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**For:  
Havant Borough Council**

**Local Plan and CIL Viability Study**

**Final Report (v7)**

January 2019

DSP18483A



# Final Report (v7)

## Contents

Executive Summary	1
Introduction	10
Methodology	25
Findings & recommendations	66
(Including: Findings Summary – key policy observations)	118
(Notes and limitations	122)

### Appendices:

Appendix I – Assumptions overview

Appendices IIa, IIb and IIc – Results Summaries  
Also including sample appraisal summaries.  
(Contents as listed on following pages)

Appendix III – Market and values research overview  
(with Co-Star sourced information following)



## Results summaries Appendices contents listing – by Table number

### Appendix IIa – Residential Results

**Table 1a: Residual Land Value Results by Value Level & CIL Rate –  
6 Unit Scheme - Houses  
(Followed by Table 1a(i) Surplus Analysis)**

**Table 1b: Residual Land Value Results by Value Level & CIL Rate –  
10 Unit Scheme - Houses  
(Followed by Table 1b(i) Surplus Analysis)**

**Table 1c: Residual Land Value Results by Value Level & CIL Rate –  
11 Unit Scheme - Houses  
(Followed by Table 1c(i) Surplus Analysis)**

**Table 1d: Residual Land Value Results by Value Level & CIL Rate –  
15 Unit Scheme - Houses  
(Followed by Table 1d(i) Surplus Analysis)**

**Table 1e: Residual Land Value Results by Value Level & CIL Rate –  
15 Unit Scheme - Flats  
(Followed by Table 1e(i) Surplus Analysis)**

**Table 1f: Residual Land Value Results by Value Level & CIL Rate –  
25 Unit Scheme - Flats  
(Followed by Table 1f(i) Surplus Analysis)**

**Table 1g: Residual Land Value Results by Value Level & CIL Rate –  
25 Unit Scheme – Flats including GF Convenience Store  
(Followed by Table 1g(i) Surplus Analysis)**

**Table 1h: Residual Land Value Results by Value Level & CIL Rate –  
30 Unit Scheme – Flats (Sheltered)**

**(Followed by Table 1h(i) Surplus Analysis)**

**Table 1i: Residual Land Value Results by Value Level & CIL Rate –  
50 Unit Scheme – Flats**

**(Followed by Table 1i(i) Surplus Analysis)**

**Table 1j: Residual Land Value Results by Value Level & CIL Rate –  
50 Unit Scheme – Flats including Studio Flats**

**(Followed by Table 1j(i) Surplus Analysis)**

**Table 1k: Residual Land Value Results by Value Level & CIL Rate –  
50 Unit Scheme – Mixed**

**(Followed by Table 1k(i) Surplus Analysis)**

**Table 1l: Residual Land Value Results by Value Level & CIL Rate –  
50 Unit Scheme – Mixed (6% Sustainability Sensitivity Test)**

**(Followed by Table 1l(i) Surplus Analysis)**

**Table 1m: Residual Land Value Results by Value Level & CIL Rate –  
50 Unit Scheme – Mixed (M4(2) and M4(3) Sensitivity Test at 30% AH)**

**(Followed by Table 1m(i) Surplus Analysis)**

**Table 1n: Residual Land Value Results by Value Level & CIL Rate –  
100 Unit Scheme - Mixed**

**(Followed by Table 1n(i) Surplus Analysis)**

**Table 1o: Residual Land Value Results by Value Level & CIL Rate –  
350 Unit Scheme - Mixed**

**(Followed by Table 1o(i) Surplus Analysis)**

## **Appendix IIb – Strategic and Larger Site Results**

**Table 2a: Southleigh Strategic Site Results Summary:  
Residual Surplus indications**

**Table 2b: Large Site Typology (560 Unit Scheme) Results Summary:  
Residual Surplus indications**

**(Followed by appraisal summaries)**

## **Appendix IIc – Commercial / Non-residential Results**

**Table 3a Residual Land Value Results by Use Class, Scheme Type, Value Level &  
CIL Rate 5% Yield**

**Table 3b Residual Land Value Results by Use Class, Scheme Type, Value Level &  
CIL Rate 5.5% Yield**

**Table 3c Residual Land Value Results by Use Class, Scheme Type, Value Level &  
CIL Rate 6% Yield**

**Table 3d Residual Land Value Results by use Class, Scheme Type, Value Level &  
CIL Rate 6.5% Yield**

**Table 3e Residual Land Value Results by use Class, Scheme Type, Value Level &  
CIL Rate 7% Yield**

**Table 3f Residual Land Value by Use Class, Scheme Type, Value Level &  
CIL Rate 7.5% Yield**

**(Followed by example appraisal summaries)**

## Executive Summary

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### Context and assessment approach

1. Havant Borough Council (HBC) appointed Dixon Searle Partnership (DSP) to provide a viability assessment to inform its work in progress at the time on the draft Havant Borough Local Plan 2036 (HBLP2036) emerging policies. This assessment has been carried through to the final development stage of the Plan, through close liaison with HBC and informing the Plan development along the way.
2. The new Local Plan (DLP) will provide a framework guiding land use and planning decisions in the borough over the period to 2036. At the same time, HBC is also reviewing its 2013 adopted Community Infrastructure Levy (CIL); considering any appropriate refreshing of the CIL to support the emerging Plan. The viability assessment will also form part of the Council's evidence informing its review of the HBC CIL.
3. This FINAL STAGE REPORT follows DSP's draft phase assessment report completed in November 2017, used to inform HBC's Local Plan policy development to the Regulation 18 consultation stage. Following the further public consultation that took place on the Draft Local Plan, completed in 2018, this final report will be used alongside other evidence base studies to inform and support the Pre-Submission Draft Local Plan (Regulation 19 consultation stage) – now to be simply referred to as the 'Local Plan' in this report.
4. DSP is a consultancy highly experienced in the preparation of viability assessments informing and supporting local authority policy development - including whole plan viability, affordable housing and CIL economic viability. Our day to day workload also involves the provision of site-specific viability reviews and related advice – on affordable housing, s.106 and related matters. That has included several cases undertaken within Havant Borough as well as in adjoining and a wide range of other local authority areas.
5. This refreshed look at viability, with viability meaning the financial “health” of development, takes account of the changes in development costs and revenue (values) assumptions relevant since the Council's previous viability work undertaken to inform

the Adopted Local Plan and 2013 CIL Charging Schedule. It also reflects or considers, as far as possible, the known and evolving positions both on national and proposed HBC policy developments.

6. This final report sets out our findings from a viability perspective, having tested the proposed HBC policy positions, to the point those are further developed at this stage, whilst also taking into account regular development costs and national policies that are likely to influence development viability in the borough. Whilst appropriately still providing wide-ranging information to help inform HBC's final stage detail Local Plan development, further narrowing-down and refinement has now taken place in terms of the assumptions in use, reflecting HBC policy positions as proposed. A large number of variables have been under review. This continues to lead here to a large results set overall. Approached in this way, however, the work to date and findings of this further developed assessment have informed the HBLP emerging policy approach and positions, and particularly in key areas that influence development viability – such as affordable housing ('AH').
7. This viability assessment has been produced in the context of and with regard to the National Planning Policy Framework (NPPF), CIL Regulations, CIL Guidance (now contained within the national Planning Practice Guidance ('PPG')), July 2018 updated Viability guidance within the PPG and other good practice and available guidance - all as applicable to studies of this nature. The PPG also contains guidance on 'Planning Obligations', continuing to provide further relevant context for this viability revisit.
8. It is worth noting too that in October 2018 the Government published its response to its developer contributions consultation. This confirms likely proposals to continue with the CIL, but also to ease the pooling restrictions on the use of s.106, enabling greater flexibility in use.
9. The NPPF (now 2018 version) sets out a high-level requirement to set out clearly the intended approach to developer contributions and ensure the viability and deliverability of Local Plans. In response, this now further developed assessment continues to consider the financial capacity of development schemes in the borough to deliver proposed local and national policies and support the regular development costs.

10. The review of development viability is not an exact science. There can be no definite viability cut-off point owing to the great variation in site specific circumstances.
11. The following report sets out the assessment context, approach and findings in detail; all based on the latest available HBLP policy information at the point of preparing this review of viability for the Council at final reporting stage. This is overviewed very briefly in this Executive Summary.
12. The assessment uses the same principles and methodology basis used in HBC's previous viability assessments and common to DSP's experience of preparing these. Again, the well-recognised residual valuation principles are used. In basic terms, this means subtracting the costs of creating a development from the revenue (sales value) generated on its sale at scheme completion. This calculation is carried out for each development scenario (assumptions combination) tested, using an appraisal with multiple inputs as explained in detail in the full report.
13. The outcome from each appraisal, as reported in the Appendices accompanying this document report, is a "residual" value produced by this process of looking at development value minus development cost. This outcome (residual) is viewed as a land value which is then compared to a 'benchmark' level of land value (a 'viability test'), allowing the consideration of whether the available level of land residual is likely to represent a sufficient return for a land owner. An assumed developer's profit level is also fixed as an appraisal input for the purposes of this high-level review, again consistent with the NPPF and PPG principles. This then provides scope to assess the effect on viability of varying other assumptions with these key development ingredients reflected, such as the influence of variable scheme (test scenario) type, sales values, affordable housing content and other known or potential policy impacts.
14. The assessment results enable the consideration of likely viability impacts from a re-tested proposed 30% affordable housing (AH) policy headline (for HBC's consideration, suggested varied to 20% in respect of Havant and Waterlooville town centre and Leigh Park District Centre developments) in combination with other potential or likely policy and development costs. The AH policy threshold proposed is at 10 dwellings, in accordance with national policy with the NPPF 2018. The tests continue to reflect these positions and other likely or potential viability impacts.



15. This represents the concluding of an iterative process. Approached in this way, the staged assessment has informed the emerging policy requirements and will continue to do so, although the Council need not follow exactly our findings and suggested positions. Accordingly, where possible at this stage, we continue to look to provide parameters and options for both policies and considering the review of the HBC CIL – this approach reflects the process and the various involved stages.
16. The Council will continue to assess and consider the viability of proposals relating to the Local Plan taking into account any changes to the CIL Regulations and proposed arrangements for s.106 pooling and CIL.
17. At this stage, individual infrastructure costs have not yet been accounted for, except in forming assumptions based on HBC supplied estimates in respect of the single strategic site – Southleigh (tested assuming 2,100 dwellings and various other requirements). Moving information on infrastructure requirements associated with a Plan is not unusual. To reduce the potential circularity involved in considering CIL as well as LP policies, rather than need to base CIL on a settled policy set, we have considered as starting point the adopted CIL charge levels as now indexed. We then consider whether in our view there remains any financial scope to support additional CIL charging – by reference to a wide range of development use types; or indeed a need to make any other adjustments to the CIL. In addition to this, DSP has made an allowance for potential site-specific planning mitigation through a s.106 contingency. A wide range of CIL tests have been run, using trial rates at small intervals
18. In order to carry out this type of assessment, a large number of assumptions are required as well as the consideration of a range of information which rarely fits all eventualities.

#### **Findings – Final report stage overview**

19. Overall, we have continued to find the values typically seen in the borough to support on the whole a reasonable level of development viability, accepting, as acknowledged again here, that there will always be some more challenging scenarios in any area. This leads to reasonable prospects for the delivery of a range of sites and schemes across a range of locations, including in respect of the Southleigh strategic site.

20. Whilst the results are mixed when viewed overall, the purpose of the viability study continues to be to provide assurance that the plan is deliverable as a whole. Reflecting the high-level nature of this study, it is considered that a majority of development likely to come forward under the HBLP will be supported by relatively strong values typical for large parts of the borough area; rather than the lower values seen in some areas or the very high values also seen, although with the latter often in areas where relatively little development appears likely to occur (e.g. waterside and rural fringe areas). The report sets out the varying values picture observed through our research, necessarily acknowledging that variations occur in all areas.
21. Overall this creates a mainly positive environment for development viability generally, although of course this is also behind the severe level of local affordable housing need and the Council needing to respond by seeking the maximum achievable provision of affordable homes.
22. Our assessment detail and its findings now extend to the proposed strategic Denvilles-Emsworth masterplan site delivery (referred to as 'Southleigh'), with high-level review of viability of that also having been undertaken by DSP for HBC. We have found that to have reasonable viability prospects and also provide some observations on this as regards the possibility that a distinct CIL charging approach (differentiated to a zone-based potential nil-rate) may well need to be considered for reasons related both to delivery and practicalities, and also because the emerging extent of site-specific costs and development mitigation could mean that the standard borough CIL amounts to too large a fixed top-sliced cost. HBC will need to consider this further.
23. Necessarily at this stage, however, we note that the exact extent and nature of achievable planning obligations (s.106) packages inevitably will vary in the usual way with particular site and development characteristics, influenced also by the timing of schemes in relation to varying market cycles. Therefore, we suggest that these may need to be more closely assessed in some way once further infrastructure and site allocation details become more developed. This may involve ongoing work e.g. by way of further revisits of the high-level viability overview. This reflects usual practice and our wider engagement with these matters, as well as the Council's approach.
24. This will mean continuing to consider together the required s.106 development mitigation and infrastructure provision costs along with the particular development requirements, and particularly on major sites contributing to accommodating the

planned HBLP growth. We emphasise that we do not consider that there is anything unusual in these findings, which reflect our wider experience.

25. It must be recognised that a planning-led basis for securing planning obligations relies on market-led processes. As a general point, and so not just referring to HBC's progression of proposals here, we have to place an emphasis on the need for a practical approach to be taken by the Council, having due regard to development viability where justified. By this we mean that, where justified, the Council should be adaptable to market housing scheme needs, being prepared to be flexible in considering varying solutions and be responsive to varying scheme types and circumstances.
26. At a subsequent planning application stage, the various components of a scheme will need to be considered in terms of the level of need for market and affordable homes, their successful integration and tenure mixes. This will involve considering, for example, local needs, scheme location, type, design, management, affordability, dwelling mix, tenure, funding and numbers rounding in formulating the detail - while using the policy approach to guide the basis. The Council will need to continue to consider how the wide range of factors influences scheme viability and deliverability as part of the collective development requirements. The Council may, where justified and appropriate, will need to consider with applicants how best to prioritise obligations and optimise provision in the given circumstances.
27. From our review of the Council's policies, we consider that these dynamic aspects are being acknowledged and should be worked in to the Local Plan proposals based on the most recent dialogue on those.
28. Overall, we continue to consider that an affordable housing policy headline target applicable at 10+ dwellings, and seeking not more than 30%, is likely to be workable in striving to secure an optimal level of affordable homes provision in a majority of cases. As noted here and recognised in the Council's proposed policy approach, viability will need to be reviewed in some cases. The approach also acknowledges that in some limited cases, the contributions made towards meeting affordable housing needs may take the form of wider financial enabling (i.e. provision accepted through financial contributions in certain circumstances).



29. Reaffirming on our draft stage reporting, we are also continuing to recommend and support the inclusion of a lower AH policy target for the town centres (Havant and Waterlooville) and Leigh Park District Centre development (at say 20%), where a potential mix of site assembly and complexities, higher site works and build costs, some higher land values and mixed levels of sales values will tend to be seen in combination more often than in other scenarios.
30. On other aspects of planning policy detail that could have a financial viability impact, DSP has reviewed and provided information that suggests that the Nationally Described Space Standard and other elements of locally optional policy (from the revised national policy set related to the Government's more recent review housing and technical standards) may be adopted in Havant Borough. This is again without unduly impacting viability and deliverability; providing the policy expectations are not too high or too rigid. This will be dependent also on local needs and priorities. The report detail provides more information.
31. These other areas of scope include proposed policies on the access to and use of buildings (Building Regulations Part M4), where in our view the Council could include requirements as proposed. These include a likely emphasis on seeking an element of M4(2) provision (30% of all dwellings) and 2% to M4(2) on sites of 50+ dwellings. Any such requirements should be clearly set out. The Council also has an aspiration to encourage greater levels of provision of this, which in our view should not be ruled out but also not applied rigidly beyond the policy headline. The report provides more detail. The policy framing appears appropriate.
32. In terms of the HBC CIL, we have found that after accounting for the key policy costs that influence viability (i.e. primarily the AH policies, as above) alongside the locally available market sale values, there is relatively little scope in our view to increase the charging scope over and above its current (as now indexed) levels at this point in time. In our view the indexing has meant, and continues to keep, the HBC CIL charging at a suitable level from a viability viewpoint. The recommendations cannot be precise at the appropriate level of overview, but we suggest that the trajectory of the indexing, rather than any additional uplift on review, remains appropriate. Extensive information is provided around this.

33. This leads to parameters for residential CIL charging in the range approximately £100 – 135/sq. m viewed now, and broadly reflects the indexing scenario. Commentary and options are also provided around possibilities for reviewing and / or potentially simplifying the current zoning – dependent on the HBLP site supply types and locations moving ahead. At present, we have assumed that new housing will be delivered across a combination of greenfield sites, brownfield (previously developed land – PDL) development and the above mentioned strategic development location.
34. We consider that a similar level of CIL charging scope is likely to be appropriate for any further ‘large format’ retail development (i.e. retail warehousing and foodstores) and also potentially for any purpose-built student’s housing that may come forward.
35. Beyond those likely CIL chargeable uses, in viability terms, we have again found no scope in relation to CIL charging in the borough for other development uses – including for example business/employment development (office, industrial and warehouse developments - B Use Classes), hotels (C1), care homes (C2), community uses and so on. Under our recommendations, again for HBC’s consideration, those would attract a nil-rate i.e. £0/sq. CIL charge at this point.
36. We provide wider information and potential options relating to other forms of retail development – any new provision of smaller shops – and consider that those need at least some level of differential treatment from the larger formats. This also reflects the HBC adopted CIL principles, and at this stage we consider that a nil or relatively low rate is most likely to be appropriate.
37. Overall, we consider that this revisited viability exercise identifies scope to find the appropriate balance between affordable housing needs, other planning policy objectives and scheme viability.
38. On an overview basis on viability, as is appropriate to the Plan making stage, the emerging policy set relating to the Council’s direction of travel that we have been working with, does not appear too onerous. This is consistent with our wide experience of preparing strategic level viability assessments for CIL, Local Plan and affordable housing related Development Plan Document (DPD) evidence, supporting examination outcomes; and familiarity with the detail of affordable housing and other planning policies and viability factors in operation in practice.

39. In our view, at a “Whole Plan” level, we consider the HBLP emerging policies supporting the new Plan to have reasonable prospects of delivery overall - i.e. to be capable of meeting the requirements of the NPPF and consistent with the associated guidance; the cumulative impact of these being unlikely to unduly undermine viability at the overall Plan delivery level.
  
40. In carrying out this assessment from the necessary strategic viewpoint, it is assumed that there will be a variety of market conditions experienced during the life of the new Local Plan, including periods in which there may be more and less stable and confident economic and property market conditions. It is assumed that the timescale and review basis for a new Charging Schedule once in place will be much shorter than for the Local Plan and may also be more significantly affected, amongst other things, by potential changes in Government policy on CIL and the way it operates or the general market.
  
41. Related to our assessments DSP will be happy to continue to advise HBC further on any of these or associated aspects - as the Council continues its work on the implementation of the new Local Plan.

**Executive Summary ends**

**Final Report (DSP v7) - January 2019**



# 1. Introduction

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## 1.1 January 2019 Update Note:

- 1.1.1 A draft version of this report was published by the Council in November 2017 and formed part of the evidence base to inform the Draft Havant Borough Local Plan 2036 (published for public consultation from Monday 8 January to Friday 16 February 2018).
- 1.1.2 As at January 2019, this report is now presented in Final Issue form following further review and assessment work, and continues to provide evidence to support the next step in HBC's emerging Local Plan development – Pre-Submission Havant Borough Local Plan 2036. Subsequently within this report, this will simply be referred to as the 'Local Plan' or 'Plan'.
- 1.1.3 In updating this report DSP have been asked to undertake further viability testing of emerging policy requirements following the above mentioned consultation. It also follows the publication of the 2018 National Planning Policy Framework (NPPF) which includes changes in respect of viability and the definition of affordable housing.
- 1.1.4 As per the original commission, the overall aim of the final viability study remains the same in that it provides the viability part of the evidence base to support the deliverability of the local Plan as a whole, having regard to cumulative policy costs in the plan; and to inform a review of the Council's Community Infrastructure Levy (CIL) Charging Schedule.
- 1.1.5 Since the Council's previous consultation, there are additional emerging policy standards and requirements which the Council required testing in the whole plan viability context. In addition, the Council requested that the viability / deliverability of the Council's strategic site at Southleigh be reviewed. At the same time, it was also requested that testing be extended to include the potential viability of a larger scale development. A typology of circa 560 dwellings was selected, and in order to form a basis for assumptions, this was aligned in high level terms only to the type of development likely at a site such as East of College Road, Campdown – in essence representative of larger scale greenfield development.

1.1.6 As noted above, during the course of this project the new NPPF has been published alongside updated Planning Practice Guidance (PPG) in relation to Viability. The following text has now been updated - refers to and reflects the latest NPPF and Guidance - but this does not alter the outcomes or recommendations of this study.

## **1.2 Background to the Viability Assessment**

1.2.1 The Council's currently Adopted Local Plan (ALP) comprises the Local Plan Core Strategy (2011) and the Local Plan Allocations (2014); the former of which pre-dates the publication of the NPPF (March 2012). The Council also has an adopted CIL Charging Schedule (February 2013) which identifies differential rates for residential development on Emsworth and Hayling Island (£100/m<sup>2</sup>) and the rest of the borough (£80/m<sup>2</sup>) comprising Havant, Waterlooville and Leigh Park. These rates have been indexed in accordance with the CIL Regulations – further details as provided below.

1.2.2 In response to identified housing need in the borough, the Council is progressing a new Local Plan, which will be known as the Havant Borough Local Plan 2036 (HBLP 2036) – the 'Local Plan'.

1.2.3 The Local Plan must be prepared in accordance with the requirements set out in NPPF and the accompanying PPG. Viability testing is an important part of the plan-making process. The NPPF introduced a clear requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. The national Planning Practice Guidance and other publications provide further guidance on this requirement. The PPG also contains the Government's guidance on Planning Obligations and on the CIL.

1.2.4 This study provides the viability evidence which, alongside work undertaken by others where applicable, contributes to a suite of documents used to inform and support the Local Plan.

1.2.5 It is in the interests of the Council, local communities, developers and all other stakeholders to ensure that the proposed policies, sites and the scale of development identified in the plan are deliverable as a whole - to ensure a sound Plan through the examination process. This is equally true of the level of CIL that may be required across the borough.

1.2.6 In light of the above, the Council has therefore commissioned this viability assessment. This has helped to inform and assess policies in the Local Plan that have cost implications, provide a viability appraisal of the sites typologies likely to come forward through the Local Plan and provide a high-level assurance that the proposed sites and the scale of development identified in the plan would not be subject to such a scale of obligations (including CIL) and policy burdens that their ability to be developed viably is threatened. In summary, the objectives of this study were as follows:

- Undertake a comprehensive plan viability assessment of the Havant Borough Local Plan 2036 including an assessment of the costs associated with the draft policies and developer requirements relating to the allocations;
- Assess the viability of providing affordable housing in different parts of the borough having regard to the different proportion, threshold and tenure of affordable housing to identify policy options for the delivery of affordable housing provision and CIL. This will inform the development of the new affordable housing policy.
- Assess the viability of theoretical developments taking into account Local Plan policy and other costs to inform a review of the Council's CIL Charging Schedule.

### **1.3 Background to the CIL**

1.3.1 In February 2013 Havant Borough Council adopted a CIL Charging Schedule to raise funds from new development to meet strategic infrastructure needs of the area. The current Charging Schedule states the following<sup>1</sup>:

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<sup>1</sup> <https://www.havant.gov.uk/community-infrastructure-levy-charging-schedule>



## Community Infrastructure Levy - Charging Schedule

Development Type	CIL Rate (£ per square metre)
Residential* (one dwelling or more)	£100
- Emsworth and Hayling Island	£80
- Rest of Borough **	
Hotel	£0
Industrial/Offices	£0
Retail- Town centre	£0
- Out of centre > 280 sq m	£80
- Out of centre < 280 sq m	£40
Community uses	£0

\* The residential rate excludes extra care housing.

\*\* The charging zone boundaries are shown below

1.3.2 The CIL rates above have a base date of 1<sup>st</sup> August 2013. Indexation applies to all permissions issued after 2013. At the point of finalising this study, the following rates were applicable:

Development Type	CIL rate applicable 1 August 2013 (£ per square metre)	Current CIL rates (2018)	CIL rates (2019)
Residential* (one dwelling or more)			
- Emsworth and Hayling Island	£100	£134.82	£139.93
- Rest of Borough **	£80	£107.86	£111.79
Hotel	£0	£0	£0
Industrial/Offices	£0	£0	£0
Retail- Town centre			
- Out of centre > 280 sq m	£0	£0	£0
- Out of centre < 280 sq m	£80	£107.86	£111.79
	£40	£53.93	£55.89
Community uses	£0	£0	£0

\* The residential rate excludes extra care housing.

1.3.3 As well as testing the viability of the Local Plan policies and strategies, the Council wishes to ascertain whether its adopted CIL Charging Schedule is at a level which ensures the viability and deliverability of development with policy burdens and other obligations which are included in the Local Plan; or could be reviewed to include any increased charging level(s) subject to the viability scope.

- 1.3.4 The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from developers undertaking new developments in their area. In this case, should CIL continue to be adopted locally, Havant Borough Council would remain the charging authority as it is now.
- 1.3.5 CIL takes the form of a charge that may be payable on ‘development which creates net additional floor space’<sup>2</sup>. The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, the Community Infrastructure (Amendment) Regulations 2014 allows for a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.<sup>3</sup>
- 1.3.6 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority’s area.
- 1.3.7 The CIL regulations require charging authorities to allocate a ‘meaningful proportion’ of the levy revenue raised in each neighbourhood back to those local areas. In January 2013, it was announced that in areas where there is a neighbourhood development plan in place, the neighbourhood will be able receive 25% of the revenues from the CIL arising from the development that they have chosen to accept. Under the Regulations the money would be paid directly to the neighbourhood planning bodies and could be used for community projects. Planning Practice Guidance provides further information on spending of Levy receipts including distribution to local neighbourhoods<sup>4</sup>. In the case of HBC, which is entirely unparished, different circumstances apply.
- 1.3.8 Under the Government’s regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority.

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

<sup>3</sup> Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.

<sup>4</sup> <https://www.gov.uk/guidance/community-infrastructure-levy> (Paragraph: 072 Reference ID: 25-072-20140612  
Revision date: 12 06 2014)

- 1.3.9 The CIL Guidance contained within the PPG goes on to state that the levy rate(s) need to be set so that they do not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan (Local Plan in England). *‘Charging authorities will need to draw on the infrastructure planning evidence that underpins the development strategy for their area. Charging authorities should use that evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area.’<sup>5</sup>*
- 1.3.10 The Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the anticipated Local Plan level of growth to be accommodated across the borough as a whole through the development of a draft Infrastructure Delivery Plan (IDP). This will ensure that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It sets out key infrastructure and facility requirements for new development, taking account of existing provision and cumulative impact.
- 1.3.11 Infrastructure is taken to mean any service or facility that supports the Havant Borough Council area and its population and includes (but is not limited to) facilities for transport, education, health, social infrastructure, green infrastructure, public services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements.
- 1.3.12 Within this study, an allowance has been made for the cost to developers of providing affordable housing and other costs of policy compliance in addition to the inclusion of both the previously recommended potential CIL charging rates (indexed) as well as sensitivity testing higher and lower potential CIL rates. In this sense, the collective planning obligations (including affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others. It follows that the extent to which s.106 will

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<sup>5</sup> <https://www.gov.uk/guidance/community-infrastructure-levy> (Paragraph: 008 Reference ID: 25-008-20140612  
Revision date: 12 06 2014)

have an on-going role also needs to be considered in determining suitable CIL charging rates, bearing in mind that CIL is non-negotiable.

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

1.3.14 The CIL rate or rates should be set at a level that ensures development within the authority’s area (as a whole, based on the plan provision) is not put at serious risk.

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

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

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

*As set out in the National Planning Policy Framework in England ([paragraphs 173 – 177](#)), the sites and the scale of development identified in the plan should not be*



*subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. The same principle applies in Wales.’<sup>6</sup>*

1.3.16 Later amendments to the CIL Regulations (The Community Infrastructure Levy (Amendment) Regulations 2014) came into force on 24<sup>th</sup> February 2014. These regulations introduced:

- new mandatory exemptions for self-build housing, and for residential annexes and extensions;
- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);
- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;
- a new ‘vacancy test’ - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months);
- a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to ‘aim to strike the appropriate balance’;
- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

1.3.17 The CIL Regulations (Amendment) have been taken into account in the preparation of this report and the preparation of this study meets the requirements of all appropriate Guidance. However, the Council will be aware that at the time of writing but following the production of a majority of this assessment, the Government has recently

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

published its response to its own consultation on supporting housing through developer contributions (October 2018)<sup>7</sup>.

1.3.18 This provides an indication of the direction of travel in relation to CIL and other planning obligations moving forward. It suggests that the Government favours lifting the pooling restrictions on s.106 in all areas but still would like to incentivise the uptake and continued use of CIL. It states that the Government will ensure measures are in place to incentivise uptake and continued use of the Levy but at this stage no measures are identified. Further consideration was also given to legislating to change CIL by allowing Local Authorities to set differential rates based on the existing use of the land. In responding to the consultation the Government has decided not to take this further due to perceived complexities in the process. It does however recognise that the existing Regulations go some way to achieving these aims through the use of differential Levy rates; something that DSP suggested in our response to the Government.

1.3.19 Other changes that the Government intends to consult on include changing the indexation method for CIL after implementation (potentially through local area-based house price indices rather than the current method of linking indexation to build cost).

1.3.20 Within their response document, the Government states: *'Legislation will be required in order to implement the changes set out in the consultation document. Therefore, the Government will be consulting on the draft regulations later this year'*. At this stage we have not been able to take into account any potential changes.

## **1.4 Havant Borough Profile**

1.4.1. Havant Borough is located on the south coast in urban South Hampshire located on the coastal plain between the South Downs and the sea and with a total area of 21.4 square miles. The borough has a population of approximately 122,000 as of 2015<sup>8</sup>, comprising the main settlements of Havant, Waterlooville, Emsworth, Hayling Island and Leigh Park.

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<sup>7</sup> MHCLG: Government response to supporting housing delivery through developer contributions: A summary of consultation responses and the Government's view on the way forward (October 2018).

<sup>8</sup> Havant Borough Council Annual Monitoring Report 2016

- 1.4.2. The borough is bordered by Chichester, East Hampshire, Winchester and Portsmouth.
- 1.4.3. The PUSH Objectively Assessed Needs Update (April 2016) provides the most up-to-date assessment of housing need in Havant Borough. It states that: *'trend-based demographic projections identify a need for 428 dwellings per annum. The economic-led scenario sits below this at 408 dwellings per annum, and do not justify any increase to the OAN calculated on the basis on the latest demographic evidence...The affordable housing evidence indicates a need for 292-368 affordable dwellings per annum, which represents 68-86% of the demographic-based need. Market signals point to average affordability pressures, but would justify an upward adjustment from the demographic baseline...We consider than an adjustment upwards from the base demographic need would be appropriate to improve affordability. To improve household formation, and reduce levels of concealed households, we identify an objectively assessed need for 450 dwellings per annum'*.
- 1.4.4. The PUSH Strategic Housing Market Assessment therefore indicates the borough has an overall objectively assessed need for 11,250 new homes (450 dwellings per annum) between 2011 and 2036. We understand that the Council is working on the basis of the Government's standardised approach to calculating local housing need which indicates a need for 463 dwellings per annum between 2016 and 2026. In response to the identified housing need, and to ensure that the borough has an up-to-date and robust planning policy context against which to bring forward development, the Council has been preparing a new Local Plan (Havant Borough Local Plan (HBLP)) for the period to 2036. This, now in proposed final form, will set out the policies that will shape the level and distribution of development, including for new homes and jobs.
- 1.4.5. Whilst the Local Plan has been in development, the Council has taken an innovative approach to addressing its housing need through the adoption of the Local Plan Housing Statement<sup>9</sup>. Based on an assessment of deliverability in the Council's SHLAA, the Housing Statement identified housing sites which the Council considers suitable for the delivery of sustainable housing development. They are therefore identified as suitable for 'early release' in advance of the adoption of the Plan.

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<sup>9</sup> Formally adopted on 7<sup>th</sup> December 2016

- 1.4.6. The ‘early release’ housing sites identified by the Statement range in potential size from 5 to over 300 dwellings, and their development requirements and associated infrastructure costs will vary accordingly.
- 1.4.7. In addition to the ‘early release’ housing sites, the Council has identified a strategic site for comprehensive development in the area between Denvilles and Emsworth, known as Southleigh, which is considered capable of delivering between 1,650 and 2,500 new homes. Initial feasibility work<sup>10</sup> confirmed that significant investment in infrastructure is required here. As a minimum, the Housing Statement indicated this should include ‘improvements to nearby highway infrastructure, a new junction on the A27 and associated link road north, a new primary school, green infrastructure and surface water drainage.’ Further work on the viability and deliverability of this site was previously undertaken by others and as part of finalising this study, the Council has asked DSP to review the site viability / deliverability again.
- 1.4.8. While it has appropriately added to the context for the assessment over the period of undertaking this work, we understand and note that the Housing Statement will fall away on adoption of the Local Plan, with the context of the latest approach as at 1.4.4 above being of key relevance.

## 1.5 Policy & Guidance

- 1.5.1 We have noted that during the course of updating this assessment and producing this final report, the revised NPPF (July 2018) was published alongside updated Planning Practice Guidance (in particular in relation to Viability both at plan making and decision taking stages of the planning process).
- 1.5.2 Previously the NPPF (2012) set out the overall approach to the preparation of Development Plans. It provided specific guidance on ensuring viability and deliverability. In particular, paragraphs 173-174 stated:

*‘Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened.’*

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<sup>10</sup> Havant Strategic Development Areas Financial Feasibility Study (July 2016)



*To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for Affordable Housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable.*

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

- 1.5.3 The requirement to consider viability now stems from the National Planning Policy Framework (NPPF) 2018 which says on ‘Preparing and reviewing plans’ at para 31: ‘The preparation and review of all policies should be underpinned by relevant and up-to-date evidence. This should be adequate and proportionate, focused tightly on supporting and justifying the policies concerned, and take into account relevant market signals.’
- 1.5.4 NPPF para 34 on ‘Development contributions’ states: ‘Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.’
- 1.5.5 The updated national Planning Practice Guidance (PPG) also published in July 2018 on ‘Viability’ provides more comprehensive information on considering viability in plan making, with CIL viability assessment following the same principles. The new guidance on Viability states:

*‘Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure).*

*These policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106. Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types of site or types of development...Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan’.*

- 1.5.6 In addition, relevant information is contained in the publication ‘Viability Testing Local Plans – Advice for planning practitioners’ published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the ‘Harman’ report). That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in the Plan making process.
- 1.5.7 This viability assessment has therefore been produced in the context of and with regard to the NPPF, PPG, CIL Regulations, CIL Guidance and other guidance applicable to studies of this nature.

## **1.6 Purpose of this Report**

- 1.6.1 Viability testing is an important part of the plan-making process. In order to meet the requirements of the NPPF, HBC commissioned Dixon Searle Partnership (DSP) to carry out a Viability Study with an objective to determine the impact on development viability of including the various relevant policy requirements of the emerging HBLP 2036 including recommendations on affordable housing targets and potential options for the review of the HBC CIL.
- 1.6.2 The assessment involves the review of the financial viability of site typologies (representing a range of typical site types likely to come forward across the Plan) and

specific sites where those are important in delivering the aims and objectives of the Plan. The assessment provided the evidence base for the viability of the Draft Local Plan policies, informing and supporting the deliverability of the plan overall – including as now carried forward and developed further to its final proposed form.

- 1.6.3 This approach does not require a detailed viability appraisal of every site anticipated to come forward over the plan period but rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather potential policies that are likely to have a close bearing on development costs. In our experience this means a focus on the viability prospects and potential policies associated with housing development, because the scope of this or other Councils' influence – i.e. through local policy positions - over the viability of other forms of development (non-residential/employment/commercial) is much more limited.
- 1.6.4 To this end, the study requires the policies and proposals in the Local Plan to be brought together to consider their cumulative impact on development viability including the potential review of the CIL locally.
- 1.6.5 The assessment approach applies sensitivity testing to policy costs including a range of affordable housing proportions, tested at different thresholds and combined with allowances for meeting the requirements for other optional housing standards - including relating to the access to and use of buildings, water efficiency and space standards.
- 1.6.6 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.
- 1.6.7 The approach used to inform the study applies the well-recognised methodology of residual land valuation. 'Viability' in the sense of this assessment means the financial health of development, so that the assessment centres around the strength of the relationship that is available between the completed development (sale) value and the development costs; and how the strength of this relationship varies across a range of development types, host site types and locations – all bearing in mind the types of sites

and schemes expected to come forward here to support the Local Plan overall, and the local characteristics.

- 1.6.8 The study process produces a large range of results relating to the exploration of a range of potential affordable housing percentage targets as well as other variables. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform the Council's approach through the policy setting process.
- 1.6.9 A key element of the viability overview process is the comparison of the RLV results generated by the development appraisals and the potential level of land value that may need to be reached to ensure that development sites continue to come forward - so that development across the area is not put at risk owing to unrealistic policy burdens in combination with other development cost factors. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. The results sets have been tabulated in summary form and those are included in Appendix IIa (general residential typologies review), IIb (strategic site and larger site typology results) and IIc (commercial/non-residential scenario tests).
- 1.6.10 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons will be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested.
- 1.6.11 This report then sets out findings and recommendations on the viability of the Plan as a whole whilst also continuing to allow for and confirming the previously reviewed (draft stage) approach to, and charging rates parameters for, the HBC CIL.



## 2 Methodology

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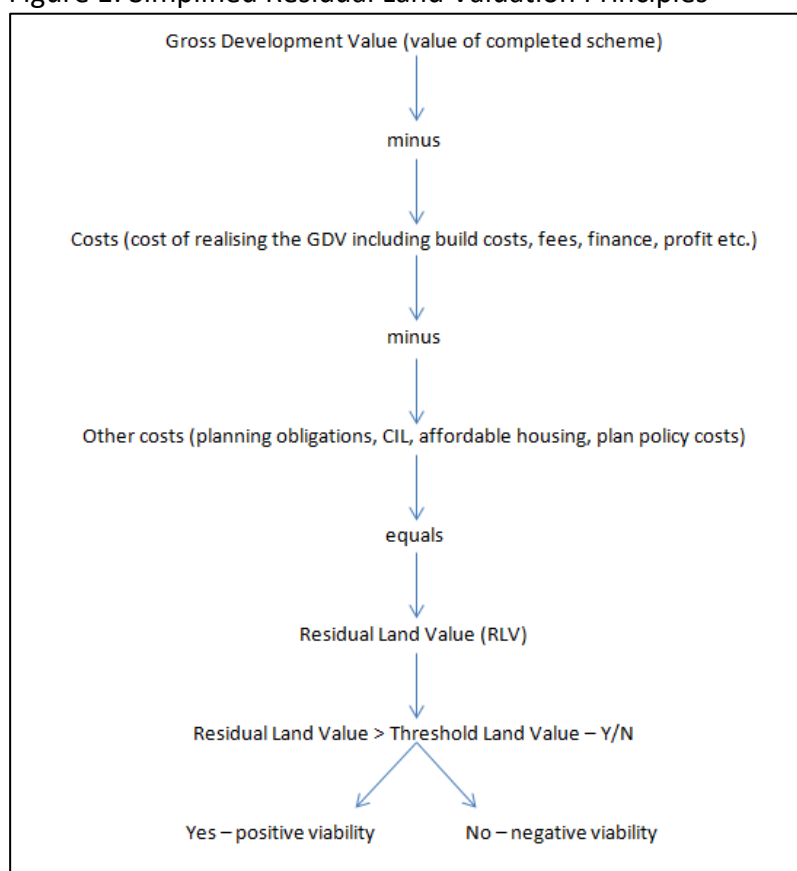
### 2.1 Residual valuation principles

- 2.1.1 This assessment has been carried out in the context of the new NPPF (July 2018) as well as the updated PPG viability guidance. The NPPF as now updated remains very high level in regard to viability directly, but retains the well-established principle on ‘development contributions’ that: *‘Such policies should not undermine the deliverability of the plan.’* The PPG provides useful guidance on plan preparation in regard to viability and contributions. Although this guidance is new, DSP considers that its approach to and experience of LP and other strategic viability assessments remains appropriate – this project has been approached consistently with this new guidance, aided by checking and continually considering the detail and news developments / any other guidance or emerging decisions etc. as work has progressed.
- 2.1.2 Collectively this study investigates the potential viability and, therefore, deliverability of the Local Plan and its policies - including a review of both CIL and various potential affordable housing options (target percentages - %s) and the thresholds above which affordable housing may be sought.
- 2.1.3 There will be a number of policies that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on discussions with Council officers. This study considers how the cost of these potential obligations interact and therefore estimate the collective impact on viability of a range of policy options. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.
- 2.1.4 Prior to fixing assumptions, necessarily at a point in time, and running appraisals (as outlined in the following paragraphs) we undertake an extensive information review, property market research and a development industry stakeholders’ survey. As a part of this, a review of the potential policy proposals enables us to assess which are considered likely to have a particular development cost impact, or additional cost implications over and above typical costs (for example utilising the costs information from established sources such as the Building Cost Information Service of the RICS (BCIS)). Appendix I to this document also provides a quick reference guide to the assumptions used and includes a policy review schedule indicating the view taken with

respect to the potential policies so far as those are known at the time of this assessment.

2.1.5 The most established and accepted route for studying development viability at a strategic level, including for whole plan viability, affordable housing viability, CIL and site-specific viability assessments is Residual Valuation. This is as also recommended by the “Harman Report” on viability testing local plans; further guidance that we have also taken account of in the last few years of conducting these assessments. Figure 1 sets out the residual valuation principles in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



2.1.6 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

2.1.7 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark against which to compare the resulting residual value. The RICS<sup>11</sup> and Harman<sup>12</sup> report differ on the approach to a Benchmark Land Value (BLV). Our

<sup>11</sup> RICS: Financial Viability in Planning (2012)

<sup>12</sup> Local Housing Delivery Group – “Viability Testing Local Plans” (June 2012)

latest work (both on strategic projects and DM stage viability) has for some time reflected the move towards a clearer “EUV plus” based approach to the all-important consideration of land values – for the assessment ‘benchmark land values’.

- 2.1.8 Undertaken as it has been, this assessment now responds to not only the former NPPF and need to consider viability but is also consistent with the new NPPF and accompanying PPG on Viability, with the NPPF no longer containing any reference to competitive returns to a willing land owner and willing developer. The emphasis has moved away from a market value approach that may have been used in the past. The latest Planning Practice Guidance on Viability makes it clear this benchmark land value (BLV) should be based on Existing Use Value and states:

*‘A benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called ‘existing use value plus (EUV+)’.*

- 2.1.9 The new NPPF and associated PPG on Viability indicate that a balance will be required between the role of strategic level viability work such as this assessment and the application decision making stage (development management). The national requirements appear to be moving more towards a greater level of detail in strategic (LP) assessments, leaving less to be explored / debated at DM stage. However it appears that there is still a significant recognition that planning application stage / site-specific viability reviews will unavoidably or at least realistically still play a key role.

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

through which DSP sought to get feedback on study assumptions and to provide the opportunity for engagement and for provision of information to help inform the assessment. On the whole, the process is informed as far as practically possible by the review of available information and making an overview from that. This approach reflects the expectations of the guidance.

## **2.2 Scheme Development Scenarios**

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of development, whilst including testing and sensitivity testing on the policies considered to have an impact on development viability. The scenarios were settled and discussed with the Council following a review of the information it provided. Information included adopted Core Strategy and Allocations documents, previous viability work undertaken in relation to CIL and Draft Local Plan, the adopted CIL charging schedule, Strategic Housing Land Availability Assessment (SHLAA), PUSH Objectively Assessed Housing Need Update and other information.

### Residential Development Scenarios

2.2.2 The site typologies modelled as part of this assessment reflect a range of different types of development that are thought likely to be brought forward through the planning process across the Borough. This enables viability to be tested with reference to the potential housing supply characteristics based on experience of development to date.

2.2.3 Each of the development typologies was also tested over a range of value levels (VLs) representing varying residential values as seen currently across Borough by scheme location / type. This approach also allows us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.

2.2.4 The scheme mixes are by their nature hypothetical – many other types and variations may be seen, including larger or smaller dwelling types in different combinations, according to particular site characteristics, local markets and requirements etc.

Figure 2: Residential Scheme Types

Scheme / Typology	Overall Scheme Mix
6 Houses	2 x 2BF, 4 x 3BH
10 Houses	5 x 2BH, 5 x 3BH
11 Houses	5 x 2BH, 6 x 3BH
15 Houses	7 x 2BH, 7 x 3BH, 1 x 4BH
15 Flats	9 x 1BF, 6 x 2BF
25 Flats with GF Convenience Retail	11 x 1BF, 14 x 2BF + GF Retail
25 Flats	11 x 1BF, 14 x 2BF
30 Flats (Sheltered)	22 x 1BF, 8 x 2BF
50 Flats	22 x 1BF, 28 x 2BF
50 Flats (incl. Studio Flats)	7 x SF, 15 x 1BF, 28 x 2BF
50 Mixed	9 x 1BF, 8 x 2BF, 9 x 2BH, 19 x 3BH, 5 x 4BH
50 Mixed	As above but sensitivity testing enhanced (overbase) carbon emissions reduction (+6% build costs) and M4(2) / M4(3) Access
100 Mixed	18 x 1BF, 16 x 2BF, 18 x 2BH, 38 x 3BH, 10 x 4BH
350 Mixed	63 x 1BF, 56 x 2BF, 63 x 2BH, 133 x 3BH, 35 x 4BH
560 Mixed	101 x 1BF, 90 x 2BF, 101 x 2BH, 213 x 3BH, 56 x 4BH

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

- 2.2.5 The assumed dwelling mixes are based on the range of information reviewed, including taking into account the recommendations contained within the Strategic Housing Market Assessment (SHMA)<sup>13</sup> for the Partnership for Urban South Hampshire region (PUSH).
- 2.2.6 The scenarios reflect a range of different types of development that are likely to be brought forward through the planning process across the borough so as to ensure that viability has been tested with reference to the potential housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the area by scheme location / type whilst and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.
- 2.2.7 In all cases it should be noted that a “best fit” of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers particularly. The affordable housing numbers (content) assumed within each scheme scenario can be seen at Appendix I – Assumptions overview spreadsheet.

<sup>13</sup> GL Hearn – South Hampshire Strategic Housing Market Assessment for the Partnership for Urban South Hampshire (PUSH) (Jan 2014)  
Havant Borough Council – Local Plan & CIL Viability Study – Final Report (DSP18483A)



2.2.8 In addition to the review of the general (smaller) site typologies, more specific high level viability testing was requested by HBC to be undertaken on the Southleigh strategic site. The assumptions that have been used are based primarily on previously published work on the site alongside our own experience of undertaking site appraisals of this scale. Appendix I sets out the key assumptions linked to the Southleigh strategic site with results and appraisal summaries also appended to this report (Appendix IIb). Alongside those results, Table 2b within Appendix IIb also sets out the results from the additional tests of the larger 560 dwellings typology. The results are included within the same Appendix and in the same format as those for the single strategic site (Southleigh) because the approach to the appraisal and assumptions basis is similar for that larger scheme typology (it differs from the approach and results display used within Appendix I reflecting schemes of up to 350 dwellings or so). At 560 dwellings (or in fact often around 400-500 dwellings plus), a site could be reasonably expected to display at least some characteristics similar to those seen when reviewing strategic scale development.

2.2.9 The dwelling sizes assumed for the purposes of this study are as follows (see figure 3 below):

Figure 3: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
1-bed flat	50	50
2-bed flat	70	70
2-bed house	79	79
3-bed house	93	100
4-bed house	112	130

2.2.10 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location.

2.2.11 Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to assess, compare and price schemes. It provides a more relevant context for considering the potential viability scope.

2.2.12 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs) for houses; net internal areas for flats (for the latter we have assumed an 85% net:gross ratio except sheltered housing where a lower ratio is assumed). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m ‘Value levels’ basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. We do not differentiate between the value per sq. m for flats and houses although in reality there tends to be an inverse relationship between the size of the property and its value when expressed in terms of a rate per unit area. The range of prices expressed in £s per square metre (£/sq. m or £/m<sup>2</sup>) therefore the key measure used in considering the research, working up the range of value levels for testing, and in reviewing the results.

### **2.3 Commercial / Non-Residential Development Scenarios**

2.3.1 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 4 below sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from different types of commercial development considered potentially relevant in the borough.

2.3.2 In essence, the commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. Figure 4 below summarises the scenarios appraised through a full residual land value approach; again, Appendix I provides more information.

Figure 4: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m <sup>2</sup> )	Site Coverage	Site Size (Ha)
A1 Large Retail	Retail Warehousing / Foodstore	1250	40%	0.31
Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	300	70%	0.04
Small Retail	Local convenience stores and local shops	300	50%	0.06
Business - Offices - Town Centre	Office Building	500	60%	0.08
Business - Offices - Outside Town Centre	Office Building	1000	40%	0.25
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	500	40%	0.13
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	2000	40%	0.50
Hotel (budget)	Hotel - town centre / edge of town (60 Beds)	2100	50%	0.42
C2 - Residential Institution	40-bed Nursing home / care home	1900	60%	0.32
Student Accommodation	100% Cluster type Accommodation with en-suite (150 rooms)	1800	50%	0.36

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

2.3.3 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the borough and are as subsequently agreed with the Council. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from CoStar Commercial Real Estate Intelligence, the VOA Rating List and other web-based review as well as feedback from consultation. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases, property marketing details. Collectively, our research enabled us to apply a level of “sense check” to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.

2.3.4 In addition to testing the commercial uses of key relevance above, further consideration was given to other development forms that may potentially come

forward locally. These include for example non-commercially driven facilities (community halls, medical facilities, schools, etc.) and other commercial uses such as motor sales / garages, depots, workshops, surgeries / similar, health / fitness, leisure uses (e.g. cinemas / bowling) and day nurseries.

2.3.5 Clearly there is potentially a very wide range of such schemes that could be developed over the life of a CIL charging schedule. Alongside their viability, it is also relevant for the Council to consider the likely frequency and distribution of these; and their role in the delivery of the development plan overall. For these scheme types, as a first step it was possible to review (in basic terms) the key relationship between their completed value per square metre and the cost of building. We say more about this in Chapter 3.

2.3.6 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale, etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the usual development sense being reviewed here and related to any CIL contributions scope. We are also able to consider these value / cost relationships alongside the range of main appraisal assumptions and the results that those provide (e.g. related to business development). This is an iterative process in addition to the main appraisals, whereby a further deteriorating relationship between values and costs provides a clear picture of further reducing prospects of viable schemes. This starts to indicate schemes that require other support rather than being able to produce a surplus capable of some level of contribution to CIL.

2.3.7 Through this process we were able to determine whether there were any further scenarios that warranted additional viability appraisals. Having explored the viability trends produced by examination of the cost/value relationships we found that in many other cases, completed scheme values were at levels insufficient to cover development costs and thus unlikely to support any level of CIL.

## **2.4 Gross Development Value (Scheme Value)**

### **Market housing (sale) values**

2.4.1 In order to determine likely values for development across the borough, a range of information sources has been considered. As reviewing the Council's existing evidence base we also carried out a range of our own research on residential values across the Council's area (see Appendix III). It is always preferable to consider information from a

range of sources to inform the assumptions setting and review of results stages. Therefore, we considered existing information contained within previous research documents including previous viability studies; from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.

- 2.4.2 A framework needs to be established for gathering and reviewing property values data. The residential market review has been based on a mixture of approaches to attempt to properly reflect the variation in residential property values occurring across the borough. This included breaking the borough down in to both wards, settlements and using areas described in the Council's 'Townscape, Landscape Seascape Character Areas'. Appendix III provides a more detailed explanation of the approach.
- 2.4.3 This provides comprehensive research and analysis of both new build sold data, currently available new build property across the borough, together with Zoopla current area statistics. This data has been gathered for an overview of the value patterns seen across the borough in order to inform assumption setting prior to the appraisal modelling phase. It was particularly important to collect the residential values data by settlement areas as the strength of values varies by location across the borough. The east of the Borough, Hayling Island sea front and Emsworth for example have stronger values typically than parts of Havant, Waterlooville and Leigh Park.
- 2.4.4 This provided the best and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen linked to the likely provision of development across the borough. It was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.
- 2.4.5 For the residential scheme types modelled in this study, and based on the research undertaken, a range of (sales) value levels (VLs) have been applied to each development scenario. This is in order to test the sensitivity of scheme viability to geographical values variations and / or with changing values as may be seen with further market variations. In the case of Havant Borough, the VLs covered typical residential market values (average prices across a scheme) over the range £2,750/m<sup>2</sup> (approx. £255/sq. ft.) to £4,500/m<sup>2</sup> (approx. £418/sq. ft.) as shown in Figure 5 (following page):



Figure 5: New Build Values Assumptions Summary

	HBC lower-end			HBC typical new-build values			HBC upper-end new-build
<b>Assumed Market Value Level (VL) range &amp; indicative overlay with localities</b>	<b>VL1</b>	<b>VL2</b>	<b>VL3</b>	<b>VL4</b>	<b>VL5</b>	<b>VL6</b>	<b>VL7+</b>
<b>Indicative location (Range)</b>	Havant Core & NW Suburbs, Waterlooville		Purbrook, Stakes, Horndean, Cowplain, Hayling Island				Upper-end coastal properties, Emsworth south of A259 & rural pockets etc.
	Leigh Park	West Leigh, Bedhampton, Hart Plain		Langstone, New Brighton, Emsworth (North of A259), Warblington, East of Borough, Denvilles			
1 Bed Flat	£137,500	£150,000	£162,500	£175,000	£187,500	£200,000	£225,000
2 Bed Flat	£192,500	£210,000	£227,500	£245,000	£262,500	£280,000	£315,000
2 Bed House	£217,250	£237,000	£256,750	£276,500	£296,250	£316,000	£355,500
3 Bed House	£275,000	£300,000	£325,000	£350,000	£375,000	£400,000	£450,000
4 Bed House	£357,500	£390,000	£422,500	£455,000	£487,500	£520,000	£585,000
<b>Value House (£/m2)</b>	<b>£2,750</b>	<b>£3,000</b>	<b>£3,250</b>	<b>£3,500</b>	<b>£3,750</b>	<b>£4,000</b>	<b>£4,500</b>

- 2.4.6 Values patterns can often be indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the future borough development strategy and any potential revision to the CIL. In setting the Council's current (adopted, charged) CIL it was considered necessary to differentiate between Emsworth and Hayling Island and the rest of the borough. Through this assessment we look again at this as part of re-exploring the CIL viability scope. We also consider the additional viability pressures likely to be associated with town centre development; and whether consideration should be given by the Council to any other form of differentiation – including within the overall affordable housing policy approach.
- 2.4.7 It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to Havant Borough. However, these factors do not affect the scope to get a clear overview of how values vary typically, or otherwise, between the settlements and localities, given the varying characteristics of the borough; as set out in these sections and as is suitable for the consideration of Local Plan viability and deliverability.

### **Affordable housing**

- 2.4.8 Importantly, in addition to the market housing, the development appraisals also assume a requirement for affordable housing. As this study seeks to test the viability of potential HBLP 2036 policies holistically, we have tested and reviewed a range of potential affordable housing policy targets from 0% to 40%.
- 2.4.9 The NPPF (2018) at para. 63 states:

*'Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount'*

- 2.4.10 In carrying out this viability assessment, as requested by HBC, we have undertaken a review of affordable housing policy across a range of thresholds in order to inform the Council's decision-making process from a viability perspective only. The Council would need to consider the evidence required in order to include a sub-10 unit affordable housing threshold, subject to viability constraints both generally and in relation to any designated 'rural' areas. More detail on the affordable housing assumptions is provided below and at Appendix I.
- 2.4.11 For the affordable housing, we have now assumed that approximately 70% is affordable rented tenure and 30% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the overall scheme mixes and affordable housing proportion in each scenario). Some early stages testing was also carried out on the assumption that a proportion (10%) of the overall housing would be required as affordable home ownership (applied only where the existing tenure mix and proportion did not already include this potential requirement). For sites of 9 dwellings or fewer we have assumed that a financial contribution would be required in-lieu of on-site provision.
- 2.4.12 In reality tenure will normally be decided based on an up to date Strategic Housing Market Assessment (SHMA) ensuring that properties meet local needs at the time of the application). In practice many tenure mix variations could be possible; as well as many differing rent levels derived from the affordable rented (AR) tenure approach - as affected by local markets and by affordability. The same applies to the intermediate (currently assumed as shared ownership) affordable housing element in that the setting of the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) or other affordable housing provider's retained equity, and the interaction of these two would usually be scheme specific considerations. Shared ownership (SO) is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.
- 2.4.13 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently Homes England (HE) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant or equivalent subsidy input unless additionality can be proven. At the very least this should be the

starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant or other public subsidy / equivalent.

- 2.4.14 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the ‘payment to developer’, ‘RP payment price’, ‘transfer payment’ or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site-specific viability issues (including specific work on SPDs, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals – looking at the capitalised value of the estimated net rental flows (value of rental income after deduction for management and maintenance costs, voids allowances and the like). We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.
- 2.4.15 In broad terms, the transfer price assumed in this study varies between approximately 30% and 65% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The LHA rate for the Portsmouth Broad Rental Market Area (BRMA) that covers the Havant Borough Council area for the varying unit types was used as our cap for the affordable rental level assumptions.
- 2.4.16 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the provider’s (e.g. RP’s) own development strategies, and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, external funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

## 2.5 Gross Development Value – Commercial / Non-residential

- 2.5.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions are needed. Typically, these are made with regard to the rental values and yields that would drive the value of completed schemes within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).
- 2.5.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, EGi, CoStar and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.
- 2.5.3 Figure 6 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.
- 2.5.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the borough. This enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. This is consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions (unless floor-space in excess of 100 sq. m is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). In many cases, however, limited or no new build information for use of comparables exists, particularly given recent and current market circumstances. There is further information available in the



Council's Employment Land Review study<sup>14</sup>. Therefore, views have had to be formed from local prevailing rents / prices and information on existing property and past research carried out on behalf of the Council. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a Havant Borough only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.

- 2.5.5 These varying rental levels were capitalised by applying yields of between 5.0% and 7.5% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined were appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.
- 2.5.6 It is important to note here that small variations can have a significant impact on the GDV that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions in the local context (but envisaging new development and appropriate lease covenants etc. rather than older stock), could well act against finding that balance.
- 2.5.7 This approach enabled us to consider the sensitivity of the results to changes in the capital value of schemes and allowed us then to consider the most relevant results in determining the parameters for setting non-residential CIL rates across the borough. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3.

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<sup>14</sup> Lambert Smith Hampton: Havant Borough Council Employment Land Review  
Havant Borough Council – Local Plan & CIL Viability Study – Final Report

Figure 6: Assumed rental Value for Commercial Schemes

Development Type		Value Level (Annual Rental Indication £/sq. m, unless otherwise stated)		
		Low	Medium	High
A1 Large Retail	Retail Warehousing / Foodstore	£200	£225	£250
Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	£150	£200	£250
Small Retail	Local convenience stores and local shops*	£100	£125	£150
Business - Offices - Town Centre	Office Building	£150	£190	£230
Business - Offices - Outside Town Centre	Office Building	£150	£190	£230
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	£70	£85	£100
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	£50	£60	£70
Hotel (budget)	Hotel - town centre / edge of town (60 Beds)**	£3,000	£3,500	£4,000
C2 - Residential Institution	40-bed Nursing home / care home	£200	£250	£300
Student Accommodation	100% Cluster type Accommodation with en-suite (150 rooms)***	£110	£120	£130

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

\*\*annual room rates

\*\*\* weekly room rates

2.5.8 As with residential development, consideration was given as to whether there should be any varying approach to CIL charging levels for commercial and other developments locally. On review, it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between general location (area) within the borough so far as the likely location of such development is concerned. This was borne out on review of the commercial values data and results.

2.5.9 There is variety in terms of values across the borough. However, there were typical values that informed our rental and other assumptions for the appraisals, based on the upper end rental indications seen for business uses (offices and industrial / warehousing) as appropriate for high quality new build schemes and on the variety of indications seen for retail. In both cases these were taken from a combination of the VOA Rating List, EGi, CoStar and other sources as far as were available whilst keeping the review depth proportionate and economic in the study overview context. In respect of other commercial / non-residential development types again a borough-wide overview was considered appropriate.

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

## **2.6 Development Costs – General**

2.6.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site-specific cases can be. As with the scheme scenario building, an overview of the various available data sources is required.

2.6.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.

2.6.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in setting CIL charging rates and ensuring those are not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

## **2.7 Development Costs – Build Costs**

2.7.1 The base build cost levels shown below are taken from the BCIS. In each case the figure has been rebased using the Havant Borough location factor (an adjustment of the base figure indexed for Havant Borough). Costs assumed for each development type are provided in Appendix I. For the purposes of this exercise we have added an allowance

for housing schemes of 10 units or less and made a deduction for flatted schemes of 10 units or less based on advice provided by the RICS BCIS within a report commissioned by the Federation of Small Businesses (FSB)<sup>15</sup>. Figure 7 below summarises these:

Figure 7: Build Cost Data (BCIS Median, Havant Borough location factor relevant at time of research)

Development Type		BCIS Build Cost (£/sq. m)*
Residential C3	Build Costs Mixed Developments - generally (£/sq. m)	£1,219
	Build Costs Estate Housing - generally (£/sq. m)	£1,192
	Build Costs 'One-off' Detached Housing (3 units or less)	£1,757
	Build Costs Flats - generally (£/sq. m)	£1,387
	Build Costs Flats - 3-5 Storey (£/sq. m)	£1,375
	Build Costs (Sheltered Housing - Generally) (£/sq.m)	£1,483
A1 Large Retail	Retail Warehousing / Foodstore	£838
Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	£1,104
Small Retail	Local convenience stores and local shops*	£1,104
Business - Offices - Town Centre	Office Building	£1,857
Business - Offices - Outside Town Centre	Office Building	£1,754
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	£1,368
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	£1,021
Hotel (budget)	Hotel - town centre / edge of town (60 Beds)**	£2,042
C2 - Residential Institution	40-bed Nursing home / care home	£1,685
Student Accommodation	100% Cluster type Accommodation with en-suite (150 rooms)	£1,951

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

2.7.2 Unless stated, the above build cost levels do not include for external works / site costs, contingencies or professional fees (added separately). An allowance for plot and site works has been allowed for on a variable basis within the appraisal depending on the scheme type (typically between 5% and 20% of base build cost). These are based on a range of information sources and cost models and generally pitched at a level above

<sup>15</sup> RICS BCIS Report for The Federation of Small Businesses – Housing development: the economies of small sites - the effect of project size on the cost of housing construction (August 2015)

standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

- 2.7.3 For this broad test of viability, it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.
- 2.7.4 In all cases further allowances have been added to the total build cost in respect of meeting optional technical housing standards as discussed earlier in this chapter.
- 2.7.5 An allowance of 5% of build cost has also been added in all cases, to cover contingencies (i.e. unforeseen variations in build costs compared with appraisal or initial stage estimates). This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.
- 2.7.6 The interaction of costs and values levels will need to be considered again at future reviews of CIL and the Local Plan. In this context it is important to bear in mind that the base build cost levels may vary over time.
- 2.7.7 At the time of reporting the latest available BCIS briefing (September 2018) stated on build cost trends:



- *Over the next five years (to 2Q 2023) tender prices are expected to rise 22%. They are forecast to rise just under 2% in the first year and between 4% and 5% in the next two years, before rising to around 6% in the last two years.*
- *Building costs are forecast to rise by 20% over the forecast period, by 4% over the first year of the forecast period, by 3% over the following year, then rising by 4% in the year to 2nd quarter 2021, 5% in the year to 2nd quarter 2022, and 4% in the final year of the forecast period.*
- *Over the forecast period, construction materials prices are expected to rise by between 3% and 4% per annum.*
- *Average wage awards are expected to be agreed at around 3% over the first two years, and then 5% per annum over the final three years of the forecast period.*
- *The lack of clarity over the Brexit negotiations continues to cause great uncertainty in both the construction industry and the wider economy. This uncertainty is expected to affect the private commercial sector in particular, as has been seen in the retail sub-sector by several high street names either reducing their portfolio significantly or disappearing completely. New office construction is also expected to suffer from the uncertainty.*
- *Output in the private commercial sector is already falling, and is expected to continue to fall over the next two years. However, increases in other sectors mean that total new work output will fall by just 1% in 2018. Over the following year, new work output is expected to recover modestly, with stronger growth in 2020. New work output is forecast to grow more sharply in 2021 and 2022. Over the five years 2018 to 2022, new work output is expected to rise nearly 12%*

#### *Scenarios*

- *There is still a great deal of uncertainty over the terms that will be agreed when the UK leaves the European Union.*
- *While almost any outcome is still possible, we will continue to produce forecasts based on three scenarios; these reflect the different outcomes from the exit negotiations from the EU and are equally likely. The uncertainty of the results of the Brexit negotiations will undoubtedly lead to BCIS revising its assumptions again as more is known.*

- *In all scenarios, it is assumed that there will be no change of UK government over the forecast period, and that there is political stability in the rest of the world. A gradual rise in interest rates puts pressure on consumer spending. The scenarios are outlined in Appendix A.*
- *Although a 'no deal' is currently being discussed as an option, this may encompass a raft of specific deals and has therefore increased the range of possible outcomes. A specific forecast for this option has not been carried out. However, the likelihood is that a 'no deal' would tend towards our Downside scenario<sup>16</sup>.*

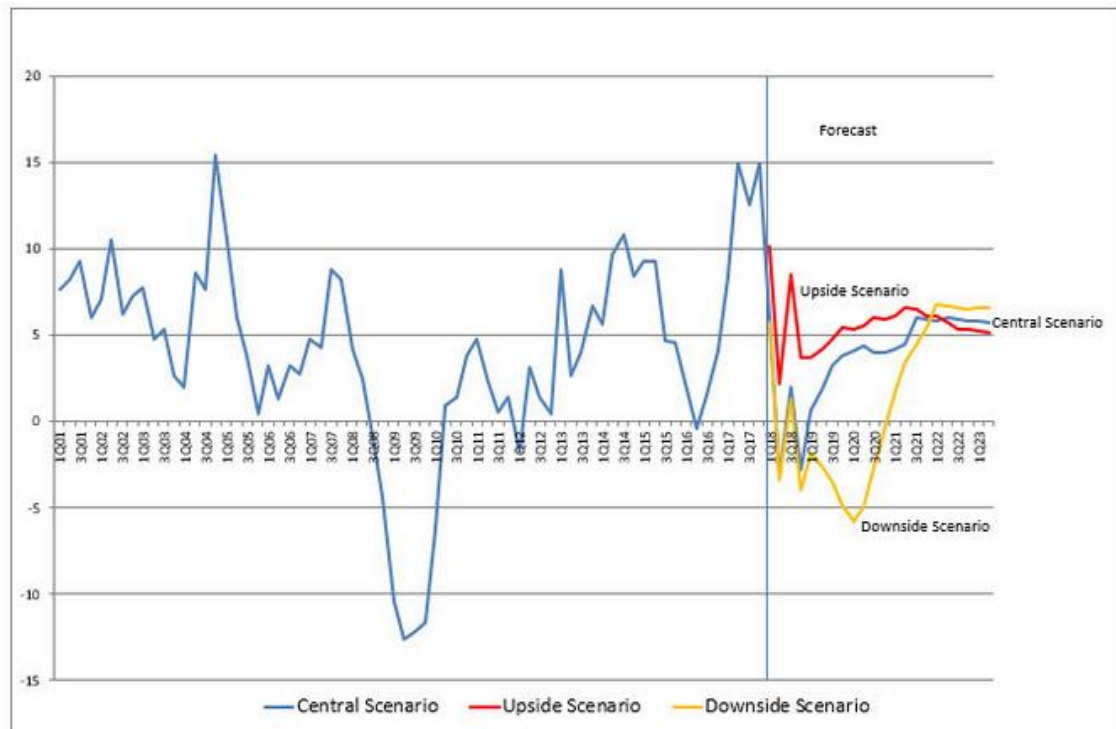
### BCIS All-in TPI – Annual Percentage Change

Summary of scenarios

	Percentage change				
	2Q18 to 2Q19	2Q19 to 2Q20	2Q20 to 2Q21	2Q21 to 2Q22	2Q22 to 2Q23
'Central' scenario					
TPI	+1.9	+4.4	+4.5	+6.0	+5.7
GBCI	+3.5	+3.3	+3.5	+4.7	+4.2
New work output*	-0.5	+0.8	+2.1	+4.4	+4.5
'Upside' scenario					
TPI	+4.2	+5.5	+6.6	+5.7	+5.1
GBCI	+3.4	+3.1	+3.2	+3.7	+3.3
New work output*	+1.4	+6.7	+6.5	+5.5	+5.3
'Downside' scenario					
TPI	-2.6	-4.9	+3.4	+6.7	+6.6
GBCI	+3.8	+4.7	+5.1	+5.1	+5.1
New work output*	-2.8	-9.0	-4.0	+8.3	+8.5

\*Year on year (2Q18 to 2Q19 = 2017 to 2018), constant prices 2016

<sup>16</sup> BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (September 2018)



Source: BCIS

2.7.8 Therefore, at the point of reporting we cannot be sure how the European scenario or other external influences will play out either short or longer term on the economics potentially affecting development viability. It is still too early to tell. The influences on the property market from a values and rates of sales, point of view seems likely to be at least as great as that on construction and build costs. At the current time, in general, the overall reasonably positive housing market conditions were seen to continue through into the early part of 2018 albeit seemingly now, based on very latest indications, with flattening prices or reduced growth; and in some instances, with lower prices meaning a relatively neutral picture on house price movement at present.

**2.8 Key Policy Areas for Testing - Summary**

Energy & Water

2.8.1 As a result of the Housing Standards Review, local authorities will need to ensure that any specific policy in regard of water consumption is set at no more than 110 litres/person/day. As part of the Council’s Specialist Housing Needs Analysis, the availability of water supply was reviewed. This showed that there is a high level of water resource available in the Portsmouth Water area. As such, it was concluded that

it would not be reasonable to introduce / impose the water efficiency standard. Therefore, no additional cost allowance has been made in this assessment.

- 2.8.2 This study also assumes that the Sustainable Design / Construction Standards are based on meeting the requirements of the building regulations in terms of energy use due to the Government's withdrawal of the Code for Sustainable Homes. There has been a significant amount of confusion created by the WMS, the Deregulation Act 2015 and the potential changes to the Planning and Energy Act 2008.
- 2.8.3 Our understanding has been that until the adoption of the new NPPF that although local planning authorities could set energy efficiency targets that were higher than the building regulations current at the time, those could not exceed the equivalent of Code Level 4 of the previous Code for Sustainable Homes standards. As noted by others<sup>17</sup>: *'The Secretary of State can amend section 1 of the 2008 Act by bringing into force the provisions in the Deregulation Act 2015. These would remove the right for local authorities to add energy efficiency policies to their local plans which exceed the requirements of Building Regulations in relation to dwellings...It is noticeable that over the course of the last three years no government has brought into force the amendments to the 2008 Act which would have stopped local authorities from adopting energy efficiency standards above the requirements of Building Regulations.'*
- 2.8.4 Accompanying the publication of the NPPF 2018, was the Government's response to the NPPF consultation exercise. In response to concerns from local planning authorities, the Government stated: *'To clarify, the Framework does not prevent local authorities from using their existing powers under the Planning and Energy Act 2008 or other legislation where applicable to set higher ambition. In particular, local authorities are not restricted in their ability to require energy efficiency standards above Building Regulations. The Government remains committed to delivering the clean growth mission to halve the energy usage of new buildings by 2030.'*
- 2.8.5 This in itself does not contradict the general view above that LPAs have the ability to set higher targets than Building Regulations but equally also does not state that LPAs can go beyond the equivalent of the former CfSH Level standards.

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<sup>17</sup> <https://www.burges-salmon.com/news-and-insight/legal-updates/can-local-authorities-adopt-energy-efficiency-standards-that-exceed-building-regulations/>

- 2.8.6 For the purposes of this study we have based all modelling on a baseline that assumes increased energy efficient over Building Regulations up to an equivalent of former CfSH Level 4. Appendix I provides the detail but data taken from the DCLG Housing Standards Review Impact Assessment (average £ per unit extra-over (E/O) cost) for meeting the energy requirements for former CfSH Level 4 equivalent has been used as a proxy (assumption at 1.5% over base build costs).
- 2.8.7 In addition, sensitivity testing has been undertaken that increases the allowance for carbon reduction costs to 6% of base build costs to reflect zero carbon development (re: regulated emissions). This is based on emerging work which is looking at the potential cost of low carbon policies - provided within a forthcoming report by commissioned by another Local Authority and not yet published.

#### Affordable Housing

- 2.8.8 The Council's adopted Core Strategy sets out the following affordable housing policies (policy CS9: Housing):

*Deliver on average 30-40% affordable housing on sites of 15 dwellings (gross) or more and secure a suitable contribution, or on-site provision, equivalent to on average 30-40% on smaller housing developments between 5 and 14 dwellings (gross), unless a lesser requirement has been transparently justified on viability grounds.*

- 2.8.9 As noted above, the NPPF (2018) introduces a requirement such that the '*Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer)*'.
- 2.8.10 On this basis the Council would not be able to set a policy requiring affordable housing on sites of 10 dwellings or fewer except potentially in the case of that part of the borough within the Chichester Harbour AONB where in this area the Council may set a lower affordable housing threshold.
- 2.8.11 In carrying out this viability assessment, as requested by HBC, we have undertaken a review of affordable housing policy across a range of thresholds in order to inform the Council's decision-making process from a viability perspective only. The Council would need to consider the evidence required in order to include a sub-10 unit affordable

housing threshold, subject to viability constraints both generally and in relation to the AONB. More detail on the affordable housing assumptions is provided below and at Appendix I.

Nationally Described Space Standard

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

2.8.13 The national space standards have been included in the modelling for this viability assessment as a standard assumption. See Appendix I for detail.

Access to and use of Buildings

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

2.8.15 The 2015 edition of Approved Document M – Access to and use of buildings: Volume 1 – Dwellings introduces three categories of dwellings

Category 1	Visitable dwellings	M4(1)	This is mandatory for all new dwellings and is not optional. This means that reasonable provision should be made for people to gain access to and use the dwelling and its facilities. This should include most people, including wheelchair users.
Category 2	Accessible and adaptable dwellings	M4(2)	This optional standard is broadly equivalent to Lifetime Homes standards. This requires that provision is made within new dwellings to meet the needs of occupants with differing needs including some older and disabled people and <i>allow for the adaptation of the dwelling</i> to meet changing needs of occupants over time. This means that features are provided to enable common adaptations to be carried out in the future to increase the accessibility and functionality of the building.



Category 3	Wheelchair user dwellings	M4(3)	An optional standard with two sub-categories: M4(3)(2)(a): wheelchair adaptable: a dwelling constructed with the potential to be adapted for occupation by a wheelchair user e.g. providing space for the future installation of a lift; or
			M4(3)(2)(b): wheelchair accessible: a dwelling constructed to be suitable for immediate occupation by a wheelchair user e.g. by installing a lift.

2.8.16 Again, as with residential space standards, there needs to be evidence for both need and viability. We understand that the Council is considering the implementation of a policy to require proportions of dwellings to meet Category 2 M4(2) and M4(3). As part of the viability testing process, the Council has therefore requested that sensitivity testing be carried out to look at the likely viability impact of including policies on the access to and use of buildings, the proportion(s) that could be requested and the threshold at which the policy could take effect (trigger level). We set out below the likely additional costs for including policies that meet the optional Category 2 and/or 3 requirements of Part M4 of the Building Regulations and those have been used in our sensitivity testing. It should be noted that enhanced requirements (where implemented) are independent of each other so that a dwelling may be provided to meet either standard.

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

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

- 2.8.19 Within this viability assessment, sensitivity tests were carried out on the assumption that 10% - 100% of new dwellings meet Part M4(2) standards and 2% - 20% meet Part M4(3) standards. This was undertaken noting that Part M4(2) and Part M4(3) would not be required on the same individual unit; in respect of individual dwellings the standards are on an “either or” basis.
- 2.8.20 Following our draft stage assessment and review, Local Plan Policy E7 has been reflected in our latest appraisals and results (January 2019 reporting) as a universal base assumption. At 10+ dwellings this allows for 30% dwellings (being either affordable/market or a mix) to M4(2) standards together with (but only at 50+ dwellings) 2% new homes to provided to M4(3).
- 2.8.21 The Council’s supporting text to policy on this also refers to an aspiration to provide a higher level of homes to M4(2) – to 50% - where possible. We understand this is based on currently emerging evidence of a higher level of need than the 30% noted within the Council’s October 2017 ‘Specialist Housing Analysis’ Paper. Accordingly, and at this stage for wider information for HBC only, some additional re-tests have been carried out to provide sample results reflecting the cumulative policy and development costs when viewed with the following assumptions in place of the base 30% M4(2) plus 2% M4(3) EL policy position at 50 dwellings:
- 98% M4(2) plus 2% M4(3);
  - 80% M4(2) plus 5% M4(3).

#### Affordable Home Ownership, Custom & Self-Build

- 2.8.22 The Housing and Planning Act 2016 introduced a requirement for Local Planning Authorities in England to promote the supply of Starter Homes. The exact proportion is not set out in the Act, but previous consultation suggested that it would be in the region of 20% of new homes on all new developments (with certain exceptions). The publication of the revised NPPF indicates a change of position leading to a requirement for 10% of new homes to be provided as ‘affordable home ownership’ products. It states:

*‘Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership [as part of the overall affordable housing contribution from the site], unless this would exceed the level of affordable housing required in the area,*

*or significantly prejudice the ability to meet the identified affordable housing needs of specific groups'*

2.8.23 At this stage the HBC is of the opinion that the affordable housing target should be based on a Strategic Housing Market Assessment or other relevant/updated needs based assessment that provides suitable local evidence informing AH tenure priorities and requirements. This is on the basis that a starting point of delivering 10% of schemes for affordable home ownership in accordance with the latest high-level national position (NPPF 2018 para 64) could well prejudice the Council's ability to respond to meeting identified local needs as a priority. Our understanding at this early stage of its introduction is that NPPF para 64 also acknowledges the scope to consider specific local needs. In this case HBC are of the opinion that the Local Plan will maximise shared ownership provision as part of the intermediate element (34%).

2.8.24 Again of course, as with other aspects of potentially variable detail, this may need to be reviewed through the individual UAs' Local Plan processes and any associated viability work.

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

#### Electric Vehicle Charging Infrastructure

2.8.26 The Council's policy requires that electrical vehicle charging infrastructure is provided for each new residential unit with private off-street parking. For the purposes of this study an allowance of £500 per unit has been made for all dwellings.

#### Solent Special Protection Areas

2.8.27 All new residential development resulting in a net increase in population will be required contribute towards the Solent Recreation Mitigation Strategy. A sliding scale of charges is required dependent on size of dwelling and number of persons. However, for the purposes of this study we have assumed an average figure of £564 per unit as provided by HBC.

### Brent Goose and wader feeding and roosting sites

- 2.8.28 The Council has identified certain sites as Primary Support Areas and will be required to provide a refuge area for migrating birds either on-site or extremely close to the site. Within Secondary Support Areas and, to a lesser extent, low use sites, the policy requires a replacement refuge provided on a “like for like” basis or within the locality of the site and/or a suitably scaled financial contribution towards the management of permanent refuge sites for Brent Geese and waders.
- 2.8.29 The policy is very specific to certain areas and as such has not been included in the testing undertaken for this study as the details and specific requirements are not known at this stage.
- 2.8.30 The site specific nature of the policy means that the Council may have to look at the implications for viability on a specific case by case basis in this regard.

## **2.9 Development Costs – Fees, Finance & Profit**

- 2.9.1 The following costs have been assumed for the purposes of this study alongside those noted within this section and vary slightly depending on the scale and type of development. Other key development cost allowances for residential scenarios are as follows - for the purposes of this assessment only (Note: Appendix I also provides a summary):

Professional fees: *Total of 10% of build cost*

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

Finance: *6.5% p.a. interest rate (assumes scheme is debt funded)*

Marketing costs: *1.0% - 6.0% sales fees*  
*£750 per unit legal fees*

Developer Profit: *Open Market Housing – 20% GDV\**

*Affordable Housing – 6% of GDV (affordable housing revenue).*

*\*We note that in practice the development profit requirement or assumption included within site-specific viability assessments presented to DSP for review varies greatly, but generally seen within the range 15% to 20% GDV; a range also recognised in the PPG Viability section. 20% GDV as used here is a prudent assumption for the purpose, generally in our experience allowing an element of “buffering” in many cases.*

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

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

BREEAM: 5% of build cost

Professional and other fees: 10% of build cost

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

Finance: 6.5% p.a. interest rate (assumes scheme is debt funded)  
Arrangement fee variable – 1-2% loan cost

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

Developer Profit (strategic assessment): 20% of GDV

## 2.11 Build Period

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

## 2.12 Community Infrastructure Levy & Other Planning Obligations

2.12.1 Current guidance states the following with regard to CIL: *'At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions'*<sup>18</sup>. The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance<sup>13</sup> states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

2.12.2 The Council already operates a CIL and a great majority of existing Planning Obligation requirements are taken up within the CIL charging scope, but nevertheless sites are still required to contribute to site-specific mitigation measures (for example relating to open space / highways / transport and similar requirements). The appraisals therefore include a notional sum of £3,000 per dwelling (for all dwellings – including affordable - and all schemes) on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements – effectively as an additional contingency in respect of any residual s.106 requirements, acting

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<sup>18</sup> DCLG – Community Infrastructure Levy Guidance (February 2014)



alongside the CIL payments in terms of the collective development costs to be considered. HBC has made DSP aware of additional relatively minor costs areas that have not resulted in explicit cost assumptions within the appraisals. These include aspects such as contributions towards the provision of Community Officers and Skills and Employment Plans. The £3,000 s.106 contingency allowed for throughout the main typology appraisals is considered more than sufficient to allow for such elements together with any other matters that may fall outside the scope of the current or a reviewed CIL. Currently it is not known exactly how such elements may be treated or collected but ultimately this is a matter of making generally sufficient costs allowances overall, which this approach ensures. It is also worth noting that at the point of carrying out the bulk of the work related to CIL within this study, the Regulation 123 list had not been reviewed in detail by the Council, pending further work on the Local Plan and any further consultation on CIL.

2.12.3 The additional strategic and large site appraisals review provides results derived from our appraisals that have been run to include an estimate of costs of known infrastructure and s106 requirements, with the outcome in each case then showing the resultant surplus / deficit. Those therefore provide a current stage indication of the sums potentially available to support any further additional infrastructure (e.g. through s.106 obligations) and/or other currently unidentified costs after other usual development costs are allowed for.

### **2.13 Strategic / Large Sites**

2.13.1 As part of further building its evidence base, the Council also asked DSP to consider the potential viability, at a high level at this stage, of the potential strategic site at Southleigh and in respect of a larger-scale typology of 560 dwellings.

2.13.2 Details of this site and scenario assumptions are also set out in Appendix I.

2.13.3 Specific assumptions were made relating to each of these on aspects such as average value levels and site specific mitigation through s106 (where such information was available at the time of carrying out this study).

2.13.4 It needs to be made clear that although more specific appraisals have been carried out for these sites, and particularly for Southleigh, in reality the length of time over which development is planned means that the results can only provide a high-level

assessment of the potential viability. The information set out in Appendix I provides a summary of our assumptions for each based on a mixture of reviewing previous work undertaken on behalf of the Council, site promotion material, consultation responses and our own experience. Some initial costings only were available for Southleigh, and therefore all costs are purely estimates at this early stage. As noted above, the 560 units scenario is a typology test.

2.13.5 The results of the appraisals are shown in Appendix IIb alongside summaries of the development appraisals. These show the potential residual surplus (or deficit) after allowing for typical build costs, external and site works, fees, finance, development profit, costs of sale and land purchase.

2.13.6 As a starting point, the land purchase cost included has been assumed at between £100,000 - £250,000/Ha applied to the gross (total) assumed site area. As in other cases, the land value assumption here does not indicate or guide on a price to be paid or accepted; it is simply used to begin further exploring the viability parameters. Indeed, in the case of “bulk” purchase of agricultural land, as will be the case across some of the sites, lower land values on the EUV+ basis could well be a valid consideration, and would have the effect of increasing the outcomes (indicative surpluses) compared with those at £250,000/Ha for example. Further information on the approach to the land value assumptions is provided below.

2.13.7 Appendix I and the Argus Developer appraisal summary prints included in Appendix IIb provide further information.

## **2.14 Indicative land value comparisons and related discussion**

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

2.14.2 As discussed previously, in order to consider the likely viability of any development scheme relevant to the emerging Local Plan and its policies, the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be somehow

measured against a comparative level of land value. This is a key part of the context for reviewing the strength of the results as those change across the range of assumptions on sales values (GDVs) and crucially including the effect of affordable housing policy targets (%s).

- 2.14.3 This comparison process is, as with much of strategic level viability assessment, not an exact science. It involves judgements and the well-established acknowledgements that, as with other appraisal aspects, values associated with land will, in practice, vary from scheme to scheme.
- 2.14.4 The levels of land values selected for this comparison context are often known as ‘benchmark’ land values (BLVs). They are not fixed in terms of creating definite cut-offs or steps in viability but, in our experience, they serve well by adding a filter to the results to enable the review of those. They help to highlight the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change, with the key relevant assumptions (variables) in this case being the GDV level (value level – VL) and affordable housing proportion (%).
- 2.14.5 Our practice is to compare the wide scope of appraisal residual land value results with a range of potential benchmark land values based on the principles of ‘existing use value plus’ (EUV+). This allows us to consider a wide range of potential scenarios and outcomes, and the viability trends across those. The coloured shading within the Appendix II results tables is a graded effect intended only to show the general transition of results through the range clearly viable (most positive – green coloured) to likely non-viable (least positive, RLVs showing a deficit against the BLVs – red coloured). For each set of results a surplus / deficit has also been calculated; set against the range of benchmark land values assessed with a similar graded colour scale employed purely to illustrate the *relative* strength of results.
- 2.14.6 The Local Plan strategy for growth indicates a likely overall supply role for a range of sites spread proportionally across the borough, in broad terms. The strategy is therefore likely to concentrate on a mixture of town centre previously developed sites (PDL) and greenfield sites in the countryside / at edge of settlement locations.
- 2.14.7 Viewing the scale of the difference between the RLV and EUV (i.e. surplus after all costs (including policy costs), profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to judge the

potential scope across the various development circumstances to meet other policy costs / requirements. It follows that, in the event of little or no surplus or a negative outcome (deficit), we can see a poor viability relationship, and vice versa.

2.14.8 The land value comparison levels are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. In our experience, sites will obviously come forward based on very site-specific circumstances, including in some cases beneath the levels assumed for this purpose.

2.14.9 As discussed above, the recently updated PPG on Viability is very clear that BLVs should be based on the principle of existing use value plus a premium to incentivise the release of a site for development (EUV+).

2.14.10 The PPG states the following:

*‘To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called ‘existing use value plus’ (EUV+)...*

*Benchmark land value should:*

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that*

*historic benchmark land values of non-policy compliant developments are not used to inflate values over time.*

*In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.*

*Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield. Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence...*

*The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements.*

*Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. For any viability assessment data sources to inform the establishment the landowner premium should include market evidence and can include benchmark land values from other viability assessments. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of*

*local landowners. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).'*

- 2.14.11 In order to inform the BLVs for use here, we have reviewed existing evidence, previous viability studies, site-specific viability assessments and in particular have had regard to published Government sources on land values for policy application<sup>19</sup>.
- 2.14.12 The Government data provides industrial, office, residential and agricultural land value estimates for the local sub-region including Havant; but not all areas are covered. Where there are no direct land value indications, we have made use of our own experience in order to inform a 'best fit' EUV from the available data. This data is shown in Appendix III and in the footnotes to the results tables. The residential land value estimates in particular require adjustment for the purposes of strategic viability testing due to the fact that a different assumptions basis is used in our study compared to the truncated valuation model used for the residential land value estimate. This (and other) viability assessments, assume all development costs are accounted for as inputs to the RLV appraisal, rather than those being reflected within a much higher, "serviced" i.e. "ready to develop" level of land value.
- 2.14.13 The MHCLG truncated valuation model provides a much higher level of land value as it assumes all land and planning related costs are discharged, assumes that there is a nil affordable housing requirement (whereas in practice the Affordable Housing requirement can impact land value by around 50% on a 0.5 ha site with 35% AH) with no CIL or other planning obligations allowance. That level of land value would also assume that full planning consent is in place, whereas the risk associated with obtaining planning consent can equate to as much as a 75% deduction when adjusting a consented site value to an unconsented land value starting point. Lower quartile build costs and a 17% developer's profit (compared to the assumed median build costs and 20% developer's profit used in this study) are additional assumptions that lead to a view of land value well above that used for comparison (benchmark purposes) in viability assessments such as this. So, the assessment approach (as relates to all land values) assumes all deductions from the GDV are covered by the development costs assumptions applied within the appraisals. In our view this would lead to a significantly reduced residential land value benchmark when taking into account all of those factors.

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<sup>19</sup> MHCLG: Land value estimates for policy appraisal 2017 (May 2018 report issue)  
Havant Borough Council – Local Plan & CIL Viability Study – Final Report



- 2.14.14 Previous viability studies have used a range of figures based either on an uplift to current use value or general values per hectare (or acre). Previous viability work undertaken by BNP Paribas for CIL and the Local Plan suggested a minimum of £500,000 per hectare for vacant serviced land through to £1.5m/ha for residential land.
- 2.14.15 The Council's Strategic Development Areas Financial Feasibility Study<sup>20</sup> suggests minimum land values for bulk greenfield land in the region of £250,000 per hectare.
- 2.14.16 The figure that we consider representing the minimum land value likely to incentivise release for development under any circumstances in the Havant context is around £100,000/ha, based on gross site area. In our experience of dealing with site specific viability, prior to the new guidance on viability in the PPG, greenfield land values have tended to be expected or assumed at indicative minimum option to purchase price agreement levels, or similar. These have been typically quoted at around £100,000 and not exceeding £150,000 per gross acre (i.e. approx. £250,000 to maximum £370,000 per gross hectare). Depending on scale and circumstances, land values at up to those levels could be relevant to development on greenfield land (such as agricultural land or in cases of enhancement to amenity land value). We have "filtered" our results against greenfield based BLVs at £100,000 and £250,000 per gross hectare (£/ha) for the Council's information.
- 2.14.17 For the purposes of prudent assessment for the HBLP, but not stating/guiding or confirming any specifics, we are of the view that the Council should focus on the current stage appraisal outcomes and assume potential viability at £250,000/ha rather than a lower figure at this stage. This would be applicable to the consideration of viability, at this level, on large/strategic scale greenfield based development. We reiterate that this is not to be interpreted as a fixed level in practice because, as acknowledged here, a lower level of land value could be appropriate. Particular circumstances will need to be considered in due course. For these reasons, it is appropriate to also consider the effect of varied land value (BLV) assumptions – including at a potential lower level on greenfield development.

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<sup>20</sup> Gerald Eve (July 2016)

- 2.14.18 The assumptions represent enhancement (sale incentive uplift) to greenfield land values (with agricultural land reported by the VOA and a range of other sources to be valued at circa £20,000 - £25,000/ha in existing use). This is not to say that existing land value expectations in such scenarios would not go beyond these levels either – they could well do in a range of circumstances.
- 2.14.19 The EUV+ BLVs considered within the study therefore range overall between £100,000/ha (lowest level considered, for bulk greenfield land including a significant uplift from existing agricultural values, as above) to approximately £1.5/ha for commercial land. A further filter has been included to cover land in existing residential use up to £2.217m/ha. The appendices to this report set out the specific BLVs used in considering the strength of the RLV £/Ha results for each test scenario.
- 2.14.20 Once again, it is important to note that all RLV results indicate the receipts available to landowners after allowing, within the appraisals, for all development costs. This is to ensure no potential overlapping / double counting of development costs that might flow from assuming land values at levels associated with serviced / ready for development land with planning permission, etc. The RLVs and the indicative comparison levels (BLVs or ‘viability tests’) represent a “raw material” view of land value, with all development costs falling to the prospective developer (usually the site purchaser).
- 2.14.21 Matters such as realistic site selection for the particular proposals, allied to realistic land owner expectations on site value, will continue to be vitally important. Even moving away from a ‘market value’ led approach, site value needs to be proportionate to realistic development scope and site constraints, ensuring that the available headroom for supporting necessary planning obligations (securing AH and other provision) is not overly squeezed beneath the levels that should be achieved.

## 3 Findings and Recommendations

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### 3.1 General context for results review

- 3.1.1 The findings considered here relate to the appraisal RLV results tables at Appendix IIa (Tables 1a to 1o(i)) in respect of the residential typologies test scenarios (6 to 350 dwellings), Appendix IIb (Table 2a (Strategic site – Southleigh); Table 2b (larger site typology – 560 dwellings)) and Appendix IIc (Tables 3a to 3f) for the equivalent commercial development tests. A guide to the content of those tables will be provided below.
- 3.1.2 As noted above, HBC is currently firming-up on the policies in the Local Plan and considering also whether there is scope to or a need to review its current CIL charging rates.
- 3.1.3 First, we consider residential development, which is the main assessment focus. This is because, firstly, the policy positions selected by a local planning authority (HBC in this case) create a considerable influence on the viability of development (most significantly in relation to affordable housing), especially alongside a fixed (non-negotiable) level of CIL charging. The same cannot be said of a Council's sphere of influence over the viability of commercial / non-residential development; that is much more limited.
- 3.1.4 Secondly, invariably the scale of residential development (quantum of new accommodation) is such that the source of CIL income is largely weighted towards residential. This context is typical – not unique to HBC.
- 3.1.5 Nevertheless, after considering the residential findings and potential implications / recommendations, we will go on to consider the likely variable viability of commercial development in Havant Borough – more on that follows (primarily in respect of our review of the potential CIL charging scope, based on viability).
- 3.1.6 Affordable housing, being a key factor influencing development viability over which the Council has a significant level of direct control, is therefore the main focus for the reporting in this section. How the Council selects and operates its affordable housing policies will be a major factor in ensuring sufficient viability to deliver a wide range of developments to underpin the Local Plan.

- 3.1.7 For these reasons the assessment will need to suggest any adjustments and policy positions that the Council should consider at this stage in our view, related to viability. However, this may in some cases continue to be about considering options – potential alternatives – which will be noted where applicable. Furthermore, the Council need not follow these report findings exactly because, overall, this is about considering the evidence collectively and setting out policies that will respond to an appropriate balance between the needs and viability.
- 3.1.8 The wide range of sensitivity testing on the optional enhanced M4(2) and (3) accessibility standards is no longer included at this stage. However, these final appraisal iterations include additional tests with 98% M4(2) plus 2% M4(3) and 80% M4(2) plus 5% M4(3) given the context noted at 2.8.20 – 2.8.21 above (results at Appendix IIa Table 1m).
- 3.1.9 Also included is sensitivity testing of an improvement over building regulations carbon emissions levels by 19% (results Table 1l within Appendix IIa – 50 dwellings with 6% added build cost representative of that).
- 3.1.10 Tables 1k and 1k(i) include the base set of results for the 50 mixed dwellings text scenario for comparison with both of these additional sensitivity test sets.
- 3.1.11 Continuing the approach from the draft assessment stage, generally, from the information provided a view may be taken about the likely impact of various policy / costs combinations.
- 3.1.12 In keeping with this approach, building from our emerging findings and then draft stage work discussed with the Council officers alongside the HBC further available evidence during the Autumn of 2018, the viability testing has continued to include affordable housing explored as relevant by typology and HBC proposed policy over the range 0%, 20%, 30% and 40% across a full range of scenarios of 6 or more dwellings, with (as noted above) the testing now expanded at HBC's request to include a larger typology assumed at 560 dwellings (representing larger scale greenfield development) and a more specific appraisal exercise looking at the single proposed Strategic site i.e. Southleigh (KS5). The earlier stages settling and review of assumptions and results showed the relevance in the local circumstances of exploring across this range of AH proportions, but not above it. The latest work has confirmed the relevance of this in the borough.

- 3.1.13 In considering all additional policies, and indeed the impact of the existing or potential CIL charging rate levels(s) it will be critical to view the varying outcomes allied to, and not independent from, the AH %s. The adding of too great a development costs burden alongside the Council's priority of securing affordable housing will inevitably increase the pressure on and ability to secure the intended AH delivery. The CIL takes a fixed, non-negotiable top-slice from the development revenue. If other policy related costs are applied too extensively and too rigidly, those will have the same effect. This continues the previous messages.
- 3.1.14 The re-testing of the viability scope available to support affordable housing requirements is a key element of such an assessment, given the impact that these requirements always have on development finances; a consistent finding from our work across a large number of studies. The findings are therefore discussed with a view to policy adjustments being made where necessary, in comparison with the existing and / or any previously or currently proposed positions. Continued to be run and used in this way, the assessment further informs and supports the Local Plan policy development.
- 3.1.15 In each case, the affordable housing included for the re-testing is assumed on the basis of the current understanding of its tenure and mix – i.e. affordable rented (at 70% of the re-tested AH content in all cases) and intermediate affordable housing; the latter assumed in the form of shared ownership (making up 30% of the appraisal AH content). The new NPPF now confirm the 10% 'affordable home ownership' content within developments, in place of the previously considered 20% 'starter homes' element, but the details around exactly what this might comprise in practice appear to be left to a local level at this stage although remain uncertain at the point of our final reporting. This may need to be considered further as the Council moves forward with its further development of housing enabling activities. For the purposes of this study, we have continued to assume that shared ownership is a form of affordable home ownership.
- 3.1.16 Given, as noted above, the national policy (NPPF 2018) position on the 10+ dwellings threshold for affordable housing, our focus on the residential results review is on the schemes above rather than below that; i.e. a likely HBC policy threshold now at 10 dwellings (in place of 11). The inclusion of the appraisals of scenarios of 6 dwellings illustrates the impact of the CIL alongside other development costs, bearing in mind

also that for this assessment purpose only those smaller schemes carry higher assumed build costs on a £/sq. m basis.

3.1.17 In the HBC context, while there is land within the Chichester Harbour AONB, in fact that is highly sensitive and marginal from the point of view of any meaningful level of new development; and so has not been a focus for considering AH or other viability impacts and positive policy responses. This designation is not intended to influence the HBC proposed NPPF compliant 10+ dwellings AH policy threshold at this stage. Under the current CIL regulations, however, it could be possible to differentiate for such smaller schemes not carrying an AH requirement, and we consider this below.

3.1.18 In all cases a range of CIL “trial” rates has continued to be applied across all tests – indicating the impact of CIL – across a test range £0/sq. m to £200/sq. m - combined with the other variables that have remained under review.

## **3.2 A guide to using the Appendix IIa Results Tables**

3.2.1 For each typology (6 to 350 dwellings) with results shown at Appendix IIa, there are 2 RLV results tables. The first of these, numbered tables 1a to 1m, set out the appraisal results by increasing development size (number of dwellings within each assumed scenario) – as per 2.2.4 (Figure 2) above and Appendix I. By scenario, and depending on relevance of the HBC policy proposals by scheme size, the results relate to the tests carried out with 0%, 20%, 30% and 40% affordable housing – shown moving down each table set from top to bottom.

3.2.2 Each table cell of these first Appendix IIa tables contains in the white (un-coloured/non-shaded) left-side sections an RLV result (in £s). In the corresponding lower table areas (including the green coloured cells) the same RLV is then expressed in £/Ha terms, based on the indicative density and approximate land-take assumptions used. Each £ figure is an appraisal result expressed in these ways.

3.2.3 The results are displayed by assumed value level (VL) which rises from 1 (lowest) to 7 (highest), moving top to bottom within the tables - as used in each test shown. The impact of the varying strength of values available to support viability is clear to see at the range of AH %s tested – increasing VL supporting a higher £ RLV and £ RLV/ha as represented by the increasing boldness of the green shading (meaning an increasing range of BLVs (or ‘viability tests’) met.



- 3.2.4 Again, simply to highlight the results trends, an increasing AH% test is shown to have the opposite effect in all cases – with reducing boldness of green colouring showing the declining levels of the RLVs as the appraised AH context increases e.g. from 0% to 20% or 20% through 30% to 40%, again depending on relevance by scheme size. The 6 dwellings scenarios have been appraised only at 0% and 20% AH, with the 20% tests currently only representing a theoretical position including a likely maximum AH% level applicable in the (unlikely) event of HBC policy warranting layer beneath the 10 dwellings currently proposed threshold. So the test at 6 dwellings with 20% AH remains for wider HBC information only, to continue the approach of completeness – wide context for review.
- 3.2.5 As per 3.1.17 above, the range of applied trial CIL charging rates (tests) are shown moving from left to right within each Appendix IIa Table section Tables 1a to 1o). Following left to right each set (row) relating to a single VL and AH% test, the RLVs can be seen to reduce with an increasing CIL rate applied, as expected. The interaction of this effect with other matters needs to be considered, especially given the fixed (non-negotiable) nature of CIL charging once in place, as it is already in Havant Borough.
- 3.2.6 The second table sheet (tables 1a-o(i) for each scheme typology within Appendix IIa uses the same appraisals and results information to display a range of RLVs across VLs 4, 5 and 6 at an indicative £125/sq. m CIL (so, on an overview basis, a picture broadly representative of a significant amount of likely new build in the borough). These tables further show the relativities between those results and how they compare with the BLVs. So there we view a selection of the results in different ways, including through comparisons which show (at the right-hand side) the surpluses (or deficits) in £/ha when deducting the range of BLVs from an example RLV £/ha result. The multi-coloured table section on the right-hand end of those tables uses a graduated formatting effect simply to show the most viable results in green, reducing but still mainly positive results in the yellows and oranges; through to red shaded results which will often be negative i.e. showing a deficit against that particular BLV. This table colouring is not indicating any particular cut-offs or similar; it simply serves to help highlight the results trends again, similar to the purposes of the first tables (1a-o) for each typology.
- 3.2.7 We assume that further consideration of the CIL will need to be also informed by the Council's latest available information on infrastructure needs associated with the Local Plan, and the firmed up policies together with the site supply picture.

- 3.2.8 We noted the values picture seen in Chapter 2 – see section 2.4 above (Figure 5 and Appendix I for an overview). To recap, in general summary, from within the broader overall range found here, the data indicates a relatively narrow range of values seen across the areas that look likely to support a majority of new housing development. We consider at this stage, current assumptions, that those values are most closely represented by the central part of our VLs range – VL 3 to VL6 i.e. c. £3,250 to £4,000/sq. m or approximately £300 to £375/sq. ft. (rounded indications).
- 3.2.9 As is often the case, most areas and even some sites can support mixed values. This means that although typically lower in value, for example development in the towns of Waterlooville and Havant can see higher than the typical values indicated here.
- 3.2.10 Likewise, the VLs indicative of ‘HBC upper-end new build values’ are more typical in the usually higher value coastal areas and lower density private housing areas generally found towards the east of the borough (VL6 to 7 and sometimes beyond) but again variation will be seen in practice. Emsworth and Denvilles are localities where typically higher but also variable values will be seen, and the Hayling Island and Langstone area appears to be a particular example of a locality capable of supporting variable values moving ahead, depending on site and scheme specifics.
- 3.2.11 In considering its review of the HBC CIL especially, a key factor for the Council will be the role that the various areas are expected to play, moving ahead, in accommodating development. Consistent with supporting the growth associated with an up to date Local Plan, and not related to any other existing deficits in infrastructure provision, an updated CIL will again be a high-level borough-wide response and contributor. It is not possible for CIL to reflect and respond to all levels of local variation in values in other matters. How it overlays with the planned site supply, even if that means some level of misfit in areas not supplying a significant level of development in the overall planned terms, is most important. The CIL principles are such that the charging schedule should ideally be as simple as possible, accepting that usually values and other characteristics do not actually respect any particular boundaries, in more than a general way. All sites are different, and varying values will even be seen within sites.
- 3.2.12 The residual land values (RLVs) produced by the current stage appraisals are “filtered” against a series of ‘viability tests’ shown in the Appendix IIa table footnotes i.e. benchmark land values (BLVs). So, the bolder the green colour within Tables 1a-o, the stronger the indicative outcome, as the appraisal RLVs reach or exceeds the level of

the higher viability tests. This indicates a scenario likely to be workable with increased frequency or greater confidence – i.e. across a wider range of site types and circumstances.

- 3.2.13 Land values of up to £250,000/ha (range represented by 2 BLVs at £100,000 and £250,000/ha are considered to represent greenfield (enhancement to agricultural or similar low exiting use value). As noted at 2.14.17 above, for greenfield based development, the land value level primarily assumed here, for this study purpose only, is the BLV at £250,000/ha (i.e. the higher of the 2 greenfield BLVs referred to).
- 3.2.14 A wider range up to £2,217,000/ha maximum the represents the most highly valued brownfield (previously developed land – PDL) at levels likely to be justified only in certain circumstances within this borough. At points within this range, our view is that and the BLVs at £1 - 5m/Ha, and particularly at £1-1.25m/ha, are likely to be key areas for many PDL sites, bearing in mind also that the HBC residential CIL rate CIL was informed on the basis of a land value assumption ranging from £500,000/Ha to a maximum at £1.5m/Ha, through intermediate levels at £900,000/Ha and with a core area for comparison at around £1.08m/Ha. The LP Viability Assessment work carried out for HBC in 2013 (also by BNP) used the same benchmarks as the 2011 CIL study. The use of our suggested range of Viability Tests (benchmark land values) is considered a reasonable approach following ongoing review and now as a refinement of the draft stage view, informed as above by the MHCLG 2018 publication. The approach is also consistent with DSP's established and supported approach to strategic level viability assessments.
- 3.2.15 In reviewing the outcomes, we also keep an eye on the £sum RLVs and not just the RLVs expressed in £/Ha terms. This can be especially relevant to smaller PDL and town centre / higher density sites, where meeting the same or similar £/Ha rates might not provide a realistic picture and, for example, the prospect of being able to buy an existing or former commercial use, or perhaps existing residential property, needs to also be kept in mind.
- 3.2.16 Whichever approach to reviewing the CIL is progressed in due course, HBC will need to continue to operate its overall approach to planning-led costs and obligations (e.g. s.106 and other policy requirements) in an adaptable way; reacting to and discussing particular site circumstances as needed (and supported by shared viability information for review where collective policy aims are under-pressure owing to abnormal costs or

similar). CIL charging will continue to be fixed, but will need to be viewed as part of a wider package of costs and obligations that will need to be balanced and workable across a range of circumstances.

- 3.2.17 Also included below (Figure 8) is a table showing indicatively how the residential CIL trial charging (test) rates in Havant Borough appear when expressed as percentages (%) of the range of sales values assumptions – the VLs now in use – i.e. CIL trial rates as % GDV. DSP has used this sort of guide as background information for a wide range of clients exploring CIL levels, and for examination purposes in due course this sort of information often provides useful context.
- 3.2.18 This additional information does not represent additional viability testing, but may be useful in purely secondary “health-check” type way, to help make sure that CIL charging rates are not set too high. DSP’s view over several years of CIL viability and rates setting experience has been that, as a guide, realistic CIL charging rates should not exceed a range say 3% to maximum of around 5% GDV equivalent (areas indicated by the green colouring within the Figure 8 table (see following page).
- 3.2.19 The Figure 8 table grid may assist for context and simple checking / gauging of the proposed charging rates selections by this secondary measure.

Figure 8 – Residential CIL rates – trial range as % GDV



respectively. These, appraised using differing assumptions (see Appendix I), take a different format and show in each case the results both at land values (i.e. using BLVs) of £100,000 and £250,000/ha and 30% and 40% AH tests.

3.2.22 The residuals shown in the right-hand table columns are expressed firstly as indicative £m (£million) site-wide totals and also then in terms of the indicative £/dwelling surplus outcome for the various scenarios. These sums indicate the amounts (likely maximums in each scenario) potentially available to fund s.106 and/or other matters not currently allowed for in the appraisals. The currently estimated infrastructure/planning obligations costs are accounted for based on HBC available information for the Southleigh Strategic Site proposal (Appendix IIb Table 2a). However the available information in support of the review of the 560 dwellings large greenfield site test scenario was more limited and hence that essentially is a larger site typology, extending upwards the typology testing from the 6 to 350 dwellings scenarios within Appendix IIa, but reported separately owing to the strategic site type assumptions basis and appraisal format used.

### **3.3 Commercial / non-residential development – review context, and a guide to the Appendix IIc tables**

3.3.1 Primarily for informing HBC's potential review of its CIL, as set out above (and see the Appendix I Commercial Assumptions Overview Sheet), appraisals of a typical range of commercial / non-residential scenarios for such an assessment have also been carried out and reviewed. The approach to this aspect is consistent with the typical scope required in our experience, and with assumptions informed by our research and experience, so as to be representative of local circumstances – again, based on a high-level overview approach rather than site-specific level detail.

3.3.2 For such schemes, this amounts to an equivalent approach to the review of viability for CIL setting purposes. As will be seen, using assumptions appropriate for the assessment purpose and ensuring no reliance on pushing to the margins of viability in order to support CIL charging, this proportional approach requires only a much smaller number of appraisals. These were developed as sets to the point where in each case viability was eroded. Once a very low, nil or negative outcome is reached it is not necessary to explore further. A view may be taken, therefore, on the extent to which the appraisal input assumptions would need to improve to support viability clearly

enough to provide CIL charging scope; and how realistic that extent of movement in assumptions would be.

- 3.3.3 Unlike in the case of residential development (and in particular the role in setting policy as affects affordable housing impacts), there is little scope for a Council to influence the viability of commercial and non-residential development provided it does not add, through unnecessary policy, to the development costs usually associated with such development.
- 3.3.4 DSP also has wider experience of commercial and non-residential development viability for CIL setting and Local Plan policy purposes. From this, together with review of the market and updated information gathering (information as at Appendix III and subject to further consideration of any readily available new data or pointers as the assessment concludes), we are of the view that at this point we would not expect to see materially expanded viability scope to support additional policy related costs compared with that seen at the point of introducing CIL here. We would expect this to be the case particularly in respect of the typical key CIL assessment finding that a £0/sq. m charge (nil-rating) was appropriate for employment (B Use) development.
- 3.3.5 As with residential, the strength of the market and therefore of the strength of relationship between development values and costs is key; the most significant factor. However, there are considered to be no significant instances of HBC local policy influence that will have a direct development cost and therefore a clear negative viability impact compared with a typical approach that we see.
- 3.3.6 Although key information will be contained within other assessments and data contributing to the evidence base, we have some general points to offer as the Council considers the employment and other commercial/non-residential development aspects of its Plan-making process. These will be picked up briefly in later sections below.
- 3.3.7 Appendix IIc Tables 3a to 3f display the commercial scenarios test results – again as both RLVs in £ (absolute) terms (white / non-coloured results table sections) and expressed in £/Ha terms.
- 3.3.8 The format of the results reporting overview uses the same principles and approach as for the Appendix IIa residential scenarios.



3.3.9 This time each sheet (page) within the Appendix shows the range of scenario (by land use type) tests top to bottom. Each one of those has been tested at 3 trial rent levels (L- low, M- mid/medium and H - high) simply to explore the sensitivity of the RLV outcomes to that assumption varying in combination with a yield test going initially from most positive (at 5% - Table 3f) to least positive for the study purposes (at 7.5% - Table 3f RLV indications).

3.3.10 Clearly seen are both the deterioration in results with increasing yield % (less positive for the capitalisation of the rental assumptions, indication a less secure, higher risk income stream assumed for the commercial property investor.

3.3.11 From this we can gain a feel for:

- Those scenarios likely to be consistently viable on a sufficient basis to support CIL charging, and;
- The extent to which more positive assumptions are required and may or may not be realistic in the short term (next few years, as applicable to a CIL charging schedule) for those potential development uses that currently appear unable to support CIL charging.

3.3.12 In the case of the Appendix IIc tables, the impact of our tested “trial” CIL charging rates in combination with the other variables considered here, can be seen increasing from left to right as we add CIL cost in small steps– using principles consistent with the Appendix IIa approach reported residential tests. In this case, we did not test beyond £160/sq. m. having formed the view that such a level of CIL would most likely be unrealistic for such developments in the borough.

3.3.13 We have taken the view that overall the same range of comparison/benchmark land values (‘our Viability Tests’ again as listed in the Appendix Tables footnotes) are applicable. In many cases, broadly it is considered that meeting or exceeding the £1-m/Ha test would prove sufficient. However, in the case of retail and some other developments it is anticipated that higher land values up to £1.5 – 2.2mm/Ha equivalent (potentially beyond in limited instances) could sometimes be justified and need to be met.

3.3.14 As in the cases of all results (appraisal RLV indications) and the reporting around them, many of the results for the relevant more valuable development types (e.g. larger

format and town centre retail, higher value residential and perhaps care homes and purpose built students housing (if applicable in Havant borough) do indicate that higher land values could be or could need to be supported.

3.3.15 Our findings review for the Commercial / non-residential scenarios is found from section 3.10 below, following the residential findings commentary that we set out next.

3.3.16 In a similar way to that considered within and using Figure 8 above, it is possible to view the range of trial CIL rates used for the (viable) development types as %s GDV – again as an additional gauge of the likely suitability of the rates tested. This additional information may be supplied to HBC if required.

#### **3.4 FINDINGS REVIEW – Residential scenarios (Appendix IIa)**

3.4.1 Viewed overall, the results are seen to be mixed, with sensitivity to the assumed value level (VL - aligned to potential site location see Figure 5 and Appendix I) an important factor throughout. The interaction of the VL and AH% - i.e. the VL needed to support affordable housing within various scenario types is also key, as is the viability test used to filter / view the strength of the RLV result in each case. The latter depends on the likely host site type – varying from greenfield to PDL (previously developed land), in various forms.

3.4.2 Across the range of results, for both residential and commercial, although seen more frequently in the latter (Appendix IIc compared with IIa) it can be seen that some scenarios and assumptions combinations return a financial deficit as appraised. Rather than list the meaningless negative individual residuals, indicative of non-viable scenarios for the assessment purpose, those results areas are simply shown as 'Negative RLV', often covering multiple assumptions combinations – e.g. low values (residential VLs / commercial rents and yields tests) and/or AH test % too high. A CIL trial rate too high for the circumstances is also seen to have the same effect in some cases, although increasing CIL rate is seen to have a much more subtle and gradual effect of reducing the results. The approach taken to displaying the results in this way is for ease of quickly seeing the tests that do not support the collective costs assumed in those cases.

- 3.4.3 In reviewing the results to inform the new Charging Schedule, whilst prudent assumptions have been used throughout as part of ensuring that viability is not taken to the margins when CIL charging and policy costs are being considered, we also give consideration to an explicit “buffer” factor (this has been considered at up to approximately 50%). This means stepping back from the likely maximum CIL charging rates indicated to be possible in theory from each assumptions combination as per the tabled results.
- 3.4.4 Any ‘buffer’ factor is essentially arbitrary, and intended only as an additional means of helping to keep within the margins of viability – it need not be adhered to strictly as it is hypothetical and the viability work does not have to be followed precisely in any event. Instead, as with other Local Plan and CIL evidence, the Council should be able to show how the assessment has informed its overall approach. Nevertheless, this might help to bring some further focus to HBC’s review of the results and what it takes from this necessarily and appropriately wide set of information provided at the point where policy positions and other matters are in early consideration stages, we understand.
- 3.4.5 Again, with the same principles behind the thinking, an equivalent approach is used from and in response to the commercial results set – Appendix IIc. See more on that in the dedicated sections below.
- 3.4.6 On all aspects, on reviewing and considering the results and findings, we suggest that HBC will usefully do this alongside a “reality check” – i.e. consider in the context of its local delivery and CIL collection experience, bearing in mind that the Council was a relatively early adopter of CIL and has been collecting payments alongside applying its affordable housing and other policies for a few years now.

**Affordable Housing Threshold(s) and smallest scenarios (<10 dwellings)**

- 3.4.7 Consistent with the context above, our understanding is that, whilst there will continue to be a wide range of very small developments coming forward, the new homes growth supply moving forward under the emerging LP will not be reliant on these as a crucial part of the overall spectrum of the delivery in itself. The dwelling numbers delivering the overall growth, and therefore the most significant AH contributions, principally will come from larger sites.
- 3.4.8 Some of the single unit developments are likely to continue to be self-builds.

- 3.4.9 From experience there is no evidence to suggest that viability is necessarily worse on smaller compared with larger schemes.
- 3.4.10 Overall, however, with higher build costs allowed for this assessment purpose, we can see that the scope for securing AH within such schemes would be limited in any event at typical HBC values and especially if a simple, essentially flat-rate CIL charge is to be maintained. The inclusion of AH requirements on sites of fewer than 10 dwellings is not within the Local Plan in any event, bearing the NPPF AH policy threshold.
- 3.4.11 With CIL in focus on such sites mind, looking at the potential collective costs of development, we can use the information at 0% AH to see the viability and likely impact of the CIL charging scope in HBC's case.
- 3.4.12 Referring to the 6 dwellings tests for example, we can see that with 0% AH a land value equivalent to well over £1. 5m/ha is achieved at the maximum CIL trial test rate of £200/sq. m using fairly typical lower mid-range VL4 values. At say 50% of this, allowing for a significant degree of buffering as above, this suggests that a charging rate of over £100/sq. m can continue be supported.
- 3.4.13 Purely for background information, in order to generate in excess of the £1. 5m/ha land value with 20% AH allowed for (assuming an equivalent financial contribution in this case) we need to be either reducing the maximum CIL scope to around £100-125/sq. m (buffered rate at around 50% of that) based on VL4 or relying on a higher sales value at VL5 to support CIL scope at a maximum of over £200/sq. m and so a similar potential charging rate to that at VL4 with no AH i.e. £100/sq. m or more (again, after our rough guide adjustment (buffer)). Albeit theoretical now only in relation to the Plan policies, this gives a feel for the likely limiting effect on CIL were AH requirements sought here on smaller sites.
- 3.4.14 Overall, given the confirmed national policy, allied to the local circumstances of a more mixed nature of site supply and the viability scope supported by typical HBC values combined with the higher build costs assumptions used for the assessment purpose, we consider the findings point towards continued CIL charging at similar to existing levels, but (as per policy conformed by HBC) not at this stage to the reduction of AH thresholds beneath the NPPF threshold (for example in the AONB or should other local evidence support a case for that).

- 3.4.15 Similarly, the findings also suggest little meaningful scope to differentiate upwards with a reviewed CIL charge covering these smaller residential developments.
- 3.4.16 We consider that these findings support the settled HBC policy approach, as discussed with DSP.

**AH threshold (AH policy trigger point) - 10+ dwellings** (Table 1b and 1b(i))

- 3.4.17 The results suggest a reasonable spread of scenarios capable of supporting 30% affordable housing (now envisaged as required in the form of on-site provision unless the alternative of a financial contribution or alternative provision is clearly justified and agreed) together with in excess of £100/sq. m CIL after considering the significant rough guide buffering assumption. This looks potentially supportable at VL4 (but only comfortably so if applicable on greenfield, amenity land or very low value former commercial sites) and is appears likely to be workable on PDL unless with VL5+ values.
- 3.4.18 Looking beyond 30% AH, it appears much more likely that VL6 values are needed to support 40% AH with a similar CIL level. However, with lower value scenarios this is potentially only marginally viable with a nil or nominal level CIL charge. On a greenfield site, were this relevant, however, values down to VL4 appear to be capable of supporting up to 40% AH together with a good level of CIL in the range perhaps £60 to around £100/sq. m (after full buffer adjustment). With 30% AH envisaged on a greenfield site, it appears that the supportable CIL charging rate could go to approximately £60-80/sq. m with lower values (say VL3).
- 3.4.19 Overall on such schemes, a 40% AH target - and especially if applied too rigidly – might place reliance on higher values too regularly.
- 3.4.20 Overall, we suggest that a national policy aligned affordable policy threshold headline at 10 dwellings would be a suitable approach in Havant borough, with the influence of viability necessarily acknowledged so that the policies may be operated with some flexibility where the need for that is robustly justified. This, we consider, would amount to a typical and appropriate approach; suggested for consideration at a 30% AH headline.
- 3.4.21 The influence of site type and likely related land value is clear to see. Reliably securing 30% AH with other assumed development and policy costs (including the HBC CIL) on PDL sites looks most likely at VL5+. Following on from the previous assessment work,

the potential relevance of a 20% AH policy aligned to circumstances where lower values tend to combine with PDL and perhaps higher development costs is indicated again. The RLVs are seen to be notably stronger further down the VLs range and this theme will again be revisited further in considering a wider range of scenarios – see below.

### **11 Houses** (Table 1c and 1c(i))

- 3.4.22 These results show an improvement in viability over the above, as the assumed build cost rate reduces.
- 3.4.23 With 20% AH assumed, approximately £100/sq. m CIL appears viable based on greenfield land value (EUV+) at £250,000/ha using the lowest values tested (VL1). This indicates 30% AH to be a more suitable level and we see that this would be clearly supportable using VL2 values with the existing HBC CIL and again assuming greenfield development.
- 3.4.24 However, at this scale, development in the borough is still likely to be equally or more relevant on PDL sites. To meet a BLV of £1.5m/ha these require a minimum of VL4 values to support a combination of 30% AH and approximately £100/sq. m CIL (again significantly buffered back from c. £200/sq. m maximum).
- 3.4.25 VL5 values appear likely to support 30% AH with the existing HBC CIL, as indexed, across a wider range of sites.
- 3.4.26 Again, the relationship between supportable AH (and CIL) level and the available VL is key; the results (viability indications) are very sensitive to the sales values available (VL tested). Following this upwards in the tables (i.e. with reducing AH%) we can see again that a 20% AH provision would bring a significantly greater prospect of viability at lower values (to VL2-3) on at least some PDL sites. As observed previously and now proposed by HBC, in combination with the lower values in the borough, and particularly on PDL sites, a 20% AH policy layer will in our view have a useful role to play and better address the balance in such circumstances between viability and the need to secure AH and other infrastructure funding/obligations.

**15 houses** (Table 1d and 1d(i))

3.4.27 These results, as may be expected with no policy differentiation (threshold) or other build/development cost change, are very similar to and reinforce the findings relating to the 11 houses testing, as above.

**15 and 25 Flats** (Tables 1e and 1e(i); 1f and 1f(i))

3.4.28 From these scenarios, we see that many results are poor or at best marginal even with mid-to higher range HBC values once AH is included, with the lower-end values assumed appearing unlikely to support deliverable schemes with any regularity. This is due to a poorer relationship between the lower values and higher build costs assumed, and is an inherent issue with the viability of flatted development in lower value situations, meaning relatively - in the wider South East context. We see this generally in a much wider range of locations – it is not unique to this assessment for HBC. Although the significantly higher development density has a positive viability influence, and in fact this may be understated in some cases at our assumed 150 dph, the increased development costs in combination with the likely need to meet a higher assumed PDL site value are significant factors negatively influencing the viability view – generally poorer results seen.

3.4.29 Values at more like VL5-6 seem likely to be needed to support 20% or perhaps a little more affordable housing in combination with other costs – including CIL. At the current time, such values are considered unlikely to be regularly or reliably achieved in the main urban area settings within Havant borough that such schemes appear most likely to come forward in.

3.4.30 Consistent with earlier stage emerging findings discussed with officers, we suggest that this points to the consideration of a lower than headline level of affordable housing being sought in the town based scenarios, particularly within the town and District centres. Improving the vitality of Havant and Waterlooville town centres and the Leigh Park District Centre for example will be elements to the delivery of the Council's strategy.

3.4.31 In our view, based on the findings together with local as well as wider experience of similar scenarios to date, it will be appropriate to firm up within the Local Plan policy a relevant AH target layer at not more than 20% applicable to such circumstances. As can be seen, it is not the imposition of AH requirements that are the root cause of



potential viability issues; those are more likely to be inherent in the relatively poor development value:cost relationships at the present time, and looking ahead to the first few years of the plan at least, most likely. This would apply to development characteristics expected to be more typical of these town and district centres (as opposed to other centres in the Borough), with requirements placed beneath a more widely applicable 30% AH target as above.

3.4.32 Considered further below, it will be relevant to review whether the larger scenario tests point to similar findings and suggested confirmation of policy positions for HBC's check of its final Local Plan proposals.

**25 flats - including ground floor retail** (Tables 1g and 1g(i))

3.4.33 It appears that, subject to demand and by adding rather than substituting space for it, the inclusion of a retail/commercial shell element creating additional value has the potential to improve viability or at least leave the viability no worse than that for a residential only scheme of this type.

3.4.34 However, the results suggest that values at around VL3-4 are needed to switch the outcomes from negative to positive; VL4+ to create marginal and then reasonable viability prospects at VL5 with 20-30% AH. So again these indications are not considered sufficiently positive to alter the above noted findings and suggested firmed-up policy approach as regards the continuation of the draft stage recommendation to include a 20% AH policy for the two main town and Leigh Park District centres in particular.

**30 Flats – Retirement/Sheltered** (Table 1h and 1h(ii))

3.4.35 The premium values usually achieved for such schemes as new-builds, together with the densities and typically reduced scope of external works, are in our experience positive viability influences in balance with the higher build costs associated with the construction of enlarged communal (non-saleable) areas in comparison with general market apartments development. Higher sales values than those assumed for the assessment purpose (VL 6 to an added VL 8 i.e. at £4,000 to £4,750/sq. m) are likely to be more relevant for this development type than the lower VL tests.

- 3.4.36 The results indicate that seeking not more than 30% AH looks to be a workable scenario again, with the 40% results tailing-off and appearing non-viable/marginal at VL6 before any meaningful level of CIL is considered. Were lower values that these relevant for any scheme progressed, again the relevance of the reduced AH target can be seen.
- 3.4.37 Overall in respect of this form of development (assuming within the C3 planning use class and therefore part of the very wide spectrum of market housing development), we consider there to be no reason for differentiating for it in affordable housing policy target terms; it appears at least equally likely to support a level of AH contribution alongside CIL in a similar way as other higher density housing schemes do.
- 3.4.38 This means that in considering a 20% affordable housing provision in the town and district centres (Havant, Waterlooville and Leigh Park), for example, we envisage that the same requirement would also apply to this form of development and this appears a suitable and equitable approach. So far as we can see, policy explicitly addressing such development, in respect of the affordable housing scenario, is not likely to be required.
- 3.4.39 The findings are consistent with our wide experience of site-specific viability assessments across a variety of local authority areas. Schemes of this type are regularly supporting CIL payments alongside making some level of contribution towards meeting local affordable housing needs, although with viability regularly discussed and a variety of PDL scenarios the norm. Our experience and general wider practice has been that financial contributions are typically the mode of provision from such schemes, although this need not affect the policy starting point or mean that the policy scope should be restricted to this, particularly as different forms of development and tenure formats could become a part of the overall picture in the coming period, with a greater national level emphasis on and need for housing for the elderly.

#### **50 Flats** (Table 1i and 1i(i))

- 3.4.40 Referring back to the smaller flatted scenarios, these results overall follow a similar tone and in our view point to essentially the same influences and policy considerations being involved. This scenario envisages development at a larger scale, but in the HBC context not necessarily based on higher density or a very different form of development in terms of storey heights, etc.

- 3.4.41 Should different forms of development based on characteristics such as higher buildings, a reliance on basement car parking or other matters involving greater build costs, these could be considered further at the development management stage. However, the signs are and experience to date indicates that HBC values are unlikely to support such higher costs frequently.
- 3.4.42 It appears that any such schemes would be likely to come forward in or around the town or district centres in the Havant Borough context. Therefore, consistent with the above, the findings support the consideration of a reduced AH policy target for town centre development (compared with a higher general headline level for the borough) – suggested at 20% (compared with a more general suggested target level at 30% AH).
- 3.4.43 As noted previously, we also appraised a very similar scheme but assumed to include an element of studio flats, as an alternative trial – results at Appendix IIa Table 1j and 1j(i). Using the selected assumptions this produced lower RLVs and therefore apparent reduced viability prospects in theory, although with the results basically providing very similar overall patterns to those from the flats scenario tests as above. Continuing the high-level overview relevant to the Local Plan and CIL, the same findings are considered applicable, therefore – as per the 50 flats base tests (Table 1h and 1h(i)), and also consistent with the other flatted scheme scenario outcomes, as above.

**50 dwellings – mixed housing development** (Table 1k and 1k(i))

- 3.4.44 Here we consider PDL or potentially greenfield based estate housing type development.
- 3.4.45 In a greenfield setting, assuming typical enhancement to agricultural land value as discussed above, the indications are that lower values (at circa VL2) should be capable of supporting 30% AH with a CIL at least around existing charging levels (i.e. as indexed) and potentially higher.
- 3.4.46 For a PDL based scheme of this nature to support 30% AH with a CIL at around existing levels, it appears that values at approximately VL4 are likely to be needed. Higher values should support more development cost and / or (if needed) land value.

- 3.4.47 Whilst from the findings we would not rule out in excess of 30% AH being sought, to a maximum not exceeding 40%, the results suggest this could become marginal with lower than VL4 values; VL5 with similar to existing CIL charging.
- 3.4.48 Given the findings noted here again it appears likely that, generally, the AH policy headline at 30% rather than 40% is likely to be more suitable on balance, again perhaps subject to any subsequent review regarding currently emerging Government policy and potential revised tenure models (alternative housing mix views that may develop).
- 3.4.49 To continue our draft stage reporting point, the inclusion of the additional cost assumption representing the provision of car charging points for new dwellings (now a base assumption within all tests) makes only a marginal difference to development viability overall, based on the currently available information. The aspiration to seek the provision of these on new developments therefore appears realistic from a viability viewpoint providing that those are considered as included base costs in looking at cumulative viability impacts and, we suggest, that the aspirations on other costlier matters (e.g. affordable housing, CIL and accessibility (see below) are not set too high.

**50 dwellings – mixed housing development – with higher build cost assuming local policy on more stringent carbon emissions policy** (Table 1l and 1l(i))

- 3.4.50 This results set includes 6% added to the build costs in place of the base 2% for sustainability measures and may be compared with those in Tables 1k and 1k(i) as above.
- 3.4.51 Overall, the effect of this trial policy cost addition (amounting to an additional 4% on build costs) is to reduce the RLVs by up to around £200,000/ha (rough guide only) compared with their base levels.
- 3.4.52 Looking at the VL4 30% AH results, and where these approximately meet a BLV of £1.5m/ha for example (PDL site in higher value existing use than industrial), it appears that about £50/sq. m worth of CIL, perhaps more, needs to be traded-off to accommodate the added build cost and maintain a similar land value.
- 3.4.53 Although only modest in terms of most individual elements, other latest HBC positions/requirements have already added to the overall development costs. In our view this further testing suggests that HBC should not consider requiring this type of

measure in a rigid way applied to all sites for example, as that is likely to sometimes unduly impact lower value and PDL developments (potentially affecting the delivery other policy objectives). However, an aim to meet standards higher than current building regulations could be considered in a way that is encouraged. Usually there would be a greater level of potential to achieve some level of enhancements over base levels, such as this, on greenfield development sites (subject to national policy scope and guidance etc.) For this reason, the appraisal iterations for the Southleigh strategic site and the 560 dwellings typology (see below and results at Appendix IIb) include trial versions where this 6% addition to build cost has been tested. This area and its interaction with other policy areas could also be kept under review moving ahead.

3.4.54 These additional 50 dwellings tests suggest that an aspiration to secure greater than base level current building regulations carbon reduction standards is not ruled out on greenfield sites, in viability terms. As above, policy on this may also be dependent on the planning legislation/framework and guidance criteria. Overall, in any event, from a viability perspective a rigid policy approach resulting in currently significantly higher build costs is unlikely to be suitable in the HBC context.

**50 dwellings – mixed housing development – with higher than base assumptions on M4(2) and (3)** (Table 1m and 1m(i))

3.4.55 These results were included recently as additional “pressure tests” given the Local Plan Policy E7 supporting text and context at 3.1.8 and earlier above.

3.4.56 They, and indeed other potential M4 related combination iterations, may be considered by HBC. As expected, and as seen with the effect of the additional sustainable construction cost assumption in the previous paragraphs, added development costs over the base Local Plan related assumptions contribute to further reducing RLV results.

3.4.57 This is added build cost from another source but we consider that the same principle applies as noted above in respect of a more stringent carbon reduction policy. The initiative to seek a greater level of provision than strictly expected through the policy headline should not be ruled out, but is most likely to have some prospect of being viable and delivered on greenfield developments. Accordingly, we consider the Policy E7 and supporting test approach to remain appropriate from a viability point of view.

**100 mixed dwellings** (Table 1n and 1n(i))

- 3.4.58 Once again, this scenario has the potential to support 30% affordable housing along with a CIL similar to existing on a PDL site, assuming occurrence away from the town centres as appears most likely.
- 3.4.59 With a need again for this form of development to be potentially viable across a range of areas and site types, it appears that 40% affordable housing could again be unduly stretching viability in some circumstances – and especially with lower values.
- 3.4.60 Based on a mix of houses and flats the assumed development density is 55 d.p.h. A reduction of this assumption would be seen to reduce the viability results – effectively dilute the assumed value created over a larger land area needing to be purchased. The converse could apply too.
- 3.4.61 However, at greenfield enhancement land values (EUV+), the 30% AH and a similar to existing CIL looks to be supported by lower-end values – at say VL2. The use of higher sales values assumptions produces highly workable looking schemes assuming greenfield sites; and a range of viable scenarios at VL4 if PDL land values need to be met.
- 3.4.62 Unless occurring in a significant way in areas supporting VL4+ values, an alternative placing policy beyond 30% AH with a similar to existing CIL once again appears a potentially challenging set of ingredients to secure.

**350 mixed dwellings** (Table 1o and 1o(i))

- 3.4.63 Here we see a very similar and at least equally positive set of results overall, with the assumptions applied. A range of poor or negative results are seen related to VL1 and to a lesser extent VL2 values assumed. This also assumes mixed development of houses and flats, and therefore a development density at say 55 d.p.h. on the net (developable) area. As above, a downward adjustment to this assumption would have the effect of reducing the RLVE/Ha outcomes currently indicated.
- 3.4.64 However, this scenario is currently assumed and appraised as a potential larger but “non-strategic” greenfield release site – with appropriate land value considerations and development carrying the CIL charges together with a modest level of residual s.106 and other collective cost requirements – i.e. an equivalent approach to that

assumed for the smaller sites. This approach appears suitable as generally such a site would fall beneath the scale of development expected to support very large site-specific development mitigation and infrastructure costs (e.g. new school provision, link roads or similar).

3.4.65 Similar to the above, assuming a relatively straight forward scenario on these lines, this appears potentially workable with at least 30% AH.

3.4.66 However, that probably means assuming VL2+ values in order to maintain the CIL at current levels as indexed; with VL supporting reduced CIL scope at not more than approximately £80 to 100/sq. m after the albeit arbitrary buffering factor – as above.

3.4.67 Therefore, depending on the potential or likely location or range of locations and sites under consideration for such development, the probable sensitivity of the outcomes to lower or falling values may need to be considered as part of looking at relevance to policy proposals.

3.4.68 From the findings, again a 30% AH basis (rather than higher target) is very likely to provide a more readily achievable and viability responsive policy, also allowing scope for other costs and specifics to vary, but as usual the outcomes will vary with site-specific circumstances.

### **3.5 More on dwellings with higher access standards - Building Regulations Part M4(2) and (3)**

3.5.1 In terms of continuing to factor in the potential viability impacts of policies requiring enhanced accessibility standards with regard to Build Regulations Approved Document Part M4 (2) - Category 2: Accessible and adaptable dwellings - the base assumption (in all tests) is now 30% dwellings to M4(2) and at 50+ dwellings, 2% to M4(3).

3.5.2 We saw previously that with M4(2) extra-over costs included, there is a relatively minor impact on viability, viewed in isolation, although this was nevertheless noted to have an impact significantly greater than associated with the assumed costs of the electric car charging points or the similar cost associated with the Solent recreation Mitigation Strategy for example (allowed for at £500 and £564/dwelling respectively as base assumptions too).



- 3.5.3 All appraisals continue to also carry a £3,000/dwelling s.106 contingency in addition to these other matters and the CIL testing. The costs associated with the Solent Recreation Mitigation Strategy are therefore accounted for too, but nevertheless in our opinion HBC needs to take account of how these seemingly minor individual added costs areas can come together to add significantly to a growing cumulative costs impact. This again feeds back into making sure that AH requirements and CIL at levels that are too high. Care needs to be taken not to add unduly to the development costs overall.
- 3.5.4 We remain of the view, however, that at the HBC proposed policy levels, it is unlikely that the requirements on M4(2) and (3) would lead to a previously viable scheme becoming unviable, and the positions can be supported.
- 3.5.5 The assessment work continues to suggest that a firm requirement for M4(3) compliance at anything other than a nominal level on larger sites (say 50 units) may be going too far in viability terms. As above, this level of provision is now included within the new Local Plan policy (E7).
- 3.5.6 Councils considering policies also need to bear in mind that the additional M4(2) and M4(3) requirements are exclusive; no requirement or only one of these alternative optional standards may apply to a dwelling; not both. They are independent requirements.
- 3.5.7 For general information, DSP's still relatively early stages initial experience of some Councils' emerging approaches to these matters links them in some way to the affordable housing provision. In case of assistance to HBC, we are aware of emerging policies that align the M4(2) provision sought broadly to the affordable housing content of schemes (or to a similar overall proportion of dwellings) – i.e. seeking all or most affordable homes together with fewer market homes to be provided to meet M4(2), and perhaps also setting out a desire to have a small proportion of the affordable housing meeting M4(3). In our view such an approach would be consistent with our findings here (simply provided as an indication respecting the principles noted). From initial Examination stage engagements on these matters, we have also picked up what we think may be an understandable nervousness on the part of Examiners in some cases where the requirements affect all or a high proportion of new homes unless the locally available values and a wider range of scenarios supports the requirements.

- 3.5.8 Policies in these areas need to be considered in the context of the affordable housing (AH) % scope as discussed above. For example, these factors, and effectively leaving some potential flexibility for a range of other / newly identified costs, could also further fit with the case for setting affordable housing policies and CIL charging rates at levels within their potential maximums that may be achievable in only particular circumstances within a borough such as this – i.e. supporting some relatively modest sales values and, overall, a mixed viability picture. On final assessment checking, we consider that the HBC approach within the new Local Plan should mean that an appropriate balance between and across the various objectives can be achieved.
- 3.5.9 In all respects, we repeat the theme that the Council needs to bear in mind the cumulative or collective impact of policy on development viability when looking at policy requirements, and also take into account whether the need for the policy can be shown. It is important that the basis for the percentage requirements or other criteria be evidenced in needs, rather than based on viability alone.
- 3.5.10 Alongside the viability implications, we are of the view that other factors on practical aspects and the workability of policies are also relevant here.
- 3.5.11 On this, numbers rounding and the “product” of the calculation of dwelling numbers and policy percentage appears potentially relevant, just as it does in the context of affordable housing policy considerations and on-site provision. In our view a planning authority should also be mindful of the potential combination of requirements and property types sought on a development, bearing in mind that the key to delivery will be the market and the need to have scope to produce a reasonable number of properties unfettered by various use / type restrictions (thinking here of the unit numbers available after considering affordable housing (as possibly expanded to include new forms under the White Paper), potentially self-build (see below) and enhanced accessibility. As discussed, some of these requirements do overlap – a development may be expected to include a range of them, affecting delivery across a large proportion of the site.

### **3.6 Dwelling sizes – Nationally Described Space Standard**

- 3.6.1 At the first stage of setting assumptions (for draft reporting), there was no emerging new / provisional draft policies set to consider. However, we understood at the time

that HBC would probably look to include the national standard within its policies or seek to guide development with reference to it.

- 3.6.2 On this basis, and for the Council's information, dwelling sizes meeting this standard have been assumed throughout. This approach has been carried through the assessment to the final stage review and reporting. Therefore, the above and wider reporting – including the viability findings and recommendations – reflects this across the assessment. The findings indicate scope to support the use of the standard (across all new dwellings) if it is appropriate locally – the needs are evidenced and the approach is to be required or encouraged here.
- 3.6.3 In our experience so far, this base assumption typically has only a very small negative impact on viability and is more of an early stage planning and design consideration rather. It should not be an obstacle to viability. In any event, the assumptions cater adequately for the usual affordable housing dwelling size requirements of the relevant providers.
- 3.6.4 This information is provided from a viability viewpoint only. We have not considered the needs aspects.

### **3.7 Sustainable construction – Energy Efficiency**

- 3.7.1 The same applies at this stage to the sustainable construction based assumptions. We have assumed all dwellings built to (former) Code for Sustainable Homes Level 4 equivalent standards under the Building Regulations – for energy and water usage efficiency.
- 3.7.2 With the 2% effective additional contingency added to the base build costs in all appraisals, and so considered as part of the collective costs burden in looking at other key policies impacting viability the most – particularly on affordable housing, this means that appropriate standards have been allowed for in this respect.
- 3.7.3 We have also commented (above, at 3.4.54 and associated paragraphs) that an additional 4% to build costs (6% added in total) representing a 19% reduction on building regulations levels carbon emissions appears likely to overstretch viability in some cases alongside the collective wider requirements, if considered as a fixed requirement. However, as above, this need not be ruled out if viewed in more of an

aspirational way and most likely / frequently then allied to greenfield development considerations.

### **3.8 Self / Custom-build**

3.8.1 As has been noted through the preparation of the methodology and assumptions reporting above, we consider that it should be possible to viably accommodate an element of serviced, ready to develop, self-build plots as part of larger scale development – subject to monitoring of demand which we understand can be highly variable from area to another. From initial consideration of such potential policies, it appears likely to remain a profitable aspect of the overall development activity and have a broadly neutral effect on viability provided there are not too many restrictions on its workings.

3.8.2 We are of the view that capacity and viability are more likely to vary in relation to particular allocations or larger sites. Again, specific thresholds or cut-offs are difficult to identify. As an indication, and unless on specifically allocated and tailored smaller sites intended for this form of development (if infrastructure provision / development mitigation can be overcome) it appears likely that up to say 10% of plots on larger schemes (of say 50 to 100 dwellings minimum) might represent a potentially workable maximum from a practical and market point of view. This relates also to the points made above about considering a reasonable quantum of relatively “unfettered” outright market development being possible on sites with affordable housing and other policy requirements also coming together. Again, there are emerging examples of such policies that may be of interest to HBC.

### **3.9 Strategic development – Southleigh**

3.9.1 As outlined above, subsequent to our earlier phase review work to draft report stage, HBC asked DSP to include the high-level consideration of this development within this assessment, for consistency.

3.9.2 The assumptions used for this aspect of the assessment are included within Appendix I; including many in common with the wider site typologies but in combination with a range of bespoke appraisal inputs. The appraisals used the same residual land valuation principles, but as above the results (Appendix IIb Table 2a) show the potential funds (likely maximum levels in indicative total and £/dwelling terms)

available to support costs e.g. s.106 obligations beyond those currently accounted for (estimated, with information largely supplied by HBC).

- 3.9.3 Depending on the combination of assumptions (30%/40% AH; A27 connection at c. £18m included/excluded; assumed land value level (BLV) varied; added 6% build cost re sustainability included/excluded) the indicative surplus levels are seen to vary from £0 to approximately £24,000/dwelling equivalent.
- 3.9.4 The results indicate in our view reasonable prospects for the viability of the scheme, with the Council again able to consider the types of “trade-offs” that are likely to need looking at.
- 3.9.5 It appears for example that the effect of increasing from a 30% to 40% housing content could “cost” approximately £7,000/dwelling across the scheme i.e. reduce the available surplus level by approximately that degree.
- 3.9.6 We can also see that the indicative surplus is completely eroded by the time we allow for the highest cost assumptions combination considered here to date – i.e. 40% AH; A27 link and junction cost included; increased sustainability i.e. with +6% to base build cost); higher land cost estimate as per our suggested prudent £250,000/ha BLV for this assessment purpose. This also illustrates how additional costs that are currently unknown could significantly affect viability, and shows the need to allow for some tolerance meaning that there remains better scope for accommodating schemes values and costs movements.
- 3.9.7 Overall the scheme review suggests that there should be reasonable prospects of viability, although we suggest that again the current pointers are towards an affordable housing approach seeking closer to 30% AH, and probably not up to 40% AH. This should mean support scope for an appropriate range of planning requirements.
- 3.9.8 At this still fairly early stage in the overall life of such a proposal, there are many unknowns and consequently a lot of assumptions necessarily being made. This is not unusual.
- 3.9.9 Our current overview of the likely potential is the scenario that assumes the higher BLV, includes 30% AH and the A27 junction works but has no additional construction

sustainability cost reflected (i.e. +2% as per base) could be the most representative. This produces an indicative surplus of about £9,000/dwelling equivalent overall (rounded figure) and this may give the Council a reasonable marker for the type of outcomes that could be seen. As a likely maximum we can see that the lower BLV supports a surplus at about double this level; approximately £19,000/dwelling. This scenario testing can be used by the Council in conjunction with its developing picture on infrastructure requirements, and this viability overview could be revisited as more becomes known about the scheme and what is needed to support it. Overall, in our view at this stage, this suggests that as has been noted above, a rigid policy expectation at more than the base assumptions policy levels of M4(2) and (3) and sustainable construction (carbon reduction) may have too great an impact on viability. Accordingly, revisiting these aspects in this context again suggests that the Council's base positions, allied with higher aspirations where workable, appears to represent a suitable approach.

- 3.9.10 In our experience of both strategic level viability assessments and viability reviews related to planning application stage submissions on large sites such as this, by the time the very extensive site enabling / opening-up works and site-specific mitigation and infrastructure works costs are allowed for, these site characteristics most frequently warrant a bespoke treatment for CIL purposes.
- 3.9.11 This generally means a zoned approach overall, including a nil-CIL rating (£0/sq. m) treatment for strategic sites. The appraisals show that in HBC's case this is likely to be necessary in respect of the single strategic site at Southleigh given the current stage appraisal surplus levels indicated for s.106 and any other currently unknown costs – prior to allowing for the CIL.
- 3.9.12 On this basis, s.106 becomes the route through which the obligations necessary to permit the scheme are secured and can be negotiated with the benefit of flexibility, ability to consider relative priorities and then the scope to more closely control the delivery of the specifically needed infrastructure.
- 3.9.13 Based on the currently available information, our review and appraisals suggest that it would be appropriate to apply the prevailing CIL charging rate (as indexed) to all other housing development schemes. This includes any developments represented by the larger (but non-strategic) typologies within the range coming forward, which at this

stage are not schemes expected to need to provide new on-site education or other specific and particularly costly planning infrastructure.

### **3.10 FINDINGS REVIEW – Commercial / non-residential scenarios (Appendix IIc)**

3.10.1 Our assessment work on the review of commercial and non-residential development has focused on our typical approach to CIL viability, again using an established approach to apply the same principles as use in the residential assessment aspects.

3.10.2 As is generally the case (i.e. is not Havant Borough specific) the scope of policies relating to residential development are the key areas where an individual planning authority can have a significant influence over matters effecting viability – directly through policy selection.

3.10.3 The same does not apply to a significant extent in respect of all other forms of development, including for employment and commercial use.

3.10.4 In respect of other development, it appears more to be case of working with the market, being open, incentivising and engaging with development interests as far and productively as possible – aiming to review and promote or protect / select the most appropriately and accessible sites for relevant uses, seek necessary development that also meets other strategies and policies, and so on.

3.10.5 Unfortunately, it is necessary to acknowledge that, particularly when viewed in terms and using assumptions appropriate to strategic level local authority viability work, viability for many such forms of development looks likely to remain challenging.

3.10.6 However, this does not necessarily mean that suitable schemes will not come forward. Generally, it suggests though that the Council should look to proceed in a way that presents to the market and requires the least controlling policy intervention and additional development cost measures over and above usual planning and design criteria, including national base standards.

3.10.7 Unless there are particular additional review requirements relevant to the overall Plan delivery and further policy positions and proposals that become available for review, the best indications as to the viability of commercial and non-residential development in the borough (as may also be relevant to overall Plan delivery) will be gained from reconsidering the viability scope for such developments to support the CIL.



- 3.10.8 In terms of non-residential development uses, the HBC adopted CIL included positive charging rates only for 'Out of centre retail > 280 sq. m at £80/sq. m' and Out of centre retail < 280 sq. m' at £40/sq. m. These rates have been indexed in accordance with standard provisions, as noted above. Town centre retail, Hotel, Industrial/Offices and Community Uses are rated at £0/sq. m (nil-rated).
- 3.10.9 Since the Council's CIL charging schedule was implemented in May 2013 and informed by information pre-dating that, we prepared up to date assumptions (as noted in Chapter 2 above and at Appendix I) and ran new appraisals. These used scenarios and assumptions discussed with HBC as potentially relevant locally and also representing broadly the same development use types as reviewed for the adopted charging schedule. Appendix III together with the Co-Star database extracts to the rear of that outlines the information reviewed on values, using a similar approach to the residential assessment work. This allowed us to reflect how the development values and costs relevant to any key development forms such as employment (B uses) and retail (A uses) have changed over the intervening period.
- 3.10.10 This full review approach based on new appraisals was progressed rather than a light-touch research based review, because HBC is considering commencing and consulting on a formal review of its CIL charging schedule.
- 3.10.11 Pending any such further work to be added to the information available to the Council, we have included latest accessible commercial market and values data to the rear of Appendix III to this report (sourced from Co-Star).
- 3.10.12 In the meantime, as noted above there may be some aspects of strategy that HBC can usefully consider in looking further at its wider evidence such as on the local economy and employment land need and supply, for example.
- 3.10.13 The future direction of the commercial market following the decision to leave the EU, and indeed subsequent / ongoing discussions, remains uncertain.
- 3.10.14 Similar uncertainties were noted earlier in the report in respect of the varied potential outcomes for build cost trends.
- 3.10.15 As above, in looking at commercial property development at present, in many instances we must acknowledge the probable short-term challenge around delivery of significant new development, and particularly on a speculative basis.

3.10.16 We expect that the Council's policy set will continue to develop themes of promoting and encouraging development focused on improvements to the offer presented by Havant and Waterlooville town centres as well as other district and local centres including Leigh Park and others that serve a more localised catchment through neighbourhood shopping etc.

3.10.17 The Council's current CIL 'Map Booklet' dated September 2012 includes the following:

Town Centres:

- Havant;
- Waterlooville;

District Centres:

- Cowplain;
- Emsworth;
- Leigh Park;
- Mengham/Gable Head<sup>21</sup>;

Local Centres:

- Bedhampton;
- Crookhorn;
- Grassmere;
- Hambledon Road;
- Middle Park Way;
- Milton;
- Rails Lane;
- Purbrook;
- West Town;
- Widley

3.10.18 In our wide experience of CIL viability, generally poor viability or at best mixed results tend to be seen from most test scenarios other than those representing certain forms of retail development.

3.10.19 Usually we find that this is especially the case for most of the B (business/employment) use class types. As noted, such outcomes do not necessarily mean that development will not be delivered through flexibility in development appraisal inputs and negotiations – factors that we cannot assume in prudently assessing viability for informing Local Plan development and CIL setting purposes.

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<sup>21</sup> Note that Gable Head is proposed to be downgraded to a Local Centre in the Local Plan  
Havant Borough Council – Local Plan & CIL Viability Study – Final Report

3.10.20 Provisionally, therefore, we were of the opinion that the previous themes identified through the Council's available evidence for its adopted CIL were likely to remain largely valid. To test and fully inform HBC's positions moving ahead, however, the following commentary runs through our appraisal results (which have not been further revisited to final report stage) – considered here by development use type.

### **A1 – Large format retail**

3.10.21 Following both HBC's existing CIL formulation approach and DSP's established, also tested route to considering the viability for CIL of various forms of retail development, these units are typically for retail warehousing or foodstores and are readily definable as such. They also clearly exceed the Sunday Trading related sales floor area threshold (at 3,000 sq. ft. / approx. 280sq. m), which represents a clear differential point for CIL charging, as a secondary measure / form of clarification alongside the large format retail use type.

3.10.22 These large retail units, remain amongst the most clearly viable forms of development and should be able to support CIL charging if they continue to come forward.

3.10.23 Recent experience in the borough appears to have demonstrated this, with very recent additions having been completed and quickly occupied at the Wellington Retail Park in Waterlooville and particularly notably at the Solent retail Park in Havant. It appears to be the case from our review of those areas and maps that those locations are now fully developed. They appear unlikely to accommodate additional development in the short term at least.

3.10.24 Should any further development of these types occur, our relatively strong viability findings suggest that they could comfortably absorb a CIL charging rate of £100/sq. m plus and as an option this could be set to match or broadly match the higher residential rate (as now indexed) to about £125/sq. m.). The results at up to a c. 6% yield, which is likely to be less positive than relevant in the market at this stage, indicate that CIL could be taken well beyond the maximum tested rate of £160/sq. m and the RLVs remain in excess of the highest BLV, so that scope for considerable buffering exists.

3.10.25 So this position and recommendation essentially represents a continuation of the current HBC charging approach – no more significant change suggested. However, it appears that with the established provision of larger format retail in the borough, especially as recently expanded, that this could be a rather theoretical element of the

charging schedule that may be unlikely to yield any significant CIL income in the coming years.

- 3.10.26 On this basis, we suggest that a straight-forward approach could be taken by HBC – i.e. to differentiate only for retail in respect of its type in this way. This links also to our findings and recommendations in respect of other forms of retail – more on this follows.

#### **Small retail units – borough-wide**

- 3.10.27 The town centre retail test outcomes appear strong using the more positive values assumptions combinations – e.g. ‘M’ or ‘H’ rent tests with 5% yield; ‘H’ rental assumptions in combination with not higher than a say a 6% yield. However, these scenarios are seen to be highly sensitive to less positive values assumptions, and this indicates that they are also likely to be highly sensitive to any increased development costs.
- 3.10.28 Having taken a relatively positive approach to the town centre retail assumptions to test the points at which viable looking scenarios may be created, our overview is that a lower or nil CIL charging rate would be appropriate for any developments within the town centre boundaries – i.e. continuing the adopted charging schedule approach.
- 3.10.29 Looking at our 3<sup>rd</sup> row of results also representing smaller shops development, the same clearly applies to those using current assumptions. Out of centre smaller shops development currently carries a CIL charge based on the 2013 adopted rate of £40/sq. m. According to the Council’s CIL Officer, there had only been two retail schemes to the point of our draft stage work which have incurred CIL. These were both large out of centre retail developments. HBC could re-check this position for context.
- 3.10.30 In any event we recommend consideration of a nil-rate (£0/sq. m) for all such developments, as it appears highly possible that CIL charging could have a potentially detrimental effect on the viability of any new local shops provision; contrary to the Council’s continued approach to supporting the vitality of the various levels of centres in the borough and potentially encouraging any new provision associated with the Local Plan housing growth.
- 3.10.31 There is an option for HBC to continue charging as it is, if this has proved workable and positive in both CIL income and scheme delivery terms, and the Council could consider

this bearing in mind the viability assessment findings to not need to be followed exactly.

3.10.32 Approached in this suggested way, however, the HBC CIL would be simplified compared with the existing approach on retail, with only the larger format developments positively charged, should any more of those come forward. If anything, looking ahead this appears more likely in an out of town context, so would be consistent with the effect now, post completion of recent developments, of the existing CIL impact on such developments.

### **Further background – Retail**

3.10.33 In the event that the Council decides, on balance, to run with a differential approach to setting CIL charging rates for retail development, there are particular considerations to be aware of. This is primarily because it is necessary to set out clearly how the differentiation is set up and described. A differential approach needs to be based on viability evidence, as included within this report and appendices. It follows that reduced evidence ought to be needed to support an approach involving no or limited differentiation, moving back towards the intended nature of a CIL originally perhaps (before the scope were introduced to differentiate by scale of development, and the exceptions/reliefs were fewer, for example)

3.10.34 DSP has experience of both single and differential CIL charging rates approaches for retail development. However, as a high-level outcome the general viability variation between larger (retail warehousing and supermarket type) and smaller retail formats identified here is consistent with most of our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work in many cases.

3.10.35 Developing the outline above, the further information on retail in this sub-section is provided for completeness and background at this stage; it provides further insight for use by HBC if a differential approach is considered relevant, bearing in mind the LP context around the types of development planned, in particular, and coming forward more generally in ways that support the plan policies.

3.10.36 Potentially the following factors are to be considered. This applies to all retail scenarios (across Use Classes A1 – A5; i.e. also covering food and drink, financial services, etc.).

- 3.10.37 In practice, the “churn” of and adjustments to existing shop units or conversions from other uses may provide much of the new smaller shops provision. HBC may wish to consider the extent to which CIL liable new builds may occur.
- 3.10.38 The extent to which retail of any form is overall plan relevant. If certain or all forms are likely to be coming forward on an ad-hoc basis only (i.e. outside the plan policies scope) then potentially it may be considered that any non-viability of individual schemes is not critical under the CIL principles
- 3.10.39 No or limited / uncertain overall plan relevance of a certain development use type would also suggest the prospect of a low level of increase in CIL receipts compared with either setting a nil CIL or not pursuing CIL at the current stage; or a low level of receipts impact compared with setting a higher, more viability impacting charging rate.
- 3.10.40 In any event, as part of considering the impacts of any CIL proposals (both positive and negative), the Council may also wish to consider the relevance of any unintended consequences for other forms of development, such as smaller shops in the various centres and other individual or small groups of shops. Overall, our understanding with regard to this borough area is that this range of retail uses is probably the key factor to which any approach to CIL and / or s.106 planning obligations needs to respond – in order to support the likely more general LP positions on retail, perhaps, as well as particular higher value proposals.
- 3.10.41 Following adjustments made to the regulations, charging authorities have for some time been able to set differential CIL rates by reference to varying scale of development as well as varying development use (as has been noted above, for example, in relation to residential development). DSP’s experience is that differentiation has been possible - as well as most clearly justified and described -based on scale where that relates to varying development use (i.e. retail offer, site and unit type, site etc. associated with that). The difference between larger and smaller format retail can be clearly defined for these purposes, as has been successfully done across a range of assessments and charging schedules in the last 5 years since the early period of CIL viability assessment; with type the key differential and size a secondary factor relating to scale but acting as a further way of clarifying the differentiating factors.
- 3.10.42 Looking at size of unit only (i.e. an approach led by or relying solely on different scales of development) can be problematic or lead to inequities in our view. DSP’s experience is such that a retail use does not necessarily change characteristics in any readily

determinable way at any specific floor area point other than that determined by the Sunday Trading provisions. We consider that unless a prospective charging authority has particular planning policies that influence viability (i.e. cause switch points in viability) either side of a certain floor area, the floor area based provisions relating to Sunday trading continue to provide the only clear unit size linked switch in viability, bearing in mind that a particular floor area figure needs to be in place to create a viability threshold.

- 3.10.43 Since altering the assumed floor area to any point between say 200 and 500 sq. m would not trigger varying values or costs at this level of review, basically the reported values / costs relationship stays constant. We do not see viability prospects varying as we alter the specific floor area assumption over that range, but assume development for the same use type (same type of retail offer). This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit alone.
- 3.10.44 We find the same at other unit size assumptions. In essence, to support a CIL differential at an alternative threshold point it is necessary to show a distinct change in viability, which would come from different appraisal inputs applying at a particular point – whether at 500, 1,000, 2,000 sq. m or indeed any particular unit size. So, the same applies on altering the high-level testing for floor area variations on supermarkets or similar; the use type does not switch at particular points so that selection of thresholds for the varying scale of development could be arbitrary. This in itself could create inequity. In each case, unless viability were found to be different either side of any such point (a particular floor area figure), in our view and experience it would not be appropriate to differentiate.
- 3.10.45 The key factor differentiating the smaller types of retail scenarios that we refer to from the larger ones is the value / cost relationship related to the type of premises and the use of them; they are simply different scenarios where that relationship is not as positive as it is in respect of larger, generally out of town / edge of town stores. Specific floor area will not in itself produce a different nature of use and value / cost relationship unless applied in relation to the Sunday Trading provisions so far as we can see. Related to the opening hours available to an operator, these provisions create a clear threshold and at that a clear differentiator – based on sales area of less than 3,000 sq. ft. (approx. 280 sq. m).
- 3.10.46 To reiterate, in our view any differentiation is more about the distinct development use – i.e. the different retail offer that it creates and the particular site type that it



requires, etc. The description of the use and its characteristics may therefore be more critical than relying simply on a floor area threshold or similar. The latter could also be set out to add clarity to the definition and therefore to the operation of a charging schedule in due course, however.

3.10.47 In case of assistance in this respect, DSP has worked with a number of authorities on the details of these aspects. As an example that considered and established this principle, the adopted Wycombe DC CIL Charging schedule included wording clarifications, in the form of footnotes to assist with the definitions of the chargeable retail use types, put forward by that Council and accepted by the Inspector at Examination, as follows:

<sup>1</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>2</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.

3.10.48 So, to recap, only if differentiating between these smaller and larger retail formats, we consider that creating a link with the size of sales floor space associated with the Sunday Trading provisions (3,000 sq. ft. / approx. 280 sq. m) may provide the most appropriate threshold as a secondary measure to the development use description that is the most relevant factor in both creating and describing the viability differential. Such an approach may not be relevant here. However, drivers towards this approach in some locations may be the overall plan relevance of different types (as new builds or larger extensions of over 100 sq. m triggering CIL liability) and any concerns over added development risk to smaller shops provision associated with adopting a single rate at too high a level. This approach to setting up a differential approach to CIL charging for retail development assumes the threshold being used for clarity and to further explain the nature of the development use that the viability and a charging rate differential is linked to if CIL is pursued.

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

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

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

#### **Office developments (B1(a))**

3.10.52 In common with our and others' typical findings across similar assessments covering a wide range of areas, we have found office developments insufficiently viable to support CIL charging.

3.10.53 Some positive RLVs are seen at the highest rent and most positive yield tests, but in those cases involving a more optimistic than necessarily secure yield assumption in combination with that.

3.10.54 As per the adopted charging schedule, we need to recommend a nil charging rate (£0/sq. m) applicable to any office developments on a borough-wide basis.

#### **Industrial / warehousing (B1, B2, B8)**

3.10.55 Although we regard Havant Borough as a more established location for such uses compared with offices, again based on researched assumptions appropriate for the assessment purpose these appraisals are some way short of displaying viability outcomes sufficient to support CIL charging.

3.10.56 Again, as per the adopted CIL charging schedule, at this time we need to recommend a nil charging rate (£0/sq. m) applicable to any office developments on a borough-wide basis.

#### **Hotels (C1) and Care Homes / similar (C2)**

3.10.57 The hotel test scenarios show insufficient viability to support CIL charging across the board, using values and cost assumptions considered to be appropriate for the Havant context.

- 3.10.58 Whilst the Care Home (nursing homes) tests returned a range of positive results, we consider these to be similar in nature to the town centre retail appraisal outcomes – i.e. relatively insecure and very sensitive to the values assumptions reducing and /or development costs increasing.
- 3.10.59 The effect of an increasing yield % assumption, reducing the capitalisation of the assumed rental income levels, is to reduce the positive results scope to only the ‘H’ rents by the time a 6% yield is considered (see Table 3c at Appendix IIc).
- 3.10.60 This also appears consistent with the adopted charging schedule approach, which also notes that extra care housing is excluded from the residential rate charging scope – assumed to fall within use Class C2, although HBC may wish to consider these definitions and details because often the distinction between C2 and C3 is difficult to establish and clearly set out.

**Housing for the elderly – Care based development provision (C2) compared with retirement living/sheltered (C3)**

- 3.10.61 In looking at residential development, consistent with our wide experience of CIL viability, rates setting and site-specific viability review workload to date, we noted above that we would recommend that no differentiation be made for market provided sheltered housing or similar developments. Whilst such schemes involve the costly construction of much larger non-saleable proportions of overall floor area (communal space) and need to be reviewed with particular assumptions (appraisal adjustments) that we have reflected, they also have some balancing viability characteristics. These include typically achieving premium sales values, having higher densities and reduced external works.
- 3.10.62 These schemes are in our view part of the wide spectrum of market housing. In our experience, both where a CIL is operational and without CIL, commercial negotiations tend to take place in respect of affordable housing contributions on such developments. As with all other schemes, that and other aspects of negotiation have the capacity to deal with viability issues where the collective costs cannot all be carried by a scheme, and a site-specific viability appraisal (planning applicant submission) and review investigates that.

- 3.10.63 Affordable sheltered housing (within C3) and nursing / care homes (C2 uses) will be exempt from CIL charging through the regulations.
- 3.10.64 Within the wide range of potential formats of accommodation for the elderly, there is very likely to be a range of scheme types coming forward. These may fall within C3 (e.g. an 'Extra-Care' scheme that is primarily residential, but where varying degrees of support may be additionally available); or C2 such as care / nursing homes and other facilities where the occupants are residents but the primary function and reason for development is the provision of care; a care-led rather than residential-led scenario. It is possible that the determination of the relevant planning Use Class may be difficult in some situations, and likely that this will need to be considered on a scheme-by-scheme basis.
- 3.10.65 In the case of the development of accommodation providing care as its primary function (usually within Use Class C2), our understanding is that this would not carry the usual affordable housing policy requirements. This in itself provides a significant viability boost compared with a scheme that may share at least some other characteristics and be broadly similar in development and construction terms, but also need to support affordable housing. However, accordingly the appraisals do not reflect an AH content within such schemes, and on this basis (0% AH) they indicate the above noted mixed results as the values assumptions change; leading to a nil £/sq. m) CIL recommendation to HBC.
- 3.10.66 The reviewed charging schedule should, however, seek to set out the Council's intentions these various forms of development are to be treated, including descriptions where needed for clarity. The key distinction, in our view, relates to the accommodation being care-led as opposed to housing-led, making the latter part of the wide spectrum of housing provision.

#### **Purpose built students' housing**

- 3.10.67 We were asked to consider this development typology by HBC and are aware that in locations of strong demand, this offers very strong investment prospects – represented by a low, positive yield assumption that means a high capitalisation of the rental assumptions.
- 3.10.68 Although once again highly sensitive to the yield assumption selected, assuming demand were to exist and drive viability to support the progression of a scheme or

schemes locally, our experience and view is such that this form of development would be underpinned by a low yield % assumption (at 5% or potentially lower).

3.10.69 This would support CIL charging at a level around that suitable for typical to higher value residential development in the borough – so around the adopted (as indexed) higher residential rate; circa £125/sq. m. The scenario type is assumed to trigger and contain no affordable housing requirement; a significant positive viability influence.

### **Other development uses**

3.10.70 As a regular component of our CIL viability assessment work, we consider a range of other development uses – their likely viability.

3.10.71 So, in common with most of our other CIL studies, we have also carried out some initial high-level consideration of other development uses such as leisure (e.g. bowling / fitness / gym) or other D class elements such as health / clinics / nurseries etc.

3.10.72 Bearing in mind the key development value / cost relationship that we are examining here, we find that it is not necessary to carry out full appraisals of these because a simple comparison of the completed value with the build cost indications from BCIS (before consideration of other development costs) points to poor to (at best) marginal development viability. This one of the key reasons why these forms of development are generally not seen stand-alone, but tend to be provided as part of mixed use schemes that are financially driven by the residential and /or retail development.

3.10.73 Much the same applies to elements such as health / clinics and other similar, more community oriented development.

3.10.74 Following our extensive iterative review process, throughout this assessment we can see that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before CIL scope is considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).

3.10.75 In such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability. Such scenarios are generally unviable in the sense we are studying here – as a starting point. This is

because they have either a very low or no real commercial value and yet the development costs are often similar to equivalent types of commercial builds. We regularly see that even the build costs, and certainly the total costs, exceed levels that can be supported based on any usual view of development viability. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them.

- 3.10.76 As will be seen below, there are a wide range of potential development types which could come forward as new builds, but even collectively these are not likely to be significant in terms of “lost opportunity” as regards CIL funding scope. We consider that many of these uses would more frequently occupy existing / refurbished / adapted premises.
- 3.10.77 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in the main they are likely to be a long way from producing any meaningful CIL funding scope.
- 3.10.78 There are of course a range of other arguments in support of a distinct approach for such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure. They may even be the very types of facilities that the pooled CIL contributions will ultimately support to some degree. For all this, so far as we can see the guiding principle in considering the CIL regime as may be applied to these types of scenarios remains their viability as new build scenarios.
- 3.10.79 As a part of reviewing the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from entries in the VOA’s Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS. As has been discussed above, where the relationship between these two key appraisal ingredients is not favourable (i.e. where costs exceed or are not sufficiently outweighed by values) then we can quickly see that we are not dealing with viable development scenarios. The lack of positive relationship is often such that, even with low land costs assumed, schemes will not be viable. Some of these types of new developments may in any event be promoted / owned by charitable organisations and thereby be exempt from CIL charging (as affordable housing is).
- 3.10.80 On this basis, Figure 9 below provides examples of this review of the relationship between values and costs - in a range of these other scenarios. This is not an exhaustive

list by any means, but it enables us to gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and further complication within any local CIL regime. These types of value / cost relationships are not unique to the Havant Borough area at all. Very similar information is applicable in a wide range of locations in our experience, although the largely urban nature of this authority area increases the relevance of certain types of development uses and therefore the potential need to ensure that any essential delivery is not undermined. (See Figure 9 below – following page).



Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost indications –BCIS**	Viability prospects and Notes
Cafés	£140 - £370 per sq. m.	£1,400 - £3,700 per sq. m.	Approx. £2,240 - £2,950	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	£50 - £80/ per sq. m.	£500 - £800 per sq. m.	Approx. £1,780 - £2,550	Clear lack of development viability
Day Nurseries (Nursery School /Creches)	£80 - £150 per sq. m.	£800 - £1,500 per sq. m.	Approx. £2,000 - £2,840	Insufficient viability to clearly and reliably outweigh the costs
Garages and Premises	£40 - £60 per sq. m.	£400 - £600 per sq. m.	Approx. £580 - £1000	Low grade industrial (B uses) - costs generally exceed values
Halls	£20 - £40 per sq. m.	£200 - £400 per sq. m.	Approx. £1,860 - £2,475	Clear lack of development viability – subsidy needed
- Community Halls				
Leisure Centre - Health and Fitness (Sports Centres/ recreational centres) generally	£60 - £80 per sq. m.	£600 - £800 per sq. m.	Approx. £1,470 - £1,950	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Leisure Centre Other - Bowling / Cinema	No information available		Approx. £1,300 - £2,160	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Museums	No information available		Approx. £1,200 - £3,860	Likely clear lack of development viability – subsidy needed
Storage Depot and Premises	£40 - £80 per sq. m.	£400 - £800 per sq. m.	Approx. £,100 - £1,475 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	No information available		Approx. £1,860 - £2,430 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs based on other than high-end looking value assumptions.

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

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

\*\*\*BCIS Latest available data average of Havant Location Factor

- 3.10.81 Our recommendation is for the Council to consider a continuation of its current nil (£0/sq. m) rate in respect of a range of other uses such as included within the above table. As in other cases, this could be further reviewed in future - in response to monitoring information.
- 3.10.82 Our overriding view at the current time is that the frequency of these other new build scenarios in general that could reliably support meaningful CIL scope in the borough area is likely to be very limited.
- 3.10.83 In addition to seeking to ensure that the approach to planning obligations (including any future CIL) does not add unduly to the viability pressures uncertainty to potential investment, the Council could consider the following types of areas and initiatives (outside the formal scope of the brief for this assessment, but put forward purely as practical indications in relation to the more general Local Plan delivery considerations on commercial / employment and non-residential development uses):
- Consideration of market cycles – plan delivery is usually about longer term growth as well as short term promotion and management of growth opportunities that will contribute to the bigger picture;
  - Work with the market – be responsive etc. as suitable opportunities are identified;
  - Regenerate / improve and protect key existing employment areas;
  - Provide land where assessed to be most needed;
  - A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;
  - Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;

- Specific sites / locations and opportunities – for example in relation to the plan proposals and what each are most suitable for. Focus on the most accessible, best and most valuable locations for particular uses;
- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) or other development – balance the element in deficit or with reduced viability;
- Scenarios for particular / specialist uses – e.g. the local knowledge based employment economy; or that may be non-viable as developments but are business-plan / economic activity led;
- Explore any local specialisms or particular industries / sectors from which economic advantage and stimulation of other activity can be made;
- As with residential, consideration of the planning obligations packages again including their timing (triggers) as well as their extent.
- A likely acceptance that business development overall is unlikely to be a significant regular contributor to general community infrastructure provision in the short-term at least.
- Seek other investment and consider incentive schemes.

### **3.11 Additional Commentary**

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

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

3.11.3 In our view, at a "Whole Plan" level, looking at an appropriate level at the range of potential development scenarios and policy areas supporting the Local Plan, including reasonable prospects for the viability of the Southleigh strategic development

proposal as viewed at the current time. The range of scenarios and policy set appear to be capable of meeting the requirements of the NPPF and Planning Practice Guidance.

- 3.11.4 This is provided that HBC continues with the Local Plan approach of not adding unduly to the national baseline policies together with addressing its local affordable housing needs as far as is practical, and adopted CIL (as may be reviewed); and that landowners' expectations are also at realistic levels reflecting the requirements and constraints as well as the opportunities that sites and premises present.
- 3.11.5 Wherever pitched, we expect that the policies will need to be accompanied and explained by appropriate wording and guidance that sets out the strategic context and nature of the targets but also recognises the role of viability in implementation. Where robustly justified by a developer, a practical approach may need to be acknowledged - which can be responsive to particular circumstances - those will continue to be highly variable with site specifics. The need for this type of approach is likely to be particularly important in the event of ongoing economic and market uncertainty such as we still have at the current time. Only time will tell how these matters play out, however.
- 3.11.6 Suggestions to consider (and any subsequent use of) reduced / lower than headline targets for affordable housing, or other policy cost areas, do not imply that such targets would always be met at their lower levels; this cannot be certain to be achieved at any policy level.
- 3.11.7 This viability evidence will need to be considered in conjunction with wider evidence on housing needs and the shape of site supply (type, location and size of sites coming forward), infrastructure needs and planning, employment land and so on.
- 3.11.8 Keeping the picture informing the Plan development topical, it will be also be essential to monitor, review and keep up to date evidence associated with the policies as part of creating a sound overall approach.

### **3.12 Brief summary – main policy considerations**

- 3.12.1 The following table (Figure 10, below) provides a quick guide to the key policy development observations offered to HBC, in respect of areas directly impacting development costs and based on the findings and recommendations as discussed above.

Figure 10 – Brief Overview – Table of Key Policy Development and CIL Observations

<b>Site supply and likely deliverability – “whole Plan” overview</b>	
<p>Generally, a picture of potential viability across a likely good mix and spread of sites and locations including strategic scale development at Southleigh. The Plan proposals, as a package, should be capable of supporting a balance of affordable housing and other policy costs - subject to site-specific characteristics and details, with the use of targets and flexibility as needed. This is based on acknowledging both the need for and desirability of securing and funding infrastructure to support the Plan; and the role of viability. Continued recommendation to consider setting AH and CIL within apparent maximum levels to allow some scope for consideration of other policy costs, unforeseen site costs (e.g. abnormalities, etc.)</p> <p>HBC may wish to revisit / refine further, with the settled knowledge of proposed policy positions and growing information on emerging site types and locations.</p> <p>OVERALL, with AH allowed for as proposed below, and CIL at or around the existing charging rates (indexing and its trend included), there is considered to be relatively little additional available viability scope to take-up, however, as shown through an overall mix of viability results. This needs to be kept in mind; first and foremost in setting AH policy targets, then also in reviewing and any refreshing of the CIL charging approach and rates.</p>	
<b>Affordable housing (policy target scope - %)</b>	
Sites 10+ dwellings – borough wide	Suggested consideration of 30% as headline.
Town / District centre sites (Havant, Waterlooville, Leigh Park)	Suggested consider reduced target – indicatively 20%.
Generally	Consider an ongoing adaptable approach potentially more reactive to further locally available evidence and more knowledge of firmed-up national policy and emerging tenure models / further evolving housing mix in due course.
<b>Enhanced accessibility – M4(2) &amp; (3)</b>	

<p>M4(2) – options available but suggested consider alignment to a proportion of dwellings approximately equivalent to the affordable housing element of schemes – i.e. 30% dwelling context, across a mix of dwelling types and tenure.</p>	<p>M4(3) – Confirmed that a small proportion maybe sought as now reflected in Policy (at 2% on sites of 50+ dwellings). This may be more suitable related to the affordable housing provision. Significant cost and early stages design impacts to consider. The HBC confirmed E7 policy position reflects DSP’s draft stage viability advice, now proposed at 30% M4(2) and 2% M4(3) (latter on sites of 50 + dwellings) and reconfirmed as a suitable basis in viability terms.</p>
<p>Overall consider a guided / target based and flexible rather than rigid approach, particularly in respect of any aspirational element additional to the above and evidenced in needs terms. In our view, the HBLP approach reflects this. More may be achievable in some circumstances, but expected most likely achievable in greenfield development scenarios usually.</p>	
<p><b>Open Space</b></p>	
<p>DSP has encountered potential issues with onerous on-site / provision based open space policies - consider emerging policies and ensure workable within range of site constraints.</p>	
<p><b>Energy efficiency</b></p>	
<p>Building Regulations standards – assumed former CfSH4 equivalent standards considered viable. A firm expectation to achieve higher (e.g. greater carbon reduction criteria) should be avoided at this stage and based on current assumptions from a viability perspective in our view. However, this is not ruled out in a more aspirational sense where achievable – as above, potentially on greenfield development as the most likely scenario.</p>	
<p><b>Nationally described space standard</b></p>	
<p>Included and considered viable</p>	
<p><b>Self &amp; Custom-build</b></p>	
<p>Considered no significant implication for overall viability but, as a proportion of a development, potentially more practical on larger schemes (indicatively only, say 50+ dwellings) where, together with other requirements, this would still allow an appropriate proportion of usual market sale</p>	

<p>housing. It is understood, however, that the level of demand as per HBC evidence is currently outweighed by the typical stream of individual developments that are self-builds.</p>	
<p><b>CIL</b></p>	
<p>Residential - all forms of market-led housing (C3), including for the elderly - retirement / sheltered. Housing-led accommodation provision.</p>	<p>Existing charging rates, as indexed, are appropriate in our view. Alongside the Local Plan Policies and wider development costs reviewed, currently we do not consider there to be scope to increase the charging rates beyond the levels produced by the indexing. At this stage the indexing appears to be doing the job of adjusting the rates appropriately; additional clear review scope has not been identified.</p> <p>A continuation of the existing differential set up by locality is expected to continue to broadly reflect viability in the typically lower value areas; appropriate at the level of review suitable for CIL.</p> <p>The report also notes a recommended nil rate (£0/sq. m) being considered for the single strategic site at Southleigh – a nil rate zone for that.</p>
<p><b>Large format retail</b> (Retail warehousing, foodstores - out of town centres, but equally could be applicable borough-wide, as discussed).</p>	<p>Charging scope up to approximately the upper residential parameters (suggested not more than approx. £125/sq. m, which slightly exceeds the latest indexed rate)</p>
<p><b>All other retail – smaller shops, all types</b></p>	<p>A lower rate or other differential approach could be justified but, overall, consideration of a nil-rate (£0/sq. m) for all other forms – small shops – is suggested. This is put forward in place of the existing charging rate for such development, which has reached approximately £55/sq. m with indexing.</p>
<p><b>Purpose build students' housing</b></p>	<p>Up to the upper residential parameters (approximately £125/sq. m currently, but rate as indexed)</p>



<p><b>All other development uses, including employment (Offices / industrial / warehousing – B1 – B8); Hotels (C1); Care Homes (care-led accommodation provision – usually C2)</b></p>	<p>Suggest consider a continuation of the HBC existing Charging Schedule nil-rating (£0/sq. m)</p>
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## Notes and Limitations

*The purpose of the assessment reported in this document is to inform the Council's previous and on-going work on developing, progressing and now checking/finalising the policies of the new Havant Borough Local Plan and its work towards a potential reviewed Community Infrastructure Levy (CIL) Charging Schedule.*

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

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

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

*It should be noted that every scheme is different and no review of this nature can reflect the variances seen in site specific cases. Specific assumptions and values applied for our test scenarios are unlikely to be appropriate for all developments. A degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and further informing the Council's policy development.*

*Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated, therefore the indicative surpluses (or other outcomes) generated by the development appraisals for this review will not necessarily reflect site specific circumstances.*

*Accordingly, this assessment (as with similar studies of its type) is not intended to prescribe land values or other assumptions or otherwise substitute for the usual considerations and discussions that will continue to be needed as individual developments with varying characteristics come forward. This is also true in respect of the long timescales in Local Plan development and implementation over which the economy and development climate (national and more local influences and impacts) are very likely to vary. Nevertheless, the assumptions*

*used within this study reflect the policy and strategy direction of the Council as far as known at the time of carrying out this assessment and therefore take into account the cumulative cost effects of policies where those are relevant.*

**Final Report ends (DSP v7)  
January 2019**

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