D|S|P Housing & Development Consultants

East Cambridgeshire District Council

Addendum to:

Viability Assessment

- To support the introduction of the Community Infrastructure Levy

Ref: DSP 11037A

April 2012

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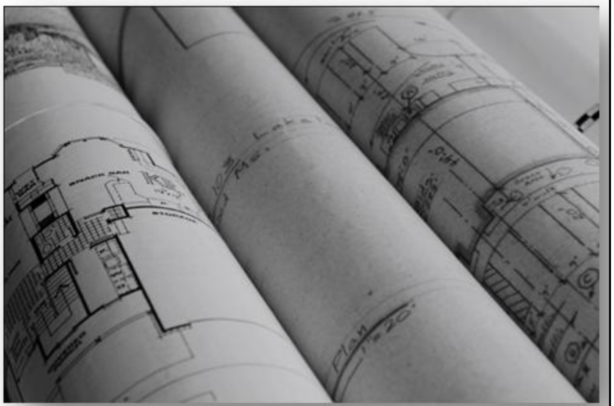

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1 Introduction

1.1 Background – Purpose of this Addendum Report

1.1.1 East Cambridgeshire District Council published its CIL Preliminary Draft Charging Schedule (PDCS) in December 2011. The CIL charging rates proposed within the PDCS were informed by the Community Infrastructure Levy (CIL) Viability Study undertaken by Dixon Searle Partnership (DSP) in December 2011.

1.1.2 During a period of consultation on the PDCS, running from 21st December 2011 to 2nd February 2012, the Council received comments from 17 parties.

1.1.3 Those comments have been considered and as part of that process DSP was asked by ECDC to review them, so that the feedback and any significant associated viability implications could inform the Council's further consideration of its charging rate proposals before moving to Draft Charging Schedule stage. The Draft Charging Schedule is due to be published for consultation in early May 2012.

1.1.4 This brief report summarises the further review of development viability that has taken place following that consultation and should be read in conjunction with the Community Infrastructure Levy (CIL) Viability Study (December 2011) undertaken for ECDC by DSP.

1.1.5 This document summaries the further consideration that has been give to viability matters as a result of this feedback and discussions with a selection of interested parties.

1.2 Nature of the viability overview and assumptions – appropriate available evidence

1.2.1 Appraisals of the nature used for this and similar studies are highly variable and there can be much debate about what are appropriate individual assumptions; in our experience differing views and perspectives are usually seen. This is particularly the case for this type of high level study which is largely based on fixing consistent assumptions so the CIL charging rate impacts can be trialled at varying levels. Professional judgments have to be made and these feed into (and are informed by) a variety of appraisal tools based on residual valuation techniques; variations are also seen between the various calculation tools available.

1.2.2 This overview process is necessary and appropriate for CIL viability studies, and it is consistent with similar methodologies that have been used to robustly inform evidence for affordable housing and other policy development over the last 10 years or so. Inevitably there will be a variety of opinions and experiences and in this context it is the collective assumptions rather than their individual positioning that is important. This process is not an exact science and does not produce a single “right” answer. The support to a Council’s implementation of CIL involves providing appropriate and proportionate evidence; based on available information.

1.3 Council’s consideration of key comments regarding potential CIL charging rates

1.3.1 A wide variety of individual points were submitted by the relatively small number of respondents to the PDCS. In considering that PDCS feedback, we must acknowledge that it is simply not possible to reflect all points in any review work, given the overview nature of the work, as above, and the fact that individual details are not necessarily consistent across the comments. The Council also needs to consider the wider context in terms of the scope of the consultation and the frequency of comments submitted about particular aspects of its PDCS proposals.

1.3.2 In addition the Council needs to find an appropriate balance with viability, by weighing-up these issues alongside the infrastructure needs; including as an example (but not exclusively) the high local prioritisation being given to infrastructure improvements in the Ely area (noting the first of the views at 1.3.3 below).

1.3.3 Nevertheless, in reviewing the feedback with the Council it was considered that certain themes came out most strongly and consistently. In terms of proposed charging rate implications we think it fair to say that these views were as follows:

i. That DSP’s residential sales values assumptions for Ely had been overstated – i.e. that values would be lower; potentially significantly.

ii. Varying interpretations of DSP’s use of comparative land value indications – i.e. around the level of those (particularly in respect of unserviced greenfield land) and also around concerns that the Council might develop an approach that is too prescriptive or fixed based on these benchmarks / comparisons; if that were the case, individual scheme viability discussions could become too constrained in practice.

iii. That DSP's cost allowances for infrastructure / servicing were not sufficient in respect of large scale greenfield development.

iv. Concerns that, because the CIL payment sums would be non-negotiable (a principle set by with national regulations), there would need to be a suitably adaptable approach used where necessary by the Council - working with landowners and developers - to agree workable overall planning obligations packages (that would not unduly affect the viability of particular proposals).

v. That the proposed CIL charging rate (of £30/sq m) for Equestrian-related development would not be workable and would be prejudicial to many of those developments.

vi. That the proposed CIL charging rate (of £10/sq m) for Business development was contrary to the DSP viability evidence and wider experience of non or marginal viability for such schemes.

1.3.4 As above, it is acknowledged that there were a wider range of comments made, but in our and the Council's assessment the points outlined at 1.3.3 above were those which warranted further consideration of viability – based on the December 2011 study and in some cases on additional review work.

1.3.5 As a key part of this follow-up and review process, the Council invited several respondents whose comments reflected the key themes recognised above to attend individual meetings so that these points could be explored further and the various representatives offered an opportunity to provide or discuss any information available to inform the Council's ongoing consideration of the balance between infrastructure funding and development viability. DSP attended these meetings, which were arranged by the Council and practically speaking could not be extended to all parties that commented, but encompassed Agents and developers' / land owners' representatives whose comments most represented the above key themes (at 1.3.3). We are grateful for their further involvement in the process.

1.3.6 In accordance with DSP's findings, it was acknowledged by all parties including DSP that there is extremely limited information available as regards recent local land transactions; or even pointers (e.g. agents' indications / feelings) on land values. As acknowledged in the December 2011 study, this issue is not limited to East Cambridgeshire by any means – it reflects a period of low activity levels and a degree of ongoing uncertainty. There are also well understood issues around confidentiality where information is available. In any event, it is usually not appropriate to quote specific examples in this type of study and this does not move us way from needing to make high level assumptions and judgments. In the most part, we were asked by those who were able to supply additional pointers to treat those confidentially. The respondents acknowledged the challenges involved in undertaking this type of study overview, and in not getting too linked to scheme specifics. All round, DSP found the discussions to be constructive and informative.

1.3.7 The methodology and assumptions information, notes and "caveats" together with the viability study findings, have not been altered except in the respects covered by the following section (2) where we will outline only the further consideration given to and review of viability aspects. The reviewed aspects are set out below in the order outlined at 1.3.3.

2 Updated assessment aspects

2.1 Ely residential sales values

2.1.1 Our discussion of each aspect and the revision points inevitably overlap, but we will now set out the responses to the areas raised at 1.3.3 above.

2.1.2 In the follow-up to the above mentioned meetings, we were provided with one agent's schedule of sales values for a development in Ely – sales from the start of 2010. We were asked to treat this information with some discretion since it was believed to be not public yet. The information confirmed a range of sales values over the last approximately 2 years, but with particular sales timings not stated. In summary, the schedule contained outline information on a total of about 80 properties sold over the period on this one scheme. The properties comprised of 2, 3 and 4 bedrooms, of a variety of styles – flats and houses. In summary, the sales figures for this new build estate type housing ranged overall from approximately £172 to £268/sq ft (£1,849 to £2,881/sq m) depending on the particular plot and with no obvious correlation that we could see with unit type or size – varied figures were seen across the unit types. The agent's analysis of the figures noted an average of approximately £203/sq ft (£2,181/sq m); our check calculated an average from the list provided of approximately £209/sq ft (£2,250/sq m).

2.1.3 We did not receive any other information which allowed this type of review, except from another company, who could not offer information related to Ely, but provided some pointers in respect of a single scheme each in Soham and Bottisham. This information was provided on a strictly confidential basis. We feel that in any event it provided further justification of our high level sales values judgements and ranges in respect of those two localities – as examples of how the values tend to vary; the reasoning behind our differentiated rates recommendations for the District. The Soham values indications over a similar period to above were in the range approximately £146 to £220/sq ft (£1,572 to £2,368/sq m) overall; indicated by the agent to have been at an average of about £181/sq ft (£1,948/sq m). The single Bottisham scheme indications, which comprised sales mainly in 2008-09 but also a few last year fell in the overall range approximately £180 to just over £300/sq ft (about £1,927 to £3,272/sq m) although more typically represented by upwards of approximately £220/sq ft (say £2,368) within that range. The average price indication for the scheme example equated to around £2,800/sq m.

2.1.4 From the above, we decided to focus our further review on the Ely sales values question. We consider that a range of factors need to be taken into account when thinking about suitable overview assumptions. These include:

- Ensuring that not only a historic view of sales values is taken into account, particularly given the turbulent market conditions in recent years.
- Similarly, ensuring that not only a current view of sales values is taken into account, particularly given the all round acknowledgement of the relative scarcity of information available to inform judgments.
- The fact that in Ely a range of scheme types, locations and housing styles will be coming forward; not just in the form of housing estates / edge of City development but also potentially including waterside and more central locations for example.
- The "place-shaping" and improved facilities and infrastructure that the Council's proposals seek to help facilitate and provide.

2.1.5 Overall, we consider it necessary to view the assumptions, balance and resulting CIL proposals in this wider context.

2.1.6 Consequently, we have re-run the 400 dwelling residential appraisals (all scenarios) using the HCA's subsequently updated Development Appraisal Toolkit (DAT) April 2012 version. This re-run includes an added 'value level' (VL) 3A which we have placed at £2,350/sq m (approximately £218/sq ft). The smaller site appraisals are as previous (not updated) except for the addition of a VL 3A appraisals set.

2.1.7 On review and consideration of the representors' points we have formed the view that this more suitably represents the Ely values overview picture that is necessary; in preference to DSP's original sales values indication of £2,600/sq m looking ahead for Ely. The VL 3A indication of £2,350/sq m, whilst still necessarily an estimation is considered appropriate and has been further verified by deducting 10% from the new builds asking prices information in our December 2011 study (Appendix III), together with indexing some older sales data viewed as part of our extensive Council information review.

2.1.8 As part of this exercise, we also added a complete set of appraisals that included a CIL trial rate of £70/sq m to reduce the need for interpolation and provide a more complete set of results over the range £60 to £100/sq m; the area within which we were further exploring potential CIL rates for Ely given the sales values acknowledgements and adjustments that we have set out above.

2.1.9 The updated results are all shown in Appendix II to this Addendum, together with sample appraisal summaries.

2.1.10 In the updated results (Appendix II Tables 1 and 2) we have also added a further colour-coding layer to supplement that method of "rough guide" to interpretation of the results. The tone of colouring red through neutral to pale and then bolder greens indicate lacking viability through to increasing levels of confidence in the RLVs meeting the various rising land value comparisons. The aspect of land value indications and comparisons is covered further below.

2.1.11 We have focussed here on the larger scale greenfield scenario at Ely (since that has been a subject amongst the key review themes and is a key part of the Council's plan delivery). The VL 3A RLV indications at 30% Affordable Housing (as applies to Ely as a target under the adopted Core Strategy) are the most relevant in this context.

2.1.12 The appraisals generate approximately £748,000/ha (based on the net site area) or approximately £598,000/ha (with an assumption of 25% added from net (developable) to gross site area) at the £0/sq m trial falling to £512,000/ha at the highest CIL trial rate of £120/sq m. Being above £500,000/ha we consider that this range of scenarios include good prospects of viability.

2.1.13 At approximately £70/sq m CIL rate we see the RLV reaching around £610,000/ ha (per net ha) or £490,000/ha (per assumed gross ha). This suggests viability advantages in an Ely rate at approximately £70/sq m; rather than setting that higher.

2.1.14 It is worth noting also that at VL 3 (sales values of £2,200/ sq m; approximately £204/sq ft and in line with the agent's average pricing example over the last 2 years – see 2.1.2 above) the appraisals provided RLVs in the range £250-500,000/ha and so indicated to be above our minimum greenfield land value comparison of £250,000/ha. The RLVs are maintained at around £400,00/ha until the CIL trial charging rate goes beyond £60 to £70/sq m. Clearly this is a scale of indications and it is not appropriate to unduly focus on particular single results – looking at potential CIL rates down to a level of £5 to £10/sq m between options is really introducing a false layer of apparent accuracy. It can be seen that the trial CIL rate in itself is usually having a very graduated effect on the RLVs; especially at that level of fine grained view.

2.1.15 In essence, at VL3A with 30% affordable housing we see a range of potentially or likely viable scenarios with a CIL rate going up to around the maximum £120/sq m trialled. With 40% affordable housing, the VL3A RLVs dip beneath £500,000/ha beyond approximately the £80/sq m CIL trial rate. At VL3 with 40% affordable housing assumption the RLV indication drops beneath what we regard as the bottom end land value comparison of £250,000/ha at the £90/sq m CIL test; indicating significantly reduced viability prospects / likely limited circumstances of a workable scenario.

2.1.16 In order to maintain an appropriate balance, our **revised recommendation is for a rate of £70/sq m applicable to Ely City; to include potential housing growth areas on the City fringe** (rather than link the City and those areas to a rate of £90/sq m as previously proposed). This means an intermediate rate of £70/sq m being introduced – between the £40/sq m applicable to Soham and Littleport and £90/sq m rest of District rates. As a further guide to (feel for) the suitability of this rate, it equates to approximately 3% of GDV rather than a figure potentially of 3.5 to 4% of GDV.

2.1.17 As in all cases, the more significant viability influence is seen to come from the affordable housing. The Council acknowledges that, with its infrastructure improvement aims, wider planning obligations will need to be considered adaptively to some extent through site specific discussions as becomes necessary. Scheme promoters would need to continue to demonstrate the particular viability difficulties, where those are seen, as part of informing and facilitating the usual type of negotiated processes.

2.2 Land value indications

2.2.1 The representatives of the agent companies who, with thanks, provided their time input to our review meetings, like us, were unable to provide specific local land sales values. We received a few confidential indications, but mostly not local to the District and none in respect of Ely. One firm regretted not being able to provide any indications, saying that:

> *'It is extremely difficult to provide any specific local evidence...... not aware there have been any significant land transactions in the area recently and, therefore, developers will carry out a genuine residual valuation to establish land value as and when a site becomes available. Again, ... can only really talk in generalities, as each site will be valued on its own merits both taking into account gross development value allowing for on-site and off-site infrastructure costs, all of the usual development costs coupled with Section 106 contributions and the level of affordable housing.*
>
> *Until ....receives planning permission and the sale of the various tranches of land can be analysed I cannot give you values that I can back up with actual sales evidence. If the .... it will go on the market as soon as the Section 106 agreement has been completed and this will provide sales evidence for Soham. However, it is likely Soham values will be higher than Littleport but lower than Ely.'*

2.2.2 The process referred to here is of course similar to that we are carrying out in terms of appraisals, although a site specific version would be informed by particular inputs relevant to its characteristics and timing, etc. It fits with our view that the value of land is related to what can be done with it – the opportunities and constraints presented; rather than necessarily to some pre-conceived or fixed level of land value expectation. The principles reinforce the need to consider a range of potential comparison levels, which we consider include lower figures than some that have been indicated to us, albeit in the most part not locally based. The second agency firm confirmed that they have little information for sites in East Cambridgeshire – again fitting with our research experiences. They pointed to a small number of residential site examples which suggested land values in the range approximately £160,000 to £660,000 per (gross) acre from a variety of locations – understood to be with planning for around 100 homes in each case.

2.2.3 Likewise, DSP's experience (which comes principally from a range of local authority assignments including site specific reviews) does not feature land value examples from within the District. Similarly, we are also unable to disclose specific details owing to commercial confidences.

2.2.4 So as to provide broad examples on a similar basis, however, we are aware of a range recent / current dealings and discussions on Greenfield sites (again in a variety of wider locations). This is purely for context in terms of the range and tone of land value discussions that we see. Similarly, we cannot provide specific information. Inevitably of course there is a range of views and requirements, as others have pointed out too. However, the following are recent indications from our broad range of work experience:

- Former airfield where a land value of circa £80,000/acre (very approximately £200,000/ha) is under discussion.
- Land sales / agreements in N Hertfordshire (Cambridgeshire borders) area based on up to circa £370,000/ha; and at circa £500,000/ha.
- Yorkshire region (in close proximity to National Park) – scheme proposals with viability appraisals presented on the basis of land prices of approximately £270-315,000/ha (based on net developable area); District Valuer assessment at a lower level of circa £185,000/ha.
- Greenfield land values in the order of £360,000/ha (net) under appraisal discussion in Buckinghamshire.

2.2.5 In the course of our day to day work on CIL, we also review and consider what a wide range of other reputable consultants are doing about land value and other guides / assumptions for their overviews in a range of circumstances. For this study, we are using the same principles, techniques and equivalent depth of information to our CIL viability study for Portsmouth City Council; accepted by the Inspector as providing appropriate evidence. In this context, we consider that it is also relevant to have in mind the recently found sound CIL Charging Schedule in neighbouring Huntingdonshire.

2.2.6 As an example, so far as we can see, the range of residualised land value indications relied upon within the Huntingdonshire District Council CIL viability work were circa £300-500,000/ha for the larger site types considered for that.

2.2.7 Through this Addendum we should further emphasise that the land value indications referred to in the study are purely a range of assumptions for this purpose and are not intended to be fixed markers against which scheme specific cases may be judged in future; once the CIL is implemented. Following the understandably limited further information that others were able to supply during our recent dialogue, and further review of a variety of information sources as far as we have been able to, we remain of the opinion that our land values indications are appropriate in the context used. Our focus for looking again has been on Greenfield scenarios, given the principal concerns that were raised over development adjoining Ely.

2.2.8 We are not expecting that all greenfield land will be released at £250,000/ha; but remain of the opinion that this is an appropriate point to consider as a likely minimum value – i.e. position beneath which land would be unlikely or much less likely to come forward (as a residual after all development costs have been accounted for). For this reason, in our updated results Table 1 (Appendix II), in order to represent the trends and likely increasing confidence levels in viability outcomes with increasing RLV we have added a further layer of colour-coding. That indicates RLVs of £250-500,000/ha, a bracket within which we consider from the wider evidence and our experience that should begin to produce workable schemes. The confidence level associated with outcomes increases further with RLVs in excess of £500,000/ha on the same basis – land values which we consider should meet and could well exceed expectations for the type of circumstances envisaged. Noting also the agent feedback about the approach to site specifics received following our review meetings (as at 2.2.1 above), the range of RLVs produced by the appraisals of course show that any land value expectations significantly beyond our range of indicative comparisons are probably unrealistic anyway (i.e. could not be supported once detailed appraisals were undertaken).

2.2.9 The Council is able to confirm that it is not intending to introduce any prescriptive approach, but to continue to deal with site specifics in appropriate flexible way, where justified. This also related to the concerns raised in several comments (as at 1.3.3 (iv)) about the need to be aware of, and to respond to, overall planning obligations packages as those impact viability alongside the particular development costs.

2.3 Overall build costs – including indicative site improvement / infrastructure costs

2.3.1 Again on a private and confidential basis, one firm provided a few examples of their experiences on infrastructure costs relating to very large scale developments in various locations (national basis) – schemes of around 1,000 to 4,000 dwellings. This pointed to infrastructure costs that equated to very approximately £16,500 to £23,000 per plot. There were some higher cost examples, but those also included s.106 obligations (which we and others tend to allow for separately) and so did not give a clear feel for the views on this assumption. We have allowed for £10,000 per unit s.106 alongside the CIL and affordable housing tests. Base build cost (i.e. prior to infrastructure consideration) were not provided or discussed. We noticed that the information related to development densities in the range approximately 40 to 70 dwellings per net (developable) hectare.

2.3.2 Having considered this further, DSP remains of the view that its assumptions on overall construction costs are appropriate. In this context the range of assumptions and overall costs are key, because in our experience and for example from other CIL viability studies (including in neighbouring Huntingdonshire) we often see lower, and considerably lower, base build costs assumptions. The approach we have taken is appropriate to the high level view and bearing in mind that abnormal costs are not taken in to account at this strategic overview stage. Introducing abnormal costs, which where they impact in practice are highly variable from site to site, affects the ability to review impact trends from more consistent viability influences like affordable housing or the potential CIL rate. The recently confirmed National Planning Policy Framework (NPPF) also refers to taking in to account normal costs of development.

2.4 Equestrian related development

2.4.1 As requested by the Council to ensure a locally relevant and equitable overall approach to considering the implementation of the CIL, the DSP viability work considered equine related development.

2.4.2 The exploratory approach identified that some forms of equestrian related development were effectively uneconomic to develop and very specialised in nature, so having marketable potential that was difficult to identify and consider. We are not experts in the area of equestrian uses or development, so were bringing-in the same principles as were involved in considering the viability of the range of other forms of development, at a high level. In the December 2011 viability study DSP reported potential for the Council to consider a relatively low CIL charging rate suggested at not more than £30/sq m. This was to be linked to what we considered to be the types of development that typically involve the development of a significant element of lower cost facilities (for example stabling, riding schools, stud farms).

2.4.3 On further review and particularly through discussion with a party who submitted comments (as were echoed briefly by others) closely involved with the industry, we were informed of and provided with further (confidential) information and our thinking developed as follows:

- Examples of the highly varied nature of such facilities – such that it is felt that they are very difficult to categorise and treat equitably across the board in a CIL Charging Schedule context and the viability overview that is needed.

- Examples of the construction costs associated with key aspects of those, and bearing in mind their highly specialist use as regards limited wider value / alternative use potential.
- An indication of the nature of the often precarious business finances of such enterprises.
- Overall, what we considered was a strong case to support the treatment of such scenarios similarly to agricultural facilities that are likely to attract a £0 CIL (which again can be highly variable and sometimes specialist in nature, involving significant investment).
- Allied to this, and again to the difficulties around satisfactorily categorising and describing such uses or aspects of such uses, the lack of strong pointers in favour of the Council continuing its exploration of this aspect of the PDCS; for the first implementation of CIL at least, and therefore allowing potential future review (as with all aspects of a charging schedule).

2.4.4 In parallel with this, the Council reviewed the frequency of equine related developments in excess of 100 sq m (i.e. that would be chargeable under the CIL threshold) in recent years. Relevant developments were found to be few in number and infrequent.

2.4.5 Our revised recommendation is therefore for the Council to proceed at this stage with a £0 CIL rate for application to equestrian uses.

2.4.6 In our view, this revised approach, if pursued, need not affect the potential consideration of s.106 obligations where direct related site specific impacts associated with a development proposal are under consideration.

2.4.7 It may also be relevant to consider that some elements with developments of this nature (including on a new build and extension basis) may well take the form of residential or retail uses for example; and so we assume may be treated according to the relevant parts of the CIL charging schedule.

2.5 Business development

2.5.1 A number of respondents to the PDCS commented on the apparent lack of consistency between the DSP viability findings, which pointed to a £0 CIL charging rate for the time being on business developments.

2.5.2 The Council was looking at an approach that would be consistent with regard to some recent / current developments that supported relatively small scale s.106 contributions.

2.5.3 However, and having considered this further, DSP remains confident in its approach to reviewing, and findings on, these forms of development (essentially offices, industrial and warehousing). This means that we have not altered our view and cannot evidence a viability position to support regular CIL charging at the current time (or likely in the foreseeable future).

2.5.4 Therefore we reaffirm our recommendation for a £0 CIL rate charge in this respect.

2.6 Retail – threshold between smaller and larger formats

2.6.1 In addition to the above areas, the Council has been considering further how to most appropriately position / describe the "threshold level" beyond which the development of a retail development unit would incur CIL charging at the higher of the two proposed retail rates. In our experience and from our range of testing, we do not consider the specific switch-point to be critical because this is more about recognising different formats rather than their specific size. We consider that the range of scenarios being developed through a variety of charging authorities' schedules illustrates this – from a viability point of view there is no fixed floor area that we consider needs to be adhered-to for this purpose. These principles were outlined at 3.4.5 and 3.4.6 of the December 2011 viability study where we referred to the Sunday Trading provisions as a potential pointer.

2.6.2 For the purposes of the Council's review work, we consider that there is scope for it to adjust the development size at which the retail CIL rate distinction is made.

3 Updated recommendations summary

3.1 Draft stage Charging Schedule – further viability-led considerations - **Recommended changes to PDCS elements following this further review and consultation work are as set out in the following table**.

Revised CIL Charging Rates for consideration
Residential
Recommendation: Introduce an intermediate rate applicable to Ely (including potential City fringe development areas) – at £70/sq m. Retain lower rate of £40/sq m for Soham and Littleport; higher (rest of District) rate of £90/sq m (all within the scope of original recommendations).
Business Development - Office and Industrial (B1, B1a, B2, B8)
Recommendation: Zero rate (£0) - reaffirmed
Equine related
Recommendation: Remove the PDCS proposal - £0/sq m.

Text of Addendum report ends.
Appendices I and II follow.
April 2012.