



Community Infrastructure Levy: Viability Assessment

Bath and North East Somerset Council

28 May 2014

Contents

1	Executive Summary	3
2	Introduction	6
3	Methodology	13
4	Development appraisals	16
5	Appraisal outputs	27
6	Assessment of the results	31
7	Greenfield strategic sites	49
8	Conclusions and recommendations	53

Appendices

	Appendix 1 - Residential appraisal results	57
	Appendix 2 - Commercial appraisal results	58
	Appendix 3 - Sub-market areas	59
	Appendix 4 - Strategic sites testing	60

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'). Levels of CIL have been tested in combination with the Council's other policy requirements, including affordable housing.

Methodology

- 1.2 The study methodology compares the residual land values of a range of hypothetical developments and strategic 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 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 but have largely recovered. We have allowed for changing market values 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 Our recommendations on levels of CIL are therefore summarised as follows:
- The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future 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. However, the Council also needs to have regard to the locations of major sources of new housing supply. If new housing is focused on a relatively distinct group of areas with similar viability characteristics, then setting multiple CIL rates will make little difference to total CIL income. However, the maximum CIL rates that *could* be charged in each sub-market area are shown in Table 8.4.1.

Table 1.5.1: Maximum residential CIL rates

Sub market area	Maximum CIL rate	CIL rate after 30% discount
Bath City Centre	£150	£105
Bath rural/Bathavon	£200	£140
Bath N & E	£175	£122
Chew Valley (W)	£120	£85
Bath N, W, S & CV (E)	£120	£85
Keynsham	£140	£98
Midsomer Norton, Radstock, Peasedown St John and Paulton	£130	£91

- 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 varying the quantum of affordable housing sought.
- On **Strategic Greenfield Sites**, our appraisals indicate that the Council should consider setting a lower CIL rate if it intends to negotiate more than £5,000 per unit through Section 106 obligations. Clearly the Council has the option of setting a low CIL rate in any event, if it considers that it is better placed to secure infrastructure requirements on these sites through Section 106. If this is the Council's preferred approach, it would need to be satisfied that such contributions comply with Regulation 122.
- **Hotel developments** in Bath City could accommodate a CIL of up to a maximum of £270 per sq metre. We would suggest a rate of around £100 to allow an adequate buffer for site-specific factors. Outside Bath, hotel values are lower, which adversely impacts on the viability of new hotel development. Consequently, we recommend a nil rate on hotel development outside Bath City.
- **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 let at commercial rents would be able to absorb a CIL contribution of up to £447 per square metre, but we recommend a rate of £200 per square metre after allowing for a buffer. For student housing provided by the University Sector at sub market rents, we recommend a nil rate.
- 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, with a suggested rate of £150 per square metre. Outside Bath, retail rents are considerably lower and

residual values will be insufficient to support any level of CIL.

- **Supermarkets, superstores and retail warehouse parks** generate sufficient residual values to absorb CIL set at up to £474 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 this type of retail development across the District of around £150 per sq metre.
 - 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.
- 1.6 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.

Table 1.5.2: Summary of recommended CIL rates

Development Type	Area/Zone	CIL rate per square metre
Residential (Class C3) including sheltered housing	Whole District	£100
	Strategic sites where S106 of more than £5,000 per unit is to be sought	£50
Office	Whole District	Nil
Hotel	In Bath City	£100
	Outside Bath City	Nil
In centre/high street retail	Bath City Centre	£150
Supermarkets, superstores and retail warehouse	Whole District	£150
Other retail	All areas outside Bath City Centre	Nil
Student accommodation	On Campus with sub-market rents (to be set in Section 106 agreement)	Nil
	Off Campus	£200
All other development	Whole District	Nil

2 Introduction

- 2.1 This study has been commissioned to contribute towards an evidence base to Bath and North East Somerset Council's ('the Council') CIL Draft Charging Schedule ('DCS'), as required by Regulation 14 of the CIL Regulations April 2010 (as amended). 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;
 - for residential schemes, to test CIL alongside the Council's requirements for affordable housing as well as other planning obligations; and
 - to test the ability of commercial schemes to make a contribution towards infrastructure through CIL.
- 2.2 Our methodology adopts a standard residual valuation approach to test the impact on viability of a range of levels of CIL. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique), mean that conclusions must always be tempered by a level of flexibility in the application of policy requirements on a site by site basis. As CIL is fixed at the point of adoption, it is essential that levels of CIL are set so as to allow a sufficient margin to allow for these site specific variations.

CIL Policy Context

- 2.3 As of April 2015 or the adoption of a CIL Charging Schedule (whichever is the sooner), the current S106/planning obligations system i.e. the use of 'pooled' S106 obligations will be limited. The adoption of a CIL Charging Schedule is discretionary for the Council, however, the scaling back of the use of pooled S106 obligations is not discretionary. As such, should the Council elect not to adopt a CIL Charging Schedule, it is likely to have significant implications with regard to funding infrastructure in the District and the Council will need to be aware of such implications in their decision-making.
- 2.4 It is worth noting that some site specific S106 obligations will remain available for negotiation after the adoption of CIL/April 2015. However these will be restricted to site specific mitigation that meet the three tests set out at CIL Regulation 122 and to the provision of affordable housing. They cannot be used for securing payments towards infrastructure that benefit more than one development, unless they form part of the Council's five sites, from which Section 106 contributions to provide infrastructure¹ can be pooled.
- 2.5 The CIL regulations state that in setting a charge, local authorities must 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).
- 2.6 Local authorities must consult relevant stakeholders on the nature and amount of any proposed CIL at two stages; after publication of the Preliminary Draft

¹ This infrastructure should not be identified on the Council's Regulation 123 list.

Charging Schedule² ('PDCS') and the Draft Charging Schedule ('DCS'). Following consultation, a charging schedule must be submitted for independent examination.

- 2.7 The payment of CIL becomes mandatory on all new buildings and extensions to buildings with a gross internal floorspace over 100 square metres once a charging schedule has been adopted. The CIL regulations allow a number of reliefs and exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if controlled by a charity) are subject to relief. Secondly, local authorities may, if they choose, elect to offer an exemption on proven viability grounds. A local authority wishing to offer exceptional circumstances relief in its area must first give notice publicly of its intention to do so. The local authority can then consider claims for relief on chargeable developments from landowners on a case by case basis. In each case, an independent expert with suitable qualifications and experience must be appointed by the claimant with the agreement of the local authority to assess whether paying the full CIL charge would have an unacceptable impact on the development's economic viability.
- 2.8 The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed. To be eligible for exemption, regulation 55 states that the Applicant must enter into a Section 106 agreement; and that the Authority must be satisfied that granting relief would not constitute state aid. It should be noted however that CIL cannot simply be negotiated away or the local authority decide not to charge CIL.
- 2.9 CIL Regulation 40 includes a vacancy period test for calculating CIL liability so that vacant floorspace can be offset in certain circumstances. That is where a building that contains a part which has not been in lawful use for a continuous period of at least six months within the last three years, ending on the day planning permission first permits the chargeable development, the floorspace may not be offset.
- 2.10 The CIL regulations enable local authorities to set differential rates (including zero rates) for different zones within which development would take place and also for different types of development. The amendment to the Statutory CIL Guidance in December 2012 clarified that CIL Regulation 13 permits charging authorities to levy *'differential rates by reference to different intended uses of development provided that the different rates can be justified by a comparative assessment of the economic viability of those categories of development. The definition of "use" for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987, although that Order does provide a useful reference point.'* (Para 35). The February 2014 amendments to the CIL Regulations further extends the ability to set differential rates in relation to, *'scales of development'*.
- 2.11 The 2010 regulations set out clear timescales for payment of CIL, which varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allow local authorities to set their own timescales for the payment of CIL if they choose to do so. This is an important issue that the Council will need to consider, as the timing of payment of CIL can have an impact on an Applicant's cashflow (the earlier the payment of CIL, the more interest the Applicant will bear before the development is completed and sold).

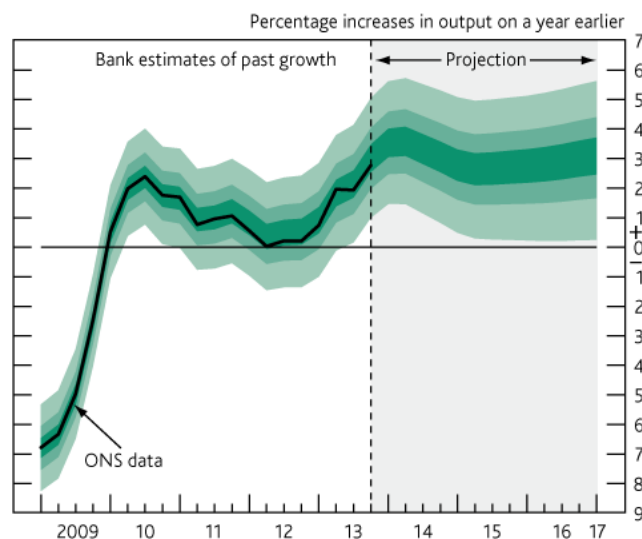
² In addition to these statutory consultation exercises, the Council has consulted informally with key stakeholders to open a dialogue regarding CIL and development viability.

- 2.12 Several local authorities have undertaken viability assessments and have drafted CIL charging schedules, which they have submitted for independent examination. To date, a number of charging authorities (including *inter alia* the Mayor of London, Portsmouth, Newark and Sherwood, Huntingdonshire, Wandsworth, Shropshire, Bristol, Bedford, Poole, Waveney, Barnet, Brent, Bedford, Croydon, Harrow, Newham, Merton, Waltham Forest, Chelmsford, Norwich, Wycombe, Plymouth, Islington, Lambeth, Tandridge, Exeter and Redbridge) have been through the examination process and are at various stages of implementation.

Economic and housing market context

- 2.13 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.
- 2.14 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 Fig 2.14.1, February 2014 Bank of England GDP fan chart below, showing the range of the Bank's predictions for GDP growth to 2017) has meant that consumer confidence has continued to improve.

Fig number 2.14.1 February 2014 Bank of England GDP fan chart



Source: Bank of England

- 2.15 Throughout the first half of 2010 there were some tentative indications that improved consumer confidence was feeding through into more positive interest from potential house purchasers. Against the background of a much reduced supply of new housing, this would lead one to expect some recovery in prices. However, this brief resurgence abated with figures falling and then fluctuating in 2011 and 2012, with the Halifax House Price Indices showing a fall of 0.6% in the year to March 2012. The Halifax attributed some of recovery during that period to first time buyers seeking to purchase prior to the reintroduction of Stamp Duty from 1 April 2012. The signs of improvement in the housing market towards the end of 2012 continued through 2013 and into 2014 and both The Halifax and Nationwide continue to report positively in their January 2013 Housing Price Index updates. They both refer to the housing market's escalating improvement, referencing the improvement in employment and improving confidence.
- 2.16 Nationwide's economist, Robert Gardner, identifies that, *'The housing market is continuing to gather momentum on the back of further solid gains in employment, record low mortgage rates and rising confidence.'* Whilst The Halifax's economist Martin Ellis reports that, *'Mounting signs that the economic recovery is becoming firmly established, together with a predicted decline in unemployment, should further boost consumer confidence over the coming months. This will increase the likelihood that more people will consider buying a property in 2014, therefore supporting housing demand.'*
- 2.17 Both reports refer to an increase in market activity, however Nationwide is more positive stating that, *'there have been encouraging signs that activity levels in the housing market are also gradually returning towards more normal levels. According to HMRC, the total number of housing transactions increased to 103,000 in December, 30% higher than the same month in 2012. The pickup in activity appears to be fairly broad-based, and it is encouraging that first time buyers are a key driving factor behind the upturn.'*
- 2.18 The Halifax however refers to a potential for increase in activity as a result of, *'the recent strengthening in house prices' [which] is increasing the amount of equity that many homeowners have in their home. This will potentially encourage and enable more owners to put their property on the market for sale over the coming year, therefore boosting supply. Indeed, our consumer confidence research shows that there has been a significant improvement in sentiment towards selling in recent months. These factors should help to curb the upward pressure on prices.'*
- 2.19 Nationwide highlights that house prices, *'recorded their thirteenth successive monthly increase in January 2014, rising by 0.7% on the month'*, however the rate of increase fell slightly compared with that recorded in December 2013, which was 1.4%. Notwithstanding this, the price of a typical home was 8.8% higher than January 2013 and 'House prices are now around 4% below the 2007 peak'. The Halifax reports that, *'House prices in the final three months of 2013 were 1.9% higher than in the previous three months. This was within the narrow range of 1.8 - 2.1% for this measure recorded in each of the preceding six months. The annual rate of price increase fell slightly compared with last month with prices in the three months to December 7.5% higher than in the same three months last year.'*
- 2.20 On this basis, the outlook for the UK economy and house prices would appear to be expected to continue to rise in 2014.

Figure 2.20.1: House prices in Bath and North East Somerset



Figure 2.20.2: Sales volumes in Bath and North East Somerset



Source: Land Registry

- 2.21 According to Land Registry data, residential sales values in Bath and North East Somerset have recovered since the lowest point in the cycle in April 2009. Prices fell by 16.8% in Bath and North East Somerset from the peak of the market, January 2008, to April 2009. Following this, prices increased by circa 14% between May 2009 and October 2010. From this point sales values remained fairly stable, fluctuating up and down within a band of 4% until March 2013. Between April 2013 and February 2014, values increased by 3.8%. In February 2014, sales values in the District were just 0.46% lower than the January 2008 peak value.
- 2.22 The future trajectory of house prices is currently uncertain, although Savills' current prediction is that values are expected to increase over the next five years. Medium term predictions are that properties in the mainstream UK markets will grow over the period 2014 to 2018. Savills predict that values in mainstream UK markets (i.e. non-prime) will increase by 6.5% in 2014, 5.0% in 2015, 4.5% in 2016, 4.0% in 2017 and 3.0% in 2018. This equates to cumulative growth of 25.5% between 2014 - 2018 inclusive.

Local Policy context

- 2.23 The Infrastructure Delivery Programme (IDP: April 2014) provides details of infrastructure requirements 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 that there will be a significant funding gap 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.

- 2.24 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 hectares (whichever is the lower threshold applies) and above. The following percentage targets will be sought:

*40% in Prime Bath, Bath North and East, Bath Rural Hinterland;
30% in Bath North and West, Bath South, Keynsham and Salford,
Midsomer Norton, Westfield, Radstock, Peasedown St John, Paulton and
Chew Valley.*

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 threshold applies) 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 20% for AH area 1 and 15% for AH area 2 %, half that of large sites, in order to encourage delivery.

In terms of the affordable housing on small sites, the Council will first consider if on site provision is appropriate. In some instances, 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.

- 2.25 The Core Strategy does not specify a tenure mix but Council's Strategic Housing Market Assessment recommends 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 family housing including some large 4 and 5 bed dwellings.

Development context

- 2.26 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

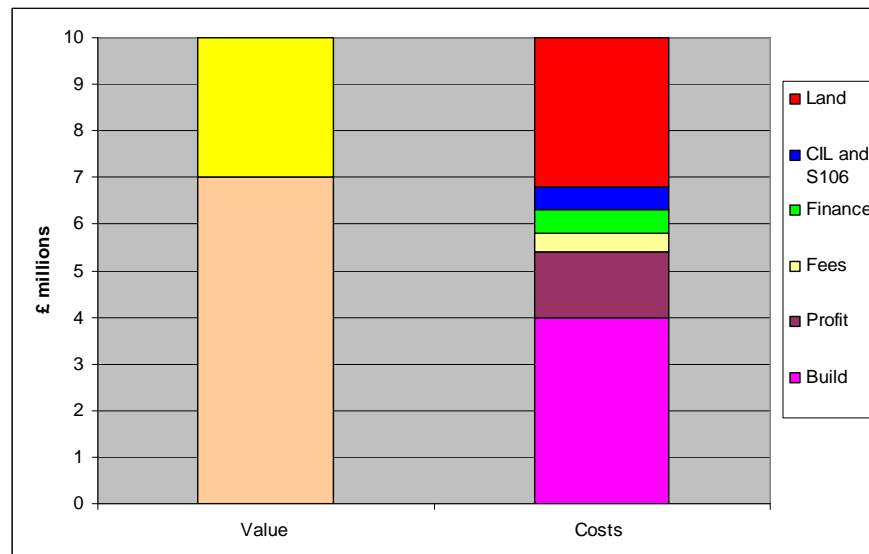
Bath City Centre and the other town centres; and small in-fill sites in residential areas. The Council is seeking to meet its future growth needs as far as possible on previously developed land, to avoid the need to develop on Greenfield sites. The Council is seeking to promote new office development 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 locally-based sites and assumptions that reflect local market circumstances and emerging planning policy requirements. The study is therefore specific to Bath and North East Somerset and reflects the Council's planning policy requirements.

Approach to testing development viability

- 3.2 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing and the payment from a Registered Provider ('RP') for the completed affordable housing units. The model then deducts the build costs, fees, interest, residual S106, 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 red portion of the right hand bar in the diagram.



- 3.3 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of current use value, discussed later), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.
- 3.4 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value'³ or another appropriate benchmark to make development worthwhile. The margin above current use value may be considerably

³ For the purposes of this report, existing use value is defined as the value of the site in its existing use, assuming that it remains in that use. We are not referring to the RICS Valuation Standards definition of 'Existing Use Value'.

different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.

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

Viability benchmark

- 3.6 The 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.
- 3.7 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 value⁴ (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner"*.
- 3.8 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

⁴ This term should not be confused with the RICS *Red Book* definition. Existing Use Value in this context is taken to mean the value of the site in its current use, disregarding opportunities for redevelopment of the site for other uses.

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.”

- 3.9 The guidance issued by the Local Housing Delivery Group⁵ ('LHDG') on 22 June 2012 advocates the use of current use value plus an appropriate premium as a benchmark for testing CIL and local plan policy requirements.
- 3.10 It is clear from the LHDG guidance, planning appeal decisions and HCA good practice publication that the most appropriate test of viability for planning policy purposes is to consider the residual value of schemes compared to the existing or current use value plus a premium. As discussed later in this report, our study adopts a range of benchmark land values, reflecting differing circumstances in which sites are brought forward.
- 3.11 The examination on the Mayor of London's CIL charging schedule considered the issue of an appropriate land value benchmark. The Mayor had adopted existing use value, while certain objectors suggested that 'Market Value' was a more appropriate benchmark. The Examiner concluded in his Report on the Examination of the Draft Mayoral CIL Charging Schedule (27 January 2012) that:
- “The market value approach.... while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context.” (para 8) and that “I don't believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done” (para 9).*
- 3.12 In his concluding remark, the Examiner points out that *“the price paid for development land may be reduced [so that CIL may be accommodated]. As with profit levels there may be cries that this is unrealistic, but a reduction in development land value is an inherent part of the CIL concept. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges. (para 32 – emphasis added).*
- 3.13 It is important to stress, however, that there is no single threshold land value at which land will come forward for development. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of demand for the site's current use in comparison to others; how offers received compare to the owner's perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single threshold land value, it is difficult for policy makers to determine the minimum land value that sites should achieve. This will ultimately be a matter of judgement for each individual Charging Authority.

⁵ This group was led by the Homes and Communities Agency and comprises representatives from the National Home Builders Federation, the Royal Town Planning Institute, local authorities and valuers (including BNP Paribas Real Estate).

4 Development appraisals

Residential development

- 4.1 We have appraised a series of development typologies, reflecting both the range of sales values/capital values and also sizes/types of development and densities of development across the District. This is similar to the approach adopted in the *Bath and North East Somerset Viability Study* (2010) and subsequent updates by Andrew Golland which forms part of the evidence base for the Council's Core Strategy. The inputs to the appraisals are based on research on the local housing market and data from other identified sources.

Residential sales values

- 4.2 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 Studies⁶. Values range from £2,500 to £4,800 per square metre, as shown in Table 4.2.1.

Table 4.2.1: Residential sales values

Area	Average value (£s per square metre)
Bath City Centre	£4,800
Bath rural/Bathavon	£3,950
Bath North and East	£3,314
Chew Valley (West)	£3,000
Bath North/West/South and Chew Valley East	£2,769
Keynsham	£2,700
Midsomer Norton, Radstock, Peasedown St John and Paulton	£2,500

- 4.3 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).

Affordable housing tenure and values

- 4.4 The Council's Core Strategy Policy CP9 identifies that residential developments will be expected to contribute to local housing needs, including affordable provision, and to achieve this, the Council will enter into negotiations to ensure that an average of 40% or 30% affordable housing is achieved.
- 4.5 Although the Council is keen to ensure that Social Rented accommodation is

⁶ *Bath and North East Somerset Viability Study – Final Report June 2010* Three Dragons and subsequent update report

still provided wherever possible in order to meet local needs, they have accepted the concept of Affordable Rent in the District. Our appraisals assume that the rented element of the affordable housing is provided as social rent, which means that additional value may be available (on a case by case basis) to address viability issues through the adoption of affordable rent.

- 4.6 The CLG/HCA '2011-2015 Affordable Homes Programme – Framework' (February 2011) document clearly states that Registered Providers will not receive grant funding for any affordable housing provided through planning obligations. We have therefore assumed that schemes will not receive grant funding.
- 4.7 For shared ownership units, we have assumed that Registered Providers will sell 30% initial equity stakes and charge a rent of 2.5% on the retained equity. The rental income is capitalised using a yield of 6%.

Residential development types, density and mix

- 4.8 The appraisal typologies are guided by a range of actual developments within the District. These typologies are therefore reflective of developments that have been consented/delivered as well as those expected to come forward in the District in future.
- 4.9 Table 4.9.1 below and continued overleaf summarises the different development typologies selected for testing purposes. These are intended to reflect the range of developments across the District. Table 4.9.2 summarises the unit mix for each typology.

Table 4.9.1: Development typologies

Site Type	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	4	Houses	20	0.20
2	7	Houses	30	0.23
3	15	Houses with flats	90	0.17
4	20	Houses	40	0.50
5	50	Houses and flats	90	0.56
6	75	Houses	40	1.88
7	75	Houses and flats	110	0.68
8	125	Houses	40	3.13
9	125	Houses and flats	90	1.39

Table 4.9.2: Unit mix (taken across all tenures together)

Site type	1 Bed flat	2 bed flat	3 bed flat	2 bed house	3 bed house	4 bed house
Unit size	50 sqm	70 sqm	86 sqm	83 sqm	96 sqm	130 sqm
1	-	-	-	-	100%	-
2	-	-	-	29%	71%	-
3	20.00%	15.00%	-	30%	35%	-
4	-	-	-	70%	30%	-
5	10.00%	10.00%	10.00%	35%	35%	-
6	-	-	-	33%	67%	-
7	25.00%	20.00%	5.00%	25%	25%	-
8	-	-	-	30%	60%	10%
9	20.00%	20.00%	-	30%	30%	-

Residential build costs

- 4.10 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 Study⁷ and the CIL stakeholders' workshop. The costs assumed in our appraisals (exclusive of external works and the costs of meeting Code for Sustainable Homes level 4) are summarised in Table 4.10.1.

Table 4.10.1 Residential build costs £s per square metre

	Flats	Houses
Bath City Centre	2,096	1,565
Bath rural/Bathavon	1,556	1,183
Bath North and East	1,470	1,096
Chew Valley (West)	1,470	1,096
Bath North/West/South and Chew Valley East	1,470	1,096
Keynsham	1,043	783
Midsomer Norton, Radstock, Peasedown St John and Paulton	1,043	783

- 4.11 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.
- 4.12 In addition to the base costs above, we have incorporated a 15% allowance for external works and an additional 4% to meet the costs of delivering the units to Code for Sustainable Homes level 4.

⁷ Bath and North East Somerset Viability Study – Final Report June 2010 Three Dragons

Development programme

- 4.13 The development programme for each development typology is summarised in Figure 4.13.1 (overleaf). This assumes a 3 month period for pre-commencement and varying build and sales periods, depending on the number of units in the scheme. We have assumed a sales rate of 3 units per month, with an element of off-plan sales reflected in the timing of receipts for the majority of the developments. This is reflective of current market conditions, whereas in improved markets, a sales rate of 6 units or more per month might be expected.

Professional fees

- 4.14 In addition to base build costs, schemes will incur professional fees covering design, valuation highways and planning consultants and the cost of preparing and submitting the planning application and so on. Our appraisals incorporate a 10% allowance, which is at the middle to higher end of the range for most schemes. This allowance incorporates all professional inputs and planning fees, EPCs and NHBC costs.
- 4.15 Our appraisals incorporate an allowance of 3% of GDV to cover marketing costs. An additional 0.5% of GDV is included for legal costs on sales.

Finance costs

- 4.16 Our appraisals incorporate finance costs on land and build at 7%, inclusive of arrangement and exit fees, reflective of current funding conditions.

Stamp duty and acquisition costs

- 4.17 We include stamp duty at 4% of land costs, agent's fees of 1% and legal fees on acquisition of 0.8%.

Residual Section 106 costs

- 4.18 The Council has estimated the average levels of residual Section 106 contributions that would have been achieved from determined planning applications in the District over the last three years. Based on the findings of the Council's analysis our appraisals test an allowance of £1,000 per residential unit to address any residual Section 106 costs. This is an estimate only and actual sums sought will vary according to site specific circumstances, however the figure is considered by the Council and BNP Paribas Real Estate to be a reasonable proxy for the likely sums to be sought after CIL is adopted. Further, we note that this figure is in line with those adopted by many other charging authorities and are therefore regarded as reasonable for testing purposes. It is noted that once CIL is adopted Section 106 obligations will continue to be negotiable amounts, but also have regard to CIL regulation 122, and in this regard there is scope for these to flex according to viability.

Figure 4.13.1 Development programme for each site type

DEVELOPMENT PROGRAMMES		Year 1		Year 2				Year 3				Year 4				Year 5					
		Quarter																			
Site type	Activity	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
4 unit scheme	Pre-construction																				
	Construction																				
	Sales																				
	S106 payment																				
	CIL payment 1																				
	CIL payment 2																				
CIL payment 3																					
7 unit scheme	Pre-construction																				
	Construction																				
	Sales																				
	S106 payment																				
	CIL payment 1																				
	CIL payment 2																				
CIL payment 3																					
15 unit scheme, flats	Pre-construction																				
	Construction																				
	Sales																				
	S106 payment																				
	CIL payment 1																				
	CIL payment 2																				
CIL payment 3																					
20 unit scheme	Pre-construction																				
	Construction																				
	Sales																				
	S106 payment																				
	CIL payment 1																				
	CIL payment 2																				
CIL payment 3																					
50 unit scheme, flats	Pre-construction																				
	Construction																				
	Sales																				
	S106 payment																				
	CIL payment 1																				
	CIL payment 2																				
CIL payment 3																					
75 unit scheme	Pre-construction																				
	Construction																				
	Sales																				
	S106 payment																				
	CIL payment 1																				
	CIL payment 2																				
CIL payment 3																					
75 unit scheme, flats	Pre-construction																				
	Construction																				
	Sales																				
	S106 payment																				
	CIL payment 1																				
	CIL payment 2																				
CIL payment 3																					
125 unit scheme	Pre-construction																				
	Construction																				
	Sales																				
	S106 payment																				
	CIL payment 1																				
	CIL payment 2																				
CIL payment 3																					
125 unit scheme, flats	Pre-construction																				
	Construction																				
	Sales																				
	S106 payment																				
	CIL payment 1																				
	CIL payment 2																				
CIL payment 3																					

Phasing of CIL payments

- 4.19 The Council is yet to formulate its instalment policy. For testing purposes, we have assumed that any CIL due will be split into three equal instalments, payable at the months shown in Figure 4.13.1 above. For example, the first three schemes (4, 7 and 15 units) are assumed to make CIL payments in quarters 1, 2 and 4, while the largest scheme (125 units) is assumed to make CIL payments in quarters 1, 3 and 6.
- 4.20 Given that phasing has an impact on viability, albeit fairly marginally, and in the context of the current economic climate, we would recommend that the Council takes a cautious approach to their instalment policy, possibly considering spreading payments over a development period of up to two years where large CIL sums apply. This would assist the viability of developments by reducing the level of upfront costs. In addition, spreading the CIL charge over the development period would be the closest approach to that currently applied to S106 contributions.
- 4.21 We note that the Council is able to introduce, withdraw or amend an instalments policy at any time during the life of their charging schedule as long as they give at least 28 days' notice before the new policy takes effect and/or old policy is withdrawn. In addition, the instalments policy is not a matter that the Examiner is required to consider.

Developer's profit

- 4.22 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% of GDV. 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 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).
- 4.23 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.
- 4.24 The near collapse of the global banking system in the final quarter of 2008 is resulting in a much tighter regulatory system, with UK banks having to take a much more cautious approach to all lending. In this context, and against the backdrop of the current sovereign debt crisis in the Eurozone, the banks may not allow profit levels to decrease much lower than their current level of 20%.
- 4.25 Our assumed return on the affordable housing GDV is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an 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 GLA 'Development Control Toolkit' guidance and Homes and Communities Agency's guidelines in its Economic Appraisal Tool.

Exceptional costs

- 4.26 Exceptional costs can be an issue for development viability 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, in the absence of detailed site investigation. Our analysis therefore excludes exceptional costs, as to apply a blanket allowance would generate misleading results. An 'average' level of allowance for certain costs (e.g. piling on sites with abnormal ground conditions) is already reflected in BCIS data, as such costs are frequently encountered on sites that form the basis of the BCIS data sample. In addition, our appraisals include a contingency which will mitigate the impact of exceptional costs.

- 4.27 It is expected however, that when purchasing previously developed sites developers will have undertaken reasonable levels of due diligence and would therefore have reflected obvious remediation costs/suitable contingencies into their purchase price.

Benchmark land values for the residential analysis

- 4.28 Developments in the District will take place on a range of sites, including some that have been previously developed, as well as greenfield or undeveloped land. For a development on a previously developed site to be 'viable', the value generated by the new building must exceed that of the old. This relationship is recognised through comparing scheme values to benchmark land values, which reflect existing site values.
- 4.29 The four benchmark land values used in this study have been selected to provide a broad indication of likely land values across the District, having regard to the predominant types of sites that have come forward and those identified by the Council as coming forward in future. It is important to recognise however, that other site uses and values may exist on the ground. There can never be a single threshold land value at which we can say definitively that land will come forward for development, especially in urban areas.

Benchmark 1

- 4.30 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. This benchmark equates to £2.52 million per hectare and will generally only apply in higher value parts of the District.

Benchmark 2

- 4.31 Benchmark 2 applies a reduction to benchmark 1 to reflect the variation in land values across the District. This benchmark equates to £1.68 million per hectare and will apply outside the highest value parts of the District.

Benchmark 3

- 4.32 Benchmark 3 assumes the sites is in secondary industrial or other employment use. Local rents for these uses suggest that such sites would trade for £750,000 per hectare.

Benchmark 4

- 4.33 Benchmark 4 assumes other vacant land or community land within or adjacent to existing settlements, thus not requiring site servicing. Such sites may have potential as open storage or other low value use. We have therefore applied a benchmark of £500,000 per hectare.
- 4.34 We would caution against reliance on land sales as evidence of minimum land value thresholds, particularly in light of the comments on this data in Examiner's report on

the Mayor of London's CIL⁸, which indicates that owners will need to adjust their expectations to accommodate allowances for infrastructure.

Commercial development

- 4.35 We have appraised a series of commercial development typologies, reflecting a range of use classes at average rent levels achieved on lettings of commercial space in actual developments. In each case, our assessment assumes an intensification of the site. In each case, the existing use value assumes that the existing building is 30%-50% of the size of the new development, with a lower rent and higher yield reflecting the secondary nature of the building.

Commercial rents and yields

- 4.36 Our research on lettings of commercial floorspace indicates a range of rents achieved, as summarised in table 4.36.1. This table also includes our assumptions on appropriate yields to arrive at a capital value of the commercial space. There does not appear to have been substantial commercial development activity over the past few years. New build developments are on the whole likely to attract a premium rent above second hand rents. However, for the majority of developments we would expect this to be relatively modest uplift. The rents and yields adopted in our appraisals are summarised in Table 4.36.1.

- 4.37 Our appraisals of commercial floorspace test the viability of developments on existing commercial sites. For these developments, we have assumed that the site could currently accommodate one of three existing uses (i.e. thereby allowing the site to be assessed in relation to three current use values (CUVs)) and the development involves the intensification of site. We have assumed lower rents and higher yields for existing space than the planned new floorspace. This reflects the lower quality and lower demand for second hand space, as well as the poorer covenant strength of the likely occupier of second hand space. A modest refurbishment cost is allowed for to reflect costs that would be incurred to secure a letting of the existing space. A 15% -20% landowner premium is added to the resulting existing use value as an incentive for the site to come forward for development. The actual premium would vary between sites, and be determined by site-specific circumstances, so the 15% - 20% premium has been adopted as a 'top of range' scenario for testing purposes.

Commercial build costs

- 4.38 We have sourced build costs for the commercial schemes from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes. These costs vary between different uses and exclude external works and fees (our appraisals include separate allowances for these costs). Costs for each type of development are shown in Table 4.36.1.

Profit

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

Residual Section 106 costs

- 4.40 As noted previously, the Council has estimated the average levels of residual Section 106 contributions that would have been achieved from determined planning applications in the District over the last three years. Our appraisals test an

⁸ Para 32: "the price paid for development land may be reduced.... a reduction in development land value is an inherent part of the CIL concept.... in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges."

allowance of £50 per square metre to address any residual Section 106 costs. This figure is considered to be a reasonable proxy for likely sums to be sought after CIL is adopted. It is noted that Section 106 contributions will remain negotiable and in this regard there is scope for these to flex according to viability.

Table 4.36.1: Commercial appraisal assumptions for each use

Appraisal input	Source/Commentary	Offices	Industrial and warehouse	Retail – Comparison A1-A5	Convenience supermarket superstores and retail warehousing	Hotels
Total floor area (sq ft)	Scheme – square feet (net internal area)	35,000	50,000	10,000	10,000	30,000
Rent (£s per sq ft)	Based on average lettings sourced from EGI and Focus – per square foot	£18	£8	City Centre - £30 Elsewhere - £20	£18	£23.50 (city centre) £20 outside
Rent free/void period (years)	BNPPRE assumption (years)	2.0	2.0	2.0	0.50	0.5
Yield	BNPPRE prime yield schedule	6.0%	8.0%	7.0%	5.0%	6.4%
Purchaser's costs (% of GDV)	Stamp duty 4%, plus agent's and legal fees	5.8%	5.8%	5.8%	5.8%	5.8%
Demolition costs (£s per sq ft of existing space)	Based on experience from individual schemes (per square foot of existing space)	£5	£5	£5	£5	£5
Gross to net (net as % of gross)	Based on experience from individual schemes	82%	90%	82%	82%	75%
Base construction costs (£s per sq ft)	BCIS costs. Offices – 'generally' for air conditioned offices with adjustment for quality. 'Generally' figure for industrial, supermarkets and retail. Costs per square foot.	£144	£65	£101	Up to 1,000sqm = £113 1000-7000 sqm = £117	£125
External works (% of base build costs)	BNPPRE assumption	10%	10%	10%	10%	10%
Contingency (% of build costs)	BNPPRE assumption	5%	5%	5%	5%	5%
Letting agent's fee	(% of first year's rent)	15%	10%	10%	15%	10%
Agent's fees and legal fees	(% of capital value)	1.5%	1.5%	1.5%	1.5%	1.5%
Interest rate	BNPPRE assumption	7%	7%	7%	7%	7%
Professional fees (% of build)	BNPPRE assumption, relates to complexity of scheme	10%	10%	10%	10%	10%
Profit (% of costs)	BNPPRE assumption based on schemes submitted for planning	20%	20%	20%	20%	20%

Table 4.36.2 Commercial appraisal assumptions for each use – current use benchmarks

Appraisal input	Source/Commentary	Offices	Industrial and warehouses	Retail – Comparison A1-A5	Retail – Convenience (Small)	Hotels
Existing floorspace	Assumed to be between 15% to 50% of new space (N.B. appraisals do not discount existing floorspace) square feet	10,500	15,000	3,000	2,700	9,000
Rent on existing floorspace (£s per sq ft)	Reflects poor quality second hand space of same use, low optimisation of site etc and ripe for redevelopment – per square foot	£6 to £10	£3 to £4	City Centre - £14 - £16 Elsewhere - £10 to £12	£6 to £10	£8 to £10
Yield on existing floorspace	BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc	7%	10%	7%	8%	7%
Rent free on existing space	Years	3.0	3.0	3.0	3.0	3.0
Refurbishment costs (£s per sq ft)	General allowance for bringing existing space up to lettable standard	£50	£5	£50	£50	£50
Fees on refurbishment (% of refurb cost)	BNPPRE assumption	7%	7%	7%	7%	7%
Landowner premium	BNPPRE assumption – in reality the premium is likely to be lower, therefore this is a conservative assumption	15% to 20%	15 to 20%	15% to 20%	15% to 20%	20%

5 Appraisal outputs

Residential appraisals

- 5.1 The full outputs from our appraisals of residential development are attached as Appendix 1. We have modelled nine site types, reflecting different densities and types of development, which are tested in the nine broad housing market areas identified in Section 4 and against the typical land value benchmarks for the District. The development typologies are summarised in table 5.1.1 below.

Table 5.1.1: Development typologies

Site Type	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	4	Houses	20	0.20
2	7	Houses	30	0.23
3	15	Houses with flats	90	0.17
4	20	Houses	40	0.50
5	50	Houses and flats	90	0.56
6	75	Houses	40	1.88
7	75	Houses and flats	110	0.68
8	125	Houses	40	3.13
9	125	Houses and flats	90	1.39

Scenarios tested

- 1 Base sales and base costs (including Code for Sustainable Homes Level 4);
 - 40% affordable housing;
 - 30% affordable housing;
 - 20% affordable housing;
 - 10% affordable housing; and
 - 0% affordable housing.
 - 2 Sales values increase by 10% and costs increase by 5%, 40% affordable housing.
- 5.2 We have adopted social rent for our base appraisals from which we have recommended CIL rates, which presents a worse case scenario.
- 5.3 We have assumed that all development types will meet CSH Level 4.
- 5.4 CIL applies to net additional floor area only. Our base appraisals assume no deduction for existing floorspace, thereby providing the worst case scenario⁹.
- 5.5 The residual land values from each of the scenarios above in each housing market areas are then compared to the benchmark land value based on the assumptions set out in paragraphs 4.28 to 4.34. 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

⁹ Existing buildings must be occupied for their lawful use for at least six months in the three years prior to grant of planning permission to qualify as existing floorspace for the purposes of calculating CIL liability.

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 base position and test the range of rates (higher and lower than the base level) and changes to yields. This enables us to draw conclusions on maximum potential rates of CIL. For each type of development tested, we have run appraisals of a quantum of floorspace, each with rent levels reflecting the range identified by our research.

Presentation of data

Residential appraisals results

- 5.7 The results for each site type are presented in tables showing the CIL rate and the corresponding RLV (which is then converted into a RLV per hectare). The RLV per hectare is then compared to the four benchmark land values, which are also expressed as a per hectare value. Where the RLV exceeds the benchmark, the amount of CIL entered into the appraisal is considered viable.
- 5.8 A sample of the format of the results is provided in figure 5.8.1 below. This sample relates to site type 3.

Figure 5.8.1: Sample format of residential results

Community Infrastructure Levy BANES CIL 2014 update		Benchmark Land Values (per gross ha)				
		BLV1 Resi land (higher) £2,520,000	BLV2 Resi land (lower) £1,680,000	BLV3 Secondary employment £750,000	BLV4 Ancient sites/community £500,000	
Site type 3		Affordable %		Site area 0.17 ha		
Houses with flats		40%		Net to gross 100%		
No of units	15 units	% rented 75%				
Density:	90 dph	% intermed 25%				
CSH level:	1			Growth		
Bath City Centre		Private values £4800 psm		Sales 0%		
				Build 0%		
CIL amount per sq m	RLV	RLV per ha	RLV less BLV 1	RLV less BLV 2	RLV less BLV 3	RLV less BLV 4
0	360,599	2,163,594	-356,406	483,594	1,413,594	1,663,594
10	347,727	2,086,359	-433,641	406,359	1,336,359	1,586,359
25	337,722	2,026,329	-493,671	346,329	1,276,329	1,526,329
50	321,047	1,926,281	-593,719	246,281	1,176,281	1,426,281
75	304,371	1,826,227	-693,773	146,227	1,076,227	1,326,227
100	287,696	1,726,179	-793,821	46,179	976,179	1,226,179
125	271,022	1,626,130	-893,870	-53,870	876,130	1,126,130
150	254,347	1,526,082	-993,918	-153,918	776,082	1,026,082
175	237,671	1,426,028	-1,093,972	-253,972	676,028	926,028
200	220,997	1,325,979	-1,194,021	-354,021	575,979	825,979
225	204,322	1,225,931	-1,294,069	-454,069	475,931	725,931
250	187,646	1,125,877	-1,394,123	-554,123	375,877	625,877
275	170,971	1,025,829	-1,494,171	-654,171	275,829	525,829
300	154,297	925,780	-1,594,220	-754,220	175,780	425,780
325	137,621	825,726	-1,694,274	-854,274	75,726	325,726
350	120,946	725,678	-1,794,322	-954,322	-24,322	225,678

Commercial appraisal results

- 5.9 The appraisals include a 'base' rent level, with sensitivity analyses which model rents above and below the base level (an illustration is provided in Chart 5.9.1). The maximum CIL rates are then shown per square metre, against three different current use values (see Table 4.36.1). Chart 5.9.2 provides an **illustration** of the outputs in numerical format, while Chart 5.9.3 shows the data in graph format. In this example, the scheme could viably absorb a CIL of between £0 and £275 per square metre, depending on the current use value. The analysis demonstrates the significant impact of very small changes in yields (see appraisals 4 and 6, which vary the yield by 0.25% up or down) on the viable levels of CIL.

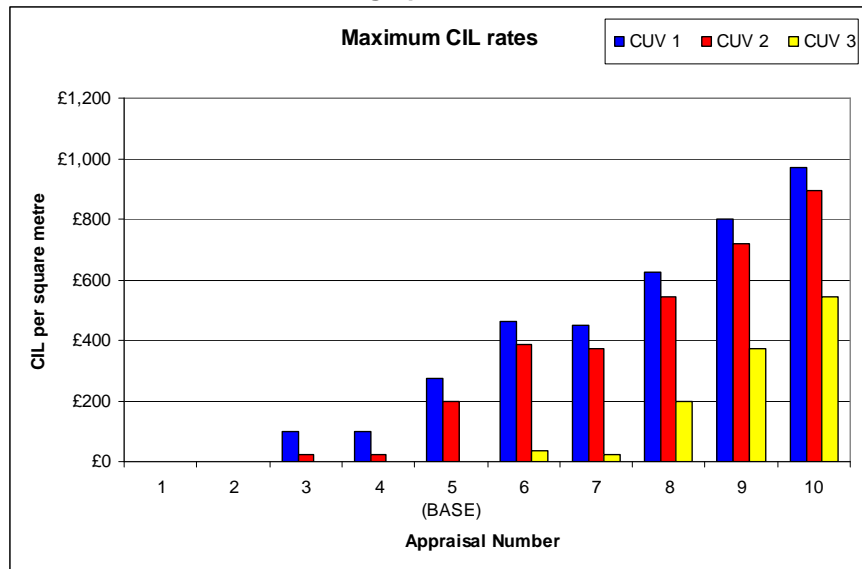
Chart 5.9.1: Illustration of sensitivity analyses

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

Chart 5.9.2: Maximum CIL rates – numerical format

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

Chart 5.9.3: Maximum CIL rates – graph format



6 Assessment of the results

- 6.1 This section should be read in conjunction with the full results attached at Appendix 1 (residential appraisal results) and Appendix 2 (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 appropriate benchmark land values.
- 6.2 The CIL regulations state that in setting a charge, local authorities must “*strike an appropriate balance*” between revenue maximisation on the one hand and the potentially adverse impact of CIL upon the viability of development across the whole area on the other. Our recommendations are that:
- Firstly, councils 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, councils 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, local 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 widely recognised that there is no requirement for a Charging Authority to slavishly follow the outputs of residual valuations. At Shropshire Council’s examination in public, Newark & Sherwood 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. Councils 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.
- 6.4 This conclusion follows section 2:2:2:4 of the CIL Guidance, which states that *‘there is no requirement for a proposed rate to exactly mirror the evidence... There is room for some pragmatism.’* The Council should not follow a mechanistic process when setting rates – appraisals are just a guide to viability and are widely understood to be a less than precise tool. Further, section 2:2:2:6 of the CIL Guidance also identifies that, *‘Charging authorities that plan to set differential levy rates should seek to avoid undue complexity.’*

Assessment – residential development

- 6.5 As CIL is intended to operate as a fixed charge, the Council will need to consider the impact on two key factors. Firstly, the need to strike a balance between maximising revenue to invest in infrastructure on the one hand and the need to minimise the impact upon development viability on the other. Secondly, as CIL will effectively take a ‘top-slice’ of development value, there is a potential impact on the percentage or tenure mix of affordable housing that can be secured. This is a change from the current system of negotiated financial contributions, where the planning authority can weigh the need for contributions against the requirement that schemes need to contribute towards affordable housing provision.
- 6.6 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable regardless of the level of CIL (including a nil rate) and schemes that are viable prior to the imposition of CIL at certain levels. If a scheme is unviable before CIL is levied, it is unlikely to come forward and CIL would not be a factor that comes into play in the developer’s/landowner’s decision making. We have therefore disregarded the ‘unviable’ schemes in recommending an appropriate level of CIL. The unviable schemes will only become viable following a degree of real house price inflation, or in the event that the Council agrees to a lower level of affordable housing for particular sites in the short term¹⁰.

Determining maximum viable rates of CIL for residential development

- 6.7 As noted in paragraph 6.5, where a scheme is unviable the imposition of CIL at a zero level will not make the scheme viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. For the purposes of establishing a maximum viable rate of CIL, we have had regard to the development scenarios that are currently viable and that might, therefore, be affected by a CIL requirement.
- 6.8 Tables 6.8.1 to 6.8.9 summarise the results of our appraisals assuming 40% affordable housing provision. These results show that housing developments are more viable than flatted developments given the higher costs associated with developing flats. Small housing developments similar to Typology 1, would be viable with a CIL at the top of the range tested (i.e. £350 per square metre) on the majority of sites in secondary employment use or vacant/community land.

Table 6.8.1: Four unit development (houses) (20 dph)

Site type	4 unit scheme			
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	nv	350	350
Bath rural/Bathavon	nv	nv	350	350
Bath N & E	nv	nv	225	350
Chew Valley (W)	nv	nv	nv	200
Bath N, W, S & CV (E)	nv	nv	nv	0
Keynsham	nv	nv	350	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	nv	200	350

¹⁰ However, as shown by the sensitivity analyses (which reduce affordable housing to 30%, 20% and 0%) even a reduction in affordable housing does not *always* remedy viability issues. In these situations, it is not the presence or absence of planning obligations that is the primary viability driver – it is simply that the value generated by residential development is lower than some existing use values. In these situations, sites would remain in their existing use.

Table 6.8.2: Seven unit development (houses) (30 dph)

Site type 7 unit scheme				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	100	350	350
Bath rural/Bathavon	nv	200	350	350
Bath N & E	nv	nv	350	350
Chew Valley (W)	nv	nv	175	325
Bath N, W, S & CV (E)	nv	nv	nv	125
Keynsham	nv	0	350	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	nv	350	350

Table 6.8.3: Fifteen unit development (houses with flats) (90 dph)

Site type 15 unit scheme, flats and houses				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	100	325	350
Bath rural/Bathavon	150	350	350	350
Bath N & E	nv	25	275	325
Chew Valley (W)	nv	nv	25	75
Bath N, W, S & CV (E)	nv	nv	nv	nv
Keynsham	75	300	350	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	150	350	350

Table 6.8.4: Twenty unit development (houses with flats) (40 dph)

Site type 20 unit scheme				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	100	350	350
Bath rural/Bathavon	nv	250	350	350
Bath N & E	nv	nv	350	350
Chew Valley (W)	nv	nv	150	275
Bath N, W, S & CV (E)	nv	nv	nv	75
Keynsham	nv	75	350	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	nv	350	350

Table 6.8.5: Fifty unit development (flats and houses) (90 dph)

Site type 50 unit scheme, flats and houses				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	10	225	300
Bath rural/Bathavon	75	275	350	350
Bath N & E	nv	nv	200	250
Chew Valley (W)	nv	nv	nv	25
Bath N, W, S & CV (E)	nv	nv	nv	nv
Keynsham	50	250	350	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	100	325	350

Table 6.8.6: Seventy five unit development (houses) (40 dph)

Site type				
75 unit scheme				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	nv	350	350
Bath rural/Bathavon	nv	100	350	350
Bath N & E	nv	nv	275	350
Chew Valley (W)	nv	nv	25	175
Bath N, W, S & CV (E)	nv	nv	nv	0
Keynsham	nv	0	350	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	nv	325	350

Table 6.8.7: Seventy five unit development (flats and houses) (110 dph)

Site type				
75 unit scheme, flats and houses				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	nv	nv	nv
Bath rural/Bathavon	nv	nv	175	225
Bath N & E	nv	nv	nv	nv
Chew Valley (W)	nv	nv	nv	nv
Bath N, W, S & CV (E)	nv	nv	nv	nv
Keynsham	nv	50	250	300
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	nv	100	150

Table 6.8.8: One hundred and twenty five unit development (houses) (40 dph)

Site type				
125 unit scheme				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	nv	350	350
Bath rural/Bathavon	nv	100	350	350
Bath N & E	nv	nv	275	350
Chew Valley (W)	nv	nv	25	150
Bath N, W, S & CV (E)	nv	nv	nv	nv
Keynsham	nv	0	350	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	nv	300	350

Table 6.8.9: One hundred and twenty five unit development (houses and flats) (90 dph)

Site type				
125 unit scheme, flats and houses				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	nv	nv	nv
Bath rural/Bathavon	nv	10	250	300
Bath N & E	nv	nv	nv	50
Chew Valley (W)	nv	nv	nv	nv
Bath N, W, S & CV (E)	nv	nv	nv	nv
Keynsham	nv	50	300	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	nv	150	225

Sensitivity analysis on affordable housing

- 6.9 Current experience in Bath indicates that delivering the Council's affordable housing targets is possible, although sometimes challenging. The Council have on occasions accepted a reduced level of provision upon the acceptance of a proven viability case. To reflect these schemes, we re-tested all the sites with a reduced affordable housing (30%, 20%, 10% and 0%). The full results of these sensitivity tests are included in Appendix 1. The primary purpose of this exercise was to determine whether changes to affordable housing requirements on individual schemes would enable unviable sites to contribute towards infrastructure. The results show positive movement in terms of the viability of CIL rates when affordable housing levels are reduced. While we are not suggesting that the Council should change its affordable housing policies (as many schemes could meet their required targets), the exercise demonstrates that the flexible application of the District's policies will ensure that CIL will not render development unviable. However, we appreciate that the Council will be keen to minimise the impact on affordable housing as far as possible and this is a key risk factor when determining rates of CIL.
- 6.10 Table 6.10.1 summarises the results from the appraisals with a reduced level of affordable housing, alongside the results at 40% affordable housing for ease of comparison. As a result of the increase in overall scheme value resulting from the reduction in affordable housing, viability improves and in some cases the CIL rates increase towards to top end of the testing range.

Sensitivity analysis on values and costs

- 6.11 As noted in Section 5, we carried out further analyses which consider the impact of increases in sales values of 10%, accompanied by an increase in build costs of 5%. This data is **illustrative only**, as the future housing market trajectory is very uncertain given the economic outlook and technologies for sustainability measures are likely to become cheaper over time. However, if such increases were to occur, the results set out in Appendix 1 show the likely levels of CIL that could be absorbed.

Table 6.10.1: Maximum CIL levels with varying affordable housing levels

Site type																				4 unit scheme																				
																				BLV1					BLV2					BLV3					BLV4					
																				40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	
Bath City Centre																					nv	nv	nv	10	250	nv	25	325	350	350	350	350	350	350	350	350	350	350	350	350
Bath rural/Bathavon																					nv	nv	nv	nv	75	nv	25	250	350	350	350	350	350	350	350	350	350	350	350	350
Bath N & E																					nv	nv	nv	nv	nv	nv	nv	nv	25	175	225	350	350	350	350	350	350	350	350	350
Chew Valley (W)																					nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	125	275	350	350	350	200	350	350	350
Bath N/W/A & CV (E)																					nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	75	175	275	0	150	250	350	350
Keynsham																					nv	nv	nv	nv	nv	nv	nv	nv	10	100	350	350	350	350	350	350	350	350	350	350
Norton Radstock																					nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	200	300	350	350	350	350	350	350	350	350

Site type																				7 unit scheme																				
																				BLV1					BLV2					BLV3					BLV4					
																				40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	
Bath City Centre																					nv	nv	250	350	350	100	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Bath rural/Bathavon																					nv	nv	200	350	350	200	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Bath N & E																					nv	nv	nv	nv	0	125	nv	50	225	350	350	350	350	350	350	350	350	350	350	350
Chew Valley (W)																					nv	nv	nv	nv	nv	nv	nv	nv	nv	100	225	175	325	350	350	350	325	350	350	350
Bath N/W/A & CV (E)																					nv	nv	nv	nv	nv	nv	nv	nv	nv	25	nv	125	250	325	350	125	250	350	350	350
Keynsham																					nv	nv	nv	nv	75	0	125	250	325	350	350	350	350	350	350	350	350	350	350	350
Norton Radstock																					nv	nv	nv	nv	nv	nv	nv	75	175	250	350	350	350	350	350	350	350	350	350	350

Site type																				15 unit scheme, flats and houses																				
																				BLV1					BLV2					BLV3					BLV4					
																				40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	
Bath City Centre																					nv	200	350	350	350	100	350	350	350	350	325	350	350	350	350	350	350	350	350	350
Bath rural/Bathavon																					150	350	350	350	350	350	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Bath N & E																					nv	25	175	300	350	25	200	325	350	350	275	350	350	350	350	325	350	350	350	350
Chew Valley (W)																					nv	nv	nv	75	175	nv	nv	100	200	300	25	175	275	350	350	75	225	325	350	350
Bath N/W/A & CV (E)																					nv	nv	nv	nv	10	nv	nv	nv	50	125	nv	0	100	200	275	nv	50	150	225	300
Keynsham																					75	200	275	350	350	300	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Norton Radstock																					nv	50	150	200	275	150	225	300	350	350	350	350	350	350	350	350	350	350	350	350

Table 6.10.1: Maximum CIL levels with varying affordable housing levels (continued)

20 unit scheme																				
Site type	BLV1					BLV2					BLV3					BLV4				
	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH
Bath City Centre	nv	25	300	350	350	100	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Bath rural/Bathavon	nv	50	250	350	350	250	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Bath N & E	nv	nv	nv	50	175	nv	100	250	350	350	350	350	350	350	350	350	350	350	350	350
Chew Valley (W)	nv	nv	nv	nv	nv	nv	nv	10	125	225	150	275	350	350	350	275	350	350	350	350
Bath N/W/A & CV (E)	nv	nv	nv	nv	nv	nv	nv	nv	nv	50	nv	100	200	275	350	75	200	300	350	350
Keynsham	nv	nv	nv	50	150	75	200	300	350	350	350	350	350	350	350	350	350	350	350	350
Norton Radstock	nv	nv	nv	nv	0	nv	25	125	200	275	350	350	350	350	350	350	350	350	350	350

50 unit scheme, flats and houses																				
Site type	BLV1					BLV2					BLV3					BLV4				
	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH
Bath City Centre	nv	100	325	350	350	10	275	350	350	350	225	350	350	350	350	300	350	350	350	350
Bath rural/Bathavon	75	275	350	350	350	275	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Bath N & E	nv	nv	100	225	325	nv	150	275	350	350	200	325	350	350	350	250	350	350	350	350
Chew Valley (W)	nv	nv	nv	10	100	nv	nv	50	150	225	nv	100	200	300	350	25	150	250	325	350
Bath N/W/A & CV (E)	nv	nv	nv	nv	nv	nv	nv	nv	nv	75	nv	nv	50	125	200	nv	nv	100	175	225
Keynsham	50	150	225	300	350	250	325	350	350	350	350	350	350	350	350	350	350	350	350	350
Norton Radstock	nv	10	75	150	200	100	175	250	300	325	325	350	350	350	350	350	350	350	350	350

75 unit scheme																				
Site type	BLV1					BLV2					BLV3					BLV4				
	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH
Bath City Centre	nv	nv	125	325	350	nv	225	350	350	350	350	350	350	350	350	350	350	350	350	350
Bath rural/Bathavon	nv	nv	125	275	350	100	300	350	350	350	350	350	350	350	350	350	350	350	350	350
Bath N & E	nv	nv	nv	nv	75	nv	0	125	250	325	275	350	350	350	350	350	350	350	350	350
Chew Valley (W)	nv	nv	nv	nv	nv	nv	nv	nv	25	100	25	175	275	350	175	275	350	350	350	350
Bath N/W/A & CV (E)	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	0	100	175	250	0	100	200	275	325
Keynsham	nv	nv	nv	nv	50	0	100	200	250	325	350	350	350	350	350	350	350	350	350	350
Norton Radstock	nv	nv	nv	nv	nv	nv	nv	50	125	175	325	350	350	350	350	350	350	350	350	350

Table 6.10.1: Maximum CIL levels with varying affordable housing levels (continued)

75 unit scheme, flats and houses																				
Site type	BLV1					BLV2					BLV3					BLV4				
	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH
Bath City Centre	nv	nv	25	225	350	nv	nv	150	350	350	nv	75	300	350	350	nv	125	350	350	350
Bath rural/Bathavon	nv	25	200	325	350	nv	175	325	350	350	175	350	350	350	350	225	350	350	350	350
Bath N & E	nv	nv	nv	50	150	nv	nv	50	150	250	nv	75	200	275	350	nv	100	225	325	350
Chew Valley (W)	nv	nv	nv	nv	nv	nv	nv	nv	nv	50	nv	nv	nv	75	150	nv	nv	25	125	200
Bath N/W/A & CV (E)	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	25	nv	nv	nv	nv	50
Keynsham	nv	10	100	175	225	50	150	225	275	325	250	325	350	350	350	300	350	350	350	350
Norton Radstock	nv	nv	nv	25	100	nv	25	100	150	200	100	175	250	275	325	150	225	275	325	350

125 unit scheme																				
Site type	BLV1					BLV2					BLV3					BLV4				
	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH
Bath City Centre	nv	nv	100	300	350	nv	225	350	350	350	350	350	350	350	350	350	350	350	350	
Bath rural/Bathavon	nv	nv	100	250	350	100	300	350	350	350	350	350	350	350	350	350	350	350	350	
Bath N & E	nv	nv	nv	nv	50	nv	nv	125	225	325	275	350	350	350	350	350	350	350	350	
Chew Valley (W)	nv	nv	nv	nv	nv	nv	nv	nv	10	100	25	150	250	325	350	150	250	350	350	
Bath N/W/A & CV (E)	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	75	150	225	nv	75	175	250	
Keynsham	nv	nv	nv	nv	50	0	100	175	250	300	350	350	350	350	350	350	350	350	350	
Norton Radstock	nv	nv	nv	nv	nv	nv	nv	25	100	175	300	350	350	350	350	350	350	350	350	

125 unit scheme, flats and houses																				
Site type	BLV1					BLV2					BLV3					BLV4				
	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH	40% AH	30% AH	20% AH	10% AH	0% AH
Bath City Centre	nv	nv	50	250	350	nv	nv	200	350	350	nv	175	350	350	350	nv	225	350	350	
Bath rural/Bathavon	nv	25	175	325	350	10	200	350	350	350	250	350	350	350	300	350	350	350	350	
Bath N & E	nv	nv	nv	25	125	nv	nv	50	175	250	nv	125	250	325	350	50	175	300	350	
Chew Valley (W)	nv	nv	nv	nv	nv	nv	nv	nv	nv	50	nv	nv	25	125	200	nv	nv	75	175	
Bath N/W/A & CV (E)	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	nv	50	nv	nv	nv	25	
Keynsham	nv	nv	50	125	200	50	150	225	275	325	300	350	350	350	350	350	350	350	350	
Norton Radstock	nv	nv	nv	10	75	nv	25	100	150	200	150	225	275	300	350	225	275	325	350	

Suggested CIL rates

- 6.12 Although the results indicate that viability of residential development can be challenging in certain limited scenarios, it should be possible for rates of CIL to be levied across all areas, subject to allowing for a buffer or margin to address risks to delivery. There are four key risk factors:
- the first is that individual sites might incur exceptional costs (decontamination, difficult ground conditions etc.) and as a result the residual land value could fall. Developers will try and reflect such costs in their offer to the landowner, but the extent of any issues is not always fully apparent until the land value is fixed. Where sites have an existing use, an owner will not be prepared to accept a reduction below the value of the current building to accommodate exceptional costs on a redevelopment;
 - Secondly, current use values on individual sites will inevitably vary and will fall somewhere between the values used in our appraisals. As a result, the ability of schemes to absorb high rates of CIL could be adversely affected.
 - Thirdly, sales values could fall or normal build costs could rise over the life of the Charging Schedule, adversely affecting scheme viability. While the Council could change its rates to adapt to these changes, this cannot be done quickly due to the need to develop a refreshed evidence base and follow the statutory consultation and examination process; and
 - Fourthly, imposing a very high rate of CIL in the Council's first Charging Schedule could 'shock' the land market with a consequential risk that land supply falls. This factor has led many charging authorities to seek to limit their CIL rates to no more than around 3-5% of development costs, or to set their CIL rates so that they are broadly comparable to existing Section 106 contributions, having regard to the impact of existing floorspace¹¹.
- 6.13 It is also important to consider that where a scheme is shown as unviable before the application of CIL, it will be other factors such as sales values, build costs and the percentage of affordable housing that will need to adjust for the scheme to become viable.
- 6.14 The maximum rates of CIL indicated by our appraisals are outlined below. Given the range of results above, and the risk factors outlined in the previous paragraph, our conclusion is that the rates of CIL that the Council might set – having regard to the range of the results and taking account of viability across the District as a whole – should be set at a discount of circa 30% to the maximum rates, as shown in Table 6.14.1. However, there is no fixed discount and this is a matter that is wholly at the Council's own discretion.

¹¹ For example, Wandsworth Council has adopted this approach in the Vauxhall Nine Elms Opportunity Area, where the existing tariff has been converted into a per square metre CIL rate.

Table 6.14.1: Maximum and suggested CIL rates

Sub market area	Maximum CIL rate suggested by appraisals (£s per square metre)	CIL after buffer (£s per square metre)
Bath City Centre	£150	£105
Bath rural/Bathavon	£200	£140
Bath N & E	£175	£122
Chew Valley (W)	£120	£85
Bath N, W, S & CV (E)	£120	£85
Keynsham	£140	£98
Midsomer Norton, Radstock, Peasedown St John and Paulton	£130	£91

- 6.15 In determining the maximum levels of CIL and the recommended rates above, we have based our assessment on: current costs and values, no existing floorspace and taking into consideration the impact of CSH level 4. We have run a set of appraisals that show the impact of; an increase in sales values, accompanied by an increase in build costs; a fall in sales values (the results are included in Appendix 1). These appraisals provide an indication of the likely movement in viability that any 'buffer' below the maximum rates would need to accommodate.
- 6.16 We recommend that the Council considers combining all the market areas into a single charging zone, thereby simplifying the charging schedule.

Extra Care and Sheltered/Retirement Housing

- 6.17 We have also considered the viability of setting a CIL rate for care homes and Extra Care Housing. The Royal Town Planning Institute defines Extra Care Housing as, *'purpose-built accommodation in which varying amounts of care and support can be offered and where some services are shared'*. Extra Care Housing can be precisely defined (and differentiated from other types of residential institutions) by reason of some specific characteristics, as set out in the RTPI Good Practice Note¹².
- 6.18 Although Extra Care Housing falls within Class C3 in the Use Classes Order, it is recognised that it has different viability considerations to standard residential dwellings (or even standard care homes). These arise due to the lower gross to net ratio of developments (due to the need for communal facilities), and the additional time that it takes to sell the accommodation due to the restricted market for that type of unit. In our experience Extra Care Housing Schemes have gross to net floorspace ratios of circa 70% due to the additional communal areas. However, these developments typically command premium sales values that outperform local markets. Furthermore, the sites tend to be more efficiently used, due to lower car parking requirements and higher densities in comparison to standard residential developments. These factors help to offset the lower internal efficiency and longer sales period.
- 6.19 Our appraisals of retirement/sheltered housing (i.e. a scheme such as Avon Park Village near Bath), where residents have their own flat or house and buy in additional services and support as required) assume a 70% gross to

¹² RTPI Good Practice Note 8, Extra Care Housing, Development planning, control and management (2007)

net ratio for the flatted element which accounts for the additional common areas required in such developments. This factor, along with a slower sales rate (assumed to be sales rate of 1.5 units a month), combine to adversely affect viability as compared to standard C3 housing. However, premium values (15% above prevailing market values, as advised by the Retirement Housing Group¹³) help to offset these factors.

- 6.20 Our appraisals of both Extra Care housing and retirement/sheltered housing indicate that such developments are unlikely to generate significantly different results from those generated by other residential development. The results are summarised in Table 6.20.1.

Table 6.20.1: Retirement housing appraisal results

Site type 60 units - 75% gross to net				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	25	175	325	350
Bath rural/Bathavon	250	350	350	350
Bath N & E	nv	75	225	275
Chew Valley (W)	nv	nv	0	25
Bath N,W, S & CV (E)	nv	nv	nv	nv
Keynsham	150	300	350	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	0	150	300	350

Site type 60 units - 72.5% gross to net				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	75	250	275
Bath rural/Bathavon	175	325	350	350
Bath N & E	nv	10	175	200
Chew Valley (W)	nv	nv	nv	nv
Bath N, W, S & CV (E)	nv	nv	nv	nv
Keynsham	100	250	350	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	100	250	300

Site type 60 units - 70% gross to net				
	BLV1	BLV2	BLV3	BLV4
Bath City Centre	nv	10	150	200
Bath rural/Bathavon	100	250	350	350
Bath N & E	nv	nv	100	150
Chew Valley (W)	nv	nv	nv	nv
Bath N, W, S & CV (E)	nv	nv	nv	nv
Keynsham	50	200	350	350
Midsomer Norton, Radstock, Peasedown St John and Paulton	nv	50	200	250

Assessment – commercial development

- 6.21 Our appraisals indicate that the potential for commercial schemes to be viably delivered varies between different uses and between areas across the District. Retail rents are higher in certain areas and developments might generate sufficient surplus residual value to absorb a CIL.

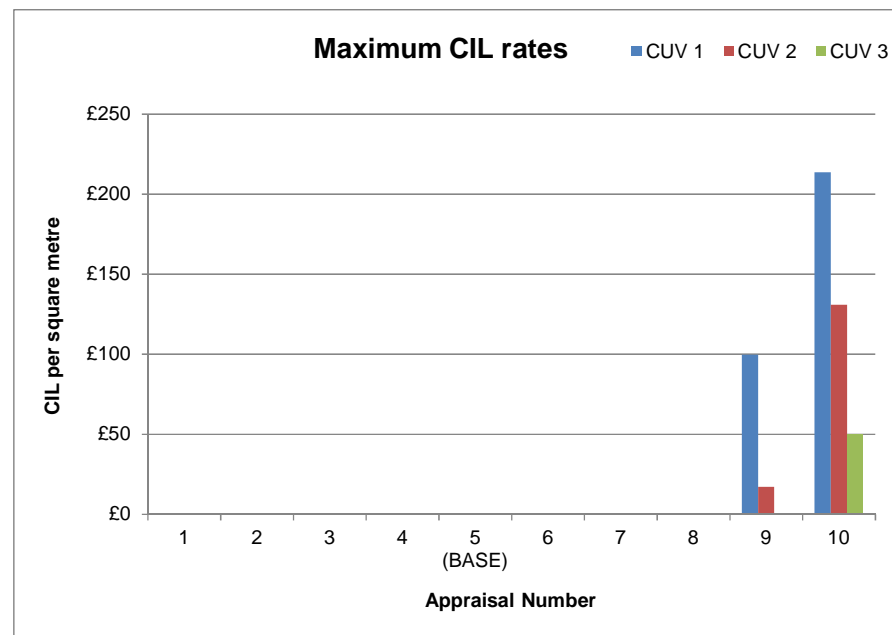
¹³ 'CIL and Sheltered Housing/Extra Care Developments: A briefing note on viability' May 2013, Retirement Housing Group

- 6.22 As noted in section 4, the level of rents that can be achieved for commercial space varies according to exact location; quality of building; and configuration of space. Consequently, our appraisals adopt a 'base' position based on average rents for each type of development and show the results of appraisals with lower and higher rents. This analysis will enable the Council to consider the robustness of potential CIL charges on commercial uses, including the impact that changes in rents might have on viability.

Office development

- 6.23 We have undertaken research on deals for commercial floorspace in the District using electronic databases such as EGi and Focus, as well as discussions with local agents. Our research indicates that a range of rents are currently being achieved and as such prime office space is likely to achieve between £15 to £20 per square foot. We have adopted a rent at the top of this range.
- 6.24 The results of our appraisals indicate that office developments are unlikely to be viable, unless rents increase and yields harden significantly over the life of the Charging Schedule. In this regard we recommend that the Council considers a nil rate on office developments in the District.

Figure 6.24.1: Appraisal results: Office development



Industrial and warehouse development

- 6.25 Our appraisals of industrial development indicate that residual values are likely to be too low to absorb a CIL. A considerable increase in new build industrial rents would be required before any CIL could be absorbed (see Appendix 2 for Appraisals). As such we recommend that the Council considers adopting a nil rate of CIL for such uses.

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

- 6.26 Our appraisals of convenience based supermarkets and superstores¹⁴ and retail warehousing¹⁵ development indicate a greater degree of viability than for comparison retail.
- 6.27 Other charging authorities have considered the differences in viability between comparison retail and convenience based retail and retail warehousing. It is acknowledged that size does not necessarily result in the higher values generated by convenience based supermarkets and superstores and retail warehousing uses. Rather, it is a combination of factors including:
- The availability of car parking;
 - The operational economics of supermarkets/superstores (these uses are known to be efficient at generating volume sales whilst having low operating costs);
 - The rents that retailers are willing to pay to occupy these units tend to be high (particularly with regard to comparison retailing as these locations will command prime rents in the area);
 - The value which the investment market ascribes to such units is high. This is due to such units being occupied by operators with greater covenant strength, which results in lower yields being applied; and
 - Such large developments are also likely to come forward on sites which have lower existing use values i.e. a large majority of large retail units have historically been developed on former industrial sites and as a result a lower benchmark land value is achieved, which results in a higher surplus and consequently a potential for a higher CIL rate.
- 6.28 We understand from our research that the large national retailers actively seek space larger than the Sunday Trading Law threshold of 280 square metres.
- 6.29 We have undertaken research using databases such as our in house comparable database, Focus and EGi and discussions with active local agents as well as our in house valuation team, who undertake valuations regularly for major supermarkets, that yields achieved on units occupied by the major national occupiers are circa 5% and keener in many instances, whilst yields achieved on units occupied by independent local tenants are likely to be in the region of 8%.
- 6.30 Yield differentials have a significant bearing on the outcome of a development appraisal. At a yield of 7% our appraisals indicate that a retail development of 279 square metres¹⁶ is unlikely to generate surplus residual values above the value of current floorspace i.e. such development is considered to be unviable (see Chart 6.32.1 below and Appendix 2 for copies of our appraisal). As highlighted above, due to the covenant strength

¹⁴ Superstores/supermarkets are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit

¹⁵ Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for mainly car-borne customers.

¹⁶ Assuming a local occupier.

of the large national retailers, investment yields are lower, resulting in a higher capital value. Adopting a lower yield of 5%, our appraisals (280 sq m unit, and 1,000 sq m unit) show that a maximum CIL of between £528 and £672 per square metre could be levied on such retail space, depending on the size of the store (which has an impact on build costs) and the value of the existing use of the site (see Charts 6.30.1 to 6.30.3 and Appendix 2 for copies of our appraisals).

Chart 6.30.1: Convenience based supermarkets and superstores and retail warehousing (whole District) (279 sq m) – higher yield (lower covenant)

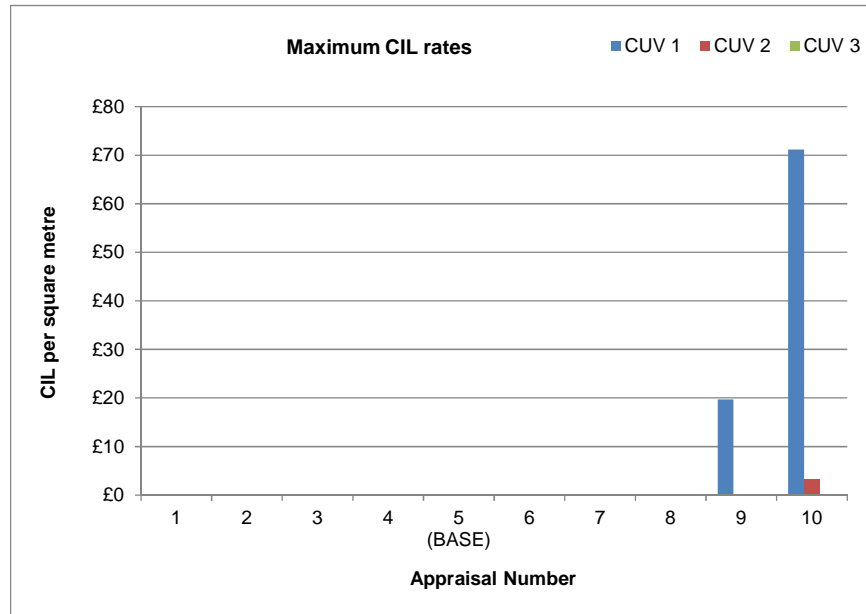


Chart 6.30.2: Convenience based supermarkets and superstores and retail warehousing (whole area) (279 sq m) – lower yield (higher covenant)

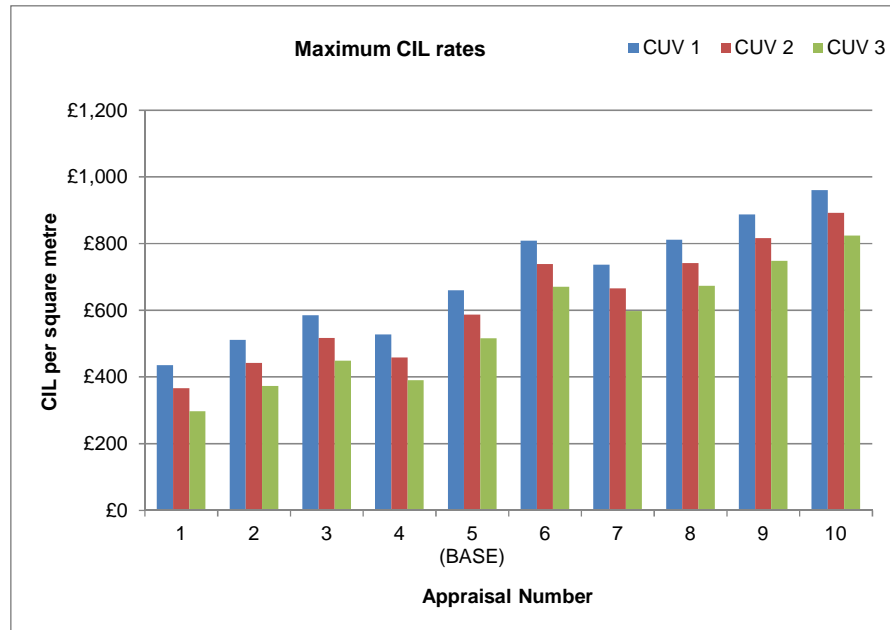
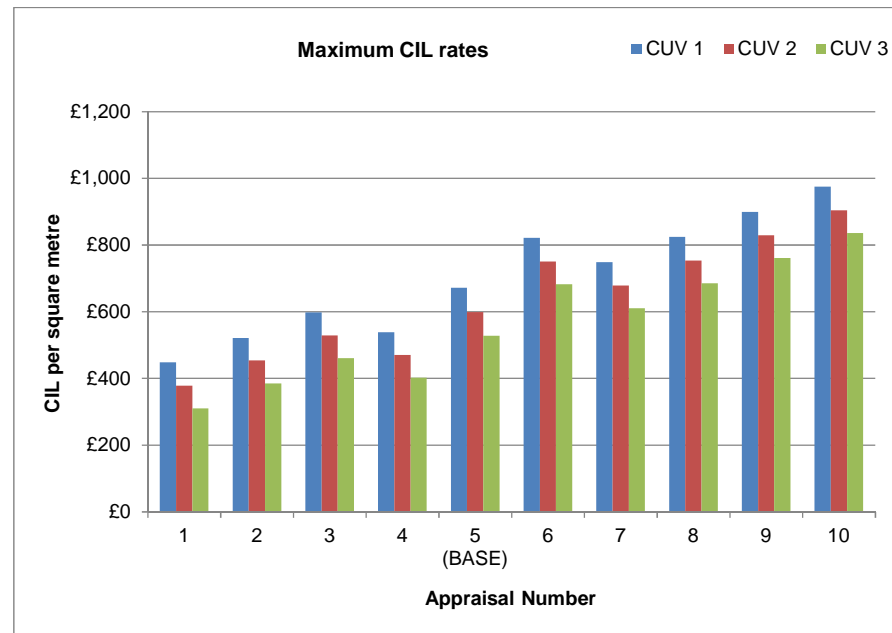


Chart 6.30.3: Convenience based supermarkets and superstores and retail warehousing (whole area) (1,000 sq m) – lower yield (higher covenant strength)

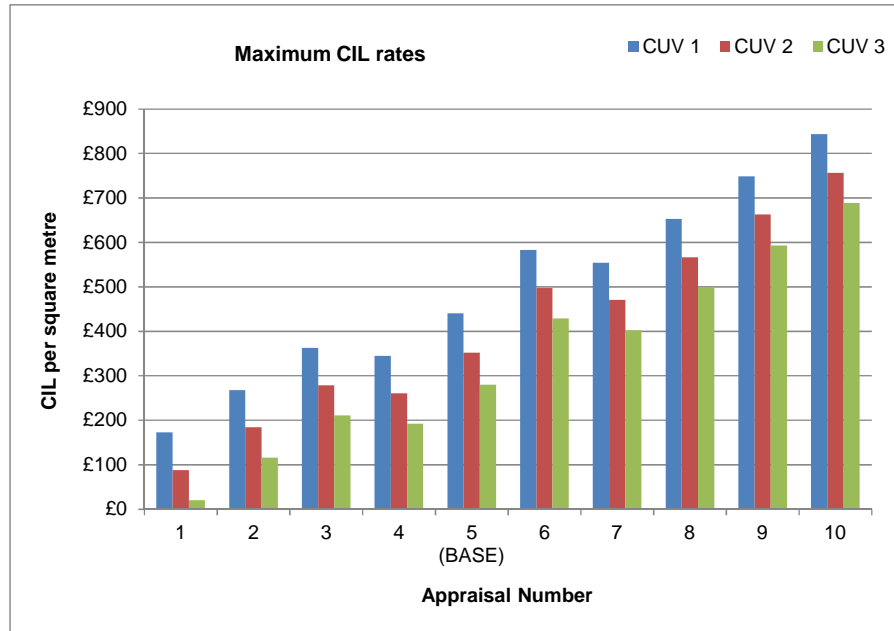


- 6.31 In light of the above and the results of our viability appraisals, we recommend that the Council adopts a CIL of £150 per square metre on Convenience based supermarkets and superstores and retail warehousing across the District on units of 280 sq m, (on the basis that the national occupiers seek to and in the majority of cases currently occupy units larger than this threshold and the converse is true of local occupiers).

All other retail (A1-A5) development – Prime Shopping Area – Central Bath

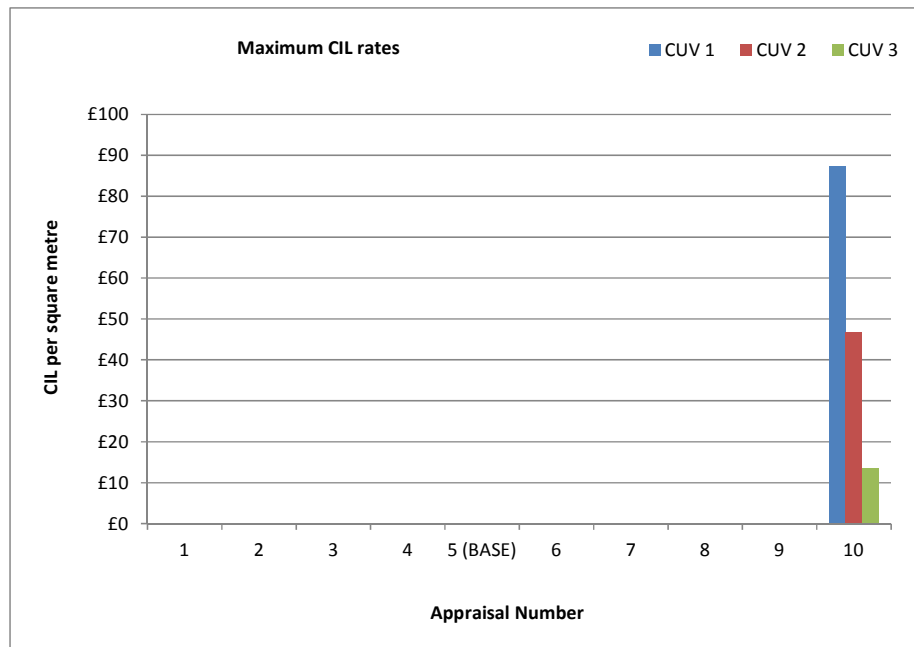
- 6.32 The prime retail area in the District is located in Bath City Centre. Our research indicates that retail rents in the City Centre are typically circa £323 per square metre.
- 6.33 With respect to yields we understand that prime retail yields in Bath City Centre are placed at circa 7%. This is reflective of the health of the retail market in Bath City 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.
- 6.34 In the City Centre, our appraisals indicate that retail developments could absorb a CIL of between £280 to £440 per square metre. After allowing a buffer, we suggest a CIL rate of £150 per square metre.

Chart 6.34.1: Retail development: Bath City Centre



6.35 Our appraisals of all other retail developments (A1- A5 uses) outside Bath City Centre indicate that such development is unlikely to generate significant surpluses that could fund CIL. The residual land values are only likely to exceed current use values by a small margin to allow for a CIL to be

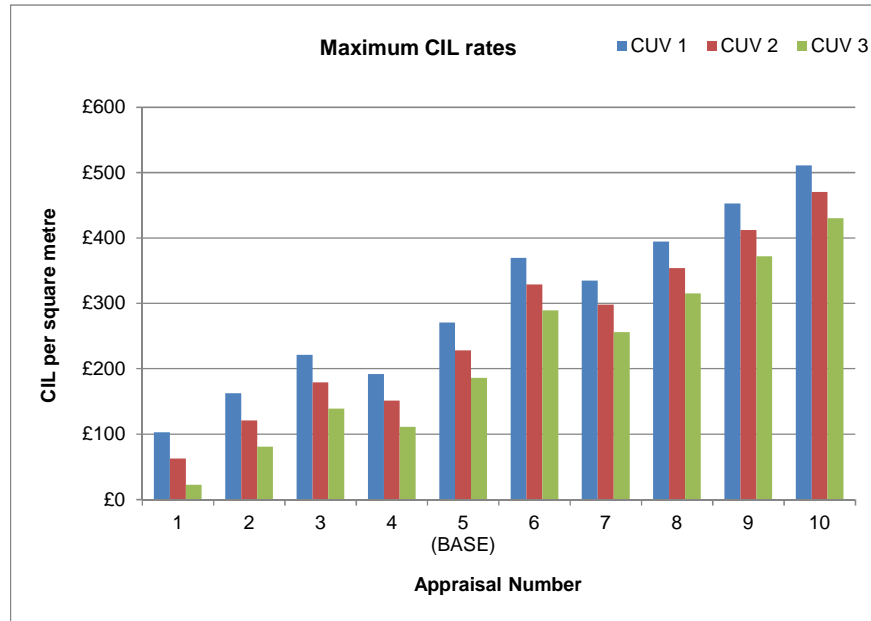
Chart 6.35.1: Retail development: outside Bath City Centre



Hotel development

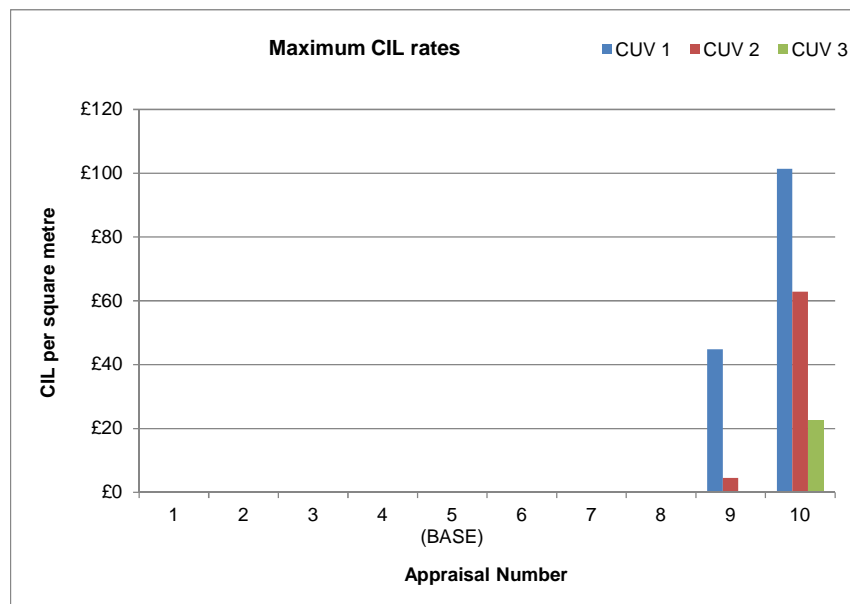
- 6.36 Our appraisal of hotel development is attached at Appendix 2. This indicates that at current values, hotel developments in Bath City are able to absorb a CIL of up to £270 per square metre. A CIL of £100 per square metre would leave a substantial buffer below the maximum rate.

Figure 6.36.1: Hotel development – Bath City



- 6.37 Hotel development outside Bath City is unlikely to generate significant residual land values to absorb a CIL. Given this position we recommend that the Council considers setting a nil or nominal CIL rate on hotel developments outside Bath City.

Figure 6.41.1: Hotel development – outside Bath City



D1 and D2 floorspace development

- 6.38 D1 and D2 floorspace typically includes uses that do not accommodate revenue generating operations, such as schools, health centres, museums and places of worship. Other uses that do generate an income stream (such as swimming pools) have operating costs that are far higher than the income and require public subsidy. Many D1 uses will be infrastructure themselves, which CIL will help to provide. It is therefore unlikely that D1 and D2 uses will be capable of generating any contribution towards CIL.
- 6.39 D1 and D2 uses will sometimes include developments that are operated commercially (such as gyms) but with many new operations opening in existing floorspace, very little, if any CIL income could be secured. On this basis we would recommend that the Council considers a nil rate on such uses.

7 Greenfield strategic sites

We have tested greenfield strategic sites as a separate appraisal exercise to the hypothetical schemes outlined in the previous sections. Our assumptions for the development appraisals are set out in the following sections.

Sales values

Sales values used in the appraisals are summarised on Table 7.1.1. These correspond with the sales values used in the main CIL Viability Study.

Table 7.1.1: Sales values used in the appraisals

Site	Sales value (£s per sqm)	Sales value (£s per sq ft)
Land adjoining Odd Down	£2,894	£269
Land adjoining Weston	£2,894	£269
Extension to MoD Ensleigh	£2,894	£269
East of Keynsham	£2,537	£236
Land adjoining South West of Keynsham	£2,537	£236
Whitchurch	£2,894	£269

Sales rate

Our appraisals assume a sales rate of 3 to 4 units per month, with single sales outlets on each site. This sales rate is applied to the private housing only, with the developers assumed to contract with a Registered Provider for the disposal of the affordable housing prior to commencement of construction. The agreed acquisition price for the affordable housing is assumed to be received in staged payments over the build period.

7.1 Build costs and infrastructure

Our base build costs are £883 per square metre based on BCIS 'Estate Housing – 2 storey', rebased to the Bath area. On the larger sites, it is likely that the developers will be able to drive costs down to lower levels than we have used. Our appraisals do not attempt to reflect this.

In addition to the base costs above, we have allowed a 15% allowance for external works.

An allowance of £10,000 per unit has been included for site preparation, site-wide infrastructure and utilities. This is based on the costs estimated on other sites around the south west and south east.

We have included an allowance of £600 per unit for meeting additional costs associated with Lifetime Homes.

The 2011 Element Energy and Davis Langdon cost appraisal study on behalf of the Department for Communities and Local Government indicates that the costs associated with Code for Sustainable Homes Level 4 add circa 7.5% to the base BCIS costs.

7.2 Section 106 obligations

The Council has advised that the strategic greenfield allocations will be required to make either on-site provision or financial contributions towards primary education; financial contributions towards secondary education; provision of open space; financial contributions towards indoor and outdoor sports; and highways improvements. The Council has not costed these requirements; we have therefore tested a range of Section 106 requirements, as follows:

- £1,000 per unit;
- £5,000 per unit;
- £10,000 per unit;
- £15,000 per unit.

We have assumed that open space requirements are provided on site, rather than through a financial contribution.

7.3 Other assumptions

The other assumptions in our appraisals are as follows:

- Allowance for professional fees of 10% of build costs;
- Additional allowance for planning costs: 2% of build costs;
- Finance costs of 7% on negative balances; 0% on positive balances;
- Profit of 20% of private housing Gross Development Value (GDV) and 6% on affordable housing GDV;
- Acquisition costs: 4% stamp duty land tax, 1% agent's fee and 0.8% legal fees;
- Marketing costs: 3% of private housing GDV; and
- Sales legal fee of £650 per private unit.

7.4 Site areas

The Council has advised that the sites areas for the strategic greenfield developments are as shown in Table 7.6.1. However, in many cases, the total site area required to support the quantum of development will be lower than the gross site area identified by the Council. Developers would not need to purchase the entire gross site area and some land could remain in existing ownership. We have assumed that a net to gross site ratio of 60% would apply, thus leaving sufficient land for open space and other planning requirements.

Table 7.6.1: Site areas (40 units per hectare)

Site Description	Gross site area (ha) ¹⁷	Gross site area required for development (ha)	Net site area (ha)
Land adjoining Odd Down	45	13	8
Land adjoining Weston	75	13	8
Extension to MoD Ensleigh	23	5	3
East of Keynsham	78	10	6
Land adjoining South West of Keynsham	60	8	5
Whitchurch	200	8	5

Table 7.6.2: Site areas (30 units per hectare)

Site Description	Gross site area (ha) ¹⁸	Gross site area required for development (ha)	Net site area (ha)
Land adjoining Odd Down	45	17	10
Land adjoining Weston	75	17	10
Extension to MoD Ensleigh	23	7	4
East of Keynsham	78	14	8
Land adjoining South West of Keynsham	60	11	7
Whitchurch	200	11	7

7.5 Unit mix

The unit mix applied to the strategic sites is as follows: 45% two bed houses, 35% three bed houses, 15% four bed houses and 5% five bed houses.

7.6 Benchmark land values

Our benchmark land values for the greenfield sites are guided by the range identified in the Department for Communities and Local Government study on *The Cumulative Impact of Policy Requirements* (2011) of £100,000 to £150,000 per gross acre (£247,000 to £370,500 per gross hectare).

7.7 Appraisal results

The results are summarised at Appendix 4. This shows the residual land value for each site when varying levels of CIL are applied (starting at £0 and increasing to £150 per square metre in £10 per square metre increments. When Section 106 requirements increase above £5,000 per square metre, the ability of schemes to absorb CIL diminishes. We therefore suggest that the Council adopts a reduced CIL on strategic sites where Section 106 obligations

¹⁷ Based on Council's estimates of site area; does not reflect exact site boundaries

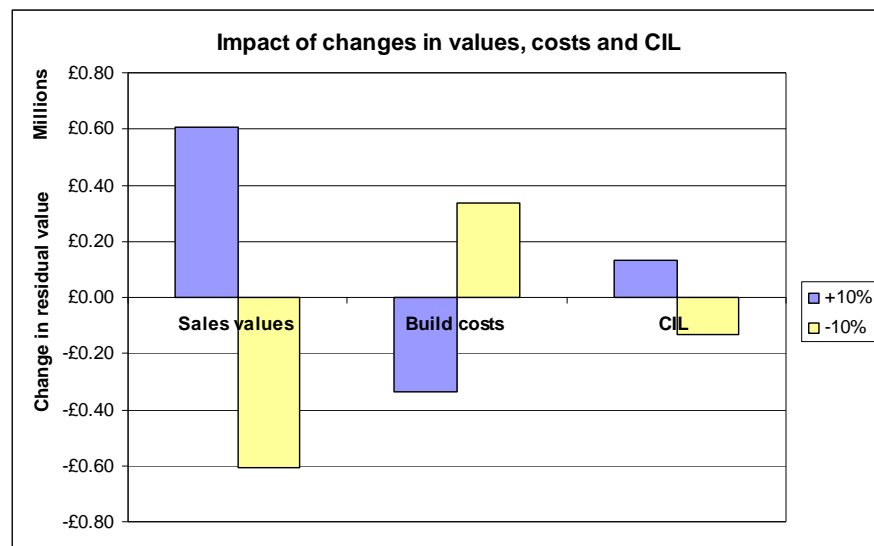
¹⁸ Based on Council's estimates of site area; does not reflect exact site boundaries

of £5,000 or more will be sought. If the Council wishes to adopt a lower per unit amount of Section 106 it could do so, but this is likely to provide less flexibility to secure on-site provision. Similarly, the Council could secure more through Section 106 (subject to meeting the requirements in Regulation 122) and being satisfied that it will be able to negotiate these requirements. In addition, the Council would need to carefully draft its Regulation 123 list to ensure that infrastructure being sought through Section 106 is not included.

8 Conclusions and recommendations

- 8.1 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.
- 8.2 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 point is illustrated in Chart 8.2.1 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 8.2.1: Impact of changing levels of CIL in context of other factors



- 8.3 Given CIL’s nature as a fixed tariff, it is important that the Council selects rates that are not at the limit of viability. This is particularly important for commercial floorspace, where the Council has less scope 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.

8.4 Our 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. However, the Council also needs to have regard to the locations of major sources of new housing supply. If new housing is focused on a relatively distinct group of areas with similar viability characteristics, then setting multiple CIL rates will make little difference to total CIL income. However, the maximum CIL rates that *could* be charged in each sub-market area are shown in Table 8.4.1.

Table 8.4.1: Maximum residential CIL rates

Sub market area	Maximum CIL rate	CIL rate after 30% discount
Bath City Centre	£150	£105
Bath rural/Bathavon	£200	£140
Bath N & E	£175	£122
Chew Valley (W)	£120	£85
Bath N, W, S & CV (E)	£120	£85
Keynsham	£140	£98
Midsomer Norton, Radstock, Peasedown St John and Paulton	£130	£91

- 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 varying the quantum of affordable housing sought.
- On **Strategic Greenfield Sites**, our appraisals indicate that the Council should consider setting a lower CIL rate if it intends to negotiate more than £5,000 per unit through Section 106 obligations. Clearly the Council has the option of setting a low CIL rate in any event, if it considers that it is better placed to secure infrastructure requirements on these sites through Section 106. If this is the Council's preferred approach, it would need to be satisfied that such contributions comply with Regulation 122.
- **Hotel developments** in Bath City could accommodate a CIL of up to a maximum of £270 per sq metre. We would suggest a rate of around £100 to allow an adequate buffer for site-specific factors. Outside Bath, hotel values are lower, which adversely impacts on the viability of new hotel development. Consequently, we recommend a nil rate on hotel development outside Bath City.
- **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 let at commercial rents would be able to absorb a CIL contribution of up to £447 per square metre, but we recommend a rate of £200 per square metre after allowing for a buffer. For student housing provided by the University Sector at sub market rents, we recommend a nil rate.
 - 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, with a suggested rate of £150 per square metre. Outside Bath, retail rents are considerably lower and residual values will be insufficient to support any level of CIL.
 - **Supermarkets, superstores and retail warehouse parks** generate sufficient residual values to absorb CIL set at up to £474 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 this type of retail development across the District around £150 per sq metre.
 - 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.
- 8.5 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.

Table 8.5.1: Summary of recommended CIL rates

Development Type	Area/Zone	CIL rate per square metre
Residential (Class C3) including sheltered housing	Whole District	£100
	Strategic sites where S106 of more than £5,000 per unit is to be sought	£50
Office	Whole District	Nil
Hotel	In Bath City	£100
	Outside Bath City	Nil
In centre/high street retail	Bath City Centre	£150

Development Type	Area/Zone	CIL rate per square metre
Supermarkets, superstores and retail warehouse	Whole District	£150
Other retail	All areas outside Bath City Centre	Nil
Student accommodation	On Campus with sub-market rents (to be set in Section 106 agreement)	Nil
	Off Campus	£200
All other development	Whole District	Nil

Appendix 1 - Residential appraisal results

Appendix 2 - Commercial appraisal results

Appendix 3 - Sub-market areas

Appendix 4 - Strategic sites testing

