. In this regard we are of the opinion that the Council should consider reviewing the Charging Schedule by at least 2016 and potentially earlier if the market is perceived to have changed significantly.

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## 2 Introduction

- 2.1 This study has been commissioned to contribute towards an evidence base to inform the 'Dacorum Borough Council' ('the Council') CIL Charging Schedule ('CS'), as required by Regulation 14 of the CIL Regulations April 2010 (as amended in 2011). This report has been updated from the December 2012 report published with the PDCS and incorporates modest changes to some of our appraisal assumptions as a result of comments made during the PDCS consultation. The aims of the study are summarised as follows:
- to build on the viability information provided by the Stage 1 Economic Viability Assessment prepared by Lambert Smith Hampton for eight Hertfordshire Authorities (including Dacorum Borough Council);
  - to test the impact upon the economics of residential development of a range of levels of CIL;
  - for residential schemes, to test CIL alongside the Council's requirements for affordable housing and other planning obligations; and
  - to test the ability of commercial schemes to make a contribution towards infrastructure through CIL.
- 2.2 In terms of methodology, we have adopted standard residual valuation approaches to test the impact on viability of a range of levels of CIL. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique), mean that conclusions must always be tempered by a level of flexibility in application of policy requirements on a site by site basis. It is therefore essential that levels of CIL are set so as to allow a sufficient margin to allow for these site specific variations.

### CIL Policy Context

- 2.3 As of April 2014<sup>2</sup> or the adoption of a CIL Charging Schedule (whichever is the sooner), the current S106/planning obligations system i.e. the use of 'pooled' S106 obligations will be limited. The adoption of a CIL Charging Schedule is discretionary for the Council, however, the scaling back of the use of pooled S106 obligations is not discretionary. As such, should the Council elect not to adopt a CIL Charging Schedule, it is likely to have significant implications with regard to funding infrastructure in the borough and the Council will need to be aware of such implications in their decision-making.
- 2.4 It is worth noting that some site specific S106 obligations will remain available for negotiation after the adoption of CIL/April 2014<sup>2</sup>. However these will be restricted to site specific mitigation and to the provision of affordable housing. They cannot be used for securing payments towards infrastructure that benefit more than one development.
- 2.5 The CIL regulations enable local authorities to set differential rates (including zero rates) for different zones within which development would take place and also for different types of development. The amendment to the Statutory CIL Guidance in December 2012 clarified that CIL Regulation 13 permits charging authorities to levy 'differential rates by reference to different intended uses of development provided that the different rates can be justified by a comparative assessment of the economic viability of those categories of development. The definition of "use" for this purpose is not tied to the classes of development in

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<sup>2</sup> This date may change to April 2015, based on the Consultation on Community Infrastructure Levy further reforms document published in April 2013.



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the Town and Country Planning Act (Use Classes) Order 1987, although that Order does provide a useful reference point.’ (Para 35)

- 2.6 The CIL regulations state that in setting a charge, local authorities must aim to strike “*what appears to the Charging Authority to be an appropriate balance*” between revenue maximisation on the one hand and the potentially adverse impact upon the viability of development on the other. The regulations also state that local authorities should take account of other sources of available funding for infrastructure when setting CIL rates. This report deals with viability only and does not consider other sources of funding (this is considered elsewhere within the Council’s evidence base).
- 2.7 The payment of CIL becomes mandatory on all new buildings and extensions to buildings with a gross internal floorspace over 100 square metres once a charging schedule has been adopted. The CIL regulations allow a number of reliefs and exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if controlled by a charity) are subject to relief. Secondly, local authorities may, if they choose, elect to offer an exemption on proven viability grounds. A local authority wishing to offer exceptional circumstances relief in its area must first give notice publicly of its intention to do so. The local authority can then consider claims for relief on chargeable developments from landowners on a case by case basis. In each case, an independent expert with suitable qualifications and experience must be appointed by the claimant with the agreement of the local authority to assess whether:
- the cost of complying with the signed section 106 agreement is greater than the levy’s charge on the development; and
  - paying the full CIL charge would have an unacceptable impact on the development’s economic viability.
- 2.8 The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed. To be eligible for exemption, regulation 55 states that the Applicant must enter into a Section 106 agreement (and the costs of complying with the agreement must exceed the amount of CIL that would have been payable); and that the Authority must be satisfied that granting relief would not constitute state aid. It should be noted however that CIL cannot simply be negotiated away or the local authority decide not to charge CIL. In the case of development where the level of s106 is not higher than the levy, the owner must pay the entire levy.
- 2.9 At present CIL Regulation 40 includes a vacancy period test for calculating CIL liability so that vacant floorspace can be offset in certain circumstances. That is where a building has not been in lawful use for a continuous period of at least six months within the last 12 months, ending on the day planning permission first permits the chargeable development, the floorspace may not be offset. However, in the recent Consultation on Community Infrastructure Levy further reforms document, published in April 2013, the DCLG identifies that, *‘We are aware that for certain developments (particularly those that require a building to be emptied, demolished and re-built), the vacancy test is preventing the offsetting of vacant floorspace and requiring payment of the levy even when the floorspace is not increasing. In other similar refurbishment cases, where floorspace is increasing, the whole development is being charged the levy, rather than just the increased floorspace.’*
- 2.10 The consultation document goes on to identify that, ‘The test was designed because it was felt that where development has an impact on infrastructure need the levy should be paid. However we are aware that the current test may not be working effectively and may be difficult to enforce.’ Given this position the DCLG identify within the Consultation Document that they are, *‘considering removing the vacancy test from regulation 40. The effect of this change would*



*be that the levy would not generally be paid on buildings that are refurbished or redeveloped and would only be payable on any increases in floorspace in refurbishment and redevelopment schemes’.*

- 2.11 The 2010 regulations set out clear timescales for payment of CIL, which varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allow local authorities to set their own timescales for the payment of CIL if they choose to do so. This is an important issue that the Council will need to consider, as the timing of payment of CIL can have an impact on an Applicant’s cashflow (the earlier the payment of CIL, the more interest the Applicant will bear before the development is completed and sold).
- 2.12 Local authorities must consult relevant stakeholders on the nature and amount of any proposed CIL. Consultation on the Council’s PDCS took place between 12 December 2012 and 12 March 2013. Comments made during this consultation have been taken into consideration and as considered appropriate, revisions have been made to the viability study. A further stage of consultation is to be undertaken of the draft Charging Schedule (‘DCS’). Following consultation, a charging schedule will be submitted for independent examination before it may be adopted.
- 2.13 Several local authorities have undertaken viability assessments and have drafted CIL charging schedules, which they have submitted for independent examination. To date, a number of charging authorities (including the Mayor of London, Portsmouth, Newark and Sherwood, Huntingdonshire, Wandsworth, Shropshire, Bristol, Poole, Waveney, Barnet, Croydon, Harrow, Wycombe, Plymouth, Exeter and Redbridge) have been through the examination process and are at various stages of implementation.

### **Local context**

- 2.14 The Council is in the process of adopting its Core Strategy. The Core Strategy Inspector has highlighted the need for an early partial review of the Core Strategy, which should include a re-assessment of housing need and reflect the outcomes of a comprehensive Green Belt review. These do not constitute his conclusions over the soundness of the Core Strategy, which will be known when the final report on the examination is received. The Council is committed to a partial review of the Core Strategy, which will include a comprehensive Green Belt boundary review. This is referred to in Main Modifications to the Core Strategy (MM28). In light of this the Council considers it to be appropriate to proceed with the Charging Schedule on the basis of the housing figures set out in the emerging Core Strategy and the associated assessment of infrastructure needs..
- 2.15 In addition to financing infrastructure, the Council expects residential developments to provide a mix of affordable housing tenures, sizes and types to help meet identified housing needs and contribute to the creation of mixed, balanced and inclusive communities.
- 2.16 Policy CS19 (Affordable Housing) in the Council’s Core Strategy<sup>3</sup> requires 35% Affordable homes to be provided:
- on sites of a minimum size 0.3ha or 10 dwellings (and larger) in Hemel Hempstead; and
  - elsewhere on sites of a minimum size of 0.16ha or 5 dwellings (and larger).

<sup>3</sup> Pre-Submission Core Strategy plus the schedule of changes agreed by the Council

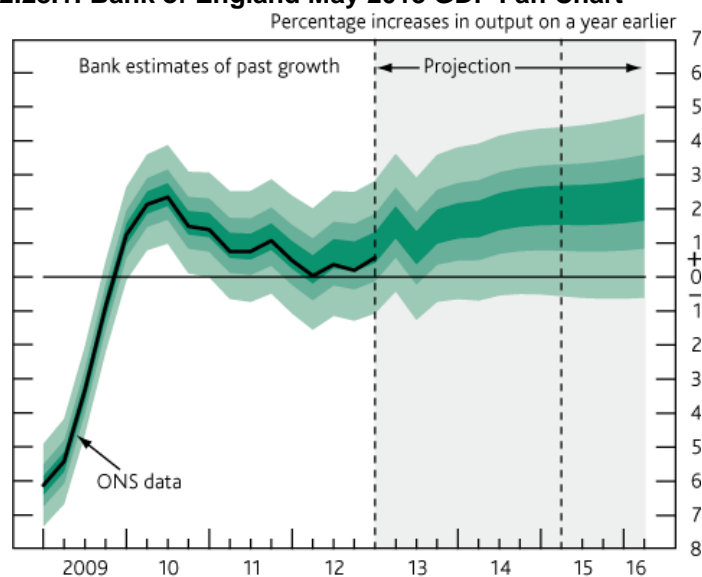
- 2.17 In addition, a financial contribution will be sought in lieu of affordable housing on sites which fall below these thresholds. The Council will seek a tenure mix with a minimum of 75% rented units. The Core strategy identifies that regard will be had to viability of development (para 14.34).
- 2.18 Policy CS35 (Infrastructure and Developer Contributions) requires all development to provide or contribute to the provision of the on-site, local and strategic infrastructure required to support the development either in-kind or through financial contributions. Supporting infrastructure should be provided in advance of, or alongside the development, unless there is existing capacity.
- 2.19 The Core Strategy sets out that an average of 430 new homes will be provided within the Borough each year, for the plan period (2006-2031), which equates to a total of 10,750 homes. However, table 8 of the Core Strategy, which includes windfall sites, shows that over the plan period around 11,320 new homes may be delivered.
- 2.20 In addition to new homes, an additional 131,000 square metres (net) of office floorspace is proposed to be provided over the plan period (2006-2031). The plan identifies that there is to be no net loss of industrial, storage and distribution floorspace over the plan period. It is envisaged that this will help deliver circa 10,000 new jobs by 2031 and support the drive towards achieving full employment within the borough.
- 2.21 Policy CS16 (Shops and Commerce) identifies that opportunities will be given to provide capacity for up to 63,750sqm of net additional retail floorspace over the plan period in Hemel Hempstead, Berkhamsted and Tring, depending on the level of demand. Outside of defined centres, new retail floorspace will only be permitted if the proposal complies with the sequential approach and demonstrates a positive overall outcome in terms of the impact assessment.
- 2.22 The Core Strategy also identifies that supporting infrastructure, including schools, hospitals and leisure facilities will also be provided, together with improvements to the local transport network in order to support the proposed development in the Borough.
- 2.23 Hemel Hempstead is identified as being the focus for regeneration, development and change in the Borough. This is to include circa 8,800 new homes including the Local Allocations at West Hemel Hempstead, Marchmont Farm and the Old Town. A significant proportion of the anticipated new employment floorspace is to be delivered in Hemel Hempstead over the lifetime of the Core Strategy with the Maylands Business Park as the focus for this growth. In conjunction new services, facilities and infrastructure is to be provided to support this growth.
- 2.24 Significant regeneration is planned for Hemel Hempstead town centre with the delivery of new homes, a new primary school, a local general hospital, a new college, a new public service quarter (to include new civic offices and library), a supermarket and a new bus interchange identified as key aims. The regeneration will be guided by the Hemel Hempstead Town Centre Masterplan, and will involve close co-operation between a number of landowners.
- 2.25 The market towns of Berkhamsted and Tring are identified as areas of limited opportunity and development that will seek to meet the local housing needs and provide employment and services for local and adjacent communities. The large villages of Markyate, Bovington and Kings Langley will also see limited development, appropriate to ensure population stability.

- 2.26 The rural areas and the urban fringe where the priority is to maintain existing urban boundaries and protect the character of the smaller villages and the wider countryside are identified as areas of limited opportunity for development. Significant environmental constraints apply to these areas. The small villages of Chipperfield, Flamstead, Potten End, Wigginton, Aldbury, Long Marston and Wilstone are identified as being important for local services and facilities. In this regard local affordable housing and other very limited development is envisaged to help sustain these villages.

### Economic and housing market context

- 2.27 The historic highs achieved in the UK housing market by mid 2007 followed a prolonged period of real house price growth. However, a period of 'readjustment' began in the second half of 2007, triggered initially by rising interest rates and the emergence of the US sub prime lending problems in the last quarter of 2007. The subsequent reduction in inter-bank lending led to a general "credit crunch" including a tightening of mortgage availability. The real crisis of confidence, however, followed the collapse of Lehman Brothers in September 2008, which forced the government and the Bank of England to intervene in the market to relieve a liquidity crisis.
- 2.28 The combination of successive shocks to consumer confidence and the difficulties in obtaining finance led to a sharp reduction in transactions and a significant correction in house prices in the UK, which fell to a level some 21% lower than at their peak in August 2007 according to the Halifax House Price Index. Consequently, residential land values fell by some 50% from peak levels. One element of government intervention involved successive interest rate cuts and as the cost of servicing many people's mortgages is linked to the base rate, this financial burden has progressively eased for those still in employment. This, together with a return to economic growth early 2010 (see Bank of England May 2013 GDP fan chart below, showing the range of the Bank's predictions for GDP growth to 2016) has meant that consumer confidence has started to improve to some extent.

**Figure 2.28.1: Bank of England May 2013 GDP Fan Chart**



Source: Bank of England

- 2.29 Throughout the first half of 2010 there were some tentative indications that improved consumer confidence was feeding through into more positive interest from potential house purchasers. Against the background of a much reduced

supply of new housing, this would lead one to expect some recovery in prices. However, this brief resurgence abated with figures falling and then fluctuating in 2011 and 2012, with the Halifax House Price Indices showing a fall of 0.6% in the year to March 2012. The Halifax attributed some of recovery during that period to first time buyers seeking to purchase prior to the reintroduction of Stamp Duty from 1 April 2012. The signs of improvement in the housing market towards the end of 2012 however, have continued in January 2013 where prices in the three months to January were 1.9% higher than in the previous three months. This has been identified by Halifax as being ‘the strongest figure in this measure of the underlying trend for three years.’ Prices are also identified as being 1.3% higher than in the same period in January 2012, marking the first annual rise for 27 months. Both Halifax and Nationwide have identified in their January 2013 press releases that market activity, whilst still muted by comparison to historic standards, has shown tentative improvement in recent months. This has been attributed to the Funding for Lending scheme, which has helped lenders to lower interest rates and improve availability in the past few months.

- 2.30 The outlook for the UK economy and house prices is identified by Martin Ellis, (the housing economist at Halifax) as being ‘more unclear than usual’. The balance of opinion is that house prices will remain broadly stable nationally in 2013, given the subdued economic growth and pressures on household finances, which are expected to constrain housing demand.

**Figure 2.30.1: House price index in Hertfordshire**



**Figure 2.30.2: Sales volume in Hertfordshire**



Source: Land Registry

- 2.31 According to Land Registry data, residential sales values in Dacorum have recovered since the lowest point in the cycle in April 2009. Prices increased by 14.5% between April 2009 and October 2010, but fell back by circa 2% by March 2011. Following this, prices fluctuated slightly until April 2012 where there was a 1.1% increase in prices from the preceding month. Prices continued to increase by a further 1.4% up to July 2012 at which point values have started to fall again. Current values are 4% lower than the March 2008 peak value.
- 2.32 The future trajectory of house prices is currently uncertain, although Savills' current prediction is that values are expected to increase over the next five years. Medium term predictions are that properties in the mainstream East of England markets will grow over the period between 2013 to 2017<sup>4</sup>. Savills predict that values in mainstream East England markets (i.e. non-prime) will increase by 1.5% in 2013, 3.5% in 2014, 4% in 2015, 4.5% in 2016 and 4.5% in 2017. This equates to cumulative growth of 19.5% between 2013-2017 inclusive, compared to a UK average of 11.5% cumulative growth over the same period.

### **Development context**

- 2.33 Developments in Dacorum range from small in-fill sites to major urban extension schemes. There are significant variations in residential sales values between different parts of the Borough, with values in Berkhamsted, Potten End and Little Gaddesden identified as having the highest values and the North of Hemel Hempstead achieving the lowest values followed by the Hemel Hempstead areas of Hemel Central, Adeyfield, Bennetts End, Gadebridge, Apsley and Markyate.
- 2.34 Commercial uses in the Borough are predominantly located within the main town of Hemel Hempstead. Given the focus of the Core Strategy it is understood that this will continue to be the case in future, with the majority of commercial development being focused within Hemel Hempstead and much of this delivered within the Maylands Business Park area.
- 2.35 The PMA Promis Live Report for Hemel Hempstead Offices currently estimates that there is 2.1 million sq ft of office space in the development pipeline. Of this, 479,000 sq ft has planning permission, and 1.7 million sq ft is more preliminary. The development pipeline, excluding space underway, equates to 48 years of development at the rate seen over the past five years.
- 2.36 The Buncefield disaster in late 2005 severely affected much of Hemel Hempstead's industrial stock, and demand over the subsequent few years largely reflected firms relocating from space that had been damaged or destroyed in the blast. PMA's Promis Live Report for Industrial uses in Hemel Hempstead identifies that the peak in take up in 2007 was attributable to Keystone Distribution and GIST taking units on Boundary Way that had been re-built by Prologis. An additional speculative shed developed by Prologis was taken by online fashion retailer ASOS, also in 2007, although the firm have since vacated this space and moved most of their distribution operations to Barnsley.
- 2.37 PMA's Promis Live Report further identifies that there was a two-year surge in big shed demand over 2010/11, however, the market has since gone quiet. 2010 and 2011 both saw two exceptional deals push take up well above the five year average. Annual figures in 2011 reached the highest level ever recorded by PMA, with a 465,000 sq ft letting to online retail giant Amazon at the "Mammoth" unit on Boundary Way, and wholesalers Palmer and Harvey

<sup>4</sup> Savills' UK residential research – Residential Property Focus Q2 2013

taking the 168,000 sq ft “M1stral 170” shed on Maxted Road. The high 2010 figure was attributable to Royal Mail’s acquisition of the 260,000 sq ft “M1stral 260” shed on Maylands Avenue, and Cadogan Tate’s purchase of the 143,000 sq ft “Cubic” unit on Eastman Way. Another sizeable recent deal was recorded at 150 Maylands Avenue in Q3 2011, where Gyron Internet took 62,000 sq ft of data centre space in addition to 25,000 sq ft of offices. However, whilst large deals significantly boosted the figures in 2011, there was limited take up of medium-sized units around 10-50,000 sq ft.

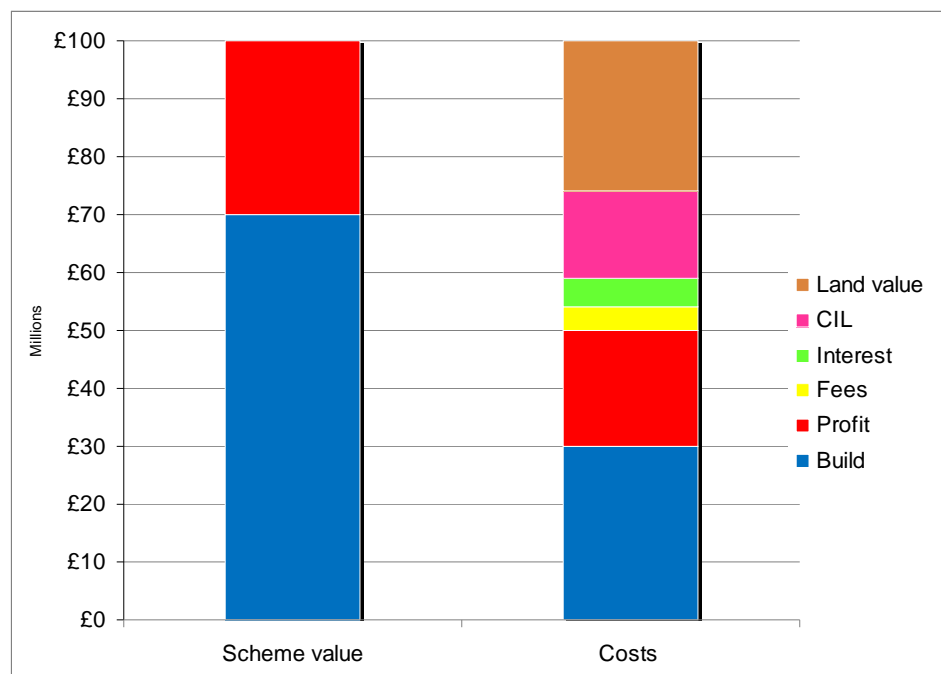
- 2.38 Development of industrial/warehousing space in the Borough is likely to be focused in the Maylands area of Hemel Hempstead given the demand for such space to have good transport links and this area’s proximity to the M1 motorway.
- 2.39 Local agents have identified that retail floorspace in Hemel Hempstead is not performing as well as space in Berkhamsted and one of the main issues is competition from neighbouring centres such as Watford. This position is reiterated in the PMA Promis Live Report for Retail in Hemel Hempstead, which indicates that it has a slightly low level of demand for a town of its size and status. Further it also identifies that Hemel Hempstead town centre faces above average competition from competing retail centres.
- 2.40 The Council’s strategy identifies that retail development in the Borough is to be focused in the town centres of the main towns of Hemel Hempstead, Berkhamsted and Tring, dependant on demand. The regeneration of Hemel Hempstead town centre is a priority of the Council, and efforts towards this have already been made with the delivery of the Riverside shopping centre in 2005. Given the current level of demand and rents in Hemel Hempstead town centre currently it is considered that significant retail development is likely to come forward in the town centre in the short term (2-3 years), until the market picks up. Notwithstanding this however, we understand that a new foodstore of approximately 6,500 square metres (trading) floorspace is expected to be delivered within the town centre by the end of 2014.

## 3 Methodology and appraisal inputs

- 3.1 Our methodology follows standard development appraisal conventions, using assumptions that reflect local market and planning policy circumstances. The study is therefore specific to Dacorum and reflects the Council's planning policy requirements.

### Approach to testing development viability

- 3.2 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing and the payment from a Registered Provider ('RP') for the completed affordable housing units. The model then deducts the build costs, fees, interest, CIL (at varying levels) and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the brown portion of the right hand bar in the diagram.



- 3.3 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of current use value), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.
- 3.4 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value' or another appropriate benchmark to make development worthwhile. The margin above current use value may be considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.



- 3.5 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the current use. CIL will be a cost to the scheme and will impact on the residual land value. Ultimately, if landowners' expectations are not met, they will not voluntarily sell their land and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that policy may change at some future point with reduced requirements. It is within the scope of those expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

### **Viability benchmark**

- 3.6 The Stage 1 Economic Viability Assessment prepared by Lambert Smith Hampton for the eight Hertfordshire Authorities used the market value approach to the viability benchmark. This report has applied the existing use value plus a suitable premium approach as it is the approach advocated by the Local Housing Delivery Group guidance '*Viability Testing Local Plans*' (2012) and builds on Dacorum Borough Council's specific viability studies undertaken previously e.g. The Affordable Housing and Section 106 Viability Study (November 2009) undertaken by Three Dragons.
- 3.7 The CIL Regulations provide no specific guidance on how local authorities should test the viability of their proposed charges. However, there is a range of good practice generated by both the Homes and Communities Agency and appeal decisions that assist in guiding planning authorities on how they should approach viability testing for planning policy purposes.
- 3.8 In 2009, the Homes and Communities Agency published a good practice guidance manual '*Investment and Planning Obligations: Responding to the Downturn*'. This defines viability as follows: "*a viable development will support a residual land value at level sufficiently above the site's existing use value<sup>5</sup> (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner*".
- 3.9 A number of planning appeal decisions provide guidance on the extent to which the residual land value should exceed existing use value to be considered viable:

**Barnet and Chase Farm: APP/Q5300/A/07/2043798/NWF**

*"the appropriate test is that the value generated by the scheme should exceed the value of the site in its current use. The logic is that, if the converse were the case, then sites would not come forward for development"*

**Bath Road, Bristol: APP/P0119/A/08/2069226**

*"The difference between the RLV and the existing site value provides a basis for ascertaining the viability of contributing towards affordable housing."*

**Beckenham: APP/G5180/A/08/2084559**

*"without an affordable housing contribution, the scheme will only yield less than 12% above the existing use value, 8% below the generally accepted margin necessary to induce such development to proceed."*

**Oxford Street, Woodstock: APP/D3125/A/09/2104658**

*"The main parties' valuations of the current existing value of the land are not*

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<sup>5</sup> This term should not be confused with the RICS *Red Book* definition. Existing Use Value in this context is taken to mean the value of the site in its current use, disregarding opportunities for redevelopment of the site for other uses.

*dissimilar but the Appellant has sought to add a 10% premium. Though the site is owned by the Appellants it must be assumed, for valuation purposes, that the land is being acquired now. It is unreasonable to assume that an existing owner and user of the land would not require a premium over the actual value of the land to offset inconvenience and assist with relocation. The Appellants addition of the 10% premium is not unreasonable in these circumstances.”*

- 3.10 The guidance issued by the Local Housing Delivery Group<sup>6</sup> ('LHDG') on 22 June 2012 advocates the use of current use value plus an appropriate premium as a benchmark for testing CIL and local plan policy requirements.
- 3.11 It is clear from the LHDG guidance, planning appeal decisions and HCA good practice publication that the most appropriate test of viability for planning policy purposes is to consider the residual value of schemes compared to the existing or current use value plus a premium. As discussed later in this report, our study adopts a range of benchmark land values, reflecting differing circumstances in which sites are brought forward.
- 3.12 The examination on the Mayor of London's CIL charging schedule considered the issue of an appropriate land value benchmark. The Mayor had adopted existing use value, while certain objectors suggested that 'Market Value' was a more appropriate benchmark. The Examiner concluded that:
- “The market value approach.... while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context.” (para 8) and that “I don't believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done” (para 9).*
- 3.13 In his concluding remark, the Examiner points out that
- “the price paid for development land may be reduced [so that CIL may be accommodated]. As with profit levels there may be cries that this is unrealistic, but a reduction in development land value is an inherent part of the CIL concept. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges. (para 32 – emphasis added).*
- 3.14 It is important to stress, however, that there is no single threshold land value at which land will come forward for development. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of demand for the site's current use in comparison to others; how offers received compare to the owner's perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single threshold land value, it is difficult for policy makers to determine the minimum land value that sites should achieve. This will ultimately be a matter of judgement for each individual Charging Authority.

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<sup>6</sup> This group was led by the Homes and Communities Agency and comprises representatives from the National Home Builders Federation, the Royal Town Planning Institute, local authorities and valuers (including BNP Paribas Real Estate).

## 4 Development appraisals

### Residential development

- 4.1 We have appraised a series of development typologies, reflecting both the range of sales values/capital values and also sizes/types of development and densities of development across the Borough. The inputs to the appraisals are based on research on the local housing market.

#### Residential sales values

- 4.2 Residential values in the area reflect national trends in recent years but do of course vary between different sub-markets. We have considered comparable evidence of both transacted properties in the area and properties currently on the market to establish appropriate values for testing purposes. This exercise indicates that developments in the Borough will attract average sales values ranging from circa £2,368 to £3,929 per square metre.
- 4.3 Sales values vary between different parts of the Borough with Berkhamsted, Potten End and Little Gaddesden achieving the highest values and the North area in Hemel Hempstead being identified as achieving the lowest values followed by the Hemel Hempstead areas of Hemel Central, Adeyfield, Bennetts End, Gadebridge, Apsley and Markyate. The average values we have assumed in our appraisals are shown in Table 4.3.1. These average values have been evidenced by a range of sources; firstly, Land Registry data on sales values achieved as identified on the Right Move website, secondly, pricing on individual new build developments, thirdly from properties being advertised on Right Move and finally following discussions with active local agents.

**Table 4.3.1: Average sales values used in appraisals**

Market Areas	Description	Houses £s per sq m	Flats £s per sq m	Houses and Flats per sq m
1	Berkhamsted, Potten End and Little Gaddesden	£3,929	£3,660	£3,767
2	Tring, Wigginton, Long Marston and Flamstead Great Gaddesden and Gaddesden Row	£3,229	£2,691	£3,229
3	Hemel Hempstead (Hemel Central, Adeyfield, Bennetts End, Gadebridge and Apsley)	£2,906	£2,906	£2,906
4	Hemel Hempstead (Highfield, Grovehill and Woodhall)	£2,368	£1,830	£2,368
5	Hemel Hempstead Station, Boxmoor, Chaulden, Felden and Leverstock Green	£3,229	£3,068	£3,229
6	Markyate	£2,906	£2,691	£2,906
7	Kings Langley, Chipperfield and Bovington	£3,498	£3,014	£3,391

- 4.4 As noted earlier in the report, Savills predict that sales values will increase over the medium term. Whilst this predicted growth cannot be guaranteed, we have run a sensitivity analysis assuming growth in sales values of 10%, accompanied by 5% increase in costs (the latter assuming a pick up in construction activity and higher labour and materials costs). We have also modelled a fall in prices of 5%, to provide the Council with an indication of the impact a reverse in values would have on viability.

### Affordable housing tenure and values

- 4.5 The Council's policy position seeks on site provision of 35% of units on developments comprised of 10 or more units in Hemel Hempstead and five or more units elsewhere in the borough, subject to viability, with a preferred tenure mix of 75% rented housing and 25% intermediate housing. For sites under these thresholds<sup>7</sup>, a financial contribution will be sought in lieu of affordable housing. Further information including the formula for calculating these payments is set out in the Affordable Housing SPD. This is as follows:

$$C = A \times B$$

A = affordable Housing Percentage of 35%

B = proposed number of dwellings on the site

C = the proportion of affordable housing required (i.e. no. Units equivalent)

$$E = D \times C$$

D = Land Value per unit (Land Value ÷ proposed number of dwellings)

E = financial contribution payable

- 4.6 The Council has set out its approach to the 'Affordable Rent' tenure in the Affordable Housing SPD and Core Strategy. The SPD identifies at paragraph 3.4 that 'Affordable Housing should be affordable to households with the lowest income levels, including households in receipt of local housing allowance (or other benefit regime e.g. Universal Credit to be introduced in 2013). The Council takes the view that the rent levels set for affordable rent accommodation should not exceed Local Housing Allowance Rates.'
- 4.7 For modelling purposes, we have assumed 70% of market rents as long as these do not exceed the Local Housing Allowance levels. We have established appropriate market rents by undertaking research on private market rents in the Borough using the Right Move website and following discussions with active local agents. These are shown in the table below:

**Table 4.7.1 Average private rents, 70% of private rents and local housing allowance levels**

	Average Private Rent per calendar month (PCM)	70% of Private Rent PCM	Weekly rent at 70% of Private Rent	Local Housing Allowance per week
1 Bed	£686	£480	£110.76	£150
2 Bed	£884	£619	£142.85	£183.46
3 Bed	£1,077	£754	£174.00	£230.77
4 Bed	£1,250	£875	£201.92	£257.69
5 Bed	£1,700	£1,190	£274.61 <sup>8</sup>	£257.69

- 4.8 The DCLG/HCA '2011-2015 Affordable Homes Programme – Framework' (February 2011) document clearly states that RPs will not receive grant funding for any affordable housing provided through planning obligations. Consequently, all our appraisals assume nil grant. We recommend that the Council revisits this assumption when it next reviews its charging schedule, by which time a new funding programme may have been introduced by central government.

<sup>7</sup> The requirement for a financial contribution will be waived in accordance with the Council's Affordable Housing SPD 2013.

<sup>8</sup> This is higher than the local housing allowance; as such the local housing allowance level will be adopted for 5 bedroom properties to ensure affordability.

- 4.9 For shared ownership units, we have assumed that RPs will sell 25% initial equity stakes and charge a rent of 2.75% on the retained equity. A 10% charge for management is deducted from the rental income and the net amount is capitalised using a yield of 5.25%.

#### Residential development types, density and mix

- 4.10 We have run appraisals using the range of densities that are typically encountered in the Borough. These scenarios were discussed with the Council and it was agreed that they represent the range of sites likely to come forward in the Borough over the life of the charging schedule.
- 4.11 Tables 4.11.1 and 4.11.2 summarise the different development typologies selected for testing purposes. These are intended to reflect the range of developments across the Borough.

**Table 4.11.1: Development typologies**

Site Type	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	2	Houses	20	0.1
2	9	Houses	35	0.26
3	15	Flats	70	0.21
4	25	Houses	25	1.0
5	40	Houses	40	1.0
6	50	Flats	80	0.63
7	70	Houses and Flats	70	1.00
8	100	Flats	100	1.00
9	100	Houses and Flats	30	4.76
10	500	Houses and Flats	30	23.81

**Table 4.11.2: Unit Mix**

Site type	1 Bed Flat	2 Bed Flat	3 Bed Flat	2 bed house	3-4 bed house	5 bed house
Unit size <sup>9</sup>	50 sqm	65 sqm	80 sqm	75 sqm	95 sqm	115 sqm
1		-	-	-	100%	-
2		-	-	20%	80%	-
3	20%	60%	20%			
4	-	-	-	15%	75%	10%
5	-	-	-	10%	75%	15%
6	20%	60%	20%			
7	10%	40%	30%	5%	10%	5%
8	20%	50%	30%	-	-	-
9	3%	7%		10%	70%	10%
10	3%	7%		10%	70%	10%

<sup>9</sup> For all both Market and affordable housing units

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### Residential build costs

- 4.12 We have sourced build costs for the residential schemes from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes. In addition to the build costs outlined below, our appraisals include a contingency of 5% of build costs. Our approach for each site is set out in the following paragraphs.
- 4.13 **Site type 1** is a scheme of 2 houses. The BCIS base cost for 'One-off housing detached (3 units or less)' is £930 per square metre, excluding external works and fees. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,125 per square metre. As the scheme is comprised wholly of houses, we have assumed a gross to net ratio of 100%.
- 4.14 **Site type 2** is a scheme of 9 houses. The BCIS base cost for 'houses – generally' is £910 per square metre. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,101 per square metre. As the scheme is comprised wholly of houses, we have assumed a gross to net ratio of 100%.
- 4.15 **Site type 3** is a scheme of 15 flats. We have adopted the BCIS base cost for "flats – generally" of £1,076 per square metre, excluding external works and fees. After a 15% allowance for external works has been added, together with an allowance for meeting the costs of CSH level 4 (6%) the final build cost is £1,302 per square metre. We have assumed a net to gross ratio of 85%, so costs expressed per net square metre are £1,532 per square metre.
- 4.16 **Site type 4** is a scheme of 25 houses. The BCIS base cost for 'houses – generally' is £910 per square metre. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,101 per square metre. As the scheme is comprised wholly of houses, we have assumed a gross to net ratio of 100%.
- 4.17 **Site type 5** is a scheme of 40 houses. The BCIS base cost for 'houses – generally' is £910 per square metre. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,101 per square metre. As the scheme is comprised wholly of houses, we have assumed a gross to net ratio of 100%.
- 4.18 **Site type 6** is a scheme of 50 flats. We have adopted the BCIS base cost for "flats – generally" of £1,076 per square metre, excluding external works and fees. After a 15% allowance for external works has been added, together with an allowance for meeting the costs of CSH level 4 (6%) the final build cost is £1,302 per square metre. We have assumed a net to gross ratio of 80%, (which reflects a taller building than site type 3) so costs expressed per net square metre are £1,628 per square metre.
- 4.19 **Site type 7** is a scheme of 70 flats and houses. For the flats we have adopted the BCIS base cost for "flats – generally" of £1,076 per square metre, excluding external works and fees. After a 15% allowance for external works has been added, together with an allowance for meeting the costs of CSH level 4 (6%) the final build cost is £1,280 per square metre. We have assumed a net to gross ratio of 80%, so costs expressed per net square metre are £1,628 per square metre. For the houses we have adopted the BCIS base cost for 'houses – generally' of £910 per square metre. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,101 per square metre. For the houses we have assumed a gross to net ratio of 100%.



- 4.20 **Site type 8** is a scheme of 100 flats. We have adopted the BCIS base cost for “flats – generally” of £1,076 per square metre, excluding external works and fees. After a 15% allowance for external works has been added, together with an allowance for meeting the costs of CSH level 4 (6%) the final build cost is £1,302 per square metre. We have assumed a net to gross ratio of 80%, so costs expressed per net square metre are £1,628 per square metre.
- 4.21 **Site type 9** is a scheme of 100 flats and houses. We have adopted the BCIS base cost for “flats – generally” of £1,076 per square metre, excluding external works and fees. After a 15% allowance for external works has been added, together with an allowance for meeting the costs of CSH level 4 (6%) the final build cost is £1,280 per square metre. We have assumed a net to gross ratio of 85%, so costs expressed per net square metre are £1,532 per square metre. For the houses we have adopted the BCIS base cost for ‘houses – generally’ of £910 per square metre. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,101 per square metre.
- 4.22 **Site type 10** is a scheme of 500 flats and houses. We have adopted the BCIS base cost for “flats – generally” of £1,076 per square metre, excluding external works and fees. After a 15% allowance for external works has been added, together with an allowance for meeting the costs of CSH level 4 (6%) the final build cost is £1,280 per square metre. We have assumed a net to gross ratio of 85%, so costs expressed per net square metre are £1,532 per square metre. For the houses we have adopted the BCIS base cost for ‘houses – generally’ of £910 per square metre. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,101 per square metre.
- 4.23 A summary of build costs for each scheme type is provided in Table 4.23.1.

**Table 4.23.1: Build costs**

Site type	BCIS base – quarter 2 2012	Base cost	External works and CSH level 4	All-in cost (gross)	All-in cost (net)
1	Houses - One-off housing detached (3 units or less)	£930	£195	£1,125	£1,125
2	Houses - generally	£910	£191	£1,101	£1,101
3	Flats - generally	£1,076	£226	£1,302	£1,532
4	Houses - generally	£910	£191	£1,101	£1,101
5	Houses - generally	£910	£191	£1,101	£1,101
6	Flats - generally	£1,076	£226	£1,302	£1,628
7	Flats - generally	£1,076	£226	£1,302	£1,628
7	Houses - generally	£910	£191	£1,101	£1,101
8	Flats - generally	£1,076	£226	£1,302	£1,628
9	Flats - generally	£1,076	£226	£1,302	£1,532
9	Houses - generally	£910	£191	£1,101	£1,101
10	Flats - generally	£1,076	£226	£1,302	£1,532
10	Houses - generally	£910	£191	£1,101	£1,101



- 4.24 As identified above, an additional 6% allowance is included across all tenures for meeting Code for Sustainable Homes level 4, which is reflective of the findings of work undertaken by Davis Langdon on behalf of the DCLG<sup>10</sup>.

#### **Professional fees**

- 4.25 In addition to base build costs, schemes will incur professional fees, covering design, valuation, highways consultants and so on. Our appraisals incorporate an allowance of between 10% to 12%, depending on the complexity of the scheme. This allowance incorporates all professional inputs and planning fees, EPCs and NHBC costs.
- 4.26 Our appraisals incorporate an allowance of 3% of GDV to cover marketing costs. An additional £600 per unit is included for legal costs on sales.

#### **Finance costs**

- 4.27 Our appraisals incorporate finance costs on land and build at 7%.

#### **Stamp duty and acquisition costs**

- 4.28 We include stamp duty at 4% of land costs, agents fees of 1% and legal fees on acquisition of 0.8%.

#### **Section 278 and residual Section 106 costs**

- 4.29 Our appraisals incorporate an allowance per unit to address any Section 278 and residual Section 106 costs inline with the following information provided by the Council. It should be noted that significantly higher S106 costs are assumed for site types 9 and 10 given typical characteristics of large greenfield development sites. The costs assumed are set out in table 4.53.1.

**Table 4.29.1 Residual S106 costs**

No. bedrooms	Residual S106 Contribution per unit
1	£700
2	£900
3	£1,300
4	£1,500
5	£1,600

#### **Development and sales periods**

- 4.30 Development and sales periods vary between type of scheme. However, our sales periods are based on an assumption of a sales rate of 3 units per month. This is reflective of current market conditions, whereas in improved markets, a sales rate of up to 5 units per month or more might be expected. The build and sales periods for each scheme type are summarised in Table 4.53.1 below.

<sup>10</sup> The Cost of building to the Code for Sustainable Homes, Updated cost review (August 2011) by Davis Langdon on behalf of the DCLG.

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### **Developer's profit**

- 4.31 Developer's profit is closely correlated with the perceived risk of residential development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme. In 2007, profit levels were at around 15-17% of development costs. However, following the impact of the credit crunch and the collapse in interbank lending and the various government bailouts of the banking sector, profit margins have increased. It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the Boards of the major housebuilders will set targets for minimum profit).
- 4.32 The views of the banks which fund development are more important; if the banks decline an application by a developer to borrow to fund a development, it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals.
- 4.33 The near collapse of the global banking system in the final quarter of 2008 is resulting in a much tighter regulatory system, with UK banks having to take a much more cautious approach to all lending. In this context, and against the backdrop of the current sovereign debt crisis in the Eurozone, the banks may not allow profit levels to decrease much lower than their current level of 20%.
- 4.34 Our assumed return on the affordable housing GDV is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an RP prior to commencement. Any risk associated with take up of intermediate housing is borne by the acquiring RP, not by the developer. A reduced profit level on the affordable housing reflects the GLA 'Development Control Toolkit' guidance and Homes and Communities Agency's guidelines in its Economic Appraisal Tool.

### **Phasing of CIL payments**

- 4.35 The Council is yet to formulate its instalment policy. For testing purposes, we have assumed that any CIL due will be split into three equal instalments, payable at the months shown in Table 4.53.1
- 4.36 In our experience viability improves marginally for some schemes i.e. a higher maximum CIL rate of circa 20% is likely to be able to be levied, as instalments are pushed back / spread over the development period as this improves the cashflow.
- 4.37 Given that phasing has an impact on viability, albeit fairly marginally, and in the context of the current economic climate, we would recommend that the Council takes a cautious approach to their instalment policy, possibly considering spreading payments over a development period of up to two years where large CIL sums apply. This would assist the viability of developments by reducing the level of upfront costs. In addition, spreading the CIL charge over the development period would be the closest approach to that currently applied to S106 contributions, and as such would shock the market less.
- 4.38 It should be noted that the Council's instalment policy is not part of its charging schedule and does not form part of the CIL examination. The Council is able to introduce, withdraw or amend an instalments policy at any time during the life of their charging schedule as long as they give at least 28 days notice before the new policy takes effect and/or old policy is withdrawn.

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## Benchmark land values for the residential analysis

- 4.39 Benchmark land values, based on the current use value or alternative use value of sites are key considerations in the assessment of development economics for testing planning policies and tariffs. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the land's current use value. Current use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. Current use value or alternative use value are effectively the 'bottom line' in a financial sense and therefore a key factor in this study.
- 4.40 We have arrived at a broad judgement on the likely range of benchmark land values. On previously developed sites, the calculations assume that the landowner has made a judgement that the current use does not yield an optimum use of the site; for example, it has fewer storeys than neighbouring buildings; or there is a general lack of demand for the type of space, resulting in low rentals, high yields and high vacancies (or in some cases no occupation at all over a lengthy period). We would not expect a building which makes optimum use of a site and that is attracting a reasonable rent to come forward for development, as residual value may not exceed current use value in these circumstances.
- 4.41 In considering the value of sites in existing commercial use, it is necessary to understand the concept of 'yields'. Yields form the basis of the calculation of a building's capital value, based on the net rental income that it generates. Yields are used to calculate the capital value of any building type which is rented, including both commercial and residential uses. Yields are used to calculate the number of times that the annual rental income will be multiplied to arrive at a capital value. Yields reflect the confidence of a potential purchaser of a building in the income stream (i.e. the rent) that the occupant will pay. They also reflect the quality of the building and its location, as well as general demand for property of that type. The lower the covenant strength of the occupier (or potential occupiers if the building is currently vacant), and the poorer the location of the building, the greater the risk that the tenant may not pay the rent. If this risk is perceived as being high, the yield will be high, resulting in a lower number of years rent purchased (i.e. a lower capital value).
- 4.42 Over the past four years, yields for commercial property have 'moved out' (i.e. increased), signalling lower confidence in the ability of existing tenants to pay their rent and in future demand for commercial space. This has the effect of depressing the capital value of commercial space. However, as the economy recovers, we would expect yields to improve (i.e. decrease), which will result in increased capital values. Consequently, current use values might increase, increasing the base value of sites that might come forward, which may have implications for landowners' decisions on releasing sites for alternative uses.
- 4.43 Redevelopment proposals that generate residual land values below current use values are unlikely to be delivered. While any such thresholds are only a guide in 'normal' development circumstances, it does not imply that individual landowners, in particular financial circumstances, will not bring sites forward at a lower return or indeed require a higher return. If proven current use value justifies a higher benchmark than those assumed, then appropriate adjustments may be necessary. As such, current use values should be regarded as benchmarks rather than definitive fixed variables on a site by site basis.

- 4.44 The four benchmark land values used in this study have been selected to provide a broad indication of likely land values across the Borough, but it is important to recognise that other site uses and values may exist on the ground. There can never be a single threshold land value at which we can say definitively that land will come forward for development, especially in urban areas.
- 4.45 It is also necessary to recognise that a landowner will require an additional incentive to release the site for development<sup>11</sup>. The premium above current use value would be reflective of specific site circumstances (the primary factors being the occupancy level and strength of demand from alternative occupiers). For policy testing purposes it is not possible to reflect the circumstances of each individual site, so a blanket assumption of a 20% premium has been adopted to reflect the 'average' situation
- 4.46 **Benchmark land value 1:** we have included a risk-adjusted Valuation Office Agency ('VOA') 'residential land value' for Cambridge as one of our benchmarks<sup>12</sup>. This data reflects *the value of land with planning consent for residential use with appropriate servicing* and thus an over generous benchmark against which to test developments which do not have planning. Valuers would typically deduct an allowance for risk from the value of sites without consent. We have therefore adjusted the Cambridge residential land value of £2.9 million per hectare to £2.03 million per hectare to account for planning risk. Recognising that the VOA undertook its most recent study when Social Housing Grant was available for most sites, we have adjusted the land value to account for the reduction in grant availability resulting from the October 2010 *Comprehensive Spending Review*<sup>13</sup>. This results in a further reduction of £0.675 million per hectare (based on a 30 unit scheme, with 25% affordable equating to 7.5 units at £90,000 grant per unit). The resulting serviced land value benchmark is £1.355 million per Hectare (Ha).
- 4.47 We would caution against reliance on land sales as evidence of minimum land value thresholds, particularly in light of the comments on this data in Examiner's report on the Mayor of London's CIL<sup>14</sup>.
- 4.48 **Benchmark Land Value 2:** This benchmark assumes lower value secondary office space on a hectare of land, with 40% site coverage and 3 storeys. The rent assumed is based on lettings of second hand offices in the Borough at £5 per sq ft. We have assumed a £32 per sq ft allowance for refurbishment and a letting void of three years. The capital value of the building would be £751,000, to which we have added a 20% premium, resulting in a benchmark of £901,000 per Ha.
- 4.49 **Benchmark Land Value 3:** This benchmark assumes lower value secondary industrial/warehousing space on a hectare of land, with 60% site coverage and 1 storey. The rent assumed is based on lettings of second hand industrial floorspace in the Borough at £4 per sq ft. We have assumed a letting void of three years. The capital value of the building would be £571,000, to which we have added a 20% premium, resulting in a benchmark of £685,000 per Ha.

<sup>11</sup> This approach is therefore consistent with the National Planning Policy Framework, which indicates that development should provide "competitive returns" to landowners. A 20% return above current use value is a competitive return when compared to other forms of investment.

<sup>12</sup> The VOA now publishes a limited number of land value benchmarks in each region. Cambridge is the closest available residential land value to Dacorum.

<sup>13</sup> It should also be noted that the Homes and Communities Agency's *Affordable Homes Programme 2011-2015 – Framework* document also explicitly states that affordable housing delivered through Section 106 obligations will not receive grant.

<sup>14</sup> Para 32: "*the price paid for development land may be reduced.... a reduction in development land value is an inherent part of the CIL concept.... in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges.*"

- 
- 4.50 **Benchmark Land Value 4:** This benchmark assumes a community building, which could include buildings owned by the Council and other public sector bodies, and community/charity groups. We have assumed site coverage of 50% across a hectare of land, with a single storey building. The rent assumed is based on our estimate of £1.50 per sq ft. We have assumed a letting void of one year. The capital value of the building would be £255,000, to which we have added a 20% premium, resulting in a benchmark of £306,000 per Ha.
- 4.51 It is worth noting that Benchmark Land Value 4 is also equivalent to a land value for greenfield sites, sitting in the middle of the range of £247,000 to £370,500 per Ha identified by research undertaken for the Department for Communities and Local Government<sup>15</sup>.
- 4.52 We would draw readers' attention to the comments on land values in Examiner's report on the Mayor of London's CIL<sup>16</sup>, which indicates that owners will need to adjust their expectations to accommodate allowances for infrastructure.
- 4.53 Our residential appraisal inputs are summarised in Table 4.53.1.

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<sup>15</sup> DCLG 'Cumulative impacts of regulations on house builders and landowners Research paper' 2011

<sup>16</sup> Para 32: "the price paid for development land may be reduced.... a reduction in development land value is an inherent part of the CIL concept.... in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges."

**Table 4.53.1: Residential appraisal assumptions for each site type**

Appraisal input	Source/Commentary	Site type number and assumptions									
Typology		1	2	3	4	5	6	7	8	9	10
Number of units		2	9	15	25	40	50	70	100	100	500
Base construction costs (£s per sq metre)	BCIS adjusted for location. Based on gross areas before external works. Additional adjustments as set out in Table 4.23.1	£930	£910	£1,076	£1,058	£910	£1,076	Flats - £1,076, Houses - £910	£1,076	Flats - £1,076, Houses - £910	Flats - £1,076, Houses - £910
External works (% of build costs)	Based on average scheme cost.	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Code for sustainable homes level 4	Based on DCLG/Davis Langdon Study	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Contingency (% of build cost)	Industry norm (5%)	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Professional fees (% of build)	BNPPRE assumption	10%	10%	10%	10%	10%	10%	10%	10%	12%	12%
Construction period (months)	We assume that developers will build at the rate they are able to sell.	8	12	12	18	18	18	20	24	24	36
Sales period (months)	Determined by ability of market to absorb new development	2	3	5	9	12	15	23	33	33	42
Sale start (month from commencement)	Linked to later stages of construction period	8	12	12	12	12	12	12	12	12	12
Sales rate (units per month)	Reflective of current market, could improve.	1	3	3	3	3	3	3	3	3	3
Profit on private (% of GDV)	BNPPRE assumption – reflective of current funder requirements	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Profit on affordable (% of GDV)	Reduced risk due to pre-sale to RP	n/a	(6% rural)	6%	6%	6%	6%	6%	6%	6%	6%
Phasing of CIL payments	BNPPRE assumption – equal splits, paid in months shown in table	1 / 6 / 6	1 / 6 / 6	1 / 6 / 6	1 / 6 / 12	1 / 6 / 12	1 / 6 / 12	1 / 12 / 18	1 / 12 / 18	1 / 12 / 18	1 / 18 / 24
Gross to net ratio for flats	BNPPRE assumption	n/a	n/a	85%	n/a	n/a	80%	80%	80%	85%	85%
Residual onsite S106 / Greenfield infrastructure cost and Affordable housing payment in lieu	Advice from Council and BNPPRE experience	£1,400 per unit	£1,300 per unit and £116,142 payment in lieu (outside Hemel)	£940 per unit	£1,345 per unit	£1,380 per unit	£940 per unit	£1,085 per unit	£980 per unit	£3,500 per unit and £20k GF inf per unit	£10k per unit and £20k GF inf per unit
Density and site area (ha, developable area)		20 uph 0.1 ha	35 uph 0.26 ha	70 uph 0.21 ha	25 uph 1.0 ha	40 uph 1.0 ha	80 uph 0.63 ha	70 uph 1.0 ha	100 uph 1.0 ha	30uph 4.76 ha	30uph 23.81 ha

## Commercial development

- 4.54 We have appraised a series of commercial development typologies, reflecting a range of use classes at average rent levels achieved on lettings of commercial space in actual developments. In each case, our assessment assumes an intensification of the existing use on the site, based on three types of commercial development. In each case, the existing use value assumes that the existing building is 25%-75% of the size of the new development, with a lower rent and higher yield reflecting the secondary nature of the building.

### Commercial rents and yields

- 4.55 Our research on lettings of commercial floorspace indicates a range of rents achieved, as summarised in table 4.55.1. This table also includes our assumptions on appropriate yields to arrive at a capital value of the commercial space.
- 4.56 We recognise that the regeneration of Hemel Hempstead town centre and the Maylands Business Park are considered by the Council to be important drivers for economic and social change in the Borough. We note that the range of shops and facilities offered by Hemel Hempstead town centre has already been improved through the Riverside development. However, further improvements to both the retail offer and quality of the overall environment will need to be made if the town is to compete with larger sub-regional centres across the Borough boundary. This would also be required to assist with achieving higher rents and keener yields in the town centre for retail space. The Council also considers the provision of new homes and high quality office space to be central to the regeneration of Hemel Hempstead town centre, both of which will increase footfall.
- 4.57 New build office developments are likely to attract a premium rent above second hand rents, but we would expect this to be relatively modest. The rents and yields adopted in our appraisals are summarised in Table 4.55.1.
- 4.58 Our appraisals of commercial floorspace test the viability of developments on existing commercial sites. For these developments, we have assumed that the site could currently accommodate one of three existing uses (i.e. thereby allowing the site to be assessed in relation to three current use values (CUVs)) and the development involves the intensification of site. We have assumed lower rents and higher yields for existing space than the planned new floorspace. This reflects the lower quality and lower demand for second hand space, as well as the poorer covenant strength of the likely occupier of second hand space. A modest refurbishment cost is allowed for to reflect costs that would be incurred to secure a letting of the existing space. A 15% -20% landowner premium is added to the resulting existing use value as an incentive for the site to come forward for development. The actual premium would vary between sites, and be determined by site-specific circumstances, so the 15% - 20% premium has been adopted as a 'top of range' scenario for testing purposes.

### Commercial build costs

- 4.59 We have sourced build costs for the commercial schemes from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes. These costs vary between different uses and exclude external works and fees (our appraisals include separate allowances for these costs). Costs for each type of development are shown in Table 4.55.1.



### **Profit**

- 4.60 In common with residential schemes, commercial schemes need to show a risk adjusted profit to secure funding. Profit levels are typically around 20% of developments costs and we have incorporated this assumption into our appraisals.

**Table 4.55.1: Commercial appraisal assumptions for each use**

Appraisal input	Source/Commentary	Offices Hemel - Maylands	All other Retail (A1-A5) Berkhamsted	All other Retail (A1-A5) Hemel Hempstead	All other Retail (A1-A5) elsewhere	Convenience based supermarkets & superstores & retail warehousing	Industrial / warehouse (small)	Industrial / warehouse (large)	Hotel
Total floor area (sq ft)	Generic scheme	3,000	1,500	1,500	1,500	10,764 and 53,820	21,000	165,000	27,000
Rent (£s per sq ft)	Based on average lettings sourced from EGI and Focus	£18.50	£28	£23	£11	£23	£8	£7.50	£20 (£5,000 per room)
Rent free/void period (years)	BNPPRE assumption	2 years	2 years	2 years	2 years	2 years	2 years	2 years	n/a
Yield	BNPPRE prime yield schedule, research on comparable evidence and discussions with local agents	8%	7%	7%	8%	5.75%	7%	6.5%	6.25%
Purchaser's costs (% of GDV)	Stamp duty 4%, plus agent's and legal fees	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Demolition costs (£s per sq ft of existing space)	Based on experience from individual schemes	£5	£5	£5	£5	£5	£5	£5	£5
Gross to net (net as % of gross)	Based on experience from individual schemes	82%	82%	82%	82%	82%	90%	90%	75%
Base construction costs (£s per sq ft)	BCIS costs. Offices – 'generally' for air conditioned offices with adjustment for quality. 'Generally' figure for industrial, supermarkets, retail warehouse and town centre retail.	£136	£124	£124	£124	£116 and £112	£54	£54	£124
External works (% of build costs)	BNPPRE assumption	10%	10%	10%	10%	10%	10%	10%	10%
BREEAM Excellent (% of build costs)	BNPPRE assumption	10%	10%	10%	10%	10%	10%	10%	10%
Contingency (% of build costs)	BNPPRE assumption	5%	5%	5%	5%	5%	5%	5%	5%
Letting agent's fee	(% of first year's rent)	10%	10%	10%	10%	10%	10%	10%	10%

**Table 4.55.1 (continued) Commercial appraisal assumptions for each use**

Appraisal input	Source/Commentary	Offices Hemel - Maylands	All other Retail (A1-A5) Berkhamsted	All other Retail (A1-A5) Hemel Hempstead	All other Retail (A1-A5) elsewhere	Convenience based supermarkets & superstores & retail warehousing	Industrial / warehouse (small)	Industrial / warehouse (large)	Hotel
Interest rate	BNPPRE assumption	7%	7%	7%	7%	7%	7%	7%	7%
Professional fees (% of build)	BNPPRE assumption, relates to complexity of scheme	10%	10%	10%	10%	10%	10%	10%	10%
Profit (% of costs)	BNPPRE assumption based on schemes submitted for planning	20%	20%	20%	20%	20%	20%	20%	20%

**Table 4.55.2 Commercial appraisal assumptions for each use – Current Use Value Benchmarks**

Appraisal input	Source/Commentary	Offices Hemel - Maylands	All other Retail (A1-A5) Berkhamsted	All other Retail (A1-A5) Hemel Hempstead	All other Retail (A1-A5) elsewhere	Convenience based supermarkets & superstores & retail warehousing	Industrial / warehouse (small)	Industrial / warehouse (large)	Hotel
Existing floorspace (sq ft)	Assumed to be between 15% to 50% of new space	15%	15%	15%	15%	15%	15%	15%	15%
Rent on current floorspace	Reflects poor quality second hand space of same use, low optimisation of site etc and ripe for redevelopment	£2.50 - £7	£10 - £20	£10 - £15	£5 - £10	£7 - £20	£2.50 - £6	£2.50 - £6	£4 - £10
Yield on current floorspace	BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc	8.5% - 8%	8% - 7%	8.5% - 7%	8% - 8.5%	7% - 8%	8.5% - 10%	8.5% - 10%	8.5%
Rent free on current space	Years	3	3	3	3	2	3	3	3
Refurbishment costs (£s per sq ft)	General allowance for bringing existing space up to lettable standard	£20	£50	£50	£40	£50	£10	£10	£20
Fees on refurbishment (% of refurb cost)	BNPPRE assumption	7%	7%	7%	7%	7%	7%	7%	7%
Landowner premium	BNPPRE assumption – in reality the premium is likely to be lower, therefore this is a conservative assumption	20%	15% - 20%	15% - 20%	15% - 20%	20%	15% - 20%	15% - 20%	20%

## 5 Appraisal outputs

### Residential appraisals

- 5.1 The full outputs from our appraisals of residential development are attached as Appendix 3. We have modelled 10 site types, reflecting different densities and types of development (see table 4.53.1 for the appraisal assumptions), which are tested in each of the seven sub-market areas identified in Section 4 and against four land value benchmarks. These types are summarised in table 5.1.1 below.

**Table 5.1.1: Development types**

Site Type	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	2	Houses	20	0.1
2	9	Houses	35	0.26
3	15	Flats	70	0.21
4	25	Houses	25	1.0
5	40	Houses	40	1.0
6	50	Flats	80	0.63
7	70	Houses and Flats	70	1.00
8	100	Flats	100	1.00
9	100	Houses and Flats	30	4.76
10	500	Houses and Flats	30	23.81

### Scenarios tested

- 1 Base sales and base costs (including Code for Sustainable Homes Level 4); 35% affordable housing (excluding Site type 1 and Site type 2 for the Hemel Hempstead area<sup>17</sup>, which fall below the threshold) with the rented element let at 70% of average private market rents;
  - 2 Sales values fall by 5%;
  - 3 Sales values increase by 10% and build costs increase by 5%;
  - 4 As (1) with 30% affordable housing;
  - 5 As (1) with 25% affordable housing; and
  - 6 As (1) with 40% affordable housing for site types 9 and 10.
- 5.2 We assume that all development types will meet Code for Sustainable Homes Level 4. Level 4 is reflected through a 6% adjustment to our base build costs for all tenures.
- 5.3 For all types of site, we have run two sensitivity analyses; firstly, with sales values falling by 5% and secondly, with sales values increasing by 10% and build costs also increasing by 5%. This analysis is provided for illustrative purposes and may assist the Council in understanding how viability might be affected by movements in sales values (up and down) over time and increased

<sup>17</sup> A payment in lieu for affordable housing has been included, calculated based on the Council's formula.

sustainability requirements. However, the future trajectory of the housing market is inherently uncertain and predictions cannot be relied upon.

- 5.4 The residual land values from each of the scenarios above in each of the seven housing market areas are then compared to four benchmark land values ('BLVs') based on the assumptions set out in paragraphs 4.36 to 4.48. This comparison enables us to determine whether the imposition of CIL would have an impact on development viability. In some cases, the equation Residual Land Value ('RLV') less BLV results in a negative number, so the development would not proceed, whether CIL was imposed or not. We therefore focus on situations where the RLV is greater than BLV and where (all other things being equal) the development would proceed. In these situations, CIL has the potential to 'tip the balance' of viability into a negative position.

### **Commercial appraisals**

- 5.5 Our research on rents achieved on commercial lettings indicates a range of rents within each main use class. Our commercial appraisals therefore model base position and test the range of rates (higher and lower than the base level) and changes to yields. This enables us to draw conclusions on maximum potential rates of CIL. For each type of development tested, we have run appraisals of a quantum of floorspace, each with rent levels reflecting the range identified by our research.

### **Presentation of data**

#### **Residential appraisals results**

- 5.6 The results for each site are presented in five/six spreadsheets, as follows:
- Base sales values, 35% affordable housing (where applicable) CSH level 4 on all tenures;
  - Sales values -5%;
  - Sales values + 10%, build costs + 5%;
  - Scenario 1 with reduced affordable housing (30%);
  - Scenario 1 with reduced affordable housing (25%); and
  - Scenario 1 with increased affordable housing (40%) for Site types 9 and 10.
- 5.7 A sample of the format of the results is provided in Figure 5.7.1 overleaf. This sample relates to site type 1.

**Figure 5.7.1 Illustrative example of residential results**

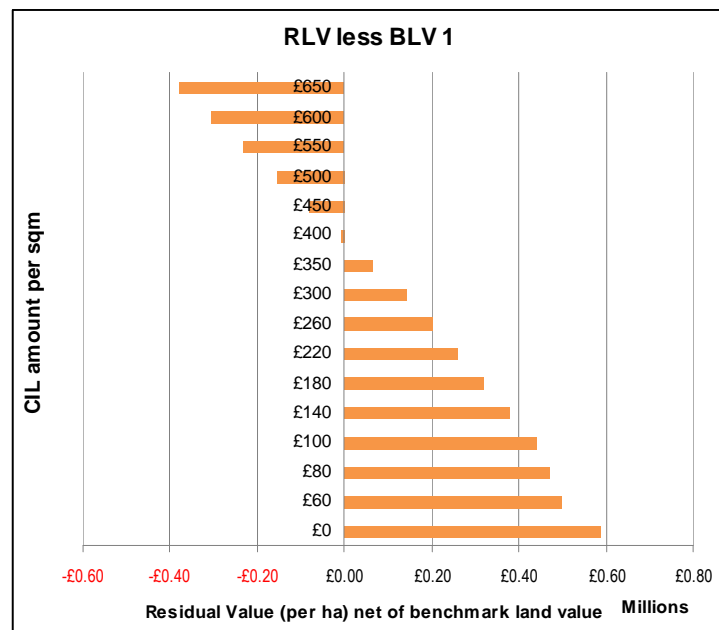
CIL Viability	Dacorum BC	<b>Benchmark Land Values (per net developable ha)</b>				
SITE TYPE	1	BLV1 Resi Land (DVS) £1,355,000	BLV2 Offices (lower) £901,449	BLV3 Ind./Warehousing £685,319	BLV4 Community uses £305,893	
2 UNITS HOUSES						
20 UPH	Net area as percentage of gross	100%				
CSH level:	4 on AH					
	4 on private					
Aff Hsg:	0%					
Site type 1	Description:	Area 5 £3229 psm Hem Stat Fel Aps			Site area:	0.10 ha
CIL amount	RLV	RLV per ha	RLV less BLV 1	RLV less BLV 2	RLV less BLV 3	RLV less BLV 4
0	194,278	1,942,783	587,783	1,041,334	1,257,464	1,636,890
60	185,341	1,853,406	498,406	951,957	1,168,087	1,547,513
80	182,361	1,823,614	468,614	922,165	1,138,295	1,517,720
100	179,382	1,793,822	438,822	892,373	1,108,503	1,487,928
140	173,424	1,734,237	379,237	832,788	1,048,918	1,428,344
180	167,465	1,674,652	319,652	773,203	989,333	1,368,759
220	161,507	1,615,068	260,068	713,619	929,749	1,309,175
260	155,548	1,555,483	200,483	654,034	870,164	1,249,590
300	149,590	1,495,899	140,899	594,450	810,580	1,190,006
350	142,142	1,421,418	66,418	519,969	736,099	1,115,525
400	134,694	1,346,938	8,062	445,489	661,619	1,041,044

- 5.8 Each spreadsheet provides residual values at varying amounts of CIL, starting at £0 and increasing to £650 per square metre. CIL applies to net additional floor area only, so our appraisals assume a 15% deduction for existing floorspace<sup>18</sup>, with the exception of site types 9 and 10, which are identified as Greenfield developments.
- 5.9 Separate data tables are provided in each spreadsheet for each of the housing market areas:
- Market Area 1: Berkhamsted, Potten End and Little Gaddesden;
  - Market Area 2: Tring, Wigginton, Long Marston and Flamstead, Great Gaddesden and Gaddesden Row;
  - Market Area 3: Hemel Hempstead (Hemel Central, Adeyfield, Bennetts End, Gadebridge and Apsley,);
  - Market Area 4: Hemel Hempstead North (Highfield, Grovehill and Woodhall)
  - Market Area 5: Hemel Hempstead Station, Boxmoor, Chaulden, Leverstock Green and Felden;
  - Market Area 6: Markyate; and
  - Market Area 7: Kings Langley, Chipperfield and Bovington

<sup>18</sup> Existing buildings must be occupied for their lawful use for at least six months out of the twelve months prior to grant of planning permission to qualify as existing floorspace for the purposes of calculating CIL liability.

- 5.10 The RLV is converted to a per hectare rate and compared to the four benchmark land values (see paragraphs 4.46 to 4.51). This is shown in the columns headed 'RLV less BLV1, BLV2' etc. A positive number indicates that the development is viable, as the developer will receive a normal level of development profit and the land value will be sufficient for the site to come forward.
- 5.11 The numerical data is then displayed in four graphs, one for each threshold land value. The graphs show the amount by which the RLV exceeds BLV (or is less than BLV) for each level of CIL. In the **illustrative** example (Chart 5.11.1), the graph shows that the maximum viable level of CIL would be £350 per square metre, but that above this level, higher levels of CIL would render the scheme unviable. It is important to note that the charts do not have the same scale and the reader needs to bear this in mind if comparing one chart to another.

**Chart 5.11.1: Illustrative example of data chart**



### Commercial appraisal results

- 5.12 The commercial appraisal results are more straightforward, due to the narrower range of variables that need to be considered in comparison to residential development. The appraisals include a 'base' rent level, with sensitivity analyses which model rents above and below the base level (an illustration is provided in Chart 5.12.1). The maximum CIL rates are then shown per square metre, against three different benchmark current use values ('CUVs') (see Table 4.55.2). Chart 5.12.2 provides an **illustration** of the outputs in numerical format, while Chart 5.12.3 shows the data in graph format. In this example, the scheme could viably absorb a CIL of between £0 and £275 per square metre, depending on the current use value. The analysis demonstrates the significant impact of very small changes in yields (see appraisals 4 and 6, which vary the yield by 0.25% up or down) on the viable levels of CIL.

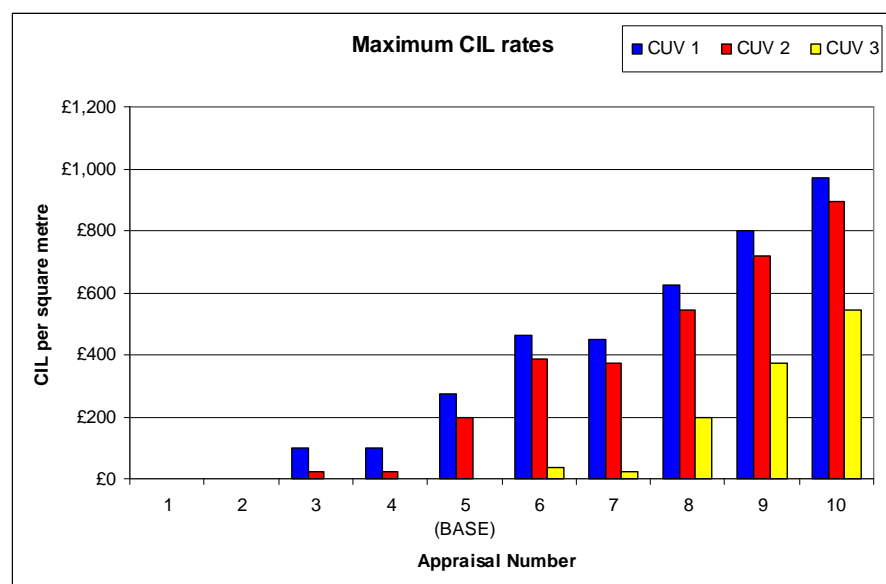


**Chart 5.12.1: Illustration of sensitivity analyses**

	£s per sqft	Yield	Rent free
Appraisal 1	£21.00	6.50%	2.00 years
Appraisal 2	£22.00	6.50%	2.00 years
Appraisal 3	£23.00	6.50%	2.00 years
Appraisal 4	£24.00	6.75%	2.00 years
<b>Appraisal 5 (base)</b>	<b>£24.00</b>	<b>6.50%</b>	<b>2.00 years</b>
Appraisal 6	£24.00	6.25%	2.00 years
Appraisal 7	£25.00	6.50%	2.00 years
Appraisal 8	£26.00	6.50%	2.00 years
Appraisal 9	£27.00	6.50%	2.00 years
Appraisal 10	£28.00	6.50%	2.00 years

**Chart 5.12.2: Maximum CIL rates – numerical format**

	Change in rent from base	CUV 1	CUV 2	CUV 3
Appraisal 1	-14%	£0	£0	£0
Appraisal 2	-9%	£0	£0	£0
Appraisal 3	-4%	£100	£23	£0
Appraisal 4	0%	£99	£21	£0
<b>Appraisal 5 (base)</b>	<b>-</b>	<b>£275</b>	<b>£197</b>	<b>£0</b>
Appraisal 6	0%	£465	£387	£38
Appraisal 7	4%	£449	£371	£23
Appraisal 8	8%	£624	£546	£197
Appraisal 9	11%	£798	£720	£371
Appraisal 10	14%	£972	£894	£546

**Chart 5.12.3: Maximum CIL rates – graph format**


## 6 Assessment of the results

- 6.1 This section should be read in conjunction with the full results attached at Appendix 2 (residential appraisal results) and Appendix 3 (commercial appraisal results). In these results, the residual land values are calculated for scenarios with sales values and capital values reflective of market conditions across the Borough. These RLVs are then compared to benchmark land values.
- 6.2 The CIL regulations state that in setting a charge, local authorities must “aim to strike *what appears to the charging authority* to be an appropriate balance” between revenue maximisation on the one hand and the potentially adverse impact of CIL upon the viability of development across the whole area on the other. Our recommendations are that:
- Firstly, the Council should take a strategic view of viability. There will always be variations in viability between individual sites, but viability testing should establish the most typical viability position; not the exceptional situations.
  - Secondly, the Council should take a balanced view of viability – residual valuations are just one factor influencing a developer’s decision making – the same applies to local authorities.
  - Thirdly, while a single charge is attractive, it may not be appropriate for all authorities, particularly in areas where sales values vary between areas.
  - Fourthly, markets are cyclical and subject to change over short periods of time. Sensitivity testing to sensitivity test levels of CIL to ensure they are robust in the event that market conditions improve over the life of a Charging Schedule is essential.
  - Fifthly, the Council should not set their rates of CIL at the limits of viability. They should leave a margin or contingency to allow for change and site specific viability issues.
- 6.3 The early examinations have seen a debate on how viability evidence should translate into CIL rates. It has now been widely recognised that there is no requirement for a Charging Authority to slavishly follow the outputs of residual valuations. At Shropshire Council’s examination in public, Newark & Sherwood District Council argued that rates of CIL should be set at the level dictated by viability evidence which would (if followed literally) have resulted in a Charging Schedule with around thirty different charging zones across the Shropshire area. Clearly this would have resulted in a level of complexity that CIL is intended to avoid. The conclusion of this debate was that CIL rates should not necessarily be determined solely by viability evidence, but *should not be logically contrary to the evidence*.
- 6.4 This conclusion follows para 28 of the CIL Guidance, which states that *‘there is no requirement for a proposed rate to exactly mirror the evidence... There is room for some pragmatism.’* The Council should not follow a mechanistic process when setting rates – appraisals are just a guide to viability and are widely understood to be a less than precise tool. Further, Para 37 of the CIL Guidance also identifies that, *‘Charging authorities that plan to set differential levy rates should seek to avoid undue complexity, and limit the permutations of different charges that they set within their area.’*

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## Assessment – residential development

- 6.5 As CIL is intended to operate as a fixed charge, the Council will need to consider the impact on two key factors. Firstly, the need to strike a balance between maximising revenue to invest in infrastructure on the one hand and the need to *minimise* the impact upon development viability on the other. DCLG guidance recognises that CIL may make some developments unviable. Secondly, as CIL will effectively take a ‘top-slice’ of development value, there is a potential impact on the percentage or tenure mix of affordable housing that can be secured. This is a change from the current system of negotiated financial contributions, where the planning authority can weigh the need for contributions against the requirement that schemes need to contribute towards affordable housing provision.
- 6.6 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable *regardless of the level of CIL* (including a nil rate) and schemes that are viable *prior* to the imposition of CIL at certain levels. If a scheme is unviable before CIL is levied, it is unlikely to come forward and CIL would not be a factor that comes into play in the developer’s/landowner’s decision making. We have therefore disregarded the ‘unviable’ schemes in recommending an appropriate level of CIL. The unviable schemes will only become viable following a degree of real house price inflation, or in the event that the Council agrees to a lower level of affordable housing in the short term<sup>19</sup>.

### Determining maximum viable rates of CIL for residential development

- 6.7 As noted in paragraph 6.5, where a scheme is unviable the imposition of CIL at a zero level will not make the scheme viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. For the purposes of establishing a maximum viable rate of CIL, we have had regard to the development scenarios that are currently viable and that might, therefore, be affected by a CIL requirement. All the results summarised below assume that current affordable housing requirements are met in full (sensitivity analyses which adopt reduced levels of affordable housing are provided in subsequent sections).
- 6.8 In the main, Site type 1 generates residual values that are higher than all four benchmark land values, even in some cases with CIL of as much as £650 per square metre. Scheme viability becomes more challenging in area 4 (Hemel Hempstead North (Highfield, Grovehill and Woodhall), see table 6.8.1.

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<sup>19</sup> However, as shown by the sensitivity analyses (which reduce affordable housing to 30% and 20%) even a reduction in affordable housing does not *always* remedy viability issues. In these situations, it is not the presence or absence of planning obligations that is the primary viability driver – it is simply that the value generated by residential development is lower than some existing use values. In these situations, sites would remain in their existing use.

**Table 6.8.1: Site type 1 - maximum viable rates of CIL (£s per square metre)**

Market Area	Existing use: Resi Land District Valuer Services (VOA)	Existing use: Offices	Existing use: Industrial / warehousing	Existing use: community bldgs
1	650	650	650	650
2	350	650	650	650
3	100	400	550	650
4	Not Viable (NV)	NV	60	300
5	400	650	650	650
6	100	400	550	650
7	600	650	650	650

- 6.9 As with site type 1, Site type two for sites in Hemel Hempstead (which include a payment in lieu towards affordable housing) in the main generates residual values higher than all the benchmark land uses. Once again, viability is identified as being more challenging in the northern area of Hemel Hempstead, where development is likely to come from industrial/warehousing and former community use buildings/Greenfield sites (see table 6.9.1).

**Table 6.9.1: Site type 2 (Hemel Hempstead<sup>20</sup>) - maximum viable rates of CIL (£s per square metre)**

Market Area	Existing use: Resi Land (VOA)	Existing use: Offices	Existing use: Industrial / warehousing	Existing use: community bldgs
3	260	450	550	650
4	NV	0	100	220
5	550	650	650	650

- 6.10 Tables 6.10.1 to 6.10.9 summarise the results for site types 2 (everywhere else)<sup>21</sup> 3, 4, 5, 6, 7, 8, 9 and 10. Each table includes the maximum amounts of CIL that could be charged in combination with varying levels of affordable housing and tenure (35%, 30%, 20% and 40%<sup>22</sup>). In general terms, viability for these site types is worse in comparison to site type 1, due to the requirement for a percentage of the units to be provided as affordable housing.
- 6.11 Viability for higher density schemes (with high build costs) are identified as being more challenging and are generally unviable in the lower value areas. These types of development are therefore unlikely to come forward in the lower value areas, with lower rise developments being the optimum form of development. In lower value areas, site types 2, 4 and 5 would generate the optimum results in terms of maximum viable levels of CIL.

<sup>20</sup> This includes a payment in lieu towards affordable housing, calculated using Dacorum Borough Council's formula set out in the Affordable Housing SPD

<sup>21</sup> 35% affordable housing is sought as it exceeds the 5 unit threshold for sites outside Hemel Hempstead.

<sup>22</sup> Only tested on Site types 9 and 10 which are assumed to be Greenfield sites

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### **Sensitivity analysis on affordable housing percentage**

- 6.12 Current experience in the Borough indicates that the Council has been reasonably successful in achieving their affordable housing target, however, delivering the Council's affordable housing target without grant can be challenging in some cases and in these instances the type or level of provision may be negotiable upon the acceptance of a proven viability case. We re-tested sites 2 (everywhere else), 3, 4, 5, 6, 7, 8, 9 and 10 with a reduced level of affordable housing (30% and 25% of units) as well as testing the policy level. The results of these analyses are included within tables 6.10.1 to 6.10.9. The primary purpose of this exercise was to determine whether changes to affordable housing requirements on individual schemes would enable unviable sites to contribute towards infrastructure. In some cases the results show positive movement in terms of the viability of CIL rates when affordable housing levels are reduced. However, we appreciate that the Council will be keen to minimise the impact on affordable housing as far as possible and this is a key risk factor when determining rates of CIL.

### **Sensitivity analysis on values and costs**

- 6.13 As noted in Section 5, we carried out further analyses which consider the impact of increases in sales values of 10%, accompanied by an increase in build costs of 5%. This data is **illustrative only**, as the future housing market trajectory is very uncertain given the economic outlook and technologies for sustainability measures are likely to become cheaper over time. However, if such increases were to occur, tables 6.13.1 to 6.13.11 show the results in terms of the levels of CIL that could be absorbed.

**Table 6.10.1: Site type 2 (9 Houses 35 uph) (everywhere else) - maximum viable rates of CIL<sup>23</sup> (£s per square metre)**

Market Area	Existing use: Resi Land (VOA)			Existing use: Offices			Existing use: Industrial / warehousing			Existing use: community bldgs		
	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%	25%
<i>Affordable hsg %</i>	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%	25%
1	650	650	650	650	650	650	650	650	650	650	650	650
2	400	500	550	650	650	650	650	650	650	650	650	650
6	100	180	260	400	450	500	550	550	600	650	650	650
7	650	650	650	650	650	650	650	650	650	650	650	650

**Table 6.10.2: Site type 3 (15 flats 70 uph)- maximum viable rates of CIL (£s per square metre)**

Market Area	Existing use: Resi Land (VOA)			Existing use: Offices			Existing use: Industrial / warehousing			Existing use: community bldgs		
	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%	25%
<i>Affordable hsg %</i>	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%	25%
1	260	350	400	400	500	550	500	550	600	650	650	650
2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
3	NV	NV	NV	NV	NV	NV	NV	NV	0	0	100	140
4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	NV	NV	NV	0	100	0	100	140	180	220	260
6	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
7	NV	NV	NV	NV	0	60	0	60	100	140	180	220

<sup>23</sup> NV = Site is not viable before CIL is applied. These results are disregarded for the purpose of recommended CIL rates, as the sites would remain in their current use, unless other (non-CIL related) factors were to change.

**Table 6.10.3: Site type 4 (25 houses 25 uph) - maximum viable rates of CIL (£s per square metre)**

Market Area	Existing use: Resi Land (VOA)			Existing use: Offices			Existing use: Industrial / warehousing			Existing use: community bldgs			
	Affordable hsg %	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%	25%
1		650	650	650	650	650	650	650	650	650	650	650	650
2		140	220	260	500	550	600	650	650	650	650	650	650
3		NV	NV	0	220	260	300	400	450	450	650	650	650
4		NV	NV	NV	NV	NV	NV	NV	NV	NV	180	220	260
5		140	220	260	500	550	600	650	650	650	650	650	650
6		NV	NV	0	220	260	300	400	450	400	650	650	650
7		400	450	500	650	650	650	650	650	650	650	650	650

**Table 6.10.4: Site type 5 (40 houses 40 uph) - maximum viable rates of CIL (£s per square metre)**

Market Area	Existing use: Resi Land (VOA)			Existing use: Offices			Existing use: Industrial / warehousing			Existing use: community bldgs			
	Affordable hsg %	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%	25%
1		650	650	650	650	650	650	650	650	650	650	650	650
2		500	600	650	650	650	650	650	650	650	650	650	650
3		260	300	350	500	500	550	600	650	650	650	650	650
4		NV	NV	NV	0	0	80	100	140	180	300	300	350
5		550	600	650	650	650	650	650	650	650	650	650	650
6		260	300	350	500	500	550	600	650	650	650	650	650
7		650	650	650	650	650	650	650	650	650	650	650	650



**Table 6.10.5: Site type 6 (50 flats 80 uph) - maximum viable rates of CIL (£s per square metre)**

Market Area	Existing use: Resi Land (VOA)			Existing use: Offices			Existing use: Industrial / warehousing			Existing use: community bldgs		
	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%	25%
<i>Affordable hsg %</i>	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%	25%
1	140	220	260	260	350	400	350	400	450	450	500	550
2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
3	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0
4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	NV	NV	NV	NV	NV	NV	NV	0	0	80	100
6	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
7	NV	NV	NV	NV	NV	NV	NV	NV	0	NV	0	100

**Table 6.10.6: Site type 7 (70 flats and houses 70 uph) - maximum viable rates of CIL (£s per square metre)**

Market Area	Existing use: Resi Land (VOA)			Existing use: Offices			Existing use: Industrial / warehousing			Existing use: community bldgs		
	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%	25%
<i>Affordable hsg %</i>	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%	25%
1	350	400	500	500	550	600	550	600	650	650	650	650
2	NV	0	80	80	140	180	140	220	260	260	300	350
3	NV	NV	NV	NV	NV	NV	NV	NV	0	0	80	140
4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	0	80	80	140	180	140	220	260	260	300	350
6	NV	NV	NV	NV	NV	NV	NV	NV	0	0	80	140
7	60	140	180	180	260	300	260	300	400	400	450	500

**Table 6.10.7: Site type 8 (100 flats 100 uph) - maximum viable rates of CIL (£s per square metre)**

Market Area	Existing use: Resi Land (VOA)			Existing use: Offices			Existing use: Industrial / warehousing			Existing use: community bldgs		
	Affordable hsg %	35%	30%	25%	35%	30%	25%	35%	30%	25%	35%	30%
1	140	220	300	260	350	350	300	400	450	400	450	500
2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
3	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	NV	NV	NV	NV	NV	NV	NV	0	NV	0	80
6	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
7	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0	0

**Table 6.10.8: Site type 9 (100 flats and houses 30uph) - maximum viable rates of CIL (£s per square metre)**

Market Area	Existing use: Resi Land (VOA)				Existing use: Offices				Existing use: Industrial / warehousing				Existing use: community bldgs			
	Affordable hsg %	40%	35%	30%	25%	40%	35%	30%	25%	40%	35%	30%	25%	40%	35%	30%
1	NV	NV	NV	NV	60	140	220	300	260	350	400	450	600	650	600	650
2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0	60	180	260	300	350
3	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0	60	100
4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0	60	180	260	300	350
6	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0	60	100
7	NV	NV	NV	NV	NV	NV	NV	0	NV	60	100	180	300	350	400	450

**Table 6.10.9: Site type 10 (500 flats and houses 30 uph)- maximum viable rates of CIL (£s per square metre)**

Market Area	Existing use: Resi Land (VOA)				Existing use: Offices				Existing use: Industrial / warehousing				Existing use: community bldgs			
	40%	35%	30%	25%	40%	35%	30%	25%	40%	35%	30%	25%	40%	35%	30%	25%
Affordable hsg %	NV	NV	NV	NV	NV	0	140	220	140	260	300	350	500	550	600	650
1	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	100	140	220	260
2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0
3	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	100	140	220	260
5	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0
6	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0	100	220	300	350	400
7																

**Table 6.13.1: Site type 1 (2 houses 20 uph) - maximum viable rates of CIL<sup>24</sup> (£s per square metre) – sales value inflation of 10% and build cost inflation of 5% (Inflated)**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
Sales values and costs								
1	650	650	650	650	650	650	650	650
2	350	600	650	650	650	650	650	650
3	100	260	400	550	550	650	650	650
4	NV	NV	NV	60	60	180	300	450
5	400	600	650	650	650	650	650	650
6	100	260	400	550	550	650	650	650
7	600	650	650	650	650	650	650	650

<sup>24</sup> NV = Site is not viable before CIL is applied. These results are disregarded for the purpose of recommended CIL rates, as the sites would remain in their current use, unless other (non-CIL related) factors were to change.

**Table 6.13.2: Site type 2 (9 houses 35 uph) (Hemel Hempstead) - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
<i>Sales values and costs</i>								
3	260	450	450	650	550	650	650	650
4	NV	NV	0	140	100	220	220	350
5	550	650	650	650	650	650	650	650

**Table 6.13.3: Site type 2 (9 houses 35 uph) (elsewhere) - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
<i>Sales values and costs</i>								
1	650	650	650	650	650	650	650	650
2	400	600	650	650	650	650	650	650
6	100	300	400	550	550	650	650	650
7	650	650	650	650	650	650	650	650

**Table 6.13.4: Site type 3 (15 houses 70 uph) - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
<i>Sales values and costs</i>								
1	260	400	400	600	500	650	650	650
2	NV	NV	NV	NV	NV	NV	NV	NV
3	NV	NV	NV	NV	NV	0	0	140
4	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	NV	NV	80	0	140	180	300
6	NV	NV	NV	NV	NV	NV	NV	NV
7	NV	NV	NV	0	0	100	140	220

**Table 6.13.5: Site type 4 (25 houses 25 uph) - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
<i>Sales values and costs</i>								
1	650	650	650	650	650	650	650	650
2	140	300	500	650	650	650	650	650
3	NV	0	220	350	400	550	650	650
4	NV	NV	NV	NV	NV	0	180	300
5	140	300	500	650	650	650	650	650
6	NV	0	220	350	400	550	650	650
7	400	600	650	650	650	650	650	650

**Table 6.13.6: Site type 5 (40 houses 40 uph) - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
<i>Sales values and costs</i>								
1	650	650	650	650	650	650	650	650
2	500	650	650	650	650	650	650	650
3	260	400	500	650	600	650	650	650
4	NV	NV	0	100	100	220	300	400
5	550	650	650	650	650	650	650	650
6	260	400	500	650	600	650	650	650
7	650	650	650	650	650	650	650	650

**Table 6.13.7: Site type 6 (50 flats 80 uph) - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
<i>Sales values and costs</i>								
1	140	260	260	400	350	450	450	600
2	NV	NV	NV	NV	NV	NV	NV	NV
3	NV	NV	NV	NV	NV	NV	NV	NV
4	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	NV	NV	NV	NV	NV	0	100
6	NV	NV	NV	NV	NV	NV	NV	NV
7	NV	NV	NV	NV	NV	NV	NV	60

**Table 6.13.8: Site type 7 (70 flats and houses 70 uph) - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
<i>Sales values and costs</i>								
1	350	500	500	650	550	650	650	650
2	NV	0	80	180	140	260	260	400
3	NV	NV	NV	NV	NV	NV	0	100
4	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	0	80	180	140	260	260	400
6	NV	NV	NV	NV	NV	NV	0	100
7	60	180	180	3200	260	400	400	500

**Table 6.13.9: Site type 8 (100 flats 100 uph) - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
<i>Sales values and costs</i>								
1	350	300	260	400	300	450	400	550
2	NV	NV	NV	NV	NV	NV	NV	NV
3	NV	NV	NV	NV	NV	NV	NV	NV
4	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	NV	NV	NV	NV	NV	NV	60
6	NV	NV	NV	NV	NV	NV	NV	NV
7	60	NV	NV	NV	NV	NV	NV	0



**Table 6.13.10: Site type 9 (100 houses and flats 30 uph)- maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
<i>Sales values and costs</i>								
1	NV	NV	140	350	350	500	650	650
2	NV	NV	NV	NV	NV	80	260	400
3	NV	NV	NV	NV	NV	NV	0	140
4	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	NV	NV	NV	NV	80	260	400
6	NV	NV	NV	NV	NV	NV	0	140
7	NV	NV	NV	0	60	220	350	550

**Table 6.13.11: Site type 10 (500 houses and flats 30 uph) - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%**

Market Area	Existing use: Resi Land (VOA)		Existing use: Offices		Existing use: Warehousing/ storage		Existing use: community buildings	
	Current	Inflated	Current	Inflated	Current	Inflated	Current	Inflated
<i>Sales values and costs</i>								
1	NV	NV	0	220	260	400	550	650
2	NV	NV	NV	NV	NV	NV	140	300
3	NV	NV	NV	NV	NV	NV	NV	0
4	NV	NV	NV	NV	NV	NV	NV	NV
5	NV	NV	NV	NV	NV	NV	140	300
6	NV	NV	NV	NV	NV	NV	NV	0
7	NV	NV	NV	NV	NV	100	300	450

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### Suggested CIL rates

- 6.14 Although the results indicate that viability of residential development is currently challenging in certain locations, it should be possible for rates of CIL to be levied across all market areas, subject to allowing for a buffer or margin to address risks to delivery. There are four key risk factors:
- The first is that individual sites might incur exceptional costs (decontamination, difficult ground conditions etc) and as a result the residual land value could fall. Developers will try and reflect such costs in their offer to the landowner, but the extent of any issues is not always fully apparent until the land value is fixed. Where sites have an existing use, an owner will not be prepared to accept a reduction below the value of the current building to accommodate exceptional costs on a redevelopment;
  - Secondly, current use values on individual sites will inevitably vary and will fall somewhere between the values used in our appraisals. As a result, the ability of schemes to absorb high rates of CIL could be adversely affected;
  - Thirdly, sales values could fall or normal build costs could rise over the life of the Charging Schedule, adversely affecting scheme viability; and
  - Fourthly, imposing a high rate of CIL (that vastly exceeds the current levels of Section 106 obligations) in the Council's first Charging Schedule could 'shock' the land market with a consequential risk that land supply falls. This factor has led many charging authorities to seek to limit their CIL rates to around 5% of development costs, or to set their CIL rates so that they are broadly comparable to existing Section 106 contributions<sup>25</sup>.
- 6.15 In arriving at a conclusion on recommended rates, it is necessary to consider the different weight that should be attached to appraisal results tested against each of the four benchmark land values. That is to say we consider the CIL rates identified by our base appraisals (those which include policy levels of affordable housing) in a particular market area for all the typologies against the most likely land uses residential development is expected to come from. For example in the villages it is likely that residential development will take place on either existing residential land being developed more densely or greenfield land, and as such in these locations benchmark 1 and 4 will be afforded more weight.
- 6.16 In general the appraisals indicate that the residual values generated by residential schemes are unlikely to outperform the value of existing offices. Consequently, these buildings are more likely to remain in their existing use in many parts of the Borough, rather than be redeveloped. We note however that in urban location there may be conversion from office to residential uses as this is likely to incur lower build costs, however this would not constitute an increase in floorspace. The bulk of housing supply is therefore likely to come from sites in lower values uses, where the appraisals indicate that CIL would be absorbed.
- 6.17 It is also important to consider that where a scheme is shown as unviable before the application of CIL, it will be other factors such as sales values and build costs that will need to adjust for the scheme to become viable.

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<sup>25</sup> For example, Wandsworth Council has adopted this approach in the Vauxhall Nine Elms Opportunity Area, where the existing tariff has been converted into a per square metre CIL rate.

- 6.18 The maximum rates of CIL indicated by our appraisals are outlined below and set out in the map attached at Appendix 4. Given the range of results above, and the risk factors outlined in the previous paragraph, our conclusion is that the rates of CIL that the Council might set – having regard to the range of the results and taking account of viability across the Borough as a whole – should be set at a discount of circa 30% to the maximum rates, as shown in Table 6.16.1.

**Table 6.16.1: Maximum and suggested CIL rates**

<b>Market Areas</b>	<b>Maximum CIL indicated by appraisals (£s per sqm)</b>	<b>Suggested CIL after buffer (£s per sqm)</b>
<b>Area 1</b> Berkhamsted, Potten End and Little Gaddesden	350	250
<b>Area 2</b> Tring, Wigginton, Long Marston, Flamstead, Great Gaddesden, and Gaddesden Row	200	150
<b>Area 3</b> Hemel Hempstead (Hemel Central, Adeyfield, Bennetts End, Gadebridge, Apsley)	150	100
<b>Area 4</b> Hemel Hempstead (Highfield , Grovehill and Woodhall)	100	70
<b>Area 5</b> Hemel Hempstead Station, Boxmoor, Chaulden, Felden, and Leverstock Green	200	150
<b>Area 6</b> Markyate	150	100
<b>Area 7</b> Kings Langley, Chipperfield and Bovingdon	300	200

- 6.19 In determining the maximum levels of CIL and the recommended rates above, we have based our assessment on current costs and values only. We have run a set of appraisals that show the impact of an increase in sales values, accompanied by an increase in build costs and a further set of results that show the impact of a fall in sales values (the results are summarised in tables 6.13.1 to 6.13.11 and included in Appendix 2). These appraisals provide an indication of the likely movement in viability that any 'buffer' below the maximum rates would need to accommodate.
- 6.20 Should the Council wish to do so, it would be possible to combine areas into one charging zone, thereby simplifying the charging schedule into less charging areas.

#### **Urban Extensions**

- 6.21 The Council has identified that it expects a significant amount of its new residential development to come forward as part of large urban extension sites.
- 6.22 We understand that some of these urban extension sites benefit from outline planning consent with completed S106 agreements. However, it is possible that revisions to schemes could require new planning applications (not pursuant to the outline consent), and that these would be CIL liable, along with sites which do not benefit from planning consent. Furthermore, the majority of

urban extension sites are local allocations in the Council's Core Strategy, which has been through examination and is pending the Examiner's Report.

- 6.23 The Council has two options for such sites, they can either use S106 for the sites or CIL with residual site specific S106. Whilst it is recognised that the Council can continue to use Section 106 in a more limited way after the adoption of CIL, it is possible that there could be more than five separate applications that could prevent the Council pooling contributions towards infrastructure (for example, secondary school education).
- 6.24 Should developers find that it is not feasible to pay the required CIL charge due to the need provide and/or contribute to significant, costly on-site infrastructure they could apply to the Council for exceptional circumstances relief to improve development viability. It should be noted however that if the Council is going to follow this approach, it will need to ensure that it adopts a policy allowing exceptional circumstances relief.
- 6.25 The Council has advised that its Urban Extension sites are likely to have similar characteristics to site types 9 and 10. These development types demonstrate that viability is challenging in some locations (compared against the Community Use/Greenfield benchmark land value) given the level of residual S106 requirements, which include fairly substantial Greenfield infrastructure costs.
- 6.26 Given these results and the recommendations in the updated DCLG CIL Guidance to consider Strategic Sites, the Council has commissioned further viability testing be undertaken on the strategic sites. As such this report should be read alongside the Viability Assessment on Strategic and Local Allocations.

#### **Care Homes and other residential institutions**

- 6.27 We have also considered the viability of setting a CIL rate for care homes and Extra Care Housing. The Royal Town Planning Institute defines Extra Care Housing as, 'purpose-built accommodation in which varying amounts of care and support can be offered and where some services are shared'. Extra Care Housing can be precisely defined (and differentiated from other types of residential institutions) by reason of some specific characteristics, as set out in the RTPI Good Practice Note<sup>26</sup>.
- 6.28 Although Extra Care Housing falls within Class C3 in the Use Classes Order, it is recognised that it has a significantly different viability considerations to standard residential dwellings (or even standard care homes). These arise due to the lower gross to net ratio of developments (due to the need for communal facilities), and the additional time that it takes to sell the accommodation due to the restricted market for that type of unit.
- 6.29 In our experience Extra Care Housing Schemes have gross to net floorspace ratios of between 55% and 65% due to the additional communal areas.
- 6.30 It is therefore considered that the viability of Extra Care Housing is very different from standard C3 housing and care homes, and our appraisals show that they would be unable to absorb a CIL tariff.

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<sup>26</sup> RTPI Good Practice Note 8, Extra Care Housing, Development planning, control and management (2007)

- 6.31 Our appraisals of care homes (C2) and retirement housing (i.e. a McCarthy and Stone type development, where residents have their own flat or house and buy in additional services and support as required) assume a 70% gross to net ratio which accounts for the additional common areas required in such developments. This factor, along with a slower sales rate (assumed to be sales rate of 1.5 units a month), combine to adversely affect viability as compared to standard C3 housing.
- 6.32 Our appraisals indicate that such developments are only likely to generate positive residual land values in the higher value areas in the borough i.e. Berkhamstead, Potten End and Little Gaddesden. We would recommend that the Councils set its CIL rate in the context of a maximum CIL of up to £260 per square metre. Allowing for a suitable a buffer, which in our experience we consider to be appropriate to deal with site-specific issues and changes in values over time, we recommend that the Council considers a CIL of £200 per square metre for care homes (C2) and retirement housing in Area 1 (as identified in the Map at Appendix 4) and a nil or nominal rate on such uses elsewhere in the borough.
- 6.33 Should the Council wish to adopt a nominal CIL charge for such uses, we suggest a rate of between £30 to £50 per square metre. A nominal rate is unlikely to be a significant factor in developers' decision making and could be absorbed without having a significant impact on viability across the borough.

### **Assessment – commercial development**

- 6.34 Our appraisals indicate that the potential for commercial schemes to be viably delivered varies between different uses and between areas across the Borough. Retail rents are higher in certain areas and developments might generate sufficient surplus residual value to absorb a CIL.
- 6.35 As noted in section 4, the level of rents that can be achieved for commercial space varies according to exact location; quality of building; and configuration of space. Consequently, our appraisals adopt a 'base' position based on average rents for each type of development and show the results of appraisals with lower and higher rents. This analysis will enable the Council to consider the robustness of potential CIL charges on commercial uses, including the impact that changes in rents might have on viability.
- 6.36 The town centre was enhanced through the provision of the Riverside shopping centre in 2005 and the Council has further plans to enhance the vitality of the town centre through the implementation of the Hemel Hempstead Town Centre Masterplan. Whilst this has resulted in an improvement to retail rents in Hemel Hempstead town centre, rents remain low in comparison to Berkhamsted. Moreover, with competition from other prime retail locations such as Watford, it is likely to require significant regeneration to take place in Hemel Hempstead town centre before rents would increase sufficiently to generate a CIL.
- 6.37 A similar situation exists for other types of development, such as offices. Prime rents for offices are currently being achieved in the Maylands area and not the town centre of Hemel Hempstead. In this regard it is considered unlikely that that considerable amounts of net additional office floorspace will come forward outside the Maylands area as rents for new build floorspace are not appreciably higher than rents for existing space.

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### **Office development – Hemel Hempstead (Maylands area)**

- 6.38 Our research on offices in the Maylands area of Hemel Hempstead indicates that the rent levels are significantly higher than those achieved in the rest of the Borough (circa £18.50 per sq ft, compared to circa £10 to £15 per sq ft elsewhere). This being said there is a large amount of office development in the pipeline, which has yet to be delivered, and it is understood that there is not sufficient demand currently to absorb this consented space. Local agents advise that rent free and void periods are currently in the region of two years. (See Appendix 3 for Appraisal).
- 6.39 The results of our appraisals indicate that office developments are unlikely to be viable, unless rents increase and yields harden significantly over the life of the Charging Schedule. Long term demand for offices outside of Hemel Hempstead and in particular the Maylands area is likely to be weak and it is therefore unlikely that any significant levels of office development will come forward in areas beyond these locations.

### **Convenience based supermarkets and superstores and retail warehousing (over 280 square metres)**

- 6.40 Our appraisals of convenience based supermarkets and superstores<sup>27</sup> and retail warehousing<sup>28</sup> development indicate a greater degree of viability than for comparison retail.<sup>29</sup>
- 6.41 Other charging authorities have considered the differences in viability between comparison retail and convenience based retail and retail warehousing. It is acknowledged that size does not necessarily result in the higher values generated by convenience based supermarkets and superstores and retail warehousing uses. Rather, is it a combination of factors including:
- 1 The availability of car parking;
  - 2 The operational economics of supermarkets/superstores (these uses are known to be efficient at generating volume sales whilst having low operating costs);
  - 3 The rents that retailers are willing to pay to occupy these units tend to be high (particularly with regard to comparison retailing as these locations will command prime rents in the area);
  - 4 The value which the investment market ascribes to such units is high. This is due to such units being occupied by operators with greater covenant strength, which results in lower yields being applied; and
  - 5 Such large developments are also likely to come forward on sites which have lower existing use values i.e. a large majority of large retail units have historically been developed on former industrial sites and as a result a lower benchmark land value is achieved, which results in a higher surplus and consequently a potential for a higher CIL rate.

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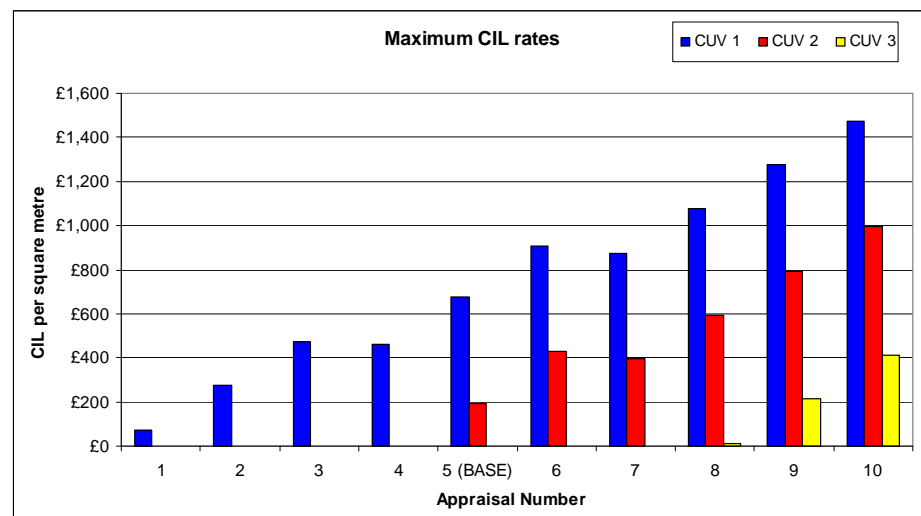
<sup>27</sup> Superstores/supermarkets are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit.

<sup>28</sup> Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for mainly car-borne customers.

<sup>29</sup> This is the definition applied in Wycombe District Council's Charging Schedule, which was adopted on 1 November 2012. The inspectors report for the Wycombe CIL examination (10 September 2012) explicitly states that 'There is nothing in the CIL regulations to prevent differential rates for retail developments of different sizes, provided they are justified by the viability evidence and differing retail characteristics or zones.'

- 6.42 We have undertaken a review of convenience based supermarkets in and around the Borough using the VOA business rates website, which has identified that units of this nature, which attract such occupiers are, with a few exceptions, larger than the Sunday Trading Law threshold of 280 square metres. The identified local operators of such uses are located within units smaller than this threshold.<sup>30</sup>
- 6.43 Lettings of floorspace for convenience based supermarkets and superstores and retail warehousing and rents adopted by the VOA for such space indicate that rents for such space are circa £18 - £26 per sq ft. We understand from local agents that yields achieved on units occupied by local tenants are in the region of 7.75%. At this level our appraisals indicate that retail floorspace development is unlikely to generate surplus residual values above the value of current floorspace.
- 6.44 However, small changes to inputs (in particular yields) change the results significantly. Given the covenant strength of the large national retailers better investment values are achieved and therefore lower yields (identified to generally range between 4.75% and 6.46% with a number examples of yields below 4%). Given this position we have adopted a yield in the middle to upper quartile of the range identified i.e. 5.75%. At this level our appraisals show that a maximum CIL ranging from £0 to £320 per square metre could be levied on such retail space, depending on the size of the store (which has an impact on build costs) and the value of the existing use of the site (see Charts 6.43.1 and 6.43.2).

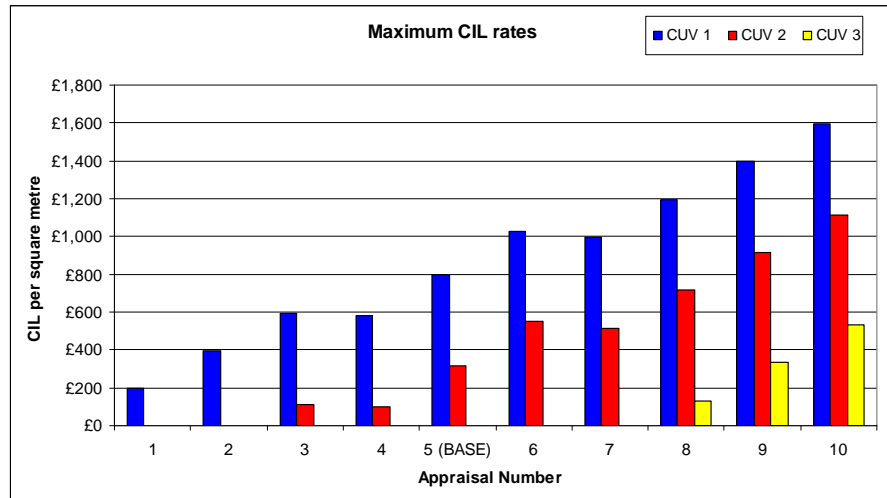
**Chart 6.43.1: Convenience based supermarkets and superstores and retail warehousing (whole Borough) (1,000 sq m)**



<sup>30</sup> We note that the smallest site of the national operators sites identified is circa 320 square metres and the largest local occupier's premises are 250 square metres. The Council could therefore adopt a threshold for such uses of 320 square metres, however it is considered that the evidence also supports the use of the Sunday Trading Law threshold.



**Chart 6.43.2: Convenience based supermarkets and superstores and retail warehousing (whole Borough) (5,000 sq m)**

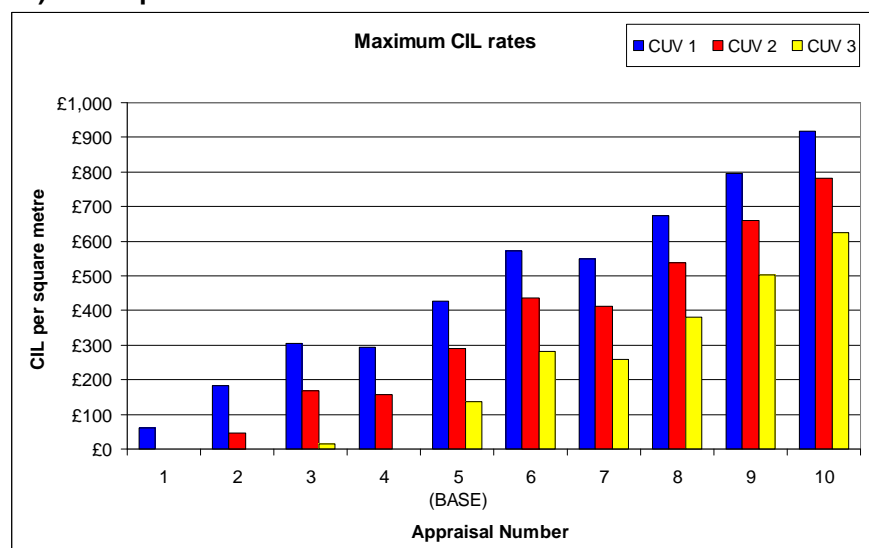


- 6.45 Given the above, we would recommend the Council sets its CIL rate in the context of a maximum CIL of up to £193 per square metre (based on CUV 2 of the 1,000 square metre unit appraisal). Allowing for a suitable a buffer, which in our experience we consider to be appropriate to deal with site-specific issues and changes in values over time, we recommend that the Council considers a CIL of £150 per square metre.

**Comparison and all other retail (A1-A5) development - Berkhamstead**

- 6.46 Development of new comparison and all other retail (A1-A5) floorspace generally in the borough on existing retail sites is unlikely to generate surpluses that could fund CIL. However, our appraisals for such retail indicate that the development of new retail space in the prime retail area of Berkhamstead Town Centre, indicate that residual land values will exceed current use values by a sufficient margin to allow for a CIL to be levied. Based on the highest current use value, the maximum CIL the Council could levy on this development type would be £136 per square metre. Chart 6.45.1 summarises the retail development appraisals.

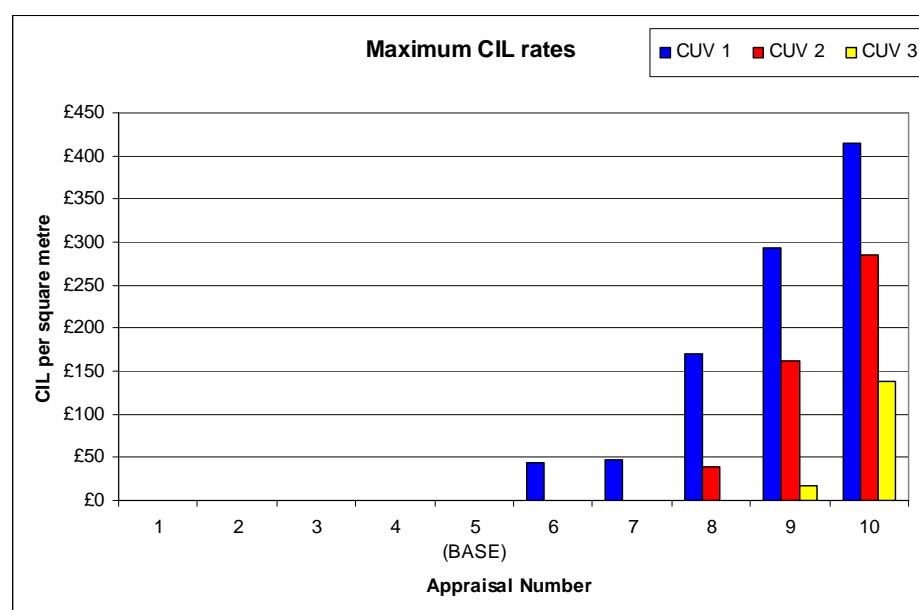
**Chart 6.45.1: Viable levels of CIL on Comparison and all other retail (A1-A5) development in Berkhamstead Town Centre**



### Comparison and all other retail (A1-A5) development – Hemel Hempstead Town Centre

- 6.47 Discussions with local agents have identified that Hemel Hempstead Town is currently achieving lower rental levels than Berkhamsted (average rents of £23 per sq ft as compared to £28 per sq ft). Further, we understand that competition from Watford has also had an impact on rents. Furthermore, development of new retail floorspace on existing retail sites is unlikely to generate significant surpluses that could fund CIL. This is because rents for new build floorspace are only slightly higher than rents for existing floorspace. Chart 6.46.1 summarises the retail development appraisals in Hemel Hempstead.

**Chart 6.46.1: Viable levels of CIL on Comparison and all other retail (A1-A5) development in Hemel Hempstead town centre**



### Comparison and all other retail (A1-A5) development – Rest of the Borough

- 6.48 Rents for comparison and all other retail (A1-A5) development across the rest of the Borough are significantly lower than rents in Berkhamsted and Hemel Hempstead (circa £11 per sq ft). Consequently, it is unlikely that retail development will be sufficiently viable to attract significant interest from developers at the current time and our appraisals indicate that in the base case CIL cannot viably be levied on such development outside the prime shopping location of Berkhamsted.

### Industrial and warehouse development

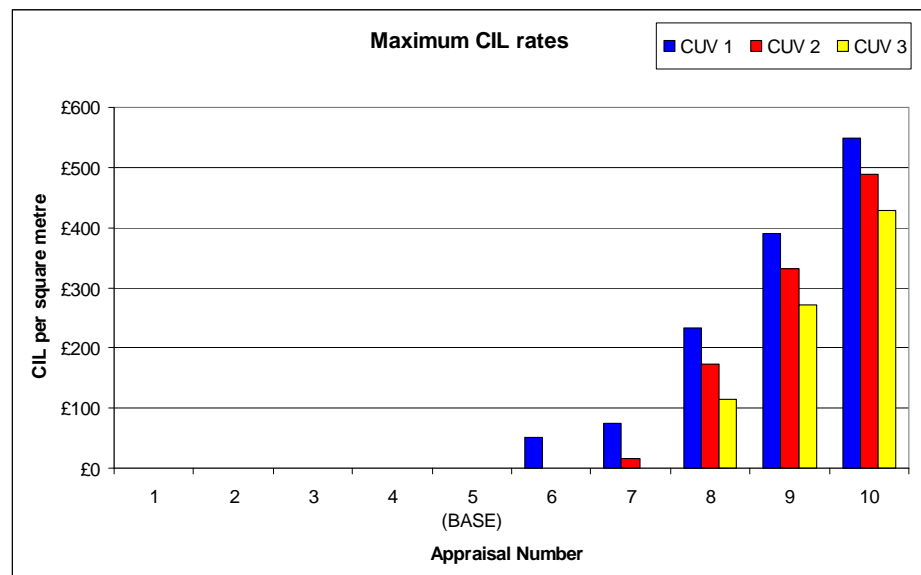
- 6.49 We understand that demand for industrial and warehouse space and as a result rents are highest in the east of Hemel Hempstead, close to the junction with the M1. Our appraisals of industrial and warehouse development within this area indicate that residual values are likely to be too low to absorb any level of CIL. A considerable increase in new build industrial rents would be required before any CIL could be absorbed (see Appendix 3 for Appraisals).

- 6.50 It is worth noting that although there is interest in warehousing space at the Maylands Business Park, this has been by owner occupiers rather than speculative developers. It is difficult to model the value or viability of such space to owner occupiers as they will develop their own premises by reference to their own cost benefit analysis. This will bear little relationship to the residual land value calculations that a speculative landlord developer may undertake.

### Hotel development

- 6.51 Our appraisal of hotel development is attached at Appendix 3. This indicates that at current values hotel developments are unlikely to generate significant residual land values and could therefore not absorb a CIL (see Chart 6.450.1 overleaf). Our appraisal is attached at Appendix 3.

**Chart 6.50.1: Viable levels of CIL on Hotel development**



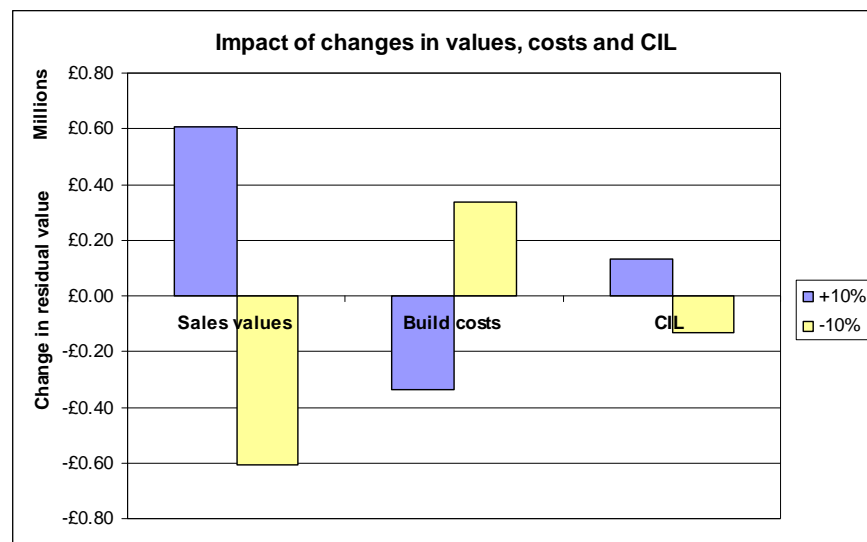
### D1 and D2 floorspace development

- 6.52 D1 and D2 floorspace typically includes uses that do not accommodate revenue generating operations, such as schools, health centres, museums and places of worship. Other uses that do generate an income stream (such as swimming pools) have operating costs that are far higher than the income and require public subsidy. Many D1 uses will be infrastructure themselves, which CIL will help to provide. It is therefore unlikely that D1 and D2 uses will be capable of generating any contribution towards CIL and as such we recommend that the Council considers a nil rate for these uses.

## 7 Conclusions and recommendations

- 7.1 The results of our analysis indicate a degree of variation in viability of development in terms of different uses. In light of these variations, two options are available to the Council under the CIL regulations. Firstly, the Council could set a single CIL rate across the Borough, having regard to the least viable types of development and least viable locations. This option would suggest the adoption of the ‘lowest common denominator’, with sites that could have provided a greater contribution towards infrastructure requirements not doing so. In other words, the Council could be securing the benefit of simplicity at the expense of potential income foregone that could otherwise have funded infrastructure. Secondly, the Council has the option of setting different rates for different types of development and different areas. The results of our study point firmly towards the second option as our recommended route, particularly for residential development.
- 7.2 We have also referred to the results of development appraisals as being highly dependent upon the inputs, which will vary significantly between individual developments. In the main, the imposition of CIL is not *the* critical factor in determining whether a scheme is viable or not (with the relationship between scheme value, costs and land value benchmarks being far more important). This is evidenced by the very marginal differences between the ‘pre’ and ‘post’ CIL residential appraisals shown in the charts in Section 6. This point is also illustrated in Chart 7.2.1 below, which compares the impact on the residual value of a scheme of a 10% increase and decrease in sales values and a 10% increase and decrease in build costs to a £100 per sq metre change in CIL.

**Chart 7.2.1: Impact of changing levels of CIL in context of other factors**



- 7.3 Given CIL’s nature as a fixed tariff, it is important that the Council selects rates that are not on the limit of viability. This is particularly important for commercial floorspace, where the Council does not have the ability to ‘flex’ other planning obligations to absorb site-specific viability issues. In contrast, the Council could in principle set higher rates for residential schemes as the level of affordable housing could be adjusted in the case of marginally viable schemes. However, this approach runs the risk of frustrating one of the Council’s other key objectives of delivering affordable housing. Consequently, sensitive CIL rate setting for residential schemes is also vital.

7.4 Our recommendations on levels of CIL are therefore summarised as follows:

- The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future changes. In this regard we are of the opinion that the Council should consider reviewing the Charging Schedule by at least 2016 and potentially earlier if the market is perceived to have changed significantly.

**Residential**

- The ability of **residential schemes** to make CIL contributions varies depending on the area and the current use of the site. Having regard to these variations, residential schemes should be able to absorb a **maximum** CIL rate of between £100 to £350 per square metre. DCLG guidance requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount (buffer) to the maximum rate, with discounts ranging from circa 30% to 50%. We would recommend a buffer of circa 30% for Dacorum. Taking a broad view across our appraisals, the maximum and suggested rates are as follows:

**Table 7.4.1: Maximum and suggested CIL rates – residential**

CIL Charging Areas	Maximum CIL (£ per sqm)	Suggested CIL (£s per sqm)
<b>Area 1</b> Berkhamsted, Potten End and Little Gaddesden	350	250
<b>Area 2</b> Tring, Wigginton, Long Marston, Flamstead, Kings Langley, Chipperfield, Bovington, Great Gaddesden and Gaddesden Row , Hemel Hempstead areas of the Station, Boxmoor, Chaulden, Leverstock Green, Felden.	300-200	150
<b>Area 3</b> Hemel Hempstead areas of Hemel Central, Adayfield, Bennetts End, Gadebridge, Apsley and Markyate	150	100
<b>Area 4</b> Hemel Hempstead North area of Highfield, Grovehill and Woodhall	100	70

- Whilst the maximum rates are higher than the suggested rates, the inclusion of a buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and 'shocking' the market). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority's judgement.
- It would be possible to combine areas into one charging zone, thereby simplifying the charging schedule into less charging zones. Options for a three, two and one zone approach are set out in table 7.4.2 overleaf. In determining which approach to take the Council will need to consider the amount of development due to come forward in each area. That is that there will be little benefit from charging a differential rate for the higher value areas should there be comparably little new development likely to come forward in these areas. See Appendix 4 for a Map of the recommend charging Areas. The Council opted to consult on its PDCS on the basis that three charging zones for residential development should be applied to the Dacorum area.

**Table 7.4.2 Potential CIL zone approaches - residential**

CIL Charging Areas	Three Zone Approach	Two Zone Approach	One Zone Approach
Area 1	Zone 1 (£250)	Zone 1 (£150)	Zone 1 (£70/100)
Area 2	Zone 2 (£150)	Zone 1 (£150)	Zone 1 (£70/100)
Area 3	Zone 3 (£70/100)	Zone 2 (£70/100)	Zone 1 (£70/100)
Area 4	Zone 3 (£70/100)	Zone 2 (£70/100)	Zone 1 (£70/100)

- The Council has proposed a number of housing sites on the edge of existing settlements within the Borough as set out in the Dacorum Borough Local Plan 1991-2011 and Core Strategy. Although some of these sites, particularly those in the Dacorum Borough Local Plan 1991-2011, have already secured planning permission and the associated infrastructure works have been secured through a S.106 agreement, it is important to consider the implications of setting CIL on urban extension sites in terms of site viability. These extensions to the urban area are likely to require significant contributions towards infrastructure works as set out in these planning policy documents and may be subject to detailed S.106. These matters are considered in a separate viability report.
- Our appraisals for **retirement housing and care homes** identify that sufficient surpluses are generated in the higher value areas of the borough around Berkhamstead, Potten End and Little Gaddesden. Elsewhere, where lower values are achieved viability becomes more challenging. On this basis we recommend the Council considers adopting a CIL rate of £200 per square metre in Area 1 (as identified in the map in Appendix 4) and elsewhere in the borough a nil or nominal rate be adopted for C3 retirement housing and care homes uses.
- **Extra Care housing and other residential institutions** are unlikely to be sufficiently viable to absorb any CIL contributions and as such we recommend the Council applies a nil rate to these uses.

### Commercial

- It is worth noting that the results of this viability exercise, which identify certain commercial development as not viable, do not mean that sites will not be developed within the Borough for these uses as viability is only one of many factors which affect whether a site is developed. For example with regards to owner occupiers such as a logistics company, who may wish to locate in Dacorum as it both compliments their existing locations and provides good links to the strategic highway network. Alternatively, an inward manufacturer looking to re-locate may wish to develop their own premises by reference to their own cost benefit analysis, which will bear little relationship to the residual land value calculations that a speculative landlord developer may undertake.
- At current rent levels, **Office development** across the Borough is unlikely to come forward in the short to medium term as the capital values generated are insufficient to cover development costs. We therefore recommend that the Council sets a nil rate for office development.
- **Convenience based supermarkets and superstores and retail warehousing (over 280 square metres)** is likely to be viable across the Borough with a recommended maximum CIL rate of £193 per square metre. After allowing for a buffer, which we consider to be appropriate to

deal with site specific issues, we would recommend the Council considers adopting a CIL rate of £150 per square metre for such uses in the Borough.

- Residual values generated by **all other retail developments (A1-A5)** are higher than current use values to varying degrees across the Borough. However, to a degree such retail development will involve the re-use of existing retail space, which will not be CIL liable. In order to capture value from schemes that add floorspace, differential rates could be adopted.
  - Residual values generated by **all other retail developments (A1-A5) in Berkhamsted** are sufficiently higher than current use values and could absorb a CIL of up to £139 per square metre. Allowing a buffer, which in our experience we consider to be appropriate to deal with for site-specific issues and changes in values over time, we recommend that the Council considers a CIL of £100 per square metre.
  - **In Hemel Hempstead and elsewhere in the Borough**, rents for **all other retail developments (A1-A5)** are considerably lower and our appraisals identify that developments are unable to viably support a CIL. We therefore recommend that the Council considers a nil rate on retail development outside Berkhamsted Town Centre.
  - Our appraisals of developments of **industrial and warehousing** floorspace indicate that these uses are unlikely to generate positive residual land values. We therefore recommend a zero rate for industrial floorspace.
  - At current values **Hotel developments** are identified as not being able to generate a surplus and as such we would recommend that the Council sets a nil rate for Hotel use.
  - **D1 and D2** uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 uses.
- 7.5 As set out in section 2, should the Council wish to do so they have the option to grant full or partial relief from the levy in exceptional circumstances i.e. where the cost of complying with the signed section 106 agreement is greater than the levy's charge on the development and the developer has demonstrated that the scheme is unviable. In particular this may be an option that Council would wish to consider with respect to the regeneration sites in Hemel Hempstead Town Centre or some Greenfield sites, where we understand that there are significant infrastructure requirements.
- 7.6 The recommended Dacorum CIL rates are summarised in Table 7.6.1 overleaf.



**Table 7.6.1: Recommended CIL rates**

Development type	Recommended CIL rate			
Residential	Berkhamsted, Potten End and Little Gaddesden	Tring, Wigginton, Long Marston, Flamstead, Kings Langley, Chipperfield, Bovingdon, Great Gaddesden and Gaddesden Row. Hemel Hempstead areas of the Station, Boxmoor, Chaulden, Leverstock Green, Felden.	Hemel Hempstead areas of Hemel Central, Adeyfield, Bennetts End, Gadebridge, Apsley and Markyate	Hemel Hempstead North area of Highfield, Grovehill and Woodhall
	£250	£150	£100	£70
Retirement housing and Care homes	£200	Nil/Nominal rate (£30-£50)		
Extra Care housing (C2)	Nil			
Industrial / Warehousing (B2 and B8)	Nil			
Offices (B1)	Nil			
	<i>Berkhamsted</i>	<i>Rest of Borough</i>		
All other retail (A1-A5) (280 sq m or less)	£100	Nil		
Convenience based supermarkets and superstores and retail warehousing (over 280 sq m)	£150			

7.7 For residential schemes, the application of CIL is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme value, CIL will be a modest amount, typically accounting for between 1.96% and 4.5% of value (see Table 7.7.1 below). Some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these schemes.

**Table 7.7.1: CIL as a proportion of scheme value and development costs**

CIL Market Areas	Maximum CIL indicated by appraisals (£s per sqm) <sup>31</sup>	Suggested CIL after buffer (£s per sqm)	CIL as % of maximum viable rate	CIL as % of Gross Development Value <sup>32</sup>
Berkhamsted, Potten End and Little Gaddesden	350	250	71%	4.5 %
Tring, Wigginton, Long Marston, Flamstead Great Gaddesden, and Gaddesden Row	200	150	75%	3.21%
Hemel Hempstead (Hemel Central, Adeyfield, Bennetts End, Gadebridge, Apsley)	150	100	67%	2.35%
Hemel Hempstead North (Highfield, Grovehill and Woodhall)	100	70	70%	1.96%
Hemel Hempstead Station, Boxmoor, Chaulden, Felden, and Leverstock Green	200	150	75%	3.21%
Markyate	150	100	67%	2.35%
Kings Langley, Chipperfield and Bovingdon	300	150	50%	2.99%

<sup>31</sup> The percentages for residential schemes are based on the appraisals for site type 4.

<sup>32</sup> The percentages here assume that CIL is levied on 15% of floorspace of the development and excludes affordable housing, which benefits from social housing relief.

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## Appendix 1 Private residential sales values

## Summary of Residential Land Values Research

Area	Right Move average sold prices sourced from Land Registry	
	Houses	Flats
<b>Berkhamstead</b>	£453,964	£229,262
<b>Potten End</b>	£639,904	£160,000
<b>Little Gaddesden</b>	£980,923	£315,000
<b>Great Gaddesden</b>	£466,50	-
<b>Gaddesden Row</b>	£315,75	-
<b>Tring</b>	£444,107	£204,166
<b>Wiggington</b>	£411,850	£125,931
<b>Long Marston</b>	£360,333	-
<b>Flamstead</b>	£480,300	-
<b>Hemel Hempstead (Central)</b>	£355,571	£196,685
<b>Hemel Hempstead (Adeyfield)</b>	£333,668	£178,986
<b>Hemel Hempstead (Bennetts End)</b>	£293,736	£169,995
<b>Hemel Hempstead (Gadebridge)</b>	£202,647	£146,250
<b>Apsley</b>	£392,980	£207,478
<b>Hemel Hempstead (Highfield)</b>	£188,315	£142,990
<b>Hemel Hempstead (Grovehill)</b>	£211,654	£114,500
<b>Hemel Hempstead (Woodhall)</b>	£225,000	£106,500
<b>Hemel Hempstead (Station)</b>	£361,883	£167,983
<b>Hemel Hempstead (Boxmoore)</b>	£386,370	£169,412
<b>Hemel Hempstead (Chaudlen)</b>	£431,700	£158,250
<b>Felden</b>	£822,000	£200,000
<b>Hemel Hempstead (Leverstock)</b>	£433,872	£160,000
<b>Markyate</b>	£254,607	£112,117
<b>Kings Langley</b>	£414,819	£170,700
<b>Chipperfield</b>	£508,812	£167,500
<b>Bovingdon</b>	£456,444	£142,000