BNP PARIBAS REAL ESTATE | Real Estate for a changing world

Community Infrastructure Levy: Viability Study

Prepared for

Bath and North East Somerset Council

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1 Executive Summary

1.1 This report tests the ability of a range of development types throughout the Bath and North East Somerset Council area to yield contributions to infrastructure requirements through a Community Infrastructure Levy ('CIL'). For residential development, due regard has also been given to the Council's policy requirement that such developments should contribute towards the provision of affordable housing.

Methodology

1.2 The study methodology compares the residual land values of a range of generic developments to a range of benchmark land values that are reflective of the typical types of sites coming forward for development. If a development incorporating a given level of CIL generates a higher value than the current benchmark land value, then it can be judged that the proposed level of CIL will not adversely impact upon viability.

1.3 The study utilises the residual land value method of calculating the value of each development. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance and CIL) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site.

1.4 The housing and commercial property markets are inherently cyclical and the Council is testing its proposed rates of CIL at a time when values have fallen below their peak. We have allowed for this by running a sensitivity analysis which inflates sales values by 10% and build costs by 5%. This analysis will enable the Council to determine levels of CIL that are viable in today's terms but also the levels that *might* become viable following an improvement in market conditions over the life of the Charging Schedule. There cannot be any certainty that these levels of growth will be achieved, so there would be an element of risk in relying upon them.

Key findings

1.5 The key findings of the study are as follows:

- The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted in the future to reflect any improvements.
- The viable levels of CIL on residential developments is summarised in table 1.5.1 below. Please refer to section 4 which explains the seven site types and the four threshold land values.

Table 1.5.1: Maximum viable levels of CIL – residential development

	Bath City Centre	Bath Rural/ Bathavon	Bath North & East	Chew Valley West	Bath North/ South/ West and Chew Valley East	Keynsham	Norton Radstock
Max (incl site 1)	350	350	350	350	350	350	300
Max (excl site 1)	350	350	350	260	220	300	300
Min	140	280	220	160	140	140	180
Potential CIL rate based on Min[1]	98	196	154	112	98	98	126

- The ability of **residential schemes** to make CIL contributions varies significantly depending on size and type of scheme, area and the current use of the site. Adopting a single rate for residential development across the District is unlikely to be practicable, given the significant variations in sales values. Taking the mid-point between the highest levels of CIL that could viably be charged and the lower levels, rates of CIL per square metre that could be adopted are shown in Table 1.5.1.
- In some circumstances, developments are currently unviable whether or not CIL is levied. The imposition of CIL will therefore not affect the prospects of these sites being delivered. Where these sites are re-tested with lower proportions of affordable housing, the prospects for securing a viable scheme that can make CIL contributions are improved. Viability of these sites can be improved in the short term by reducing the quantum of affordable housing sought.
- **Hotel developments** could accommodate a CIL of up to a maximum of £160 per sq metre. We would suggest a rate of around £100 to allow an adequate buffer for site-specific factors. Data on demand and occupancy indicates that hotels are less profitable outside the City Centre and consequently are less likely to be viable. Consequently, we recommend a nil rate on hotel development outside Bath.
- **Office development** is unlikely to come forward in the short to medium term. Although there is an adequate demand for space, this has not generated rents that would be high enough to support new development, particularly in Bath where build costs are significantly higher. We therefore recommend that the Council sets a nil rate for offices.
- Residual values generated by **Retail developments** vary significantly. Retail development in Bath City is likely to be viable and able to absorb CIL of up to £220 per square metre. Outside Bath, retail rents are considerably lower and residual values will be insufficient to support any level of CIL. Retail parks generate sufficient residual values to absorb CIL set at up to £280 per square metre. Given the sensitivity of residual values to changes in rent levels, we recommend that the Council might wish to consider a CIL on retail development in Bath of around £150 per sq metre and an identical rate for retail park development. Outside Bath, high street retail development should be nil rated.

[1] These rates are based on the minimum viable scenarios and deduct a 'buffer' or contingency factor of 30%.

- Our appraisals of developments of **industrial and warehousing floorspace** indicate that these uses are unlikely to generate positive residual land values. We therefore recommend a zero rate for industrial floorspace.
- D1 uses (e.g. health care facilities, schools etc) often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a zero rate of CIL be set for D1 uses.
- **Student housing** generates positive residual values, although the degree to which developments can absorb CIL contributions is dependent on the rent levels set. There is a significant differential between rents in the private sector and the University Sector, although both types of development are viable. Student housing would, however, be able to absorb a CIL contribution of between £90 to £140 per square metre, but we recommend a rate of £60 per square metre for student housing provided by the University Sector to allow a risk margin.
- Other developments falling outside the uses above could be covered by a CIL rate for 'other chargeable development' in line with the approach adopted by Portsmouth City Council[2] and Bristol City Council. This 'other chargeable development' rate could be set at nil, as there would be very little development falling into this category.

1.6 Throughout our appraisals, we have applied CIL to all private residential floorspace and the entire floorspace in commercial schemes. The appraisals therefore disregard the discount that many developers will be able to deduct to reflect existing floorspace. As such, our findings represent a worst-case scenario, in addition to the viability 'buffer' that we have built in to our recommended CIL rates. As such, the rates proposed above are likely to be readily absorbed without impacting on development viability.

[2] This approach is consistent with the regulations and was accepted by the Examiner – see report dated 10 January 2012

2 Introduction

2.1 This study has been commissioned to provide an evidence base to inform Bath and North East Somerset Council's CIL Preliminary Draft Charging Schedule ('PDCS'), as required by Regulation 15 of the CIL Regulations April 2010 (as amended in 2011). The aims of the study are summarised as follows:

- to test the impact upon the economics of residential development of a range of levels of CIL;
- to test the ability of commercial schemes to make a contribution towards infrastructure through CIL; and
- for residential schemes, to test CIL alongside the Council's requirements for affordable housing and other Core Strategy requirements.

2.2 In terms of methodology, we adopted standard residual valuation approaches to make appropriate comparisons and evaluations. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique), mean that conclusions must always be tempered by a level of flexibility in application of policy requirements on a site by site basis. It is therefore essential that levels of CIL are set so as to allow a sufficient margin to allow for these variations.

Policy Context

2.3 The CIL regulations state that in setting a charge, local authorities must aim to strike "an appropriate balance" between revenue maximisation on the one hand and the potentially adverse impact upon the viability of development on the other. The regulations also state that local authorities should take account of other sources of available funding for infrastructure when setting CIL rates. This report deals with viability only and does not consider other sources of funding (this is considered elsewhere within the Council's evidence base).

2.4 Local authorities must consult relevant stakeholders on the nature and amount of any proposed CIL. Following consultation, a draft charging schedule must be submitted for independent examination.

2.5 The regulations allow a number of exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if controlled by a charity) are subject to relief. Secondly, local authorities may, if they chose, elect to offer an exemption on proven viability grounds. The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed. To be eligible for exemption, regulation 55 states that the Applicant must enter into a Section 106 agreement (and the costs of complying with the agreement must exceed the amount of CIL that would have been payable); and that the Authority must be satisfied that granting relief would not constitute state aid.

2.6 The CIL regulations enable local authorities to set differential rates (including zero rates) for different zones within which development would take place and also for different types of development.

2.7 The 2010 regulations set out clear timescales for payment of CIL, which varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allow local

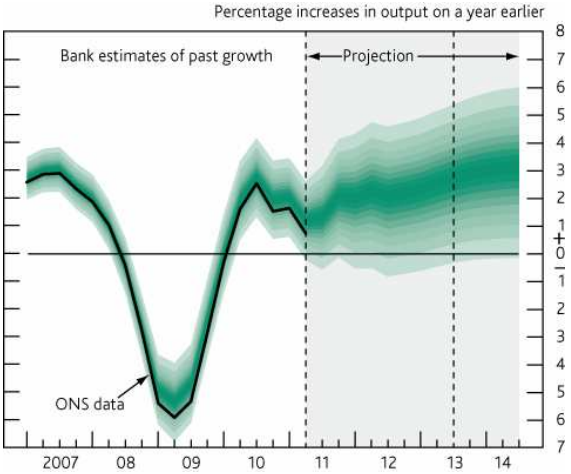
authorities to set their own timescales for the payment of CIL if they chose to do so. This is an important issue that the Council will need to consider, as the timing of payment of CIL can have an impact on an Applicant's cashflow (the earlier the payment of CIL, the more interest the Applicant will bear before the development is completed and sold).

2.8 Several local authorities have undertaken viability assessments and have drafted a CIL charging schedule, which they have submitted for independent examination. Newark and Sherwood Council, Shropshire Council and Redbridge Borough Council have received their Inspector's reports and are at varying stages in terms of adopting their charging schedules (we understand that Newark & Sherwood's charging schedule will come into effect on 1 December 2011).

Economic and housing market context

2.9 The historic highs achieved in the UK housing market by mid 2007 followed a prolonged period of real house price growth. However, a period of 'readjustment' began in the second half of 2007, triggered initially by rising interest rates and the emergence of the US sub prime lending problems in the last quarter of 2007. The subsequent reduction in inter-bank lending led to a general "credit crunch" including a tightening of mortgage availability. The real crisis of confidence, however, followed the collapse of Lehman Brothers in September 2008, which forced the government and the Bank of England to intervene in the market to relieve a liquidity crisis.

2.10 The combination of successive shocks to consumer confidence and the difficulties in obtaining finance led to a sharp reduction in transactions and a significant correction in house prices in the UK, which fell to a level some 21% lower than at their peak in August 2007 according to the Halifax House Price Index. Consequently, residential land values fell by some 50% from peak levels. One element of government intervention involved successive interest rate cuts and as the cost of servicing many people's mortgages is linked to the base rate, this financial burden has progressively eased for those still in employment. This, together with a return to economic growth early 2010 (see August 2011 Bank of England GDP fan chart below, showing the range of the Bank's predictions for GDP growth to 2014) had meant that consumer confidence had started to improve to some extent.

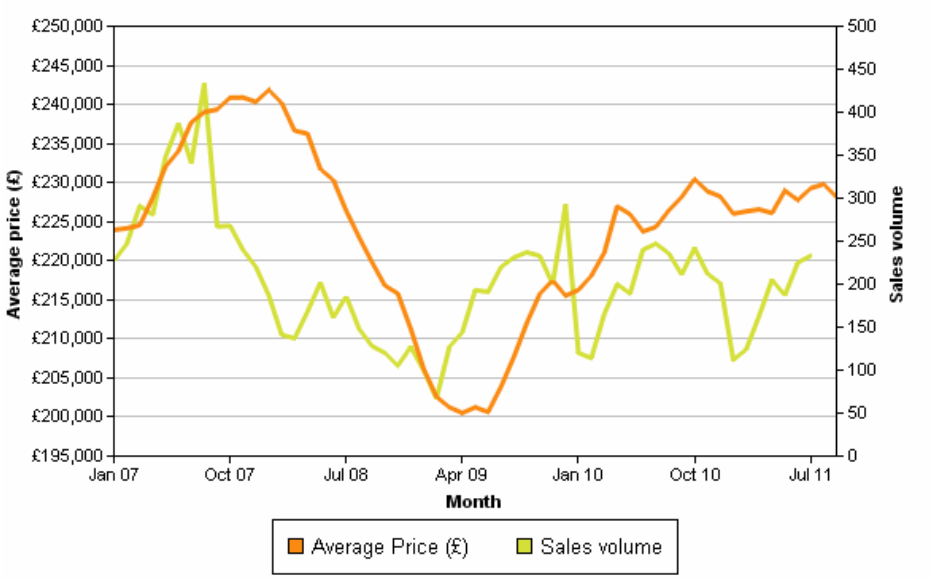


Source: Bank of England

2.11 Throughout the first half of 2010 there were some tentative indications that improved consumer confidence was feeding through into more positive interest from potential house purchasers. Against the background of a much reduced supply of new housing, this would lead one to expect some recovery in prices. However it is evident that this brief resurgence has abated, with the Nationwide and Halifax House Price Indices showing annual house price falls of 0.1% and 2.8% retrospectively in February 2011. Since the Spring of 2011, public spending cuts in the UK and continuing concerns regarding sovereign debt in the Eurozone have adversely affected consumer confidence. Continuing restrictions on the availability of mortgage finance have also reduced the ability of first time buyers to access the housing market.

2.12 The balance of opinion is that house prices will remain flat in the short term, with continuing high levels of unemployment likely to result in increased repossessions and increased supply of homes into the market. At the same time, demand is expected to remain subdued, due to the continuing difficulties consumers face in securing mortgages.

Figure 2.7.1: House prices and sales volumes in BANES



Source: Land Registry

2.13 According to Land Registry data, residential sales values in BANES have recovered since the lowest point in the cycle in April 2009. Prices have increased by 14.9% between May 2009 and October 2010 but have since fallen back slightly in 2011 and remain 5.7% below their January 2008 level.

2.14 The future trajectory of house prices is currently uncertain, although Savills' May 2011 prediction is that values are expected to increase over the next five years. Medium term predictions are that properties in regional mainstream markets (i.e. non-prime) will return to growth in 2012[3]. Savills predict that values in the south east will fall by 1.5% in 2011, but increase by 5% in 2012, 7% in 2013, 7% in 2014 and 6% in 2015. This equates to cumulative growth of 25.5% between 2011-2015 inclusive.

[3] *Savills Research: Residential Property Focus, May 2011*

Local Policy context

2.15 The Infrastructure Delivery Programme (IDP:Nov 2011) shows that circa £207 million are identified over the next 15 years based on the schemes with indicative cost estimates. The IDP is not a formal investment programme and does not entail financial commitment by the Council or other statutory providers. It will be subject to prioritisation, influenced by the sequence of development and availability of funds. After sources of anticipated funding have been deducted, the Council estimates a funding gap of circa £101 million to be funded from other sources including CIL. The Council recognises that CIL may not fund this full amount and other sources of funding might need to be identified.

2.16 In addition to financing infrastructure, the Council expects residential developments to provide a mix of affordable housing tenures, sizes and types to help meet identified housing needs and contribute to the creation of mixed, balanced and inclusive communities. On large sites, the Council's policy requirement is as follows:

POLICY CP9 Affordable housing

Large sites
Affordable housing will be required as on-site provision in developments of 10 dwellings or 0.5 hectare (whichever is the lower) and above. An average affordable housing percentage of 35% will be sought on these large development sites. This is on a grant free basis with the presumption that on site provision is expected.

Small sites
Residential developments on small sites from 5 to 9 dwellings or from 0.25 up to 0.49 hectare (whichever is the lower) should provide either on site provision or an appropriate financial contribution towards the provision of affordable housing with commuted sum calculations. The target level of affordable housing for these small sites will be 17.5%, half that of large sites, in order to encourage delivery. In terms of the 17.5% affordable housing on small sites, the Council will first consider if on site provision is appropriate. In many instances, particularly in the urban areas of Bath, Keynsham, Midsomer Norton and Radstock the Council will accept a commuted sum in lieu of on-site provision. This should be agreed with housing and planning officers at an early stage.

Viability
For both large and small sites the viability of the proposed development should be taken into account, including:
- *Whether the site is likely to have market values materially above or below the average for the district*
- *Whether grant or other public subsidy is available*
- *Whether there are exceptional build or other development costs*
- *The achievement of other planning objectives*
- *The tenure and size mix of the affordable housing to be provided*

A higher (up to 45%) proportion of affordable housing may be sought or provision below the average of 35% may be accepted.

Sub-division and phasing
Where it is proposed to phase development or sub-divide sites, or where only part of a site is subject to a planning application, the Council will take account of the whole of the site when determining whether it falls above or below the thresholds set out above.
Tenure
The tenure of the affordable housing will typically be based on a 75/25 split between social rent and intermediate housing.

The Council will consider the provision of Affordable Rent or other affordable housing products in lieu of social rent when it is proven necessary to improve viability in order to achieve policy position levels of affordable housing and where the housing need for affordable rent can be demonstrated.

Property Size and Mix
Residential developments delivering on-site affordable housing should provide a mix of affordable housing units and contribute to the creation of mixed, balanced and inclusive communities. The size and type of affordable units will be determined by the Council to reflect the identified housing needs and site suitability.

2.17 The Core Strategy indicates that the Council will seek a tenure mix of 75% social rent and 25% intermediate housing. The Council will determine the size and type of units to be provided on the basis of individual site suitability and housing needs. The Council will aim for 60% of the affordable housing units to be provided as 4 and 5 bed units.

Development context

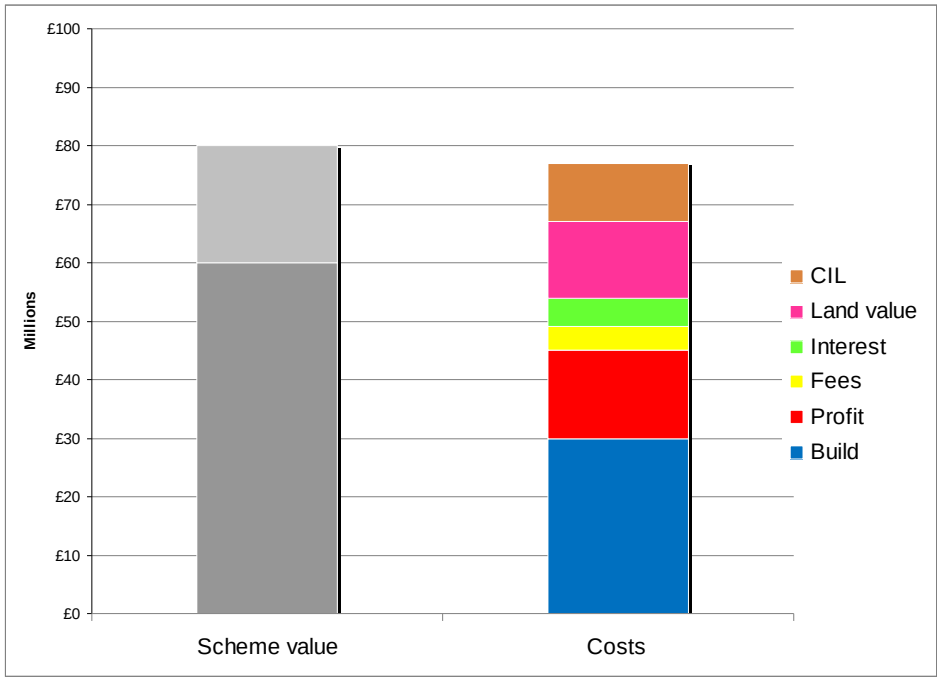
2.18 Developments in the Council's area are diverse, reflecting its part urban and part rural characteristics. Sites in the area range from regeneration sites in Bath City Centre and the other town centres; and small in-fill sites in residential areas. The Council is seeking to meet its future growth needs as far as possible on previously developed land, to avoid the need to develop on Greenfield sites. The Council is seeking to promote new office development in Bath City Centre and development for employment in Keynsham, Midsomer Norton and Radstock.

3 Methodology

3.1 Our methodology follows standard development appraisal conventions, using assumptions that reflect local market and planning policy circumstances. The study is therefore specific to Bath and North East Somerset and reflects the policy requirements set out in the Core Strategy.

Approach to testing development viability

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



3.3 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of an appropriate benchmark land value), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.

3.4 When running a development appraisal, it is necessary to identify the key variables – sales values, costs etc – with some degree of accuracy in advance of implementation of a scheme. Even on the basis of the standard convention that current values and costs are adopted (not values and costs on completion), this can be very difficult. Problems with key appraisal variables can be summarised as follows:

- development costs are nationally and locally monitored and can be reasonably accurately assessed in 'normal' circumstances. In districts like

Bath and North East Somerset, many sites will be previously developed and can sometimes encounter 'exceptional' costs such as decontamination. Such costs can be very difficult to anticipate before detailed site surveys are undertaken;

- development value and costs will also be significantly affected by assumptions about the nature and type of affordable housing provision and other Planning Obligations. In addition, on major projects, assumptions about development phasing; and infrastructure required to facilitate each phase of the development will affect residual values. Where the delivery of the obligations are deferred, the less the real cost to the applicant (and the greater the scope for increased affordable housing and other planning obligations). This is because the interest cost is reduced if the costs are incurred later in the development cashflow; and
- while Developer's Profit has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the higher the profit level required by lenders. Profit levels are significantly higher than they were in 2007 and we do not know when and if profit levels may begin to fall back. This is unlikely to happen during the life of the Council's Charging Schedule.

3.5 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds an appropriate benchmark to make development worthwhile. Margins above current use values may be significantly different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.

3.6 Developers will seek to mitigate the impact of 'unknown' development issues through the following strategies:

- When negotiating with the landowner, the developer will either attempt to reflect planning requirements in the offer for the land, or seek to negotiate an option, or complete a deal 'subject to planning' which will enable any additional unknown costs to be passed on to the landowner. It should be noted that such arrangements are not always possible. Ultimately, the landowner meets the cost through reduced land value, providing the basic condition for Residual Land Value to exceed current use value (plus an appropriate landowners' margin) or other appropriate benchmark is met; and/or,
- The developer will seek to build in sufficient tolerance into the development appraisal to offset risks including, for example, design development where costs might be incurred to satisfy planning and design requirements etc. It would also be normal to have a contingency allowance which would generally equate to 2% to 5% of build costs.
- The extent to which developers can successfully mitigate against all risks depends largely on the degree to which developers have to compete to purchase sites. In a competitive land market, the developer who is prepared to build in less contingency to mitigate against planning and development risks is likely to offer the winning bid.

3.7 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the site in its current use. CIL will be a cost to the scheme and will impact on the residual land value. Ultimately, if landowners' expectations are not met, they will not voluntarily sell their land

and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that policy may change at some future point with reduced requirements. It is within the scope of those expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

Viability benchmark

3.8 The CIL Regulations provide no specific guidance on how local authorities should test the viability of their proposed charges. However, there is a range of good practice generated by both the Homes and Communities Agency and appeal decisions that assist in guiding planning authorities on how they should approach viability testing for planning policy purposes.

3.9 In 2009, the Homes and Communities Agency published a good practice guidance manual 'Investment and Planning Obligations: Responding to the Downturn'. This defines viability as follows: "*a viable development will support a residual land value at level sufficiently above the site's existing use value (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner*".

3.10 A number of planning appeal decisions provide guidance on the extent to which the residual land value should exceed existing use value to be considered viable:

Barnet & Chase Farm: APP/Q5300/A/07/2043798/NWF
"the appropriate test is that the value generated by the scheme should exceed the value of the site in its current use. The logic is that, if the converse were the case, then sites would not come forward for development"

Bath Road, Bristol: APP/P0119/A/08/2069226
"The difference between the RLV and the existing site value provides a basis for ascertaining the viability of contributing towards affordable housing."

Beckenham: APP/G5180/A/08/2084559
"without an affordable housing contribution, the scheme will only yield less than 12% above the existing use value, 8% below the generally accepted margin necessary to induce such development to proceed."

Oxford Street, Woodstock: APP/D3125/A/09/2104658
"The main parties' valuations of the current existing value of the land are not dissimilar but the Appellant has sought to add a 10% premium. Though the site is owned by the Appellants it must be assumed, for valuation purposes, that the land is being acquired now. It is unreasonable to assume that an existing owner and user of the land would not require a premium over the actual value of the land to offset inconvenience and assist with relocation. The Appellants addition of the 10% premium is not unreasonable in these circumstances."

3.11 It is clear from the planning appeal decisions above and HCA good practice publication that the most appropriate test of viability for planning policy purposes is to consider the residual value of schemes compared to the existing use value plus a premium. As discussed later in this report, our study adopts a series of benchmark land values that follow this approach.

3.12 It is important to stress that there is no single threshold land value at which land will come forward for development. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of demand for the site's current use in comparison to others; how offers received compare to the owner's perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single threshold land value, it is difficult for policy makers to determine the minimum land value that sites should achieve.

4 The Appraisal Exercise

Residential development

4.1 We have appraised a series of generic developments, reflecting both the range of sales values and also size of development and densities of development across the District. This is similar to the approach adopted in the *Bath and North East Somerset Viability Study* (2010) by Three Dragons which forms part of the evidence base for the Council's Core Strategy.

Overview of key residential appraisal variables

4.2 The key variables in any residential development appraisal are as follows:

4.3 **Sales values:** Sales values will vary between local authority areas (and within local authority areas) and are constantly changing. Developers will try to complete schemes in a rising or stable market, but movements in sales values are a development 'risk'. During times of falling house prices, local authorities may need to apply their policy requirements flexibly, or developers may cease bringing sites forward. The Bath and North East Somerset Core Strategy policy on affordable housing has built in flexibility to address site specific or market related viability issues.

4.4 **Density:** Density is an important determinant of development value. Higher density development results in a higher quantum of units than a lower density development on the same site, resulting in an increase in gross development value. However, high density development can sometimes result in higher development costs (due to the need to develop taller buildings, which are more expensive to build than lower rise buildings) and the need to often provide basements for car parking and plant. It should therefore not *automatically* be assumed that higher density development results in higher residual land values; while the gross development value of such schemes may be higher, this can be partially offset by increased build costs.

4.5 **Gross to net floor space:** The gross to net ratio measures the ratio of saleable space (ie the area inside residential units) compared to the total area of the building (ie including the communal spaces, such as entrance lobbies and stair and lift cores). The higher the density, the lower the gross to net floor space ratio; in taller flatted schemes, more floor space is taken up by common areas and stair and lift cores, and thus less space is available for renting or sale.

4.6 **Base construction costs:** While base construction costs will be affected by density and may be affected by other factors, such as flood risk, ground conditions etc., they are well documented and can be reasonably accurately determined in advance by the developer.

4.7 **Exceptional costs:** Exceptional costs can cause viability issues on previously developed land. Exceptional costs relate to works that are 'atypical', such as remediation of sites in former industrial use and that are over and above standard build costs. However, for the purposes of this exercise, it is not possible to provide a reliable estimate of what exceptional costs would be, as they will differ significantly from site to site. We therefore exclude exceptional costs, as to apply a blanket allowance would generate misleading results. An 'average' level of costs for decontamination, flood risk mitigation and other 'abnormal' costs is already reflected in BCIS data, as such costs are frequently encountered on sites that form the basis of the BCIS data sample.

4.8 **Developer's Profit:** Following standard practice, developer profits are based on an assumed percentage of gross development value. Profits reflect levels of perceived and actual risk. The higher the potential risk, the higher the profit margin required to offset those risks. At the current time, development risk is high. This is unlikely to change in the first few years after the adoption of the Charging Schedule but should be kept under review thereafter. If conditions improve, it is possible (but by no means guaranteed) that banks will relax their lending criteria and reduce the amount of profit they require schemes to achieve.

Commercial development

4.9 We have appraised a series of generic commercial developments, reflecting a range of use classes at average rent levels achieved on lettings of commercial space in actual developments.

Benchmark land values

4.10 Benchmark land values, based on the value of sites in their current use, alternative use values and (to a lesser extent) acquisition costs are key considerations in the assessment of development economics for testing planning policies and tariffs. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the value of a site in its current use value. Current use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. The values of a site in its current use, or an alternative use value, is effectively a 'bottom line' in a financial sense and a therefore a key factor in this study.

4.11 We have arrived at a broad judgement on the likely range of benchmark land values. On previously developed sites, the calculations assume that the landowner has made a judgement that the current use does not yield an optimum use of the site; for example, it has fewer storeys than neighbouring buildings; or there is a general lack of demand for the type of space, resulting in low rentals, high yields and high vacancies (or in some cases no occupation at all over a lengthy period). We would not expect a building which makes optimum use of a site and that is attracting a reasonable rent to come forward for development, as residual value may not exceed the site's current use value in these circumstances.

4.12 Redevelopment proposals that generate residual land values below a site's current use value plus an appropriate margin to the landowner are unlikely to be delivered. While any such thresholds are only a guide in 'normal' development circumstances, it does not imply that individual landowners, in particular financial circumstances, will not bring sites forward at a lower return or indeed require a higher return. It is simply indicative. If proven current use value justifies a higher benchmark than those assumed, then appropriate adjustments may be necessary. Similarly, the margin above current use value that individual landowners may require will inevitably vary. As such, the benchmark land values used in this study serve as a guide, rather than being definitive fixed variables on a site by site basis.

4.13 The four benchmark land values used in this study have been selected to provide a broad indication of likely land values across the district, but it is important to recognise that other site uses and values may exist on the

ground. There can never be a single threshold land value at which we can say definitively that land will come forward for development.

4.14 We have included a risk-adjusted Valuation Office Agency ('VOA') 'residential land value' for Bristol in our benchmarks. The VOA does not produce any data specific to Bath and the Bristol residential land values are the closest data available to Bath. This data reflects *consented and serviced land values,* so we have deducted an allowance of 20% for risk from the VOA land values to reflect their planning status. We have also included a further benchmark which increases the VOA residential land value by 50% to illustrate the impact of a higher land value on the viable rates of CIL that could be secured.

Specific Modelling Variables

4.15 This section summarises the individual assumptions used in the appraisals and the rationale for the selection of each variable.

Residential sales values

4.16 Residential values in the District reflect national trends in recent years but do of course vary across the District. We have examined comparable evidence of transacted properties in the District and have had regard to the Council's Affordable Housing Viability Study[4]. Values range from £2,095 to £5,554 per square metre, as shown in table 4.18.1.

Table 4.18.1: Residential sales values

Area	Average value (£s per square metre)
Bath City Centre	5,554
Bath rural/Bathavon	4,991
Bath North and East	4,414
Chew Valley (West)	3,721
Bath North/West/South and Chew Valley East	2,769
Keynsham	2,428
Norton Radstock	2,095

4.17 As noted earlier in the report, Savills predict that sales values will increase over the medium term. Whilst this predicted growth cannot be guaranteed, we have run a sensitivity analysis assuming growth in sales values of 10%, accompanied by 5% increase in costs (the latter assuming a pick up in construction activity and higher labour and materials costs).

[4] *Bath and North East Somerset Viability Study – Final Report June 2010* Three Dragons

Commercial rents and yields

4.18 Our research on lettings of commercial floorspace indicates a range of rents achieved, as summarised in table 4.21.1. This table also includes our assumptions on appropriate yields to arrive at a capital value of the commercial space. There is a good level of demand for office space in Bath, but the level of rents that can be achieved at the current time present issues for new development given the high build costs in the City. Retail markets in the City are healthy, with a vacancy rate of 8.4%. Whilst the vacancy rate has increased since 2009, it remains at a below average level for major retail centres. Bath faces below average competition from other retail centres, with the largest competing centre being Bristol, with competition to a lesser extent from Trowbridge and Swindon. There is no new retail space under construction in the City.

Table 4.21.1: Commercial rents and yields

Commercial use	Rent (£s per square metre)	Yield
Office	£194	7.5%
Industrial	£65	9%
High street retail – Bath City	£30	6.5%
High Street retail – Elsewhere	£20	7%
Retail Park	£20	7%

4.19 We have tested the viability of developments of commercial floorspace on existing commercial sites. For these developments, we have assumed that the site currently accommodates the same use class and the development involves intensification of that use. We have assumed lower rents and higher yields for existing space than the planned new floorspace. This reflects the lower quality and lower demand for second hand space, as well as the poorer covenant strength of the likely occupier of second hand space (if these conditions do not exist on the ground, then the site would not come forward for development). A modest refurbishment cost of £161 per square metre is allowed for to reflect costs that would be incurred to secure a letting. A 20% landowner premium is added to the resulting existing use value as an incentive for the site to come forward for development.

Residential development types, density and mix

4.20 We have run appraisals using the range of densities that are typically encountered in the District. Densities are assumed to range from 20 units per hectare – reflective of small infill sites - to 120 units per hectare on central sites. A consistent unit mix has been adopted for both private and affordable tenures, as shown in Table 4.23.1. The mix varies between density of development. Table 4.23.2 summarises the different development types selected for testing purposes.

Table 4.23.1: Housing Mix

Site type	Dens-ity (units per ha)	1 Bed flat	2 bed flat	3 bed flat	2 bed house	3 bed house	4 bed house	5 bed house
1	20	-	-	-	-	100%	-	-
2	30	-	-	-	25%	75%	-	-
3	120	35%	45%	20%	-	-	-	-
4	40	-	-	-	70%	30%	-	-
5	80	10%	10%	10%	25%	35%	10%	-
6	35	-	-	-	25%	45%	20%	10%
7	40	-	-	-	45%	35%	15%	5%

Table 4.23.1: Housing Mix

	Number of units	Housing type	Development density	Net developable area (ha)
1	4	Houses	20	0.20
2	7	Houses	30	0.23
3	15	Flats	120	0.13
4	20	Houses	40	0.50
5	50	Flats and houses	80	0.63
6	150	Houses	30	5.00
7	250	Houses	40	6.25

Gross to Net Floor space

4.21 The higher the density, the greater the loss of net lettable/ saleable space. This is because flatted schemes require common areas and stair cores, whereas houses provide 100% 'saleable space'. In our model, we have adopted a gross to net ratio for flats of 85%. This reflects a high volume of schemes that BNP Paribas Real Estate has valued or appraised on behalf of developers, banks and local authorities. The gross to net ratio is reflected in the build cost when measured on the total saleable area (i.e. the area that excludes common areas). For example, if a building comprises of 10 flats each with a net internal area (i.e. the floorspace inside the flat itself) of 100 square metres, the total net area of the building is 1,000 square metres. However, when the entrance lobbies, corridors and stair cores are taken into account, the total floor area (what is known as the gross internal area) is 1,200 square metres. The net area is 83% of the gross area. If the build cost is £1,500 per square metre, this equates to £1,800 per square metre per net square metre. This is an important distinction when considering whether a build cost is reasonable – the unit of measurement (i.e. gross or net) needs to be consistent.

Base Construction Costs

Residential build costs

4.22 The modelling exercise plots a range of base construction costs reflecting density considerations with differentials between areas, reflecting requirements relating to materials and design. These build costs were discussed and agreed with stakeholders, both in relation to the Affordable Housing Viability Study[5] and the CIL stakeholders' workshop. The costs assumed in our appraisals (inclusive of external works and the costs of meeting Code for Sustainable Homes level 3) are summarised in Table 4.22.1.

Table 4.22.1 Residential build costs £s per square metre

	Flats	Houses
Bath City Centre	2,410	1,800
Bath rural/Bathavon	1,790	1,360
Bath North and East	1,690	1,260
Chew Valley (West)	1,690	1,260
Bath North/West/South and Chew Valley East	1,690	1,260
Keynsham	1,200	900
Norton Radstock	1,200	900

4.23 Costs in Bath City are considerably higher than in other areas due to the requirement for developments to be finished in Bath stone. This has a higher cost in comparison to standard bricks and other facades.

4.24 On larger site types (150 units or more), we have reduced the base build costs by 10% to reflect the economies of scale that a developer is typically able to achieve on such sites.

4.25 The costs could increase further should 'exceptional costs' arise, ie the variety of above average costs which include contamination and remediation. As a result, costs need to be treated with caution and where exceeded, will inevitably affect the capacity of schemes to carry obligations and affordable housing. However, our appraisals include a 5% build cost contingency which would help to mitigate such costs.

4.26 Our base construction costs assume that housing is provided to Code for Sustainable Homes level 3. The Council has no current plans to seek a higher level of CSH over the anticipated life of the Charging Schedule. The Inspector's report on the Newark and Sherwood CIL Charging Schedule indicates that CIL viability should be based on current requirements only. However, we have also appraised the schemes assuming Code for Sustainable Homes level 4. Our appraisals include an 11% enhancement for meeting the additional costs of level 4.

4.27 It is important to note that build costs could increase further should additional 'exceptional costs' arise. As a result, costs need to be treated with caution and where normal levels are exceeded, the capacity of the site concerned to meet the Council's requirements for CIL and affordable housing will be affected. However, with many sites coming forward on previously developed

[5] *Bath and North East Somerset Viability Study – Final Report June 2010* Three Dragons

sites, the build costs (which are based on BCIS tender price data) includes an 'average' cost for decontamination and site clearance, with some sites in the sample including such costs.

4.28 Our appraisals include a notional allowance for residual S106 and S278 costs amounting to £1,000 per unit, applying to both private and affordable housing units.

Commercial build costs

4.29 We have relied upon BCIS data for commercial build costs. BCIS reports that the mean average build costs as at the 3rd quarter of 2011 for retail is £1,184 per sq; £587 for industrial floorspace; and £1,424 per sq m for air conditioned office floorspace (low rise) and £1,802 per sq m for air conditioned offices of 6 or more storeys. For retail and offices in Bath, we have adjusted these costs to reflect the extra-over costs for building with Bath stone. The base and adjusted costs are shown in table 4.29.1.

Table 4.29.1: Commercial build costs

Development type	Base BCIS costs (£s per square metre)	Adjusted costs for Bath City (£s per square metre)
Offices	1,424	1,850
Retail	1,184	1,540
Retail park	706	n/a
Industrial	587	n/a

Developer's profit

4.30 Developer's profit is closely correlated with the perceived risk of residential development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme. In 2007, profit levels were at around 15-17% of cost. However, following the impact of the credit crunch and the collapse in interbank lending and the various government bailouts of the banking sector, profit margins have increased. It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the Boards of the major housebuilders will set targets for minimum profit).

4.31 The views of the banks which fund development are more important; if the banks decline an application by a developer to borrow to fund a development, it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals.

4.32 The near collapse of the global banking system in the final quarter of 2008 is resulting in a much tighter regulatory system, with UK banks having to take a much more cautious approach to all lending. In this context, and against the backdrop of the current sovereign debt crisis in the Eurozone, the banks may not allow profit levels to decrease much lower than their current level, if at all.

4.33 The minimum generally acceptable profit level is currently around 20% of cost, as agreed at the stakeholders workshop. Our assumed return on the affordable housing cost is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an RSL prior to commencement. Any risk associated with take up of intermediate housing is borne by the acquiring RSL, not by the developer. A reduced profit level on the affordable housing reflects the Homes and Communities Agency's guidelines in its Economic Appraisal Tool.

Affordable housing tenure and values

4.34 The Council's policy position is 75% social rented housing and 25% shared ownership. However, this pre-dates the introduction of the new affordable rent product, which generates higher capital values than social rent. Our appraisals therefore assume the standard 75%/25% tenure split, with the rented element provided as affordable rent.

4.35 We have calculated the value of the Affordable Rent units housing by capitalising the net rents, having regard to management and maintenance costs, and financing arrangements of the RSLs. This exercise results in a blended capital value of £1,228 per square metre (£114 per sq ft).

4.36 As intermediate housing is linked to market values, the values will be determined in part by varying market values across each area. The values adopted for this tenure are based on the assumption that 40% of the equity is sold to the occupier and the RSL charges a rent of 2% on the retained equity.

4.37 The CLG/HCA '*2011-2015 Affordable Homes Programme – Framework'* (February 2011) document clearly states that RSLs will not receive grant funding for any affordable housing provided through planning obligations. Consequently, all our appraisals assume nil grant.

Phasing of CIL payments

4.38 The Council is yet to formulate its instalment policy. For testing purposes, we have assumed that any CIL due will be payable at the following points in the development:

- 33% on commencement;
- 33% 12 months after commencement; and
- 34% 18 months after commencement.

Other Influential Factors

4.39 Variability of landowner attitudes: Land markets need time to adapt to changing policy circumstances and landowners may have the choice to hold sites back and hope that policies change. Up until the recent housing market recession, a more common circumstance in areas of sharp price inflation has been fierce competition between developers. This resulted in some developers buying sites without consent on the expectation that rising capital values would offset risk. When the market turns, these developers find that they are unable to implement their schemes and cannot afford their infrastructure and affordable housing obligations.

4.40 Site specific circumstances may arise where the authority is obliged to weigh

up perhaps conflicting policy requirements. On sites with an extensive requirement for decontamination (ie above average levels), not all the Council's planning requirements may be affordable. For example, an employment protection policy may require commercial space to be provided in a predominantly residential scheme. The commercial space is likely to have a negative or low value, which requires a cross subsidy from the private housing. This is likely to reduce the amount of subsidy available to provide CIL and affordable housing.

5 Appraisal outputs

Residential appraisals

5.1 The full outputs from our appraisals of residential development are attached as Appendix 1. We have modelled seven generic site types, reflecting different densities and types of development, which are tested in each area in the District and against four land value benchmarks. These types are summarised in table 5.1.1 below.

Table 5.1.1: Development types

	Number of units	Housing type	Development density	Net developable area (ha)
1	4	Houses	20	0.20
2	7	Houses	30	0.23
3	15	Flats	120	0.13
4	20	Houses	40	0.50
5	50	Flats and houses	80	0.63
6	150	Houses	30	5.00
7	250	Houses	40	6.25

5.2 For schemes of 5 units or more, we have tested 25%, 35% and 45% affordable housing (all assumed to be 65% social rented and 35% Shared Ownership, in line with the Core Strategy). Although 25% affordable housing is below the Council's Core Strategy target, this has been tested to demonstrate the impact of a reduction that might apply in exceptional circumstances.

5.3 We have tested Code for Sustainable Homes Level 3 and level 4 on all schemes. Level 3 is reflected through a 5% adjustment to our base build costs, while Level 4 is reflected through an 11% adjustment to base build costs.

5.4 For all types, we have run a sensitivity analysis in which sales values increase by 10% and build costs also increase by 5%. This is provided for illustrative purposes and may assist the Council in understanding how viability might improve over time. However, the future trajectory of the housing market is inherently uncertain and predictions cannot be relied upon.

5.5 The residual land values from each of the scenarios above in each of the seven housing market areas are then compared to four benchmark land values ('BLVs') set out in paragraphs 4.10 to 4.16. This comparison enables us to determine whether the imposition of CIL would have an impact on development viability. In some cases, the equation RLV less BLV results in a negative number, so the development would not proceed, whether CIL was imposed or not. We therefore focus on situations where the RLV is greater than BLV and where (all other things being equal) the development would proceed. In these situations, CIL has the potential to 'tip the balance' of viability into a negative position.

Commercial appraisals

5.6 Our research on rents achieved on commercial lettings indicates a range of rents within each main use class. Our commercial appraisals therefore model the lower end of the range of rents and capital values to test the impact on viability and the ability of commercial schemes to contribute towards CIL. For each use class tested (B1, B2/B8 and retail), we have run appraisals of a quantum of floorspace, each with rent levels reflecting the range identified by our research.

Presentation of data

Residential appraisals results

5.7 For development types with no affordable housing (i.e. site type 1), there are three spreadsheets, as follows:

- CSH level 3;
- CSH level 4; and
- CSH level 4 with sensitivity analysis on sales values and build costs.

5.8 For development types with affordable housing or equivalent financial contribution (i.e. site types 2, 3, 4, 5, 6 and 7), there are seven spreadsheets, as follows:

- 25% affordable housing, CSH level 3 and 4;
- 35% affordable housing, CSH level 3 and 4;
- 45% affordable housing, CSH level 3 and 4; and
- 45% affordable housing, CSH level 4 with sensitivity analysis on sales values and build costs.

5.9 An illustrative sample of the format of the results is provided below.

CIL Viability Bath & North East Somerset **Benchmark Land Values (per net developable ha)**

BLV1	BLV2	BLV3	BLV4
Resi land	Industrial	Greenfield, no svc	Vacant, serviced
£1,680,000	£800,000	£650,000	£500,000

SITE TYPE 7
4 UNITS
FLATS AND HOUSES
30 UPH

CSH level:	3
Aff Hsg:	25%

	Sales value inflation
	Build cost inflation
	Profit

Site type 7	Description:	**Area 1 £5554 psm Bath CC**	Site area:	0.13 ha

CIL amount	RLV	RLV per ha	RLV less BLV 1	RLV less BLV 2	RLV less BLV 3	RLV less BLV 4
0	613,674	4,602,552	2,922,552	3,802,552	3,952,552	4,102,552
40	605,579	4,541,842	2,861,842	3,741,842	3,891,842	4,041,842
60	601,532	4,511,486	2,831,486	3,711,486	3,861,486	4,011,486
80	597,484	4,481,131	2,801,131	3,681,131	3,831,131	3,981,131
100	593,437	4,450,776	2,770,776	3,650,776	3,800,776	3,950,776
120	589,389	4,420,421	2,740,421	3,620,421	3,770,421	3,920,421
140	585,342	4,390,066	2,710,066	3,590,066	3,740,066	3,890,066
160	581,295	4,359,711	2,679,711	3,559,711	3,709,711	3,859,711

5.10 Each spreadsheet provides residual values at varying amounts of CIL, starting at £0 and increasing to £350 per square metre. CIL is applied to 100% of private residential floor area in our model and represents a worst case scenario. In reality, some sites will be previously developed and CIL would only be levied on the net additional area only.

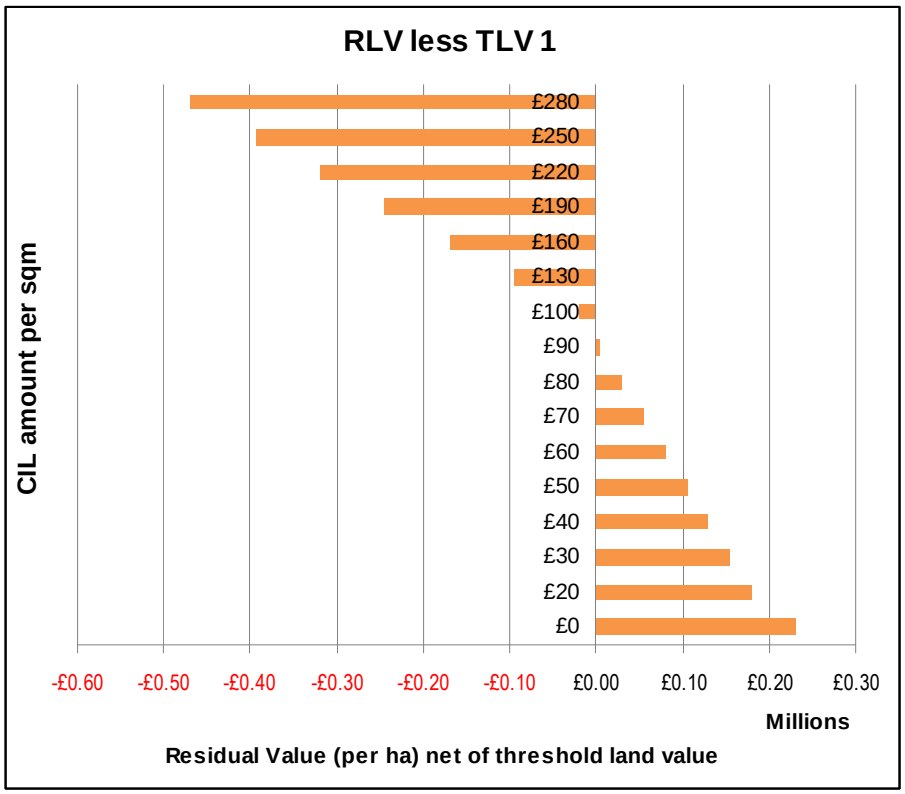
5.11 Separate data tables are provided in each spreadsheet for each of the housing market areas, as follows:

- Area 1: Bath City Centre;
- Area 2: Bath rural/Bathavon;
- Area 3: Bath north and east;
- Area 4: Chew Valley (West);
- Area 5: Bath north, west and south and Chew Valley (East);
- Area 6: Keynsham; and
- Area 7: Norton Radstock.

5.12 The RLV is converted to a per hectare rate and compared to the four threshold land values (VOA residential land (increased by 50% and adjusted for planning risk); VOA residential land adjusted for planning risk only; vacant sites in or adjacent to existing settlements (i.e. no major infrastructure requirements) and greenfield sites (which require infrastructure). This is shown in the columns headed 'RLV less BLV1, BLV2' etc. A positive number indicates that the development is viable, as the developer will receive a normal level of development profit and the land value will be sufficient for the site to come forward.

5.13 The numerical data is then displayed in four graphs, one for each threshold land value. The graphs show the amount by which the RLV exceeds BLV (or is less than BLV) for each level of CIL. In the illustrative example below (Chart 5.13.1), the graph shows that the maximum viable level of CIL would be £90, but that above this level, higher levels of CIL would render the scheme unviable. It is important to note that the charts do not have the same scale and the reader needs to bear this in mind when comparing one chart to another. The intention of the graphs is primarily to show the 'tipping point' where a higher rate of CIL renders the scheme unviable.

Chart 5.13.1: Illustrative example of data chart



Commercial appraisal results

5.14 The commercial appraisal results are more straightforward, due to the narrower range of variables that need to be considered in comparison to residential development. The appraisal results are presented in a similar way to the residential results, using the same charts to show the 'surplus' or negative scheme value after CIL is deducted.

6 Assessment of the results

6.1 This section should be read in conjunction with the full results attached at Appendix 1 (residential appraisal results), Appendix 2 (filtered residential appraisal results) and Appendix 3 (commercial appraisal results). In these results, the residual land values are calculated for scenarios with sales values and capital values reflective of market conditions across the District. These RLVs are then compared to benchmark land values. The graphs in the sections below show the outputs of our appraisals using the variables set out in Section 4.

6.2 Charging authorities are required to strike "***an*** *appropriate balance*" between the need to raise funding to provide infrastructure to ensure development is sustainable and the potential impact of CIL on the economic viability of development. Ultimately, the judgement as to where this balance lies is the Charging Authority's alone, although the examiner will look for evidence that the rates of CIL will not put at serious risk overall development in the area. Our recommendations are that:

- Firstly, charging authorities should take a strategic view of viability. There will always be variations in viability between individual sites, but viability testing should establish the most typical viability position; not the exceptional situations.
- Secondly, charging authorities should take a balanced view of viability – residual valuations are just one factor influencing a developer's decision making – the same applies to local authorities.
- Thirdly, while a single charge is attractive, it may not be appropriate for all authorities, particularly in areas where sales values vary between areas.
- Fourthly, markets are cyclical and subject to change over short periods of time. Sensitivity testing to sensitivity test levels of CIL to ensure they are robust in the event that market conditions improve over the life of a Charging Schedule is essential.
- Fifthly, charging authorities should not set their rates of CIL at the limits of viability. They should leave a margin or contingency to allow for change and site specific viability issues.

6.3 The early examinations have seen a debate on how viability evidence should translate into CIL rates. It has now been accepted that there is no requirement for a proposed rate to slavishly follow the outputs of residual valuations. At Shropshire Council's examination in public, Newark & Sherwood Council argued that rates of CIL should be set at the level dictated by viability evidence which would (if followed literally) have resulted in a Charging Schedule with around thirty different charging zones across the Shropshire area. Clearly this would have resulted in a level of complexity that CIL is intended to avoid. The conclusion of this debate was that CIL rates should not necessarily be determined solely by viability evidence, but *should not be logically contrary* to the evidence. Charging authorities should not follow a mechanistic process when setting rates – appraisals are just a guide to viability and are widely understood to be a less than precise tool.

Assessment – residential development

6.4 As CIL is intended to operate as a fixed charge, the Council will need to consider the impact on two key factors. Firstly, the need to strike a balance between maximising revenue to invest in infrastructure on the one hand and the need to minimise the impact upon development viability on the other. Secondly, as CIL will effectively take a 'top-slice' of development value, there is a potential impact on the percentage or tenure mix of affordable housing that can be secured. This is a change from the current system of negotiated financial contributions, where the planning authority can weigh the need for contributions against the requirement that schemes need to contribute towards affordable housing provision.

6.5 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable *regardless of the level of CIL* and schemes that are viable *prior* to the imposition of CIL at certain levels. If a scheme is unviable before CIL is levied, it is unlikely to come forward and CIL would not be a critical factor. We have therefore disregarded the 'unviable' schemes in recommending an appropriate level of CIL. Appendix 2 provides a 'filtered' set of results, removing the unviable development scenarios to provide a clearer picture of the impact of CIL on developments that could proceed in current market conditions. The unviable schemes will only become viable following a degree of real house price inflation, or in the event that the Council agrees to a lower level of affordable housing in the short term. The impact of a reduction in affordable housing is considered later.

Small sites below the 5 unit threshold

6.6 Site type 1 provides 4 units at an assumed density of 20 units per developable hectare. The charts below show the residual values generated by each site in each of the housing market areas. All the charts assume that the developments are constructed to meet Code for Sustainable Homes level 3. Chart 6.6.1 shows the results for Bath City (the area with the highest sales values, but also with the highest build costs), Chart 6.6.2 shows the results for Bath rural and Bathavon and Chart 6.6.3 shows the results for Norton Radstock (the lowest value area). These charts show that residential schemes of this type could viably yield CIL contributions of £350 per square metre in Bath City Centre, Rural Bath/Bathavon, leaving a significant viability 'buffer'. However, Chart 6.6.3 shows that developments of this type would not be viable in Norton Radstock when compared to the 'high value residential land' benchmark. A similar viability pattern can be seen in Bath north/ west and south, Chew Valley (East) and Keynsham.

Chart 6.6.1: Site type 1 (4 units) compared to 'high value residential land' BLV – Bath City Centre

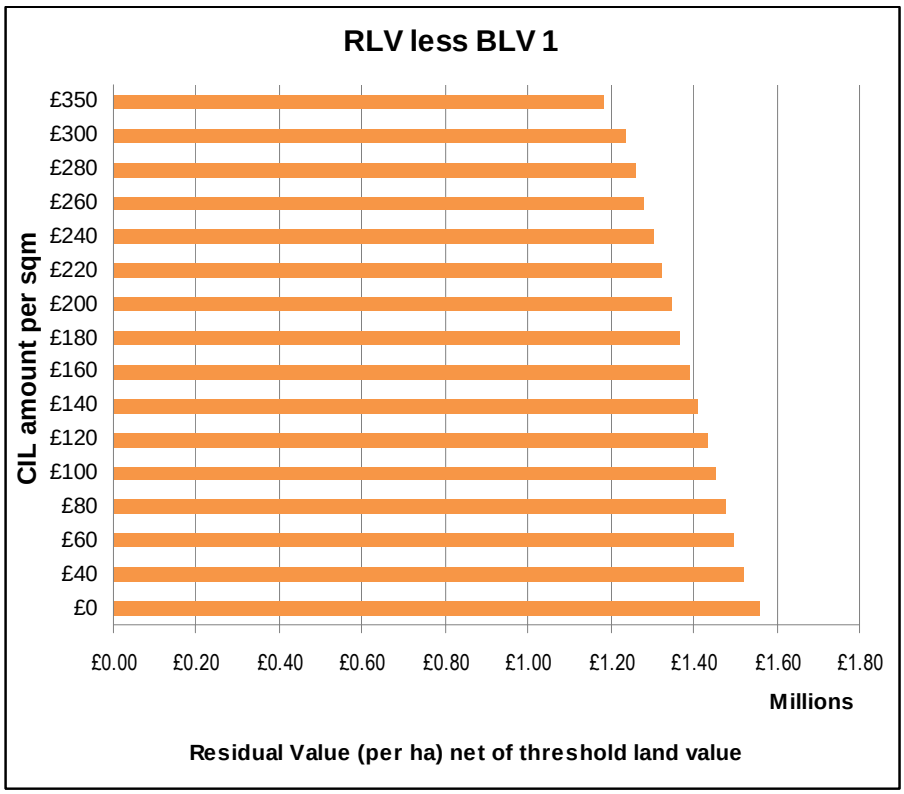


Chart 6.6.2: Site type 1 (4 units) compared to 'high value residential land' BLV –Bath Rural and Bathavon

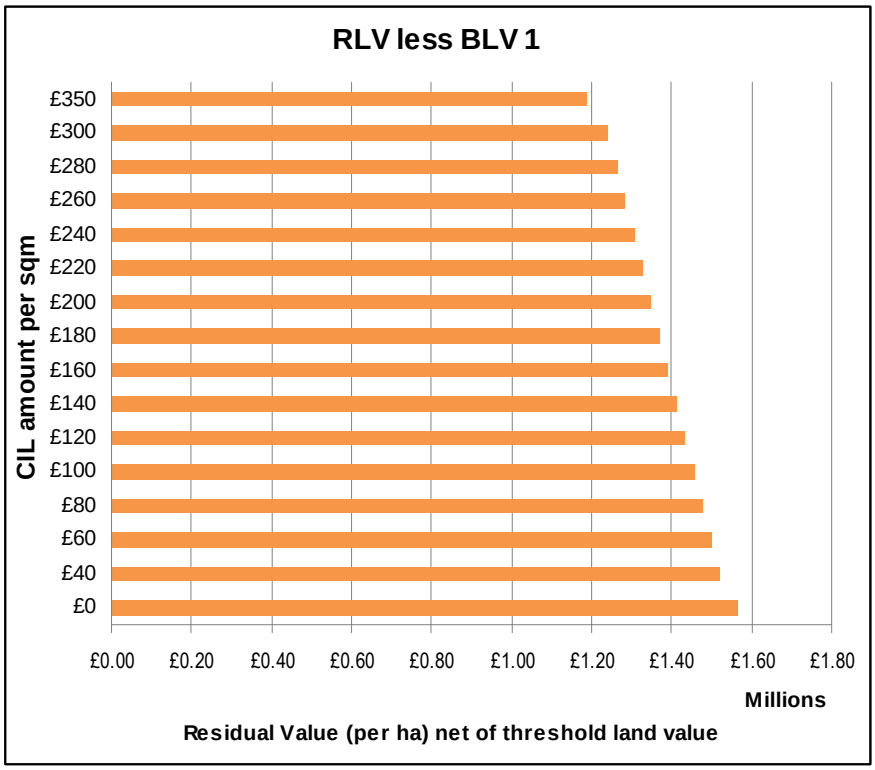
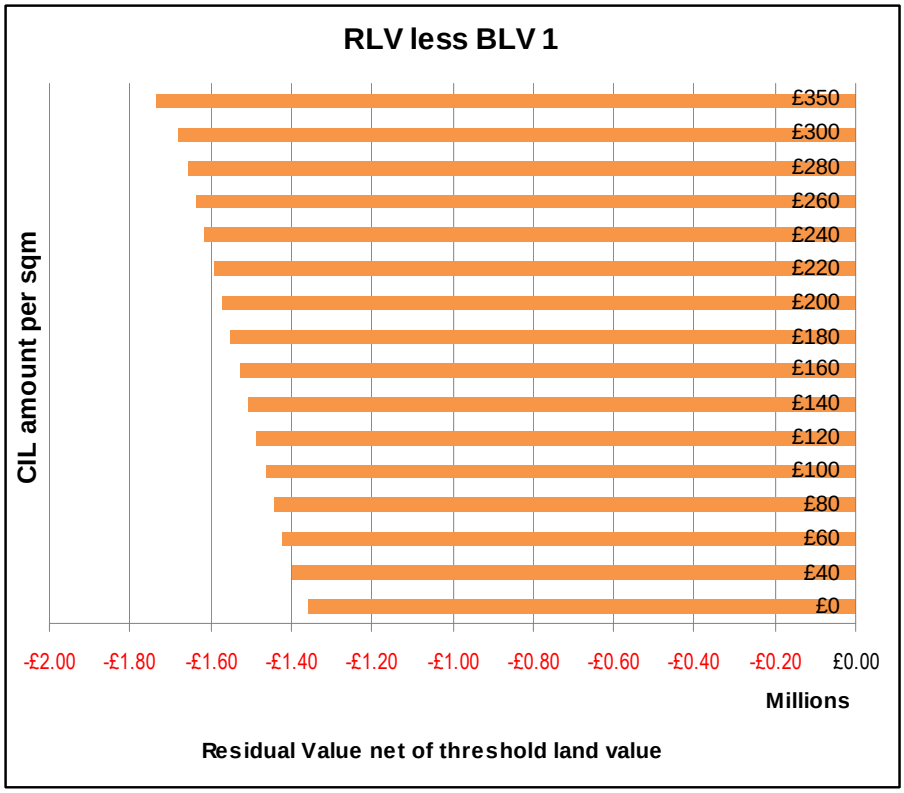


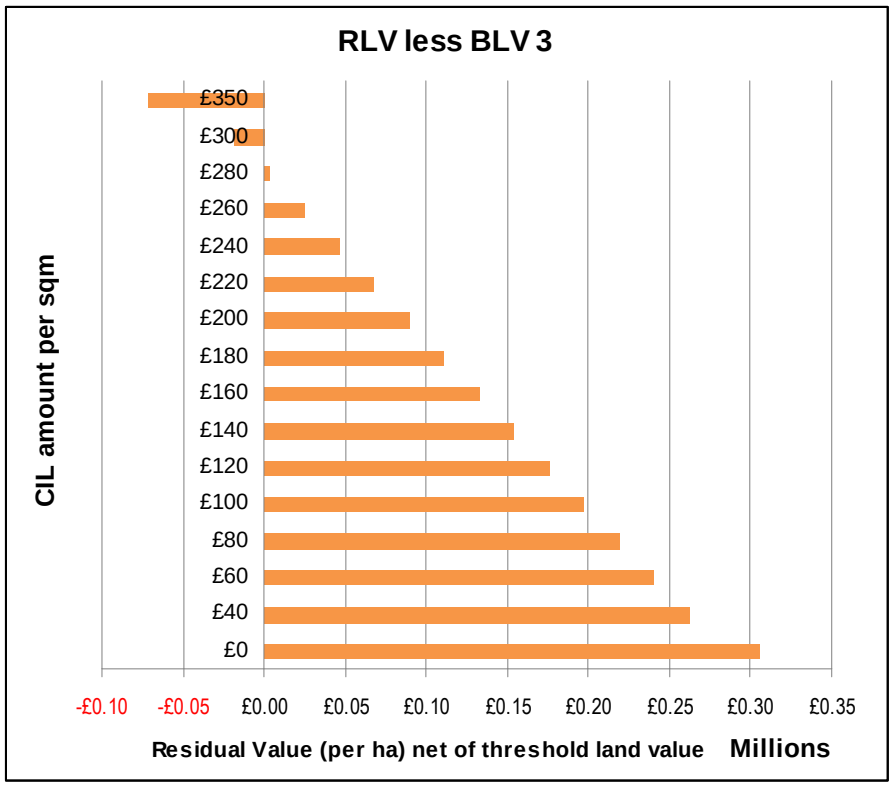
Chart 6.6.3: Site type 1 (4 units) compared to 'high value residential land' BLV – Norton Radstock



6.7 Developments would become viable in the three lower value areas on 'greenfield' sites (benchmark 3). The rate of CIL that could be levied would vary between areas, with Bath north/ west / south, Chew Valley East and Keynsham able to absorb a CIL of up to £350 per square metre; and Norton Radstock being viable at a CIL of up to £240 per square metre . Chart 6.7.1 shows the results for Bath north/ west/ south and Chew Valley (West), indicating that developments of this type would be able to yield a CIL of up to £280 per sq m.

6.8 Site type 1 generates residual values in all areas that exceed benchmark land values 3 and 4 (greenfield sites and vacant serviced sites) with a CIL of £350 per square metre. However, in Norton Radstock, the maximum rate would be £240 per square metre.

Chart 6.7.1: Site type 1 (4 units) compared to 'greenfield land' BLV – Bath north/ west/ south and Chew Valley (West)



Sites above the 5 unit threshold qualifying for the Council's affordable housing requirements

6.9 Site types 2, 3, 4, 5, 6 and 7 provide between 5 and 250 units at an assumed density of 30, 120, 40, 80, 30 and 40 units per developable hectare respectively. All the charts below assume that the developments are constructed to meet Code for Sustainable Homes level 3 (the charts for Code for Sustainable Homes level 4 can be found at Appendix 1). Chart 6.9.1 shows the results for site type 2 in Bath City Centre (the highest value area), Chart 6.9.2 shows the results for Chew Valley West (the medium value area) and Chart 6.9.3 shows the results for Norton Radstock. These charts show that residential schemes in Bath City Centre could viably yield CIL contributions of up to £240 per square metre. A similar amount of CIL could be secured in Rural Bath/Bathavon and Bath North/East. However, sites of this type in other areas would be unviable when compared to BLV 1, regardless of the level of CIL. Charts 6.9.2 and 6.9.3 therefore compare the residual from site type 2 in Chew Valley and Norton Radstock to BLV 2 (lower value residential land). Sites in Chew Valley could absorb a CIL of up to £220 per square metre, while sites in Norton Radstock would be unviable, regardless of the level of CIL (see Chart 6.9.3).

6.10 As noted earlier in the report, the Council sets a policy for affordable housing that requires 35% affordable housing, with up to 45% where viable. We have run appraisals of all the sites above the qualifying threshold of 5 units with both 35% and 40% affordable, with a further sensitivity at 25% affordable housing.

Chart 6.9.1 Site type 2 (7 houses at 30 units per hectare) compared to 'higher value residential land' BLV, Bath City Centre, 35% affordable housing and CSH level 3

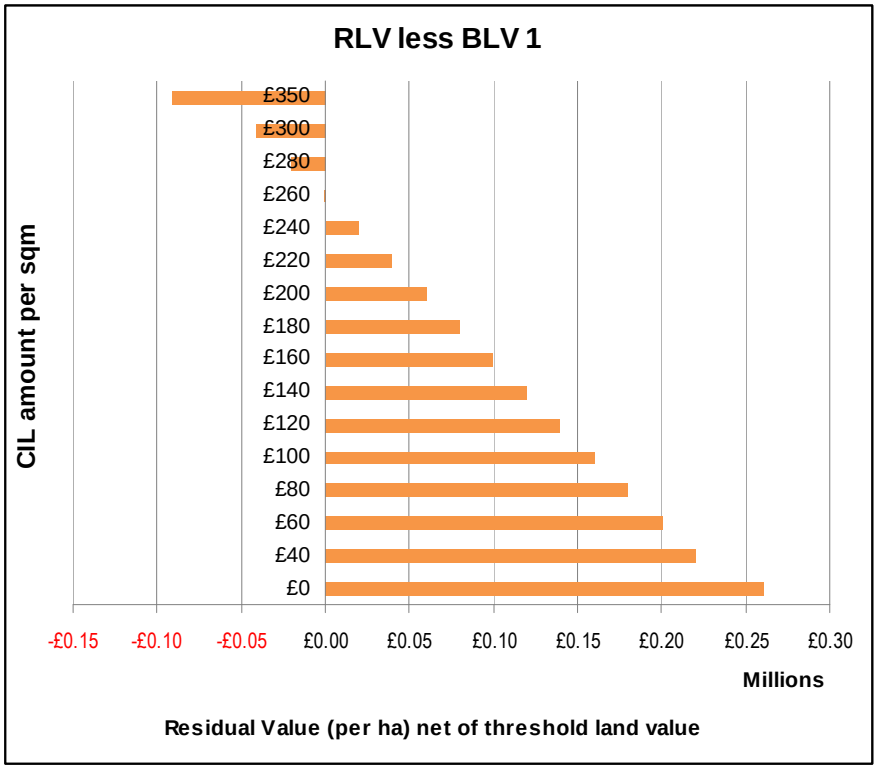


Chart 6.9.2 Site type 2 (7 houses at 30 units per hectare), compared to 'lower value residential land' BLV, Chew Valley West – 35% affordable housing and CSH level 3

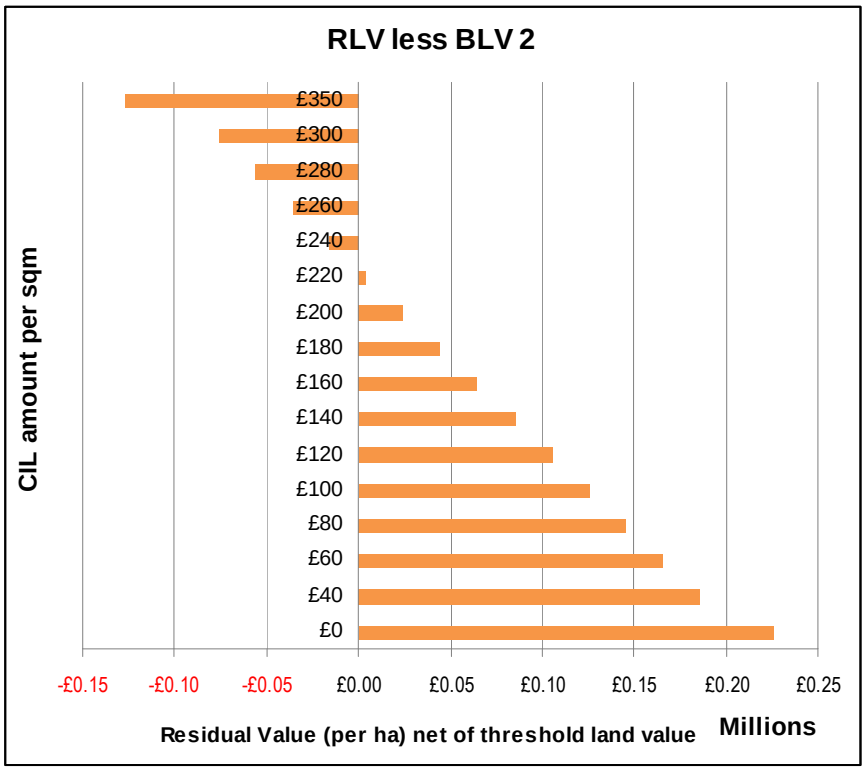
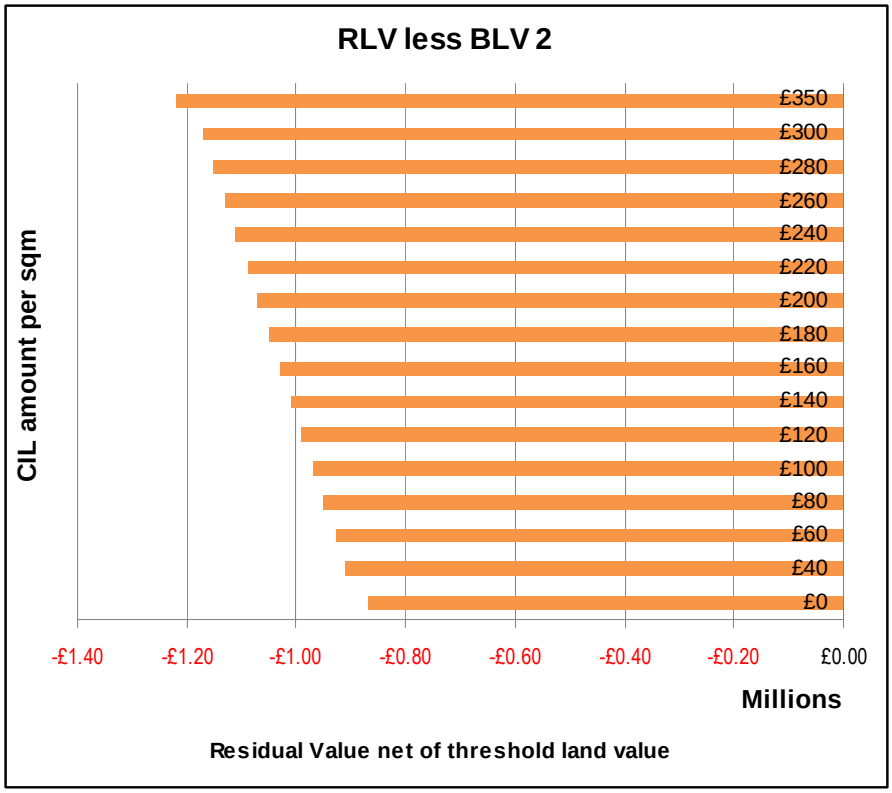


Chart 6.9.3 Site type 2 (7 houses at 30 units per hectare), compared to 'lower value residential land' BLV, Norton Radstock – 35% affordable housing and CSH level 3



6.11 Sites of type 2 would become viable in Bath north/ west/ south / Chew Valley East, Keynsham and Norton Radstock when developed on greenfield sites (BLV 3) or vacant serviced land (BLV 4). Sites in Bath north/ west/ south and Chew Valley East could viably make a CIL contribution of up to £180 per square metre (Chart 6.11.1), while sites in Norton Radstock could make a CIL contribution of up to £300 per square metre, as shown in Chart 6.11.2.

Chart 6.11.1: Site type 2 (7 houses at 30 units per hectare), compared to 'vacant sites with servicing' BLV, Bath north/ west/ south and Chew Valley east – 35% affordable housing and CSH level 3

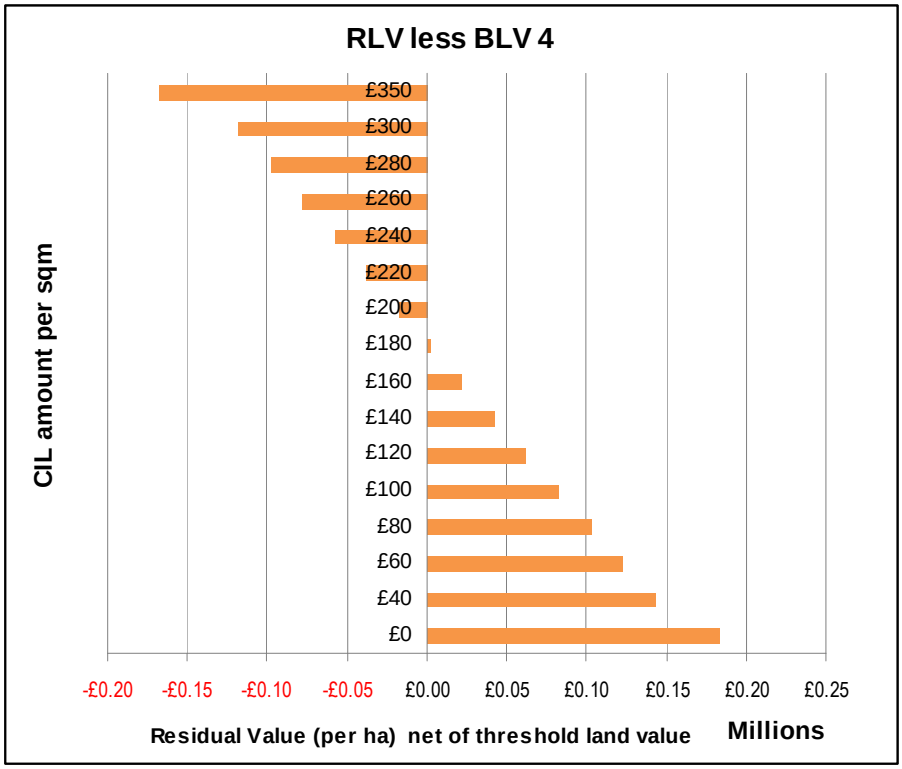
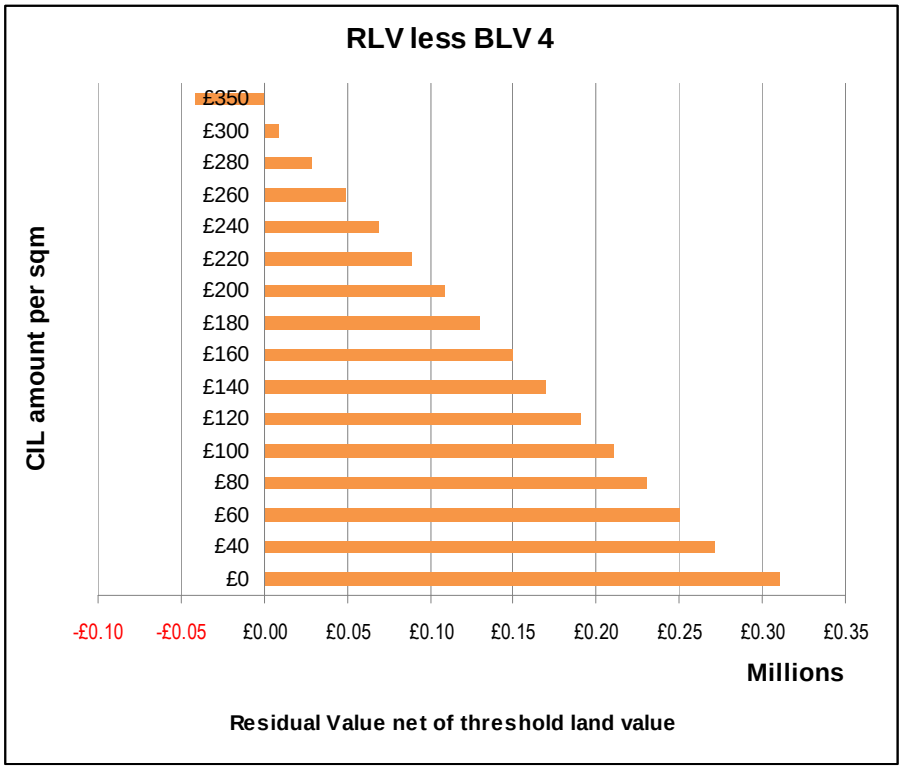


Chart 6.11.2: Site type 2 (7 houses at 30 units per hectare), compared to 'vacant sites with servicing' BLV, Norton Radstock – 35% affordable housing and CSH level 3



6.12 Similar patterns emerge for the remaining development types (3, 4, 5, 6 and 7). All site types tested in Bath City Centre, Bath Rural/Bathavon and Bath North East are generally viable when compared to the entire range of threshold land values and can viably yield CIL contributions in excess of £200 per square metre. The only exception is site type 3, which is unviable in Bath City Centre, but could yield a maximum CIL of £180 per square metre in Bath Rural/Bathavon when using the 'lower value residential land' benchmark. In Bath North and East, a CIL of £140 per square would be viable when the residual is tested against BLV 3.

Impact of real house price growth

6.13 Our appraisals include a sensitivity analysis which considers the impact upon viability of a real terms increase in sales values, resulting from a 10% nominal increase in sales values and a 5% increase in build costs. Increasing real house prices will improve the viability of schemes, enabling them to come forward and make CIL contributions.

6.14 Chart 6.14.1 illustrates the impact of the 10% increase in sales values and 5% increase in build costs. The corresponding data for the appraisals of the same scheme with current costs and values is provided as Chart 6.14.2. Chart 6.14.2 shows an improvement in the maximum viable level of CIL from nil at current values to £140 per square metre following an increase in sales values. (This assumes all other variables remain unchanged).

Chart 6.14.1: Site type 2 (7 houses at 30 units per hectare), compared to 'vacant sites with servicing' BLV, Bath north/ west/ south and Chew Valley east – 45% affordable housing and CSH level 4, values increased by 10%, costs increased by 5%

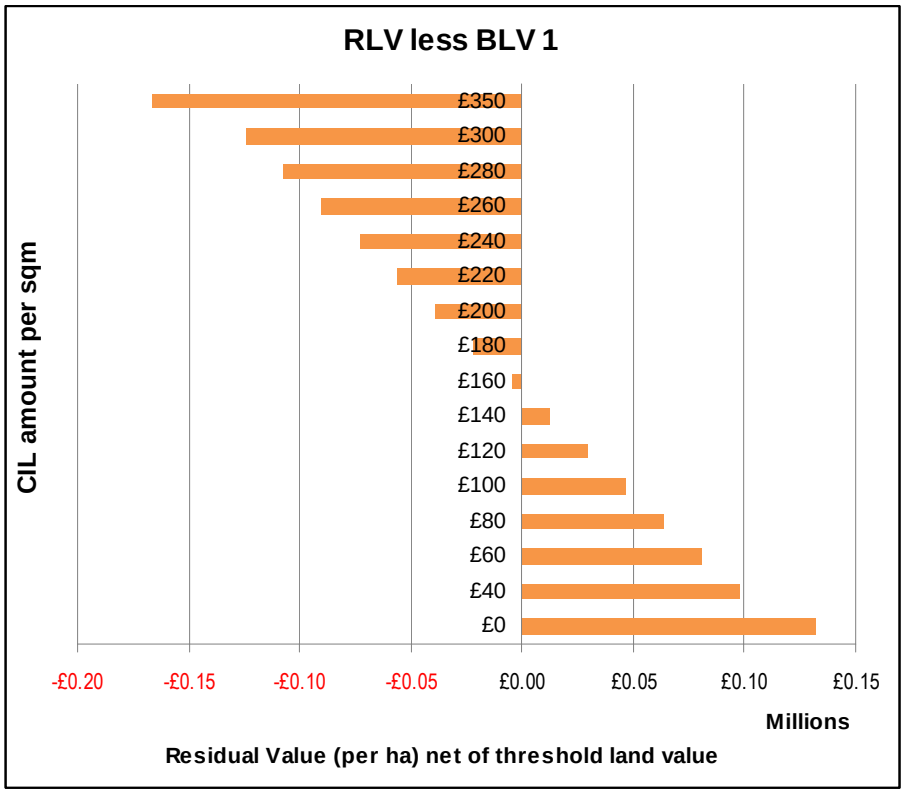
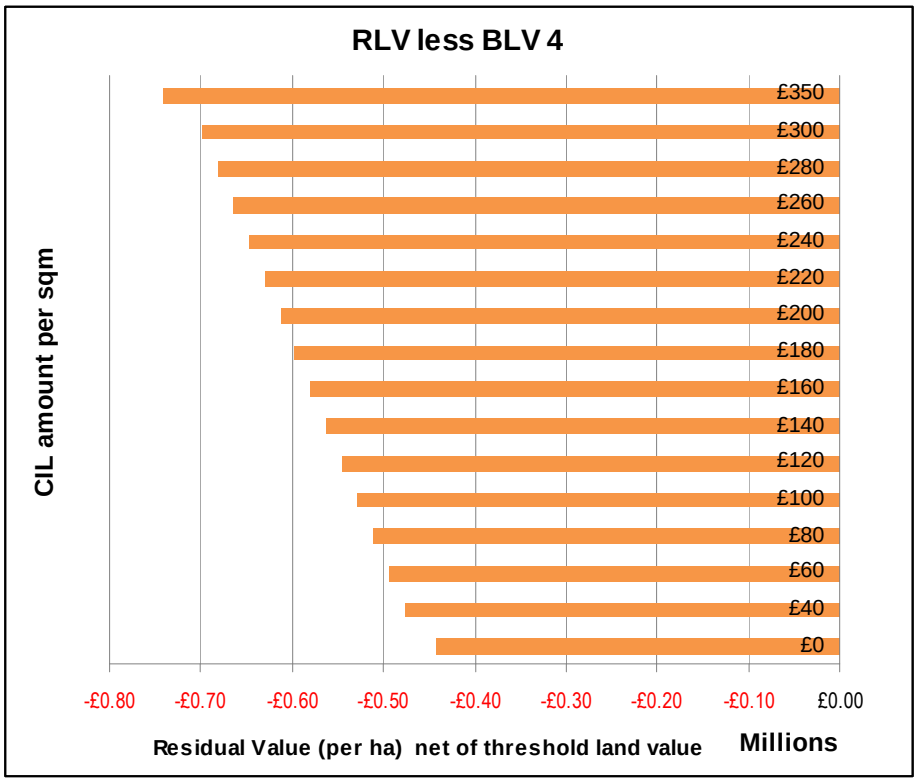


Chart 6.14.2: Site type 2 (7 houses at 30 units per hectare), compared to 'vacant sites with servicing' BLV, Bath north/ west/ south and Chew Valley east – 45% affordable housing and CSH level 4, current costs and values



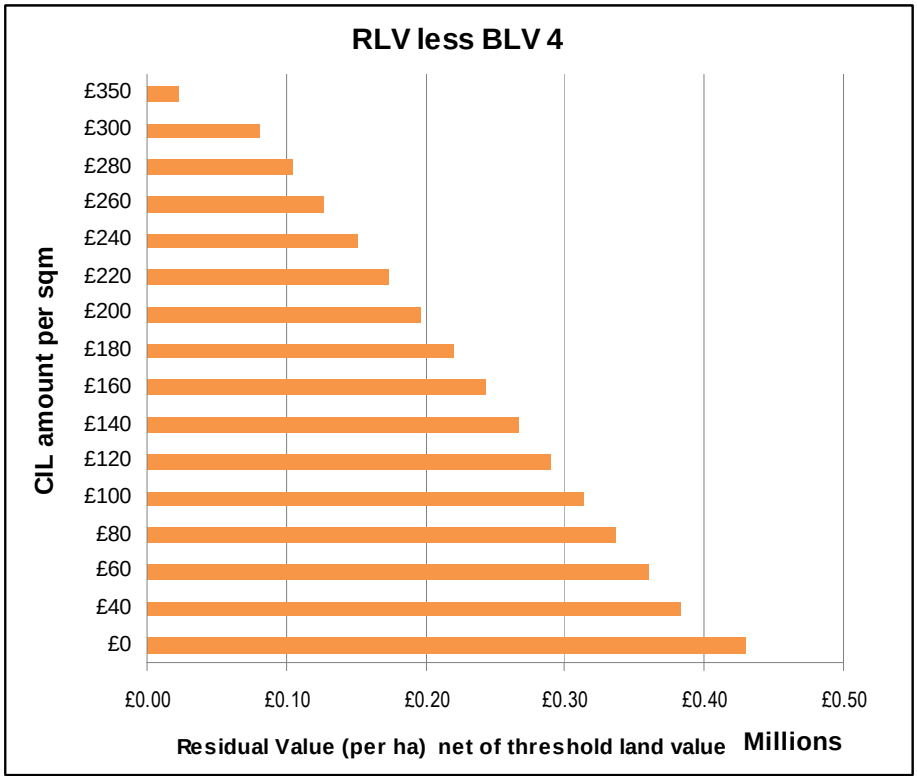
Reduced affordable housing

6.15 On residential developments, the Council has the option of reducing the quantum of affordable housing if viability issues emerge. To illustrate the impact of reducing affordable housing requirements on scheme viability, Chart 6.15.1 shows the impact of CIL on a scheme with site type 2, assuming 25% affordable housing, compared to 35% affordable in Chart 6.11.1. The 25% chart is not a reflection of Council policy, but is intended only as an illustration of the impact of a change in the overall level on the maximum level of CIL.

6.16 The reduction enables a scheme that is able to contribute a CIL of £180 per square metre with 35% affordable housing to viably make a higher contribution of up to £350 per square metre. A greater reduction in affordable housing would clearly result in the potential for a further increase in the rate of CIL.

6.17 Clearly any reduction in affordable housing is undesirable, but in the short term this is an approach that many authorities are adopting as a short term measure to encourage delivery of housing. At the present time, BANES is accepting provision of affordable housing that falls below the 35% target, having regard to individual site viability issues.

Chart 6.19.1: Site type 2 (7 units at 30 units per hectare) in Bath North and East / Chew Valley (West) – 25% affordable housing



Determining a maximum viable rate of CIL for residential development

6.18 As noted in paragraph 6.5, where a scheme is unviable the imposition of CIL at any level (including zero) will not make the scheme viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. For the purposes of establishing a maximum viable rate of CIL, we have had regard to the development scenarios that are currently viable and that might, therefore, be affected by a CIL requirement. These scenarios are shown in the filtered results at Appendix 2. All the results assume that 35% of units are provided as affordable housing and thus satisfy the Council's key Core Strategy requirement.

6.19 Site type 1 generates residual values that are higher than the benchmark land values, even at the highest level of CIL in the testing range of £350 per square metre. In all areas except Norton Radstock, a maximum CIL of £350 per square metre could be levied, depending on the BLV selected (in Norton Radstock, a CIL of £240 per square metre could be levied). This is largely because this site type does not attract any affordable housing requirement and consequently generates higher returns than larger developments where affordable housing contributions are required.

6.20 In one of the viable scenarios for Site type 2, the viable level of CIL is greater than the range of £0 to £350 per square metre that we tested. This viable scenario was site Bath Rural/Bathavon, which has relatively high sales values but does not have the very high build costs found in Bath City. In the remaining areas, the maximum viable level of CIL ranged from £180 to £350 per square metre.

6.21 Site type 3 (a flatted scheme at 120 units per hectare) generates the least viable results of all the site types we tested. This is due to the relationship between values and the higher costs associated with constructing flats. In Bath Rural/Bathavon and Bath North/East, a CIL of £280 and £220 per square metre could be levied. These two areas benefit from relatively high sales values, but do not experience the very high build costs found in Bath City. In all the other areas, our appraisals did not generate positive residual land values with any level of CIL.

6.22 For site type 4, all areas except for Bath North/ South/ West could make a contribution to infrastructure via CIL. Maximum rates were highest in Bath Rural/Bathavon and Bath North and East (£350 and £300 per square metre respectively). Elsewhere, the maximum level of CIL ranged from £140 to £350 per square metre, with Bath City Centre at the lower end of this range, due to high build costs.

6.23 Site type 5 sees a significant difference in the maximum rates of CIL between Bath City, Bath Rural/Bathavon and Bath North and East on the one hand, and Chew Valley West, Bath North/ West/ South, Chew Valley East, Keynsham and Norton Radstock on the other. In the first group, a maximum CIL of £350 per square metre could be levied in all three areas. However, in the other group, the maximum level of CIL ranges from £40 to £260 per square metre.

6.24 Site type 6 also has a range of viable scenarios, where the levels of CIL that could be charged in Bath Rural/Bathavon are at the maximum of our testing range (£350 per square metre). Elsewhere, the maximum rate of CIL that could be charged ranges from £140 to £260 per square metre.

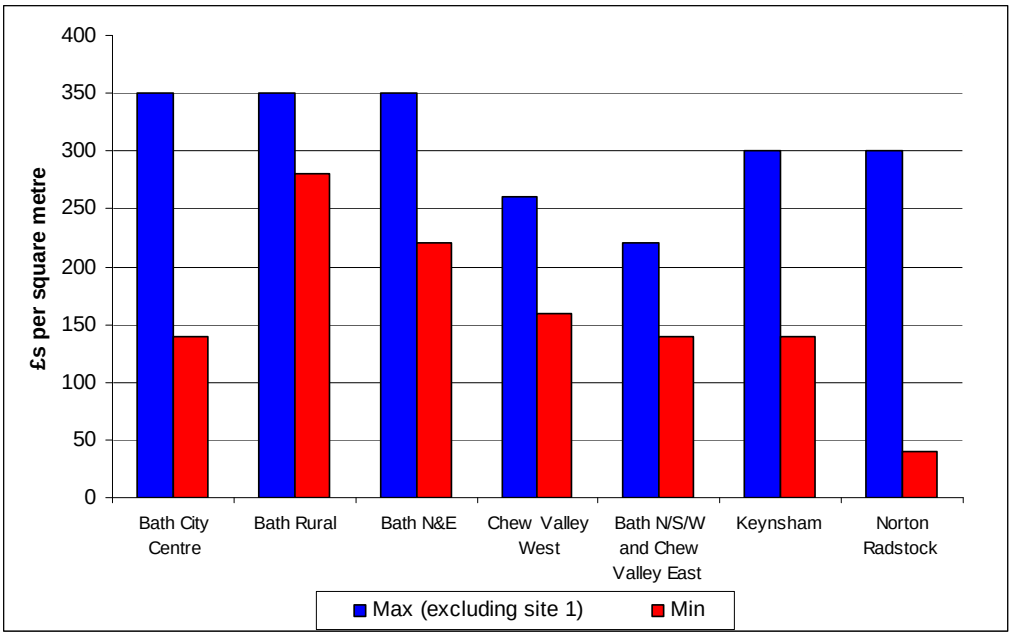
6.25 Site type 7 is built at a slightly higher density than site type 6 and benefits to a greater degree from economies of scale. Maximum rates of CIL are at the top end of our testing range in Bath City, Bath Rural/Bathavon and Bath North and East. In the other areas, the maximum viable level of CIL ranges from £140 to £240 per square metre.

6.26 These viable scenarios and maximum levels of CIL are summarised in Table 6.26.1.

Table 6.26.1: Maximum levels of CIL in viable development scenarios (£s per square metre)

Site type	Bath City Centre	Bath Rural	Bath N&E	Chew Valley West	Bath N/S/W and Chew Valley East	Keynsham	Norton Radstock
1	350	350	350	350	350	350	240
2	240	350	260	220	180	350	300
3	n/a	280	220	n/a	n/a	n/a	n/a
4	140	350	300	160	n/a	240	180
5	350	350	350	260	n/a	220	40
6	260	350	260	200	140	240	220
7	350	350	350	200	220	140	240
Max	**350**	**350**	**350**	**350**	**350**	**350**	**300**
Min	**140**	**280**	**220**	**160**	**140**	**140**	**40**

Chart 6.26.2: Range of rates of viable CIL levels (excluding site 1)



6.27 It appears that the Council could set a higher rate of CIL on sites where affordable housing is not required. The viability of a site of 4 units (which falls just below the threshold for affordable housing) is not significantly different to a site of 7 units (for which a financial contribution towards affordable housing is required). These smaller schemes therefore logically have a greater capacity to make a CIL contribution than other sites, where some of the scheme value is already being secured by the Council.

6.28 Having regard to the lowest viable levels of CIL shown in table 6.26.1, the Council might consider setting rates of around the levels shown in table 6.28.1. Clearly the Council needs to weigh the risks to overall development against the income that would be secured at various rates of CIL. This matter is considered further in our concluding section.

Table 6.28.1: Potential CIL rates

	Bath City Centre	Bath Rural/ Bathavon	Bath North & East	Chew Valley West	Bath North/ South/ West and Chew Valley East	Keynsham	Norton Radstock
Max (incl site 1)	350	350	350	350	350	350	300
Max (excl site 1)	350	350	350	220	220	300	300
Min	140	280	220	160	140	140	180[6]
Potential CIL rate based on Min[7]	98	196	154	112	98	98	126

[6] Excludes site type 5, which is not a form of development that comes forward in this sub-market area.

[7] These rates are based on the minimum viable scenarios and deduct a 'buffer' or contingency factor of 30%.

6.29 In determining the maximum levels of CIL and the recommended rates above, we have based our assessment on **current** costs and values only. We have run a set of appraisals that show the impact of an increase in sales values, accompanied by an increase in build costs. These appraisals indicate a significant improvement in viability that would assist in enhancing the existing viability 'buffer' between CIL rates and the maximums identified above.

Sheltered housing

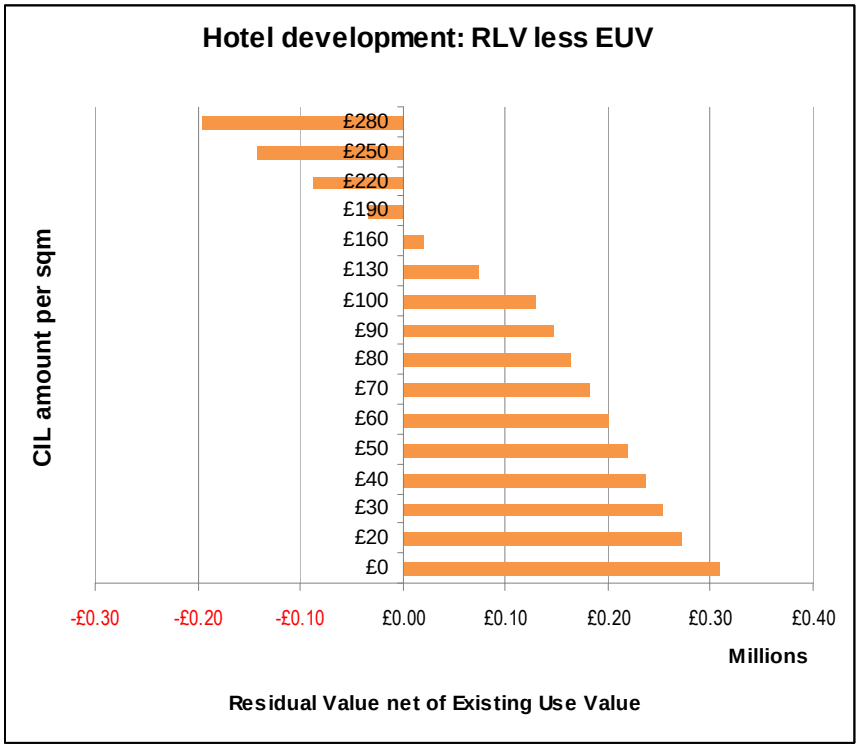
6.30 The viability of sheltered housing is largely similar to that of general residential as sales values reflect local market levels. However, there are two factors which adversely affect viability. Firstly, the rate of sale of sheltered housing schemes is generally slower than for mainstream residential, due to the more limited market catchments. Developers consequently incur greater interest costs on land and build costs. Secondly, sheltered housing schemes include a significantly higher level of communal space to accommodate social areas and other facilities.

6.31 We would therefore recommend that the Council has regard to the CIL rates for general residential, but allows a greater 'buffer' below the maximum viable rate of CIL to accommodate these special factors.

Hotel development

6.32 We have separately assessed the ability of hotel developments to make contributions through CIL (appraisal results attached at Appendix 3). Assuming a capital value of £95,000 per room (based on recent sales of existing hotels in Bath), our appraisals indicate that hotel development should be able to absorb a CIL of up to a maximum of £160 per sqm. Viable rates of CIL are show in Chart 6.32.1. Hotels outside Bath are likely to attract lower capital values, but this would be offset to some degree by lower build costs.

Chart 6.32.1: Hotel development - viable rates of CIL



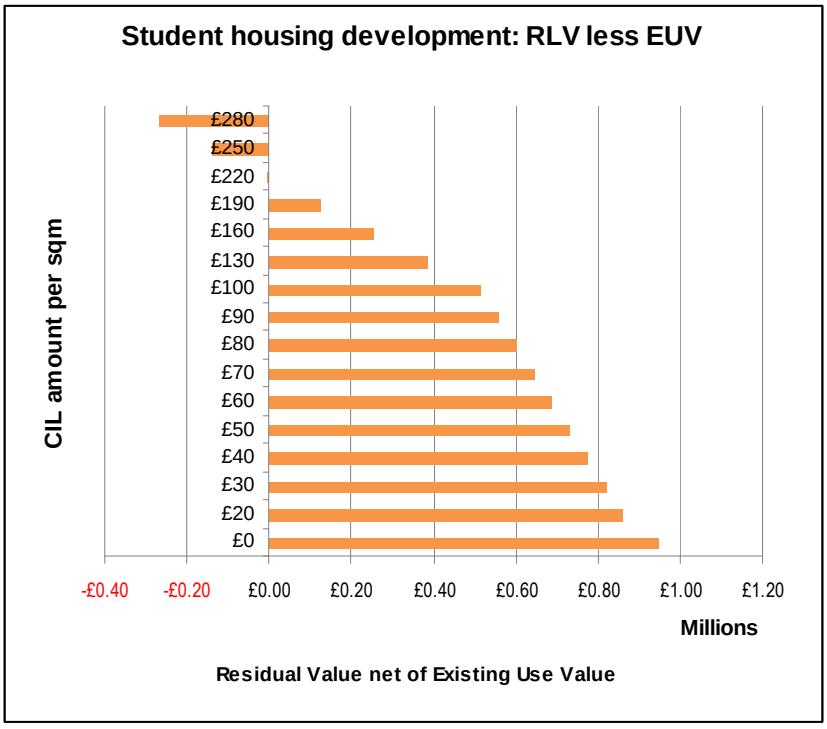
6.33 The Council's *Visitor Accommodation Study*[8] indicates that hotel occupancy is higher in Bath than elsewhere in the District. The study indicates that occupancy in Bath averages 75% compared to 62% outside the City. At the time the study was undertaken, there was little indication of any great development pressure for new hotels. Lower occupancy would drive lower capital values and the imposition of CIL on out of Bath developments is likely to make such schemes unviable. We therefore suggest a nil rate on hotel development outside Bath.

Student housing development

6.34 Student housing developments typically generate reasonably good residual land values, although the level of rent charged is a critical factor. Unlike C3 residential development, student housing does not attract an affordable housing requirement. Schemes developed by universities themselves tend to have lower rent levels than schemes developed by private sector bodies, such as Unite. Given the financial constraints that universities now operate under, it is likely that most if not all new student housing will be developed by the private sector.

6.35 Our appraisal indicates that a typical student housing scheme, with rents of £140 per week (based on recently constructed student ensuite accommodation at University of Bath and thus a cautious assumption) should be able to contribute a CIL of up to £190 per square metre. We note that Unite are currently charging £174 per week for ensuite rooms at their Charlton Court development, which is located 20 minutes walking distance from the City Centre. The results of our student housing appraisals are summarised in Chart 6.35.1 below.

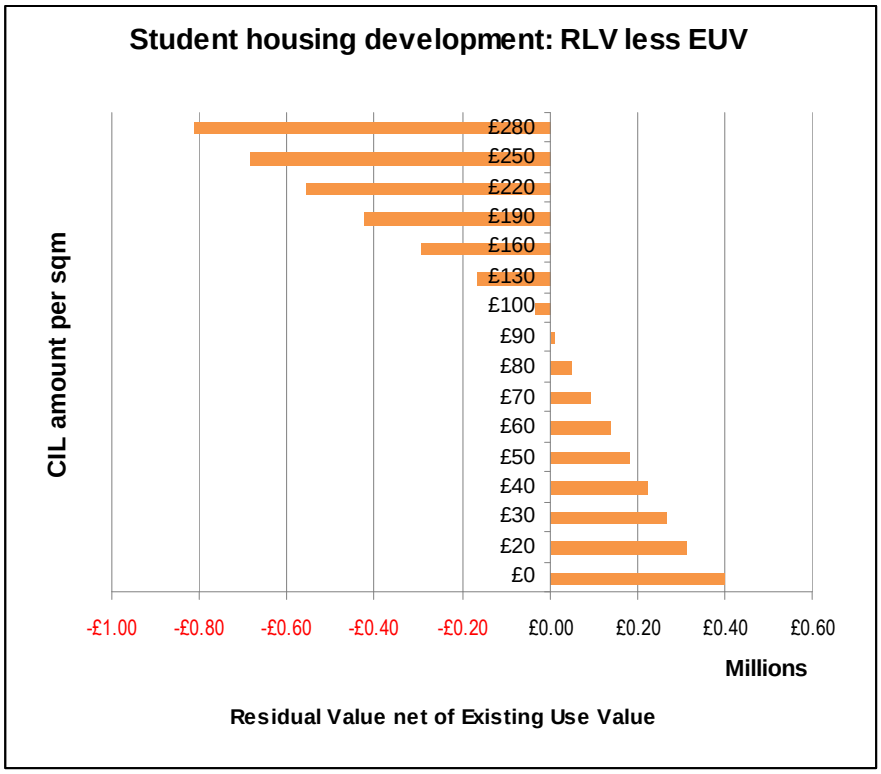
Chart 6.35.1: Student housing appraisal



[8] The Tourism Company, December 2009

6.36 We have tested the impact of changes in rent levels below the level initially assumed (i.e. from £140 per week to £135 per week). This small change results in a significant change in the viable levels of CIL, as shown in Chart 6.36.1 below.

Chart 6.36.1: Student housing development, lower rents



Assessment – commercial development

6.37 Our appraisals indicate that the ability of commercial schemes to viably make contributions through CIL will vary according to use class. Retail park developments generate positive RLVs in excess of EUV benchmarks, resulting in a surplus that could be used to make CIL contributions. However, our appraisals indicate that high street retail outside Bath, office developments and industrial developments are likely to be unviable in the current market.

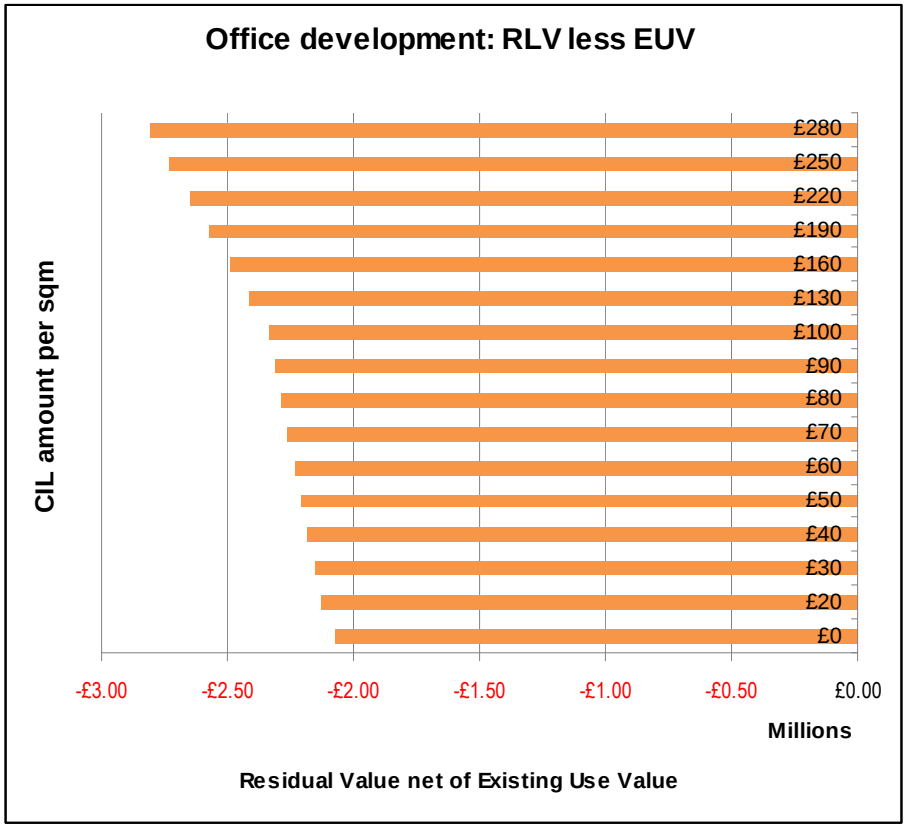
6.38 As noted in section 4, the level of rents that can be achieved for commercial space varies according to exact location; quality of building; and configuration of space. Consequently, our appraisals show the likely contributions that can be secured in the 'least viable' scenario where rents are lowest. For uses where even the higher levels of rent result in unviable development scenarios, we have not tested with the lower rent levels.

Office development

6.39 The results of our office appraisals indicate that the rent levels that could be secured on new developments in the District are unlikely to be sufficiently high to generate positive residual land values. The high build costs in Bath City Centre would also impact adversely on viability, even if rents were

considerably higher. It is therefore very unlikely that office development will come forward in the short term. The results of our appraisal, with varying rates of CIL, are shown in Chart 6.39.1 below).

Chart 6.39.1: Residual land values generated by office developments

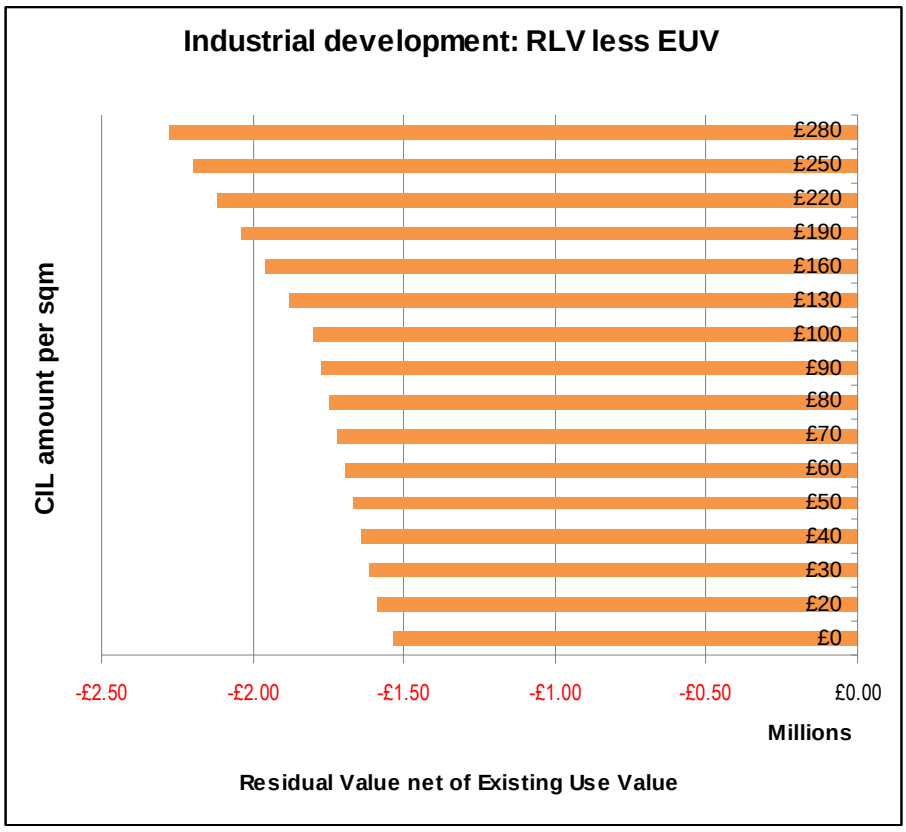


Industrial/warehouse development

6.40 Industrial uses in the District attract rents averaging £70 per square metre Industrial yields are currently around 9%. As a result of relatively low rents, industrial floorspace does not currently generate positive residual land values, as shown in Chart 6.40.1. As a consequence, it is unlikely that a significant quantum of industrial development will come forward in the short term. Whilst it is possible that some industrial development may come forward on greenfield land, we did not test this type of development separately from industrial development on brownfield sites. This is because the residual value for a brownfield industrial development was negative even before considering the land value that a developer would incur to bring the site forward. Even though a greenfield site could (in principle) be purchased for a lower cost than a brownfield site, the scheme would still not be viable.

6.41 As a sensitivity analysis, we have considered the levels of rents that would be required to achieve a positive residual land value from industrial development. Our analysis indicates that rents would need to increase to £130 per square

Chart 6.40.1: Industrial development



Retail development

6.42 The retail markets in the District are healthier than other commercial markets, although development is more likely to be viable in Bath City Centre and in the form of retail parks outside the City. Rents for high street retail outside Bath are likely to be too low to ensure a viable development of new space.

6.43 We have appraised retail parks separately from high street retail, recognising the different demand patterns from retailers for the two types of space. We have assumed that new build retail parks will attract a rent of £215 per square metre. Our appraisals indicate that retail park development could yield a CIL of up to £280 per square metre, as shown in Chart 6.43.1.

6.44 The retail market in Bath is relatively healthy with a low vacancy rate. However, there has been little new build retail development, possibly due to the high costs and lack of pressure to increase floorspace. Many retailers now have a preference for locating in retail parks, and consequently demand for new retail floorspace on the high street outside Bath City Centre is relatively limited. Our appraisals indicate that high street retail development is likely to be viable in Bath, but unviable outside the City (see charts 6.44.1 and 6.44.2).

6.45 Although the rents assumed for retail parks are the same as high street retail (outside Bath), the lower build cost makes this form of development more viable, as shown in Chart 6.43.1.

Chart 6.43.1: Retail park development (outside Bath City)

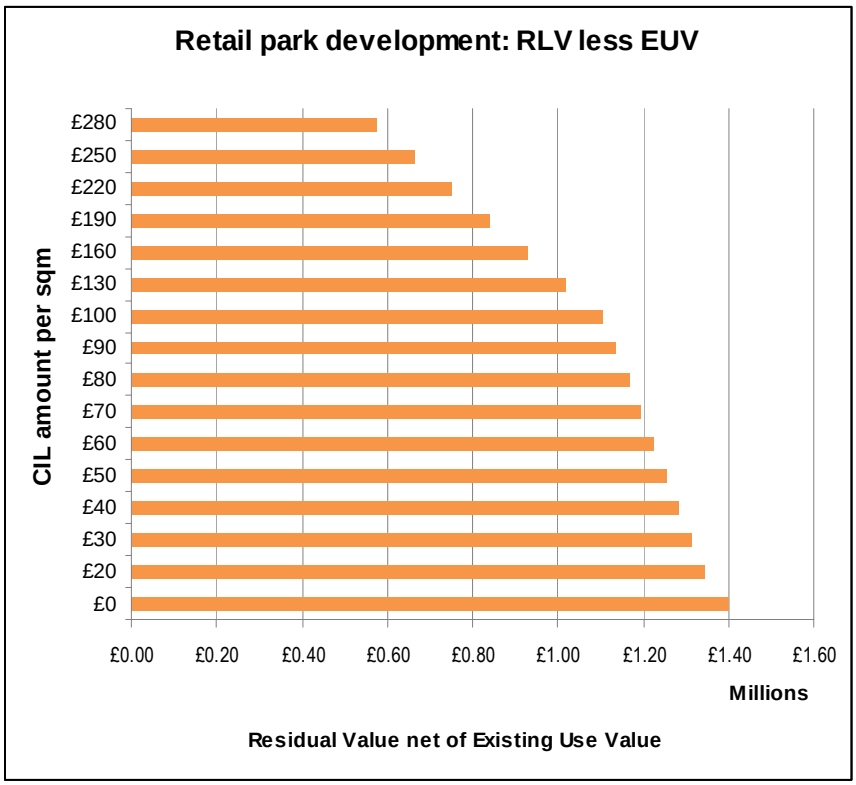


Chart 6.44.1: High street retail development (Bath City)

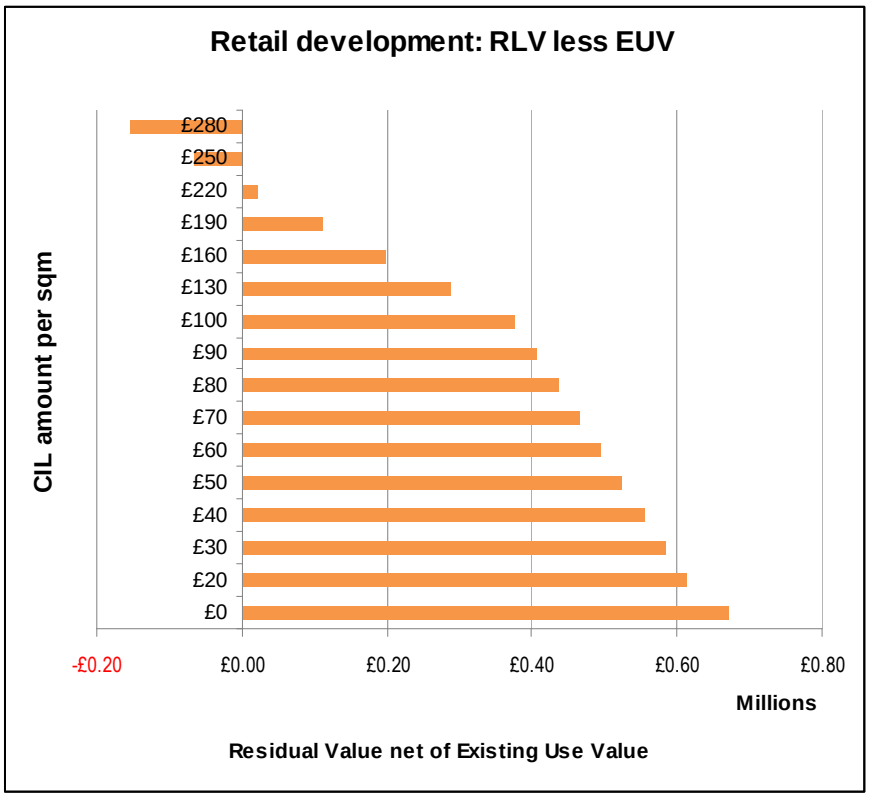
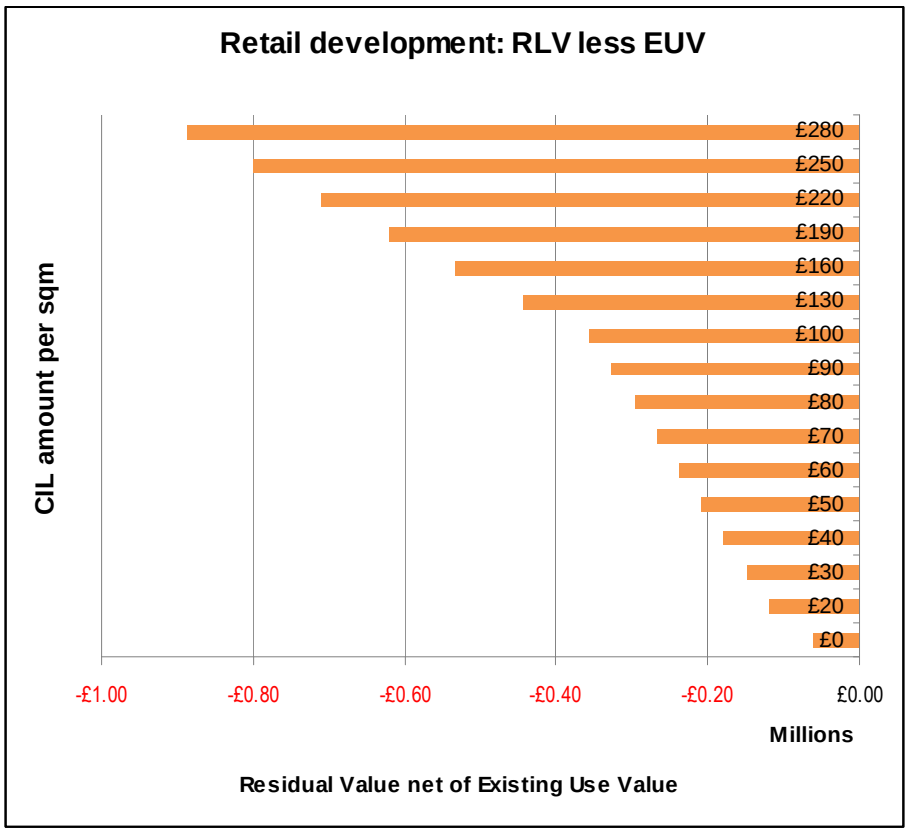


Chart 6.44.2: High street retail development (outside Bath)



D1 floorspace development

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

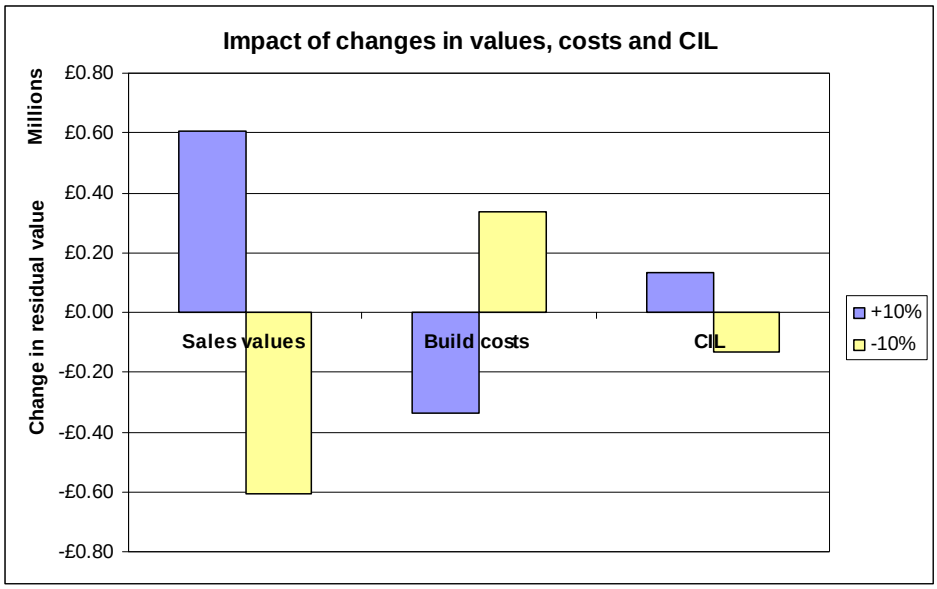
6.47 In light of these results, the next section of this report sets out our recommendations to the Council on how it might approach setting appropriate levels of CIL to strike an appropriate balance between revenue maximisation and viability.

7 Conclusions and recommendations

7.1 The results of our analysis indicate a degree of variation in viability of development in terms of use classes. In light of these variations, two options are available to the Council under the CIL regulations. Firstly, the Council could set a single CIL rate across the District, having regard to the least viable use classes and the appraisal results from the least viable locations. This option would suggest the adoption of the 'lowest common denominator', with sites that could have provided a greater contribution towards infrastructure requirements not doing so. In other words, the Council could be securing the benefit of simplicity at the expense of potential income foregone that could otherwise have funded infrastructure. Secondly, the Council has the option of setting different rates for different use classes and different areas. The results of our study point firmly towards the second option as our recommended route.

7.2 We have also referred to the results of development appraisals as being highly dependent upon the inputs, which will vary significantly between individual developments. In the main, the imposition of CIL is *not* a critical factor in determining whether a scheme is viable or not (with the relationship between scheme value, costs and benchmark land value being far more important). This is evidenced by the very marginal differences between the 'pre' and 'post' CIL residential appraisals shown in the charts in Section 6. This point is also illustrated in Chart 7.2.1 below, which compares the impact on the residual value of a scheme of a 10% increase and decrease in sales values and a 10% increase and decrease in build costs to a £100 per sq metre change in CIL. This chart demonstrates that the impact of CIL on the residual value is modest in comparison to relatively small changes to sales values and build costs.

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



7.3 Given CIL's nature as a fixed tariff, it is important that the Council selects rates that are not on the limit of viability. This is particularly important for commercial floorspace, where the Council does not have the ability to 'flex' other planning obligations to absorb site-specific viability issues. In contrast, the Council could in principle set higher rates for residential schemes as the level of affordable housing could be adjusted in the case of marginally viable

schemes. However, this approach runs the risk of frustrating one of the Council's other key objectives of delivering affordable housing. Consequently, sensitive CIL rate setting for residential schemes is also vital.

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

- The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future improvements.

- The ability of **residential schemes** to make CIL contributions varies significantly depending on size and type of scheme, area and the current use of the site. Adopting a single rate for residential development across the District is unlikely to be practicable, given the significant variations in sales values. Taking the minimum levels of CIL that could viably be charged, rates of CIL per square metre that could be adopted are as follows:

  - Bath - £98;
  - Bath Rural/Bathavon: £196;
  - Bath North and East: £154;
  - Chew Valley West: £112;
  - Bath North/West/South and Chew Valley East: £98;
  - Keynsham: £98; and
  - Norton Radstock: £126.

  The rates above incorporate a 30% buffer below the minimum rates that our appraisals show to be viable. If the Council were minded to take a more cautious approach, perhaps to provide added protection to its affordable housing requirement, a higher buffer could be adopted. As an illustration, the rates below incorporate a 50% buffer below the minimum viable rates:

  - Bath - £70;
  - Bath Rural/Bathavon: £140;
  - Bath North and East: £110;
  - Chew Valley West: £80;
  - Bath North/West/South and Chew Valley East: £70;
  - Keynsham: £70; and
  - Norton Radstock: £90.

- In some circumstances, developments are currently unviable whether or not CIL is levied. The imposition of CIL will therefore not affect the prospects of these sites being delivered. Where these sites are re-tested with lower proportions of affordable housing, the prospects for securing a viable scheme that can make CIL contributions are improved. Viability of these sites can be improved in the short term by reducing the quantum of affordable housing sought.

- **Hotel developments** could accommodate a CIL of up to a maximum of £160 per sq metre. We would suggest a rate of around £100 to allow an adequate buffer for site-specific factors. Outside Bath, hotel occupancy is considerably lower, which adversely impacts on the viability of new hotel development. Consequently, we recommend a nil rate on hotel development outside Bath.

- **Office development** is unlikely to come forward in the short to medium term. Although there is an adequate demand for space, this has not generated rents that would be high enough to support new development, particularly in Bath where build costs are significantly higher. We therefore recommend that the Council sets a nil rate for offices.
- **Student housing** generates positive residual values, although the degree to which developments can absorb CIL contributions is dependent on the rent levels set. There is a significant differential between rents in the private sector and the University Sector, although both types of development are viable. Student housing would, however, be able to absorb a CIL contribution of between £90 to £140 per square metre, but we recommend a rate of £60 per square metre for student housing provided by the University Sector to allow a risk margin.
- Residual values generated by **Retail developments** vary significantly. Retail development in Bath City is likely to be viable and able to absorb CIL of up to £280 per square metre. Outside Bath, retail rents are considerably lower and residual values will be insufficient to support any level of CIL. Retail parks generate sufficient residual values to absorb CIL set at up to £280 per square metre. Given the sensitivity of residual values to changes in rent levels, we recommend that the Council might wish to consider a CIL on retail development in Bath of around £150 per sq metre and an identical rate for retail park development. Outside Bath, high street retail development should be nil rated.
- Our appraisals of developments of **industrial and warehousing floorspace** indicate that these uses are unlikely to generate positive residual land values. We therefore recommend a zero rate for industrial floorspace.
- D1 uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 uses.

7.5 For residential schemes, the application of CIL at the rates suggested above is unlikely to be a critical factor in determining whether or not a scheme is viable. When considered in context of total scheme costs, the rates of CIL represent a very modest proportion of total development costs, accounting for less than 3% to 4% (i.e. less than a developer's contingency which is typically 5%). Some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these sites. In striking a balance between CIL rates and viability, the Council should also consider the potential CIL that could be secured from the more viable sites when determining an appropriate balance between revenue maximisation and viability.

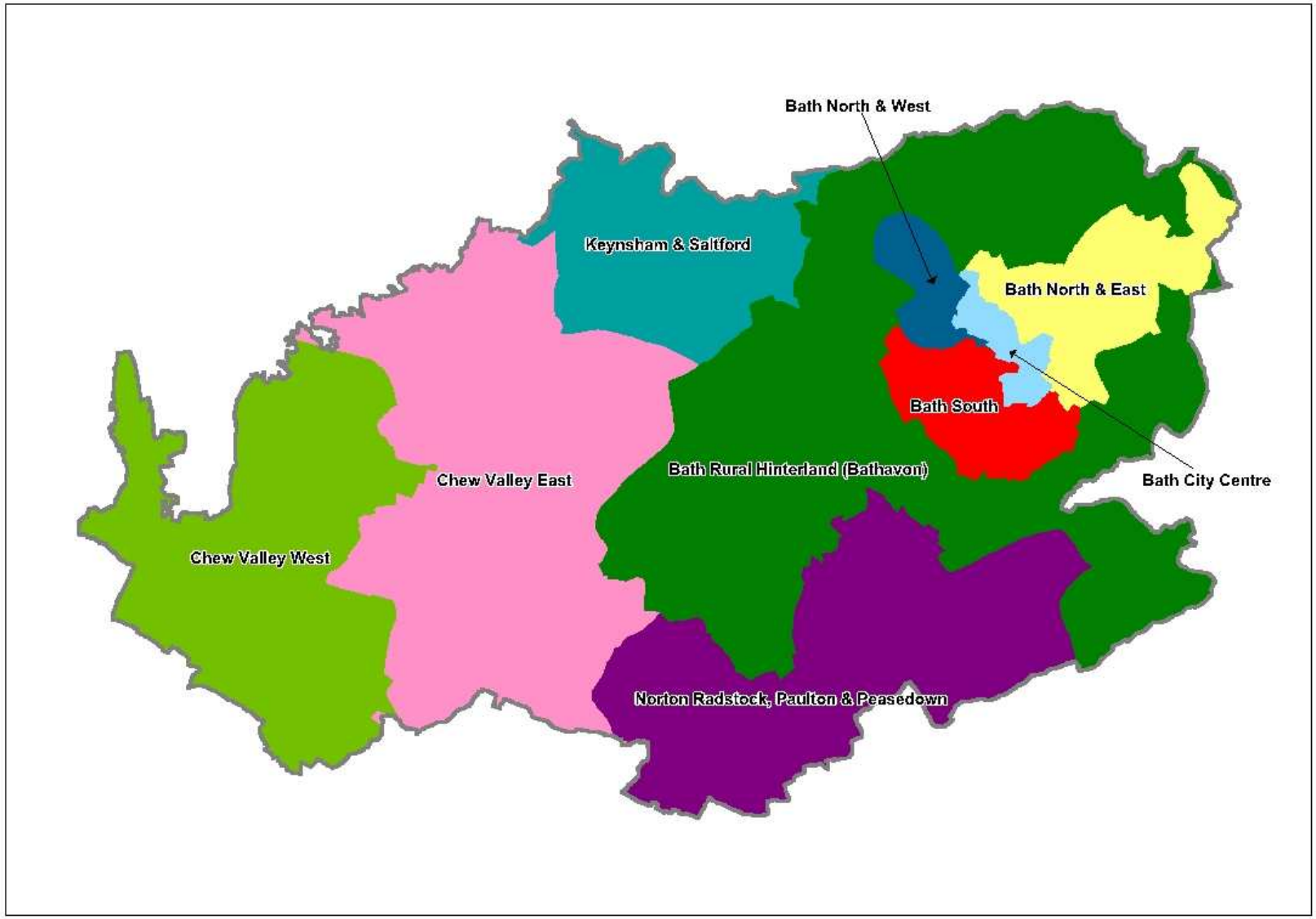
Appendix 1 Residential appraisal results

Appendix 2 Filtered residential appraisal results

Appendix 3 Commercial appraisal results

Appendix 4 Attendees at stakeholder workshop and notes

Appendix 5 Sub-market areas


Bath North & West
Keynsham & Saltford
Bath North & East
Bath South
Bath Rural Hinterland (Bathavon)
Bath City Centre
Chew Valley East
Chew Valley West
Norton Radstock, Paulton & Peasedown