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D|S|P Planning & Development Viability Consultants

Epping Forest District Council

Epping Forest District Council

Stage 1 Assessment of the Viability of Affordable Housing, Community Infrastructure Levy and Local Plan

Ref: DSP14241

Final Report

June 2015

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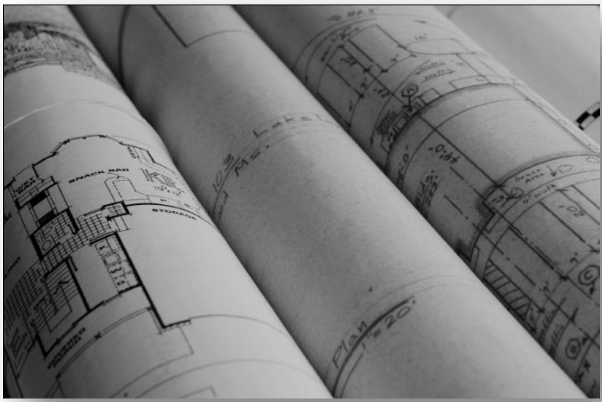

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Appendices

Executive Summary

1. Project scope – the Council's brief

Epping Forest District Council is in the process of preparing a new Local Plan whilst at the same time considering the introduction of a Community Infrastructure Levy.

As the Council has not yet identified a preferred policy approach either to the Local Plan (including affordable housing policies, spatial strategy or site allocations) or the Community Infrastructure Levy, this study has been broken down in to two distinct phases or stages.

This report represents Stage 1 of the process and reviews viability at a high level and introduces potential options for Policy development (including on the proportion of affordable housing and affordable housing thresholds) and broad parameters for viable levels of CIL for various uses across the District.

Overall the study will:

i. Provide the viability evidence base to inform the development of the Council's new Local Plan as well as potential options for the introduction of the Community Infrastructure Levy.

ii. Provide recommendations on the appropriate level of affordable housing and CIL whilst maintaining viable development.

iii. Assess viability of development site typologies (relevant to the type of development likely to come forward across Epping District) as well as strategic scale development.

The second stage of this process will update the outcomes from Stage 1 and apply agreed approaches from Stage 1 to new site or location types being introduced through the Local Plan as a clearer picture on site supply and development strategy emerges following a review of Stage 1 recommendations.

2. National planning and Community Infrastructure Levy (CIL) context

The National Planning Policy Framework (NPPF) & CIL Regulations require and provide for:

i. Local Plans to be deliverable; and identified development should not be subject to such a scale of obligations and policy burdens that viability is threatened.

ii. Assessment of the cumulative impact of existing and proposed local and national standards; and those should not put at serious risk the implementation of the Plan.

iii. CIL is expected to have a 'positive economic benefit' and an 'appropriate balance must be struck between additional investment to support development and the potential effect on the viability of development'.

iv. The CIL Regulations have changed a number of times with the latest Regulations setting out the following key areas:

- Limitation on the pooling of s. 106 obligations from April 2015

- new mandatory exemptions for self-build housing, and for residential annexes and extensions;

- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);

- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;

- a new 'vacancy test' - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months); vacant buildings brought back into the same use would also not be charged;

- a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to 'aim to strike the appropriate balance';

- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

3. Viability Assessment – Principles

i. It is accepted that not all development may be viable either before or after the impact of CIL and other planning policies – what counts is that delivery of the Local Plan, as a whole, will not be put at undue risk through the influence of requirements that place too high a level of collective costs on developments (through the CIL levels and policies).

ii. Charging Authorities need to show how their CIL proposals contribute positively to plan delivery; and how they will operate alongside s.106 (so as to ensure no "double-dipping" in terms of overlaps between costs and obligations used to support particular infrastructure provision).

iii. The assessment provides appropriate, proportionate evidence. It is a high-level overview based on scenarios and site-specifics (including, in the Epping Forest context, strategic scale development).

iv. In very basic terms, through the study we are looking at the strength of relationship between development values and costs.

4. Study methodology – principles and brief outline

i. The viability of a scheme is based on '*the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project' (RICS Guidance – 'Financial viability in Planning' - August 2012).*

ii. This means that there needs to be sufficient land value and profit once all the costs of development have been met. The assumptions take into account planning obligations, CIL and affordable housing but also any policy requirements that may have a cost impact on development – e.g. sustainability, density, unit mix, affordable housing type / tenure, etc.

iii. The methodology basis is the same for all parts of the study – it uses residual land valuation techniques.

iv. There is a significant overlap between Local Plan and CIL viability and some circularity – i.e. policies in the Local Plan will affect the level of CIL, and vice-versa.

v. The assessment process involves calculating the residual land value (RLV) produced by a range of scheme types and sizes (including non-residential for CIL) and comparing the results to benchmark or threshold land values. For CIL this includes trialling a range of potential CIL charging rates – an iterative approach following the initial assessment of the viability of key policies, allowing a review of the general viability picture and, from there, any in-principle surplus available to support CIL funding.

vi. The process outlined above may be visualised in simplified form as follows (see the following diagrams – steps 1 and 2):

Step 1: Appraisal produces a 'RLV':

Gross Development Value (value of the completed scheme)

↓

minus

↓

Costs (cost of realising the Gross Development Value including build costs, fees, finance, profit etc)

↓

minus

↓

other costs (planning obligations, affordable housing etc)

↓

equals

↓

Residual Land Value

Step 2: Considering the RLV and whether it is sufficient to provide a surplus for CIL:

Residual Land Value

↓

minus

↓

Land Value (plus premium)

↓

equals

↓

Potential margin for CIL

5. Stage 1 Findings in Epping Forest

i. Affordable housing is the primary viability consideration and in our view the setting of CIL rate(s) can only be fully considered once the affordable housing policy impacts have also been reviewed; the two need to be considered together.

ii. For Stage 1 of this study the results indicate that an affordable housing headline target of 40% applicable to sites of 11 or more dwellings would appear more appropriate than a continued 50% target (as applied to the rural areas / smaller settlements through adopted policy). At this level, we consider that there would be meaningfully greater scope to achieve a reasonable combination of both affordable housing and CIL, bearing in mind that the CIL rates ultimately set will need to be "buffered" and well within the apparent maximum rates

iii. Suggested approach to CIL envisages three tier charging schedule as a potential option.

iv. For non-strategic (smaller scale) development we are of the opinion that (assuming a 40% affordable housing policy as a target), a CIL rate of between £150 - £225/m² is likely to be appropriate across much of the district.

v. Some limited level of differentiation within the overall residential approach seems likely to be warranted. In Waltham Abbey for example, residential values are typically such that it is likely that a lower CIL rate and / or lower affordable housing target may be required there or in areas / scenarios with similar values to Waltham Abbey to ensure delivery of the Council's potential growth aspirations. At this stage the rate suggested is around half of the rate above -£80/m² to £100/m².

vi. Stage 1 results indicate that sites with significant on-site / site specific infrastructure and mitigation costs (through s.106) are unlikely to support the same level of CIL as the smaller non-strategic sites in the rest of the district. Consideration will need to be given in those instances to a £0/sq. m CIL rate or very low rate relative to the provisional rates for the rest of the district – especially if a fixed affordable housing proportion is maintained across the district.

vii. Options exist for potential further variation by scale of development in response to affordable housing thresholds (i.e. higher rates where affordable housing is not required and vice versa). Affordable housing either via a financial contribution or through on-site provision for sites of 10 units or less but that provide for more than 1,000m² of development may also be considered and again, the CIL rate adjusted if necessary.

viii. There is potential for CIL charging scope for some forms of retail development – currently at a relatively modest rate not exceeding the residential parameters headline rates provisionally put forward (range £150-225/sq. m) and more likely within or beneath those (i.e. closer to the provisional lower residential rates scope of say £80-100/sq. m);

ix. All other development uses are currently expected to produce, with more certainty, nil CIL charging scope (£0/sq. m) but as with all other aspects, subject to further consideration.

x. In terms of the CIL for non-residential development, we do not consider that there will be a need to differentiate geographically.

6. CIL and the Council's approach – Delivery considerations

i. Whichever approach to CIL is progressed, the Council will need to continue to operate its overall approach to parallel obligations (s.106 and other policy requirements) in an adaptable way; reacting to and discussing particular site circumstances as needed (and supported by shared viability information for review). CIL will be fixed, but will need to be viewed as part of a wider package of costs and obligations that will need to be balanced and workable across a range of circumstances.

ii. This again is not just a local Epping Forest District factor, but is a widely applicable principle.

iii. Under the CIL guidance, prospective charging authorities will need to make clear how CIL and s.106 will operate together in their area, including setting-out what each will be used for so as to ensure no "double-dipping" (as it has been referred to) for funds towards meeting the infrastructure costs or for the provision of works in-lieu of financial contributions.

1 Introduction

1.1 Background to the Study – Local Plan

1.1.1 Epping Forest District Council is in the process of preparing a new Local Plan to cover the period up to 2033; replacing the existing Local Plan[1] adopted in 1998 with subsequent alterations adopted in 2006[2]. The new Local Plan will determine the amount and distribution of development and policies related to development.

1.1.2 An initial Issues & Options style public consultation was undertaken in 2012 and the Council are currently working towards publishing a Preferred Option consultation in the early summer 2016.

1.1.3 Alongside the preparation of a new Local Plan, the Council is also considering the introduction of a Community Infrastructure Levy (CIL) although at this stage no commitment has been made in this regard. Its CIL charging proposals, with examination of any recommended approach to the CIL is anticipated to take place alongside or shortly after the examination of the Local Plan.

1.1.4 As part of the Local Plan preparation, the Council are also reviewing their affordable housing policies and wish to use this work to inform the setting of appropriate affordable housing targets and thresholds (subject to minimum statutory requirements) within the emerging Local Plan.

1.2 Background – Community Infrastructure Levy

1.2.1 The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from developers undertaking new developments in their area. In this case, Epping Forest District Council will be the charging authority should the Council choose to adopt a CIL Charging Schedule.

1.2.2 CIL takes the form of a charge that may be payable on 'development which creates net additional floor space'[3]. The majority of developments providing an addition of

[1] Epping Forest District Local Plan (January 1998)
[2] Epping Forest District Local Plan Alterations (July 2006)
[3] Planning Practice Guidance (PPG) – Community Infrastructure Levy - Para 002

less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, under the Community Infrastructure (Amendment) Regulations 2014, there is a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.[4]

1.2.3 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area, in accordance with its Local Plan.

1.2.4 The CIL regulations require charging authorities to allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas. Where there is a neighbourhood development plan in place, the neighbourhood will be able receive 25% of the revenues from the CIL arising from the development that they have chosen to accept. Under the Regulations the money would be paid directly to the neighbourhood planning bodies (usually Parish / Town Councils) and could be used for community projects.

1.2.5 Neighbourhoods without a neighbourhood development plan but where a CIL is still charged will receive a capped share of 15% of the levy revenue arising from development in their area[5].

1.2.6 Under the Government's regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority. Recent Guidance added to the PPG standalone website also encourages charging authorities to consider applying a zero or reduced rate of levy charge to alternative models for provision of social housing, as defined locally, which would not otherwise be eligible for social housing or charitable relief from the levy[6].

(http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/cil-introduction/)

[4] Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.

[5] Planning Practice Guidance (PPG) – Community Infrastructure Levy - Para 072

[6] Planning Practice Guidance (PPG) – Community Infrastructure Levy - Para 022

1.2.7 The levy rate(s) will have to be informed and underpinned firstly by evidence of the infrastructure needed to support new development, and therefore as to the anticipated funding gap that exists; and secondly by evidence of development viability.

1.2.8 Epping Forest District Council is working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the emerging Local Plan. This will ensure that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It will set out key infrastructure and facility requirements for new development in an Infrastructure Plan, taking account of existing provision and cumulative impact.

1.2.9 Infrastructure is taken to mean any service or facility that supports EFDC's area and its population and includes (but is not limited to) facilities for transport, affordable housing, education, health, social infrastructure, green infrastructure, public services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements. Within this study, an allowance has been made for the cost to developers of providing affordable housing and other costs of policy compliance in addition to testing potential CIL charging rates. In this sense, the collective planning obligations (including affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others. It follows that the extent to which s.106 will have an on-going role also needs to be considered in determining suitable CIL charging rates, bearing in mind that CIL is non-negotiable.

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

1.2.11 An authority wishing to implement the CIL locally must produce a charging schedule setting out the levy's rates in its area. The CIL rate or rates should be set at a level that ensures development within the authority's area (as a whole, based on the plan provision) is not put at serious risk.

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

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

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

As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened"[7].

1.2.13 Amendments to the CIL Regulations (The Community Infrastructure Levy (Amendment) Regulations 2014 came into force on 24th February 2014. These regulations introduce:

- Limitation on pooling of s.106 obligations that came into effect in April 2015;

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[7] Planning Practice Guidance (PPG) – Community Infrastructure Levy - Para 009

- new mandatory exemptions for self-build housing, and for residential annexes and extensions;
- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);
- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;
- a new 'vacancy test' - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months); vacant buildings brought back into the same use would also not be charged;
- a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to 'aim to strike the appropriate balance';
- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

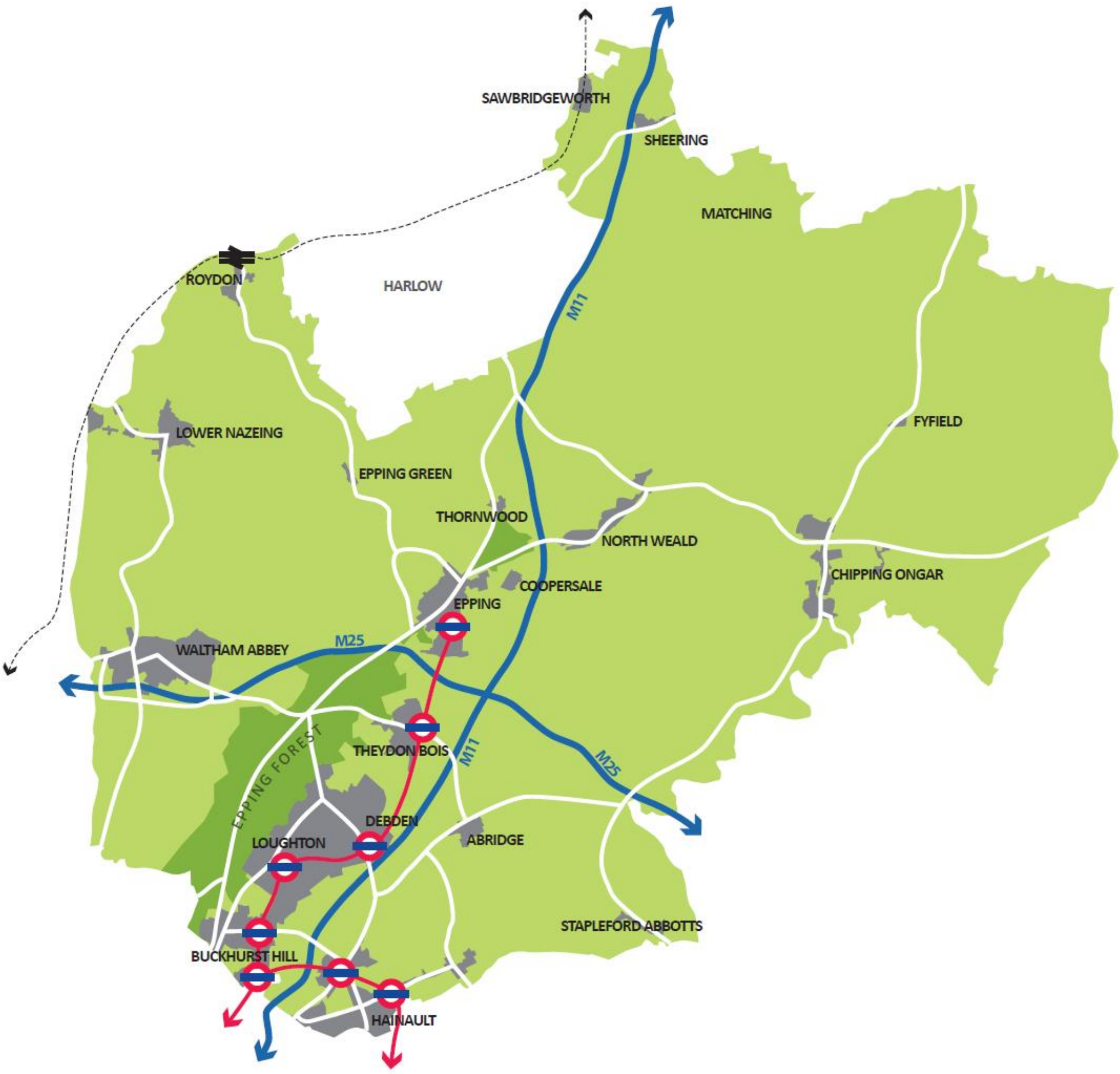
1.2.14 The CIL Regulations (Amendment) and Guidance contained within the Government's Planning Practice Guidance (PPG) – an online resource introduced in March 2014 - have been taken into account in the preparation of this report and in our opinion the preparation of this study meets the requirements of all appropriate Guidance (see 1.4 below).

1.3 Epping Forest District Council Profile

1.3.1 Epping Forest District is a mainly rural district with 92.4% being within the Metropolitan Green Belt. The south west of the District is the most densely populated and includes the settlements of Loughton, Buckhurst Hill, and Chigwell. Much of the rest of the population is located in the Epping, Waltham Abbey, Chipping

Ongar and North Weald Bassett. There are several villages and smaller rural settlements, predominantly towards the north of the District.

Figure 1: Epping Forest District – Context



1.3.2 The emerging Local Plan will set out strategic targets for the development of housing, employment and retail across the District. Following public consultation undertaken on an Issues and Options document in 2012, the Council is currently preparing a consultation Preferred Option Draft Plan. Up to date information about the District's needs for commercial and residential land will be set out in separate evidence document including: an updated Strategic Housing Market Assessment (SHMA) being jointly produced with Harlow, Uttlesford and East Herts together with associated additional work testing employment / job target assumptions, an updated Strategic Land Availability Assessment (SLAA), a Strategic Flood Risk Assessment (SFRA), a comprehensive Green Belt Review, strategic transport assessment capacity, air quality and local transport accessibility work. Once finalised the outcomes of all these pieces of evidence will, together with other completed evidence base work including this economic viability report, inform the draft policies included in the Council's Local Plan

1.4 Purpose of this Report

1.4.1 In order to meet the requirements of Regulation 14 of the CIL Regulations April 2010 (as amended) and the requirements of the NPPF, the Council appointed Dixon Searle Partnership (DSP) to provide the viability evidence base to inform the development of the Council's new Local Plan as well as potential options for the introduction of the Community Infrastructure Levy. Alongside and integral to the development of the CIL charging schedule is the level of affordable housing that can be viably sought across the district as well as other planning obligations and standards that have a cost impact on development viability.

1.4.2 Given that the Council has not yet identified a preferred policy approach either to the Local Plan (including affordable housing policies, spatial strategy or site allocations) or the Community Infrastructure Levy, this study has been broken down in to two distinct phases or stages. The first stage (this report) reviews viability at a high level and introduces potential options for Policy development (including on the proportion of affordable housing and affordable housing thresholds) and broad parameters for viable levels of CIL for various uses across the District.

1.4.3 The second stage of this process will update the outcomes from Stage 1 and apply agreed approaches from Stage 1 to new site or location types being introduced through the Local Plan as a clearer picture on site supply and development strategy emerges following a review of Stage 1 recommendations.

1.4.4 Stage 1 therefore takes an iterative approach to testing the viability of Local Plan policies (including affordable housing) and CIL to test the interaction between the Policies and CIL and therefore inform the Council's decision-making process.

1.4.5 This study investigates the potential scope for CIL charging in Epping Forest whilst reviewing and taking into account the emerging Local Plan Review policy options. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the district; taking into account the range of normal costs and obligations (including local and national policies associated with development, as would be borne by development schemes alongside the Community Infrastructure Levy and affordable housing). The aim is to provide the Council with advice as to the likely viability of seeking developer contributions towards infrastructure provision through the CIL and an appropriate level of affordable housing. This includes the consideration of viability and the potential charging rate or rates appropriate in the local context as part of a suitable and achievable overall package of likely planning obligations (including affordable housing) alongside other usual development costs.

1.4.6 This does not require a detailed viability appraisal of every site anticipated to come forward over the plan period rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather potential policies which are likely to have a close bearing on development costs.

1.4.7 To this end, the study requires the policies and proposals in the draft Local Plan to be brought together to consider their cumulative impact on development viability. This means taking account of emerging Local Plan requirements including design standards, infrastructure and services, affordable housing, local transport policies and sustainability measures as well as the cost impact of national policies and regulatory requirements.

1.4.8 One of the key areas will be the Council's approach to affordable housing. The adopted Epping Forest District Local Plan Alterations (July 2006) (Policy H7A requires 40% affordable housing on suitable development sites in settlements with a population of 3,000 or more. In settlements with a population of 3,000 or less, the policy requires 50% affordable housing on greenfield sites and on previously developed sites, 33% for schemes of 3 units and 50% for schemes of four or more units. Site thresholds apply, also differentiated by size of settlement. This study will review those policies (also taking into account recent government policy changes on the threshold above which affordable housing targets may be set)[8].

1.4.9 This study applies sensitivity testing to policy costs including a range of affordable housing proportions and at different thresholds combined with varying CIL levels – to provide information to inform the Council's ongoing approach.

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[8] DCLG Brandon Lewis Written Ministerial Statement (28th November 2014)

1.4.10 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.

1.4.11 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue generated by the completed scheme (the gross development value – GDV).

1.4.12 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme typologies representing development scenarios that are likely to be relevant to the development strategy and that are likely to come forward across the district.

1.4.13 The study process produces a large range of results relating to the exploration of a range of potential ('trial') CIL charging rates, affordable housing percentages as well as other variables. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform both the policy and CIL rate setting process.

1.4.14 The potential level of CIL charge viable in each scenario has been varied through an iterative process exploring trial charging rates over a wide range for residential and non-residential / commercial scheme test scenarios. All known or emerging policies that have a potential impact on the cost of development have also been included within the viability testing.

1.4.15 The results of each of the appraisals are compared to a range of potential benchmark land values or other guides relevant to the particular development scenarios. These are necessary to determine both the overall viability of the scheme types tested and a potentially viable level of CIL and affordable housing as it relates to development type and varying completed scheme value levels (GDVs). The results sets have been tabulated in summary form and those are included as Appendices IIa (residential) and IIb (non-residential / commercial).

1.4.16 A key element of the viability overview process is comparison of the RLVs generated by the development appraisals and the potential level of land value that may need to be reached to ensure development sites continue to come forward so that development across the area is not put at risk. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. Any surplus is then potentially available for CIL, with an appropriate level of affordable housing assumed (i.e. so that the review considers a viable combination of affordable housing requirements and CIL alongside all usual development costs).

1.4.17 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons will be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested.

1.4.18 In the background to considering the scale of the potential charging rates and their proportional level in the Epping Forest context, we have also reviewed them alongside a variety of additional measures that are useful in considering the overall impact of a level of CIL on development viability. This includes reviewing the potential CIL charging rates in terms of percentage of development value and cost. This provides additional context for considering the relative level of the potential CIL charging rate(s) and their impact compared with other factors that can affect development viability such as changes in property market conditions, build costs, inflation, affordable housing, etc.

1.4.19 This report then sets out findings and recommendations for the Council to consider in taking forward its further development work on the local implementation of a new CIL and a new Preliminary Draft Charging Schedule (PDCS) alongside a reasonable and viable level of affordable housing to be sought on residential development schemes across the area.

1.5 Policy & Guidance

1.5.1 This study has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance, PPG and other Guidance[9] applicable to studies of this nature.

1.5.2 The National Planning Policy Framework (NPPF) was published in final form in March 2012 and supersedes previous Planning Policy Statements (PPSs). The NPPF sets out the overall approach to the preparation of Local Plans. It states that planning authorities should seek opportunities to achieve each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. Significant adverse impacts on any of these dimensions should be avoided and, wherever possible, alternative options which reduce or eliminate such impacts should be pursued. The NPPF also states that Local Plans should be aspirational but realistic - that is, to balance aspirational objectives with realistic and deliverable policies.

1.5.3 The NPPF provides specific guidance on ensuring Local Plan viability and deliverability, in particular, paragraphs 173-174 state:

'Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the

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[9] Local Housing Delivery Group – Viability Testing Local Plans (June 2012) & Royal Institution of Chartered Surveyors (RICS) – Financial Viability in Planning (GN 94/2012).

development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'[10].

1.5.4 Having regard to this guidance the council needs to ensure that the Local Plan, in delivering its overall policy requirements, can address the requirements of the NPPF.

1.5.5 Further guidance is set out in the Planning Practice Guidance which re-iterates these messages where it says "*Plan makers should consider the range of costs on development. This can include costs imposed through national and local standards, local policies and the Community Infrastructure Levy, as well as a realistic understanding of the likely cost of Section 106 planning obligations and Section 278 agreements for highways works. Their cumulative cost should not cause development types or strategic sites to be unviable. Emerging policy requirements may need to be adjusted to ensure that the plan is able to deliver sustainable development*"[11].

1.5.6 In addition, relevant information is contained in the publication Viability Testing Local Plans – Advice for planning practitioners published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (the 'Harman' guidance). It sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and how to assess the cumulative impact of policies within the Local Plan, SPD's and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in the WPVA.

1.5.7 Following consultation on the Housing Standards Review (August 2013), on 27th March 2015 in a written Ministerial Statement the Government formally announced a new approach to the setting of technical housing standards in England. This has been accompanied by a new set of streamlined standards. The DCLG statement said: '*From the date the Deregulation Bill 2015 is given Royal Assent, local planning authorities and qualifying bodies preparing neighbourhood plans should not set in their emerging Local Plans, neighbourhood plans, or supplementary planning documents, any additional local technical standards or requirements relating to the construction, internal layout or performance of new dwellings. This includes any*

[10] Communities & Local Government – National Planning Policy Framework (March 2012)
[11] Planning Practice Guidance (Ref. ID: 10-007-20140306).

policy requiring any level of the Code for Sustainable Homes to be achieved by new development; the government has now withdrawn the code… For the specific issue of energy performance, local planning authorities will continue to be able to set and apply policies in their Local Plans which require compliance with energy performance standards that exceed the energy requirements of Building Regulations until commencement of amendments to the Planning and Energy Act 2008 in the Deregulation Bill 2015. This is expected to happen alongside the introduction of zero carbon homes policy in late 2016. The government has stated that, from then, the energy performance requirements in Building Regulations will be set at a level equivalent to the (outgoing) Code for Sustainable Homes Level 4. Until the amendment is commenced, we would expect local planning authorities to take this statement of the government's intention into account in applying existing policies and not set conditions with requirements above a Code level 4 equivalent'[12].

1.5.8 The new approach introduces optional building regulations requirements for access (volumes 1 and 2) and water efficiency which provide a higher standard than the minimum national building regulations. A nationally described space standard has also been introduced which will be implemented through the planning system.

1.5.9 In addition, a new security standard has now been included in the building regulations (Part Q).

1.5.10 The review also clarified statutory building regulation guidance on waste storage to ensure it is properly considered in new housing development.

1.5.11 The optional regulations and space standard can only be applied where there is a local plan policy based on evidenced local need and where the viability of development is not compromised.

1.5.12 At the point of carrying out the bulk of the research and appraisal modelling for this study, the technical housing standards had not been introduced. As such any of the optional requirements likely to be adopted by the Council will need to be tested at Stage 2 of this process.

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[12] DCLG - Rt Hon Eric Pickles Written Statement to Parliament "Steps the government are taking to streamline the planning system, protect the environment, support economic growth and assist locally-led decision-making".

1.5.13 The Government has also recently revised national policy on Section 106 thresholds as follows:

- *'contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1000sqm (gross internal area).*

- *in designated rural areas, local planning authorities may choose to apply a lower threshold of 5-units or less. No affordable housing or tariff-style contributions should then be sought from these developments. In addition, in a rural area where the lower 5-unit or less threshold is applied, affordable housing and tariff style contributions should be sought from developments of between 6 and 10-units in the form of cash payments which are commuted until after completion of units within the development. This applies to rural areas described under section 157(1) of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty.*

- *affordable housing and tariff-style contributions should not be sought from any development consisting only of the construction of a residential annex or extension to an existing home.*

Additionally local planning authorities should not seek section 106 affordable housing contributions, including any tariff-based contributions to general infrastructure pots, from developments of Starter Homes. Local planning authorities will still be able to seek other section 106 contributions to mitigate the impact of development to make it acceptable in planning terms, including addressing any necessary infrastructure'[13].

1.5.14 Again, for the purposes of this study, an assumption has had to be made based on current circumstances. However, we provide sensitivity testing to reflect potential changes in national policy on affordable housing thresholds, so that the Council has a complete set of information from which to draw on as it reviews and develops both the Plan policies and its approach to the CIL. Epping Forest District contains no rural areas as defined by the PPG.

[13] Planning Practice Guidance (PPG) – Planning Obligations - Para 012

1.6 Notes and Limitations

1.6.1 This study has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including whole plan, affordable housing and CIL economic viability. However, in no way does this study provide formal valuation advice. It should not be relied on for other purposes.

1.6.2 In order to carry out this type of study a large quantity of data is reviewed and a range of assumptions are required. It is acknowledged that these rarely fit all eventualities - small changes in assumptions can have a significant individual or cumulative effect on the residual land value generated and / or the value of the CIL funding potential (the surplus after land value comparisons).

1.6.3 It should be noted that in practice every scheme is different and no study of this nature can reflect all the variances seen in site specific cases. The study is not intended to prescribe assumptions or outcomes for specific cases. If an applicant considers that it would be unviable for a specific development to meet the Local Plan's requirements/targets (e.g. affordable housing), an option would exist to submit a site-specific viability appraisal, supported by appropriate evidence, to demonstrate this and reduce the level of obligation required.

1.6.4 Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the Council's work on its CIL Preliminary Draft Charging Schedule preparations and Local Plan policies.

2 Assessment Methodology

2.1 Residual valuation principles

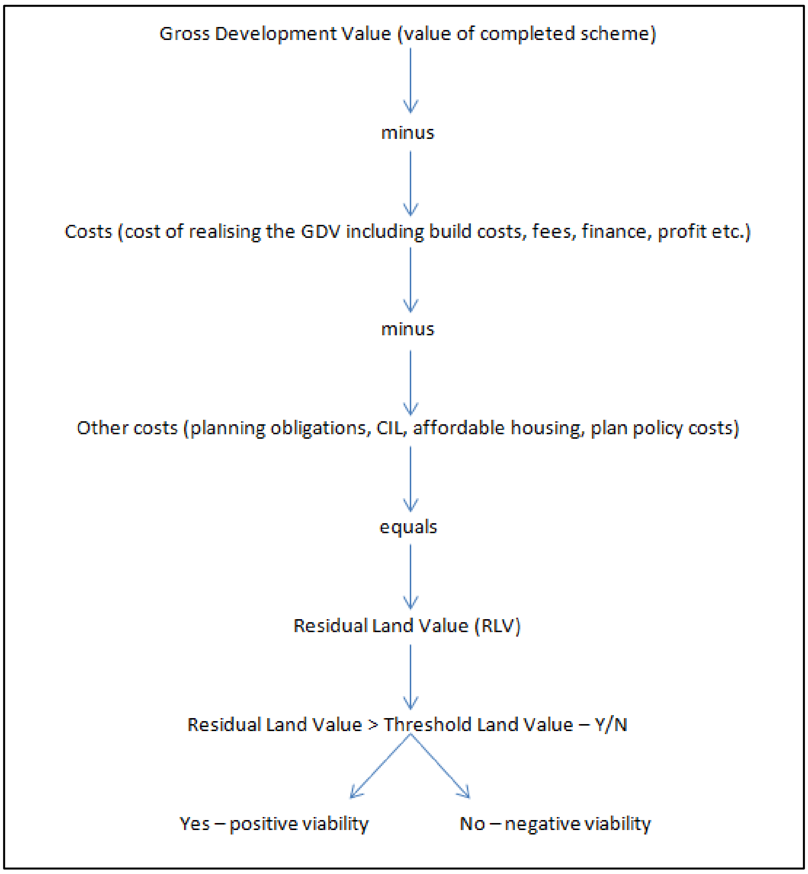
2.1.1 At a high level, this Stage 1 study investigates the potential for a range of development types to contribute to infrastructure provision funding across the district through the collection of financial contributions charged via a Community Infrastructure Levy whilst also taking into account the likely viability of the Local Plan including affordable housing policy (percentage of affordable housing) and the thresholds above which affordable housing may be sought.

2.1.2 There will be a number of policies coming through the emerging Local Plan that may have an impact on the viability of development. In running this Stage 1 study, we have had regard to typical policy costs based on either those policies as set out in the adopted Local Plan or those likely to come forward through the emerging Local Plan. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the collective impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.

2.1.3 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme types, both residential and non-residential / commercial.

2.1.4 Residual valuation, as the term suggests, provides a "residual" value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 2) shows the basic principles behind residual valuation, in simplified form:

Figure 2: Simplified Residual Land Valuation Principles



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

2.1.6 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.

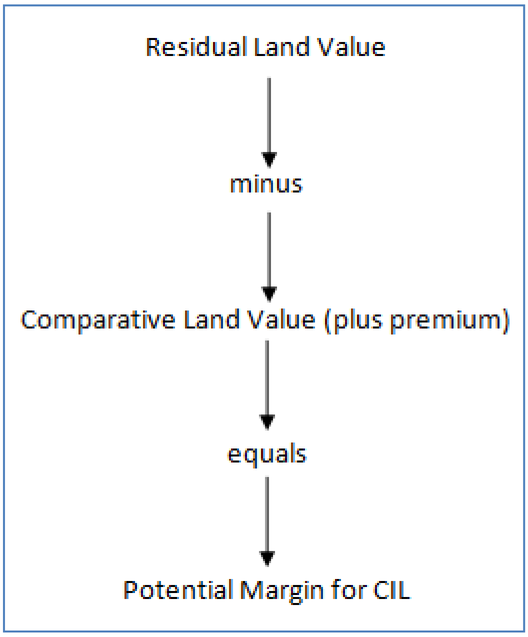
2.1.7 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as the Valuation Office Agency (VOA) reporting, previous evidence held by the Council and its immediate neighbours[14] and any available sales, or other evidence on value, are used for this purpose in making our assessment. Recently there has been a low level of activity on land deals and consequently there has been very little to use in terms of comparables. In any event, any available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a level of land value need to be understood. As such a range of reporting as mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not an Epping Forest specific factor. In assessing the appraisal results, the surplus or excess residual (land value) remaining above these indicative land value comparisons is shown as the margin potentially available to fund CIL contributions from the particular appraisal result or results set that is under review.

2.1.8 The results show trends indicating deteriorating residual land values (and therefore reduced viability) as scheme value (GDV) decreases and / or costs rise – e.g. through adding / increasing affordable housing, increasing costs (as with varying commercial development types) and increasing trial CIL rates.

2.1.9 Any potential margin (CIL funding scope) is then considered in the round so that charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs that could alter over time or with scheme specifics. In essence, the steps taken to consider that potential margin or surplus are as follows (see figure 3 below):

[14] There are 8 local authorities adjacent to Epping Forest, all at different stages of Local Plan and CIL development.

Figure 3: Relationship Between RLV & Potential Maximum CIL Rate (surplus or margin potentially available for CIL).



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

2.2 Site Development Scenarios

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and non-residential / commercial developments. The scenarios were developed and discussed with the Council following a review of the information it provided. Information included adopted and emerging Local Plan documents, Strategic Land Availability Assessment (SLAA), Retail

Study and other information. For the purposes of CIL, it was necessary to determine scenario types reasonably representative of those likely to come forward across the district bearing in mind the probable life of any CIL Charging Schedule. The location and scale of development coming forward across the district will also need to be considered as more is known and further work is undertaken through Stage 2 of this work.

Residential Development Scenarios

2.2.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision and other policy cost areas including sustainable design and construction standards (see Figure 4 below, and Appendix I provides more details):

Figure 4: Residential Scheme Types

Scheme / Typology	Overall Scheme Mix
1 House	1 x 4BH
4 Houses	4 x 3BH
5 Houses	5 x 3BH
9 Houses	9 x 4BH
10 Houses	10 x 4BH
15 Houses	10 x 3BH, 5 x 4BH
15 Flats	5 x 1BF, 10 x 2BF
25 Mixed	5 x 1BF, 4 x 2BF, 3 x 2BH, 10 x 3BH, 3 x 4BH
30 Flats (Sheltered)	22 x 1BF, 8 x 2BF
50 Flats	15 x 1BF, 35 x 2BF
50 Mixed	10 x 1BF, 8 x 2BF, 6 x 2BH, 20 x 3BH, 6 x 4BH
100 Mixed	20 x 1BF, 16 x 2BF, 12 x 2BH, 40 x 3BH, 12 x 4BH
Strategic Sites[1]	
500 Mixed	100 x 1BF, 80 x 2BF, 60 x 2BH, 200 x 3BH, 60 x 4BH
1,000 Mixed	200 x 1BF, 160 x 2BF, 120 x 2BH, 400 x 3BH, 120 x 4BH
2,000 Mixed	400 x 1BF, 320 x 2BF, 240 x 2BH, 800 x 3BH, 240 x 4BH

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

[1]Schemes similar to these to be tested through Stage 2 works as more is known about site supply / location.

2.2.3 The assumed dwelling mixes are based on the range of information reviewed, combined with a likely market led mix. They reflect a range of different types of development that could come forward across the district. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the district by scheme location / type whilst and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.

2.2.4 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types.

2.2.5 The residential scenarios were chosen to reflect and further test viability across a broad range of scenarios whilst also allowing us to test a range of potential affordable housing policy thresholds. In all cases it should be noted that a "best fit" of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding. The affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet.

2.2.6 With regard to the strategic sites options, at this stage it is not possible to undertake a meaningful review of sites as much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount of housing that can actually be accommodated on site, and the timing of its provision in relation to that of the accompanying infrastructure. Such variables are currently unknown or unclear. It is therefore agreed with the Council that further detailed work will be undertaken in Stage 2 of this work in order for the Council to develop a fuller understanding of the potential delivery scenarios of these sites. In any event there will need to be ongoing and detailed review and monitoring of their capacity to deliver growth and associated infrastructure over such a long time span through varying market cycles etc.

2.2.7 The dwelling sizes assumed for the purposes of this study are as follows (see figure 5 below):

Figure 5: Residential Unit Sizes

Dwelling type	**Dwelling size assumption (sq. m)**	
	Affordable	**Private (market)**
1-bed flat	50	45
2-bed flat	67	60
2-bed house	75	75
3-bed house	85	95
4-bed house	110	125

2.2.8 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. These could also be influenced by the introduction of any space standards based on the new nationally described space standards introduced by the Government in March 2015[15] (after the detailed work of this study was completed). If internal space standards are to be introduced by Epping Forest DC within the emerging Local Plan, that can only happen by reference to the nationally described space standards and then only where there is a proven need to do so and on the basis that viability considerations are taken into account. Stage 2 of this study will pick up on this area if required.

2.2.9 No single size or even range of assumed sizes will represent all dwelling types. Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to price and assess schemes and is consistent with CIL principles.

2.2.10 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m 'Value levels' basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

[15] DCLG – Technical housing standards – nationally described space standard

Commercial / Non-Residential Development Scenarios

2.2.11 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council; following the basis issued in its Brief. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 6 sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from different types of commercial development considered potentially relevant in the district.

2.2.12 In essence, the commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. Figure 5 below summarises the scenarios appraised through a full residual land value approach; again Appendix I provides more information.

Figure 6: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m^2)	Site Coverage	Site Size (Ha)
Retail - larger format (A1) - convenience	Large Supermarket - Town centre	2500	40%	0.63
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	1500	25%	0.60
A1- A5 - Small Retail	Other retail - town centre	300	70%	0.04
A1-A5 - Small retail	Convenience Stores*	300	50%	0.06
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	200	40%	0.05
B1(a) Offices - Town Centre	Office Building	500	60%	0.08
B1(a) Offices - Out of town centre	Office Building (business park type - various)	2500	40%	0.63
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	250	40%	0.06
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	500	40%	0.13
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	2000	40%	0.50
B1, B2, B8 - Industrial / Warehousing	Glasshouse industries (Garden Nurseries)	5,000	40%	1.25

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m^2)	Site Coverage	Site Size (Ha)
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	2800	80%	0.35
C2 - Residential Institution	Nursing home / care home	3000	60%	0.50

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

2.2.13 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the district and are as subsequently agreed with the Council. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from Estates Gazette Interactive (EGi), the VOA Rating List and other web-based review. We also received some additional indications through our process of seeking local soundings. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of "sense check" to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.

2.2.14 In addition to testing the commercial uses of key relevance above, further consideration was given to other development forms that may potentially come forward locally. These include for example non-commercially driven facilities (community halls, medical facilities, schools, etc.) and other commercial uses such as motor sales / garages, depots, workshops, surgeries / similar, health / fitness, leisure uses (e.g. cinemas / bowling) and day nurseries.

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

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

2.2.17 Through this process we were able to determine whether there were any further scenarios that warranted additional viability appraisals. Having explored the viability trends produced by examination of the cost/value relationships we found that in many other cases, completed scheme values were at levels insufficient to cover development costs and thus would not support any level of CIL, certainly not on any regular basis.

2.3 Gross Development Value (Scheme Value) - Residential

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of scheme viability to the requirement for a range of potential CIL charging rates (including geographical values variations and / or with changing values as may be seen with further market variations). In the case of Epping Forest and given the values variations seen in different parts of the district through the initial research stages, the VLs covered typical residential market values over the range £2,750 to £6,750/sq. m (£255 to £627/sq. ft.) at £250/sq. m (£23/sq. ft.) intervals. These are set out within Appendix I – described as VLs 1 to 9.

2.3.2 The CIL rates were trialled by increasing the rate applied to each scenario over a scale between £0 and £350/sq. m. By doing this, we could consider and compare the potential for schemes to support a range of CIL rates over a range of value levels. From our wider experience of studying and considering development viability and given the balance also needed with other planning obligations including affordable housing, exploration beyond the upper end £350/sq. m potential charging rate level trial was not considered relevant in the district. The CIL trial rates range would have been extended following initial testing outcomes, had this been considered necessary.

2.3.3 We carried out a range of our own research on residential values across the Council's area (see Appendix III). It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we also considered existing information contained within previous research documents including previous viability studies; from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. This is in accordance with the CIL Regulations and Guidance which states that proposed CIL rates should be informed by 'appropriate available' evidence and that 'a charging authority should draw on existing data wherever it is available'. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.

2.3.4 A framework needs to be established for gathering and reviewing property values data. Research was based on settlement areas within the District (21 in total) based upon the Council's settlement hierarchy of 'Major Service Centres', 'Minor Service Centres' and 'Large Villages'. 'Major Service Centres' only were researched by ward area whereas all other areas were researched by settlement name. This provided the best and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen linked to the likely provision of development across the district. It was considered that this would also eventually enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward in carrying out Stage 2 of this study. We understand that in the emerging Local Plan the settlement hierarchy will be based on a simpler approach of "town", "large village", "small village" and "hamlet".

2.3.5 The purpose of the settlement hierarchy is to identify the current role and function of settlements based on the number and type of facilities and services they provide, to inform the spatial strategy of the Local Plan. Our desktop research considered the current marketing prices of properties across the district and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types. This information was further supplemented by an updated review of Land Registry information, on-line property search engines and new build data where available. Together, this informed a district-wide view of values appropriate to this level of review and for considering the sensitivity of values varying. This research is set out at Appendix III.

2.3.6 Values patterns are often indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the future district development strategy. It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to Epping Forest. However these factors do not affect the scope to get a clear overview of how values vary or otherwise typically between the larger settlements and given the varying characteristics of the district; as set out in these sections and as is suitable for the consideration of both the Local Plan and CIL.

2.3.7 The values that are assumed (as being available to support development) affect the consideration of viability of plan policies across the district and ultimately the level of CIL that can be charged without unduly affecting the viability of development. As will be outlined in Chapter 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability levels seen through varying property values. Through on-going discussion and consideration of the various data sources, this evolved to a settled, evidenced view of the key characteristics of the district - to inform potential options for an appropriate local approach to both Local Plan policy and CIL charging scope.

2.3.8 In addition to the market housing, the development appraisals also assume a requirement for affordable housing. As this study seeks to test the viability of Local Plan policies holistically alongside the potential level of CIL that could be viable, we have tested and reviewed a range of potential affordable housing policies from 0% to 50%. For the affordable housing, we have assumed that approximately 70% is affordable rented tenure and 30% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the overall scheme mixes and affordable housing proportion in each scenario).

2.3.9 In practice many tenure mix variations could be possible; as well as many differing levels of rents derived from the affordable rents approach as affected by local markets and by affordability. The same applies to the intermediate (assumed shared ownership) element in that the setting the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) retained equity and the interaction of these two would usually be scheme specific considerations. Shared ownership is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.

2.3.10 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant.

2.3.11 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the 'payment to developer', 'RP payment price', 'transfer payment' or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site specific viability issues (including specific work on SPD, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals. We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.

2.3.12 In broad terms, the transfer price assumed in this study varies between approximately 25% and 80% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The average LHA rate for the three Broad Rental Market Areas (BRMAs) that cover Epping Forest District for the varying unit types was used as our cap for the affordable rental level assumptions.

2.3.13 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the RP's own development strategies and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

2.3.14 Again, it is worth noting that affordable housing will not be liable for CIL payments. This is the case under the regulations nationally; not just in the Epping Forest context. In addition, the Council may apply discretionary relief for social housing where that housing is sold at no more than 80% of market value. The market dwellings within each scenario will carry the CIL payments burden at the Council's specified rate(s).

2.4 Gross Development Value – Commercial / Non-residential

2.4.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions needed to be made with regard to the rental values and yields that would drive the levels of the completed scheme values that would be compared with the various development costs to be applied within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).

2.4.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, EGi and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.

2.4.3 Figure 7 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.

2.4.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the district. This enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. This is consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions (unless floor-space in excess of 100 sq. m is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). In many cases, however, limited or no new build information for use of comparables exists, particularly given recent and current market circumstances. Therefore, views have had to be formed from local prevailing rents / prices and information on existing property and past research carried out on behalf of the Council. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not an Epping Forest only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.

2.4.5 These varying rental levels were capitalised by applying yields of between 5.5% and 7.5% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined with 7.5% base yield (5.5% - 6.5% for large retail formats and hotels) were appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.

2.4.6 It is important to note here that small variations can have a significant impact on the GDV that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions in the local context (but envisaging new development and appropriate lease covenants etc. rather than older stock), could well act against finding that balance.

2.4.7 This approach enabled us to consider the sensitivity of the results to changes in the capital value of schemes and allowed us then to consider the most relevant results in determining the parameters for setting non-residential CIL rates across the district. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3.

Figure 7: Rental Value for Commercial Schemes

Development Type		**Value Level (Annual Rental Indication £/sq. m)**		
		Low	Medium	High
Retail - larger format (A1) - convenience	Large Supermarket - Town centre	£180	£200	£220
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	£140	£170	£200
A1- A5 - Small Retail	Other retail - town centre	£125	£150	£175
A1-A5 - Small retail	Convenience Stores*	£75	£85	£95
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	£50	£70	£90
B1(a) Offices - Town Centre	Office Building	£125	£150	£175
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£125	£175	£225
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	£50	£70	£90

Development Type		Value Level (Annual Rental Indication £/sq. m)		
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£70	£90	£110
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£50	£70	£90
B1, B2, B8 - Industrial / Warehousing	Glasshouse industries (Garden Nurseries)	£50	£60	£70
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	£4,000**	£5,000**	£6,000**
C2 - Residential Institution	Nursing home / care home	£160	£180	£200

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

**per room per annum

Economic and market conditions

2.4.8 Stage 1 of this viability study has been undertaken during a period of housing values growth following a significant period of recession. At the point of closing-off this part of the study, there continues to be mixed messages with parts of the Eurozone still in difficulty house price growth slowing from the rapid growth in 2014. However, some forecasts still indicate East of England house price inflation of 25% by the end of 2019[16].

2.4.9 The RICS Commercial Market Survey for Q4 of 2014 - stated that '*The Q4 2014 RICS UK Commercial Property Market Survey results continue to show a firm trend in both occupier and investment market conditions. As such, each sector is anticipated to post rental and capital value gains, across most parts of the country, both in the near term and further out.*

2.4.10 *Starting with the occupier side, tenant demand rose across each area of the market for a seventh quarter in succession, albeit the rate of increase eased modestly during Q4 at the all-property level. That said, the retail sector managed to maintain its pace of demand growth, with an unchanged net balance reading of 29. At the same time, availability continued to fall significantly across the board. Indeed, available space has now declined for six consecutive quarters, the most sustained period of contraction since 2000. Anecdotal evidence is now suggesting, in some parts of the country, that a lack of inventory could start to hamper occupier demand going*

[16] Savills – residential Property Focus (Q12015)

forward. Again, Permitted Development Rights were frequently cited as a contributory factor to the shortage of space.

Nonetheless, tight market conditions at present are ensuring rent expectations remain elevated at the headline level. Within this, the office and industrial sectors are projected to see the firmest gains over the next three months. However, at the twelve month horizon, RICS members are pencilling in a 3% rise in both prime retail and industrial rents (approximately 4% for prime offices). When viewed at the regional level, London rent expectations remain materially higher than all other parts of the country.

In the investment market, enquiries continued to rise at a considerable pace across the board, extending an uninterrupted run of strong investor demand growth stretching back to Q3 2012. Alongside this, interest from foreign investors also increased within each area of the market, although there was noticeable easing in the industrial sector. Meanwhile, all sectors were reported to have experienced a decline in the supply of property for sale.

Given this backdrop, capital values are once again anticipated to post strong gains over the next three months, with the all-sector expectations reading hitting a fresh record high (series started in 2008). The strongest projections were again registered in the London market, although all four broad regional groupings are expected to see relatively firm growth. While near term expectations for retail values remain substantially higher in London, it is interesting that this is not the case at the twelve month horizon. Indeed, prime retail capital values are projected to rise by at least 4% in the North, Midlands/Wales and the South over the course of 2015.

Interestingly, a slight majority of 47% believe that the run up to the General Election will ***not*** *induce a slowdown in speculative commercial development, compared with 40% who thought otherwise (13% did not know). Furthermore, 14% of respondents felt discussion regarding a potential UK exit from the EU was affecting commercial real estate investment decisions at this point.'*

2.4.11 As with residential development, consideration was given to the Epping Forest context for whether there should be any varying approach to CIL charging levels for commercial and other developments locally.

2.4.12 As can be seen, there is great variety in terms of values within each of the main settlement areas and across the full range of locations in the district. However, there were tones of values which informed our rental and other assumptions for the appraisals, based on the upper end rental indications seen for business uses (offices and industrial / warehousing) as appropriate for high quality new build schemes and on the variety of indications seen for retail. In both cases these were taken from a combination of the VOA Rating List, EGi and other sources as far as were available whilst keeping the review depth proportionate and economic in the study overview context. In respect of other commercial / non-residential development types again a district-wide overview was considered appropriate.

2.5 Development Costs – General

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

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

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

2.6 Development Costs – Build Costs

2.6.1 The base build cost levels shown below are taken from the BCIS. In each case the median figure, rebased to an Epping Forest location index, is used. Costs shown for each development type (residential and commercial) are provided in Appendix I.

Figure 8: Build Cost Data (BCIS Median, Epping Forest Location Factor relevant at time of research)

Development use	Example property type	BCIS Build Cost (£/sq. m)*
Residential (C3)	Houses - mixed development	£996
	Houses – one-off (3 units or less)	£1,427
	Flats - generally	£1,151
	Flats - Sheltered housing	£1,166
Retail - larger format (A1) - convenience	Large Supermarket - Town centre	£1,185
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	£616
A1- A5 - Small Retail	Other retail - town centre	£817
A1-A5 - Small retail	Convenience Stores*	£817
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	£817
B1(a) Offices - Town Centre	Office Building	£1,496
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£1,357
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	£1,357
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£1,002
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£698
B1, B2, B8 - Industrial / Warehousing	Glasshouse industries (Garden Nurseries)	£343
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	Variable - £1,224 - £1,712/sq. m total**
C2 - Residential Institution	Nursing home / care home	£1,591

*excludes external works and contingencies (these are added to the above base build costs)

**all-in cost – range from budget to 4*+

2.6.2 Unless stated, the above build cost levels do not include contingencies or external works. An allowance for externals has been added to the above base build cost on a variable basis depending on the scheme type (typically between 5% and 20% of base build cost). These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

2.6.3 For this broad test of viability it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

2.6.4 Further allowances have been added to the total build cost in respect of achieving higher sustainable design and construction standards (either in relation to building regulations or equivalent requirements). In the residential scenarios, this was applied to all dwellings assuming that construction standards met the equivalent requirements for the Code for Sustainable Homes enhancement to level 4 (CfSH L4) for energy as met through compliance with Building Regulations. We have utilised information within the DCLG Housing Standards Review Impact Assessment[17] and Zero Carbon Hub respectively[18]. Appendix I provides more detail.

2.6.5 An allowance of 5% of build cost has also been added to cover contingencies. This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.

2.6.6 Survey and normal site costs have been allowed for on a notional basis (£4,500 per unit for smaller residential scenarios; variable within the larger residential and commercial scenarios).

2.6.7 The interaction of costs and values levels will need to be considered again at future reviews of CIL. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we saw build

[17] DCLG – Housing Standards Review Consultation Impact Assessment August 2013 / EC Harris – Housing Standards Review – Potential Cost Impacts – Summary (June 2013)
[18] Zero Carbon Hub / Sweett Group – Cost Analysis: Meeting the Zero Carbon Standard (February 2014)

costs fall, but moving ahead they have risen relatively sharply in the recent period and will continue to rise (if more gradually) according to BCIS forecasts.

2.6.8 The latest available BCIS briefing (March 2015) stated on build cost trends:

'Currently our data is showing that tender prices fell by 0.8% in 3rd quarter 2014 compared with the previous quarter, but rose by 6.8% compared with a year earlier.

The General Building Cost Index remains unchanged at 319 in 3rd quarter 2014, rising by an annual 1.9%.

The Office for National Statistics (ONS) report that the total volume of construction orders in Great Britain rose by 5% in 3rd quarter 2014 compared with the previous quarter, and by an annual 3%.

Total construction output fell by 2% in 4th quarter 2014 compared with the previous quarter, according to the ONS, but rose by 5% compared with the same quarter in 2013. Total construction output also rose by 7% in 2014 as a whole compared with 2013.

Based on the latest data received, the forecast of building cost has been revised downward a little over the first year of the forecast, but remains virtually unchanged over the remainder of the forecast period. BCIS will be keeping a close eye on the effect of oil price changes on construction materials prices over the upcoming quarters and may need to adjust the forecast accordingly.'[19]

Annual % Change	4Q12 to 4Q13	4Q13 to 4Q14	4Q14 to 4Q15	4Q15 to 4Q16	4Q16 to 4Q17	4Q17 to 4Q18	4Q18 to 4Q19
Tender Prices	+6.3%	+7.1%	+4.3%	+4.5%	+5.4%	+5.5%	+4.9%
Building Costs	+1.3%	+1.6%	+1.3%	+3.4%	+3.6%	+3.8%	+3.9%
Nationally Agreed Wage Awards	+1.1%	+2.3%	+2.8%	+3.3%	+3.9%	+3.9%	+3.9%
Materials Prices	+0.4%	+1.1%	+0.4%	+2.6%	+3.3%	+3.6%	+4.1%
Retail Prices	+2.7%	+1.9%	+1.5%	+2.9%	+3.5%	+3.4%	+3.6%
Construction New Work output*	+0.7%	+7.5%	+6.1%	+4.6%	+2.7%	+3.7%	+4.4%
* Year on Year (4Q12 to 4Q13 = 2012 to 2013)							

Source: BCIS

[19] BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (April 2014)

2.7 Development Costs – Fees, Finance & Profit (Residential)

2.7.1 The following costs have been assumed for the purposes of this study alongside those at section 2.6 above and vary slightly depending on the scale and type of development (residential or commercial). Other key development cost allowances for residential scenarios are as follows (Appendix I also provides a summary):

Professional fees:	*Total of 10% of build cost*
Site Acquisition Fees:	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).*
Finance:	6.5% p.a. interest rate *(assumes scheme is debt funded)* *Arrangement fee variable – basis 1-2% of loan*
Marketing costs:	*3.0% - 6.0% sales fees* *£750 per unit legal fees*
Developer Profit:	*Open Market Housing – 20% GDV* *Affordable Housing – 6% of GDV (affordable housing revenue).*

2.8 Development Costs – Fees, Finance & Profit (Commercial)

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

Professional and other fees:	*12% of build cost*
Site Acquisition Fees:	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)*
Finance:	*6.5% p.a. interest rate (assumes scheme is debt funded)* *Arrangement fee variable – 1-2% loan cost*

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

Developer Profit: *20% of GDV*

2.9 Build Period

2.9.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by examples where available. The following build periods have therefore been assumed. Note that this is for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme type and size, having the effect of increasing the periods over which finance costs are applied (see Figure 9 below):

Figure 9: Build Period

Development Use Type	Scheme Type	Build Period (months)
Residential (C3)	1 House	6
	4 Houses	6
	5 Houses	6
	9 Houses	9
	10 Houses	9
	15 Houses	12
	15 Flats	12
	25 Mixed	12
	30 Flats (Sheltered)	18
	50 Flats	18
	50 Mixed	18
	100 Mixed	24
Retail - larger format (A1) - convenience	Large Supermarket - Town centre	12
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	7
A1- A5 - Small Retail	Other retail - town centre	6
A1-A5 - Small retail	Convenience Stores*	6

Development Use Type	Scheme Type	Build Period (months)
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	6
B1(a) Offices - Town Centre	Office Building	6
B1(a) Offices - Out of town centre	Office Building (business park type - various)	12
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	6
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	6
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	9
B1, B2, B8 - Industrial / Warehousing	Glasshouse industries (Garden Nurseries)	18
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	14
C2 - Residential Institution	Nursing home / care home	16

2.10 Other planning obligations - Section 106 ('s.106') Costs

2.10.1 Current guidance states the following with regard to CIL: "*At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions*"[20]. The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

[20] Planning Practice Guidance (PPG) – Community Infrastructure Levy – Para ID 018 Reference ID 25-018-20140612

2.10.2 On discussion with the Council it was considered that a great majority of existing Planning Obligation requirements on future schemes would be taken up within the CIL proposals should this be taken forward, but nevertheless that small scale site-specific requirements (perhaps dedicated highways improvements / alterations, open space related or similar requirements) could remain alongside CIL in some circumstances. The appraisals therefore included a notional sum of £3,000 per dwelling (for all dwellings – including affordable - and all schemes) on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements – effectively as an additional contingency in respect of any residual s.106 / s278 requirements.

2.10.3 On larger, strategic scale development allowances would need to be made for increased levels of infrastructure (through s.106) assuming the requirement for on-site provision in these cases.

2.11 Indicative land value comparisons and related discussion

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

2.11.2 As discussed previously, in order to consider the likely viability scope for a range of potential (trial) CIL contribution rates in relation to any development scheme relevant to the Local Plan and its policies, the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be somehow measured against a comparative level of land value. This is a key part of the context for reviewing the strength of the results as those change across the range of assumptions on sales values (GDVs), trial CIL and other sensitivity tests (crucially including the effect of affordable housing policy targets applied fully in the case of the residential tests).

2.11.3 This comparison process is, as with much of strategic level viability assessment, not an exact science. It involves judgements and the well-established acknowledgements that, as with other appraisal aspects, land value circumstances and requirements will in practice vary from scheme to scheme as well as being dependent to some extent on timing in relation to market conditions and other wider influences such as

Government policy. The levels of land values selected for this comparison context are often known as 'benchmark' land values, 'viability tests' (as referred to in our results tables – Appendix II) or similar. They are not fixed in terms of creating definite cut-offs or steps in viability, but in our experience they serve well in terms of adding a layer of filtering to the results, to help enable the review of those; they help to highlight the tone of the RLV results and therefore the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change.

2.11.4 As suitable context for a high level review of this nature, DSP's practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons in this way. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the land supply picture that the Council expects to see.

2.11.5 The local context features an expected ongoing important and increasing / predominant overall supply role for suitable greenfield sites. In addition, it is likely that a range of typically smaller schemes will continue to come forward and support the overall supply picture (although this will tend to be in a diminishing way over the Local Plan timescale) from previously developed former commercial / employment land, as well as in some cases reuse and intensification of existing residential sites and garden areas.

2.11.6 The scale of the difference between the RLV and comparative land value level (i.e. surplus after all costs (including policy costs), profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to judge the potential scope across the various development circumstances to meet CIL and other policy costs / requirements. It follows that, in the event of little or no surplus or a negative outcome (deficit), we can see that, alongside the other costs assumed for the study purpose of ensuring that any CIL rates are not set at the margins, there is little or no CIL scope once all other assumed normal costs have been allowed for. There are limited residential circumstances where this is considered to be the case in Epping Forest, although the commercial development scenarios more commonly produce little or no surplus – as will be seen through Chapter 3.

2.11.7 The land value comparison levels are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. In our experience, sites will come forward at alternative figures – including in some cases beneath the levels assumed for this purpose. We have been able to consider land values in a way that supports an appropriately "buffered" type view to CIL rates setting.

2.11.8 This also needs to be viewed in the context that in terms of CIL, invariably (as we see across a range of strategic level viability studies) the levy rates are usually not the main factor in the overall viability outcome. Market conditions and whether a scheme is inherently viable or not (i.e. prior to CIL payment considerations) tend to be the key factors. Typically, small shifts in the CIL trial rate significantly affect viability only in the case of schemes that are already marginally viable (prior to considering CIL) and so at a tipping-point of moving to become non-viable once CIL is imposed or other relatively modest costs (in the context of overall development costs) are added.

2.11.9 Sales values, land value expectation and policy costs such as affordable housing or the move towards zero carbon development will tend to create much larger viability impacts on schemes. As the inherent viability of schemes improves then even a larger increase in the CIL trial rate is often not seen to have a very significant impact on the RLV and therefore likely viability impact by itself. As the trial CIL rate increases it is usually more a matter of relatively small steps down in reducing viability and so also considering the added risk to developments and the balance that Councils need to find between funding local infrastructure and the viability of development in their area.

2.11.10 In order to inform these land value comparisons or benchmarks we sought to find examples of recent land transactions locally. However, no firm evidence of such was available from the various soundings we took and sources we explored. In the usual and appropriate way for such a study, we reviewed information sourced as far as possible from the VOA, previous research / local studies / advice provided by the Council, through seeking local soundings, EGi; and from a range of property and land marketing web-sites. Details, so far as available, are provided in Appendix III.

2.11.11 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data.

Nevertheless in areas where it is available, the data can provide useful indicators, certainly in terms of trends.

2.11.12 As can be seen in Appendix II (residential and commercial scenarios results), we have made indicative comparisons focussing on land value levels in a range between £0.8m/ha and £3.5m/ha so that we can see where our RLVs fall in relation to these levels (including both above and below) and the overall range between them.

2.11.13 These benchmarks are based on a review of available information. In this case the approach was informed primarily by the principle of using a range of benchmarks (in common with DSP's usual and established practice) as per previous work undertaken for the Council together with any information from site specific reviews and, as noted, any further information gathered through our exercise of seeking local soundings (stakeholders' survey – as outlined in Appendix III).

2.11.14 The figure that we consider to represent the minimum land value likely to incentivise release for development under any circumstances in the Epping Forest context is around £500,000 to £800,000/ha based on net developable site area. Land values at those levels are likely to be relevant to development on smaller through to larger scale greenfield land (or enhancement to amenity land value) and therefore potentially relatively commonly occurring across the district.

2.11.15 This (as with all land values) assumes all deductions from the GDV covered by the development costs assumptions. At this level it could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA and a range of other sources to be valued at circa £20,000/ha in existing use). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations in such scenarios would not go beyond these levels – they could well do in a range of circumstances.

2.11.16 Land value judgements for the assessment purpose are based on seeking to ensure a competitive return to a willing landowner, as is recognised through the RICS guidance on 'Financial Viability in Planning' (RICS GN 94/2012 – as noted below), the NPPF requirements and other papers on viability assessment.

2.11.17 The consideration of land value – whether in the RICS' terms (see below) or more generally for this context, involves looking at any available examples ('comparables') to inform a view on market value and may well also involve considering land value relating to an existing or alternative use ('EUV' or 'AUV'). Existing use value may also be referred to as 'CUV' (i.e. current use value). In addition, there may be an element of premium (an over-bid or incentive) over 'EUV' or similar required to enable the release of land for development.

2.11.18 The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggested that '*the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development*'. This benchmark is referred to as threshold land value in that example: '*Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely*'. Further it goes on to say that '*There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied*'.

2.11.19 RICS Guidance[21] refers to site value in the following '*Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan… The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations'.*

2.11.20 In the Local Housing Delivery Group report[22] chaired by Sir John Harman, it is noted that '*Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than*

[21] Financial Viability in planning – RICS Guidance note (August 2012)
[22] Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values'.

2.11.21 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable rates which balance viability factors with the infrastructure needs side.

2.11.22 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner expectation.

3 Findings (Assessment stage 1)

3.1 Results Introduction & Principles

3.1.1 Results summaries are included within the tables at the Appendices to the rear of this report, as follows:

- Appendix IIa (Stage 1 residential results – tables 1a to 1l);
- Appendix IIb (Stage 1 commercial / non-residential results – tables 2 to 7);

3.1.2 In each case these reflect the scenarios explained in Chapter 2 and summarised at Appendix I.

3.1.3 Within Appendices IIa and IIb the tables refer to the potential (indicative) relevance / occurrence of the test scenarios, on an overview basis and bearing in mind that in practice each site will be different. More may be drawn from this and further stage 2 review work as the assessment process both informs and responds to the Council's building-up of its development strategy allied to the new Local Plan. The process included consideration of the varying site types relevant to schemes on greenfield land and previously developed land (PDL) of varying types (e.g. from former commercial / non-residential existing uses to land with established residential use such redevelopment of existing housing). Across this range of site types, varying land values will be relevant to some extent. Subject to further consideration of options, some of the growth development looks set to be greenfield site based (most likely comprising of urban area extensions), whilst the overall site supply is likely to continue to include a range of smaller sites. So the re-use of former commercial and other under-used sites and town / village infill type development is expected to continue to play a role in the overall development plan context. Most of the development scenarios considered at this stage could occur on host sites with a variety of characteristics.

Residential

3.1.4 In summary Appendix IIa and IIb results tables show:

- Left side column: Scheme scenario. This summarises the dwelling numbers / scheme type and, for residential scenarios at tables 1a to 1l, the affordable housing policy requirement or sensitivity variation tested. For each results set the assumed affordable housing proportion is stated.

- Across the top grey row: other assumptions headings and the increasing 'trial CIL charging rate' tested from £0/sq. m to £350/sq. m applied across all scheme scenarios and variations at £25/sq. m intervals for residential (Appendix IIa) and commercial (Appendix IIb) scenarios.

- Within the Appendix IIa table section for each residential scenario type and affordable housing assumption variation, the increasing market sales value level (VLs 1 to 9) used to test the sensitivity of the outcomes to varying values. Overall, this covers values from £2,750 to £6,750/sq. m (approximately £255 to £627/sq. ft.). This range enables us to consider viability as influenced by location and by the market (e.g. including values falling or rising from current typical levels). This provides full context for considering the potential for the varying value levels to support viable developments with reference to the delivery of the emerging Plan proposals and for considering the potential CIL funding scope for a range of scenarios and locations.

3.1.5 The viability assessment of potential affordable housing policy and potential CIL charging rate(s) scope is based on the running of sensitivity tests. Each of these corresponds with an individual row of figures within each coloured section of the Appendix IIa tables. Each of these tables shows the results of the development appraisals as both a residual land value and an equivalent residual land value calculated on a £/ha basis. Each development appraisal has also been run across a number of value levels and CIL trial rates so that each affordable housing proportion tested includes 9 value levels and CIL rates from £0 - £350 / sq.m. The affordable housing proportion (%) relevant to each set of tests for VLs 1 to 9 is shown in the grey column at the left hand side of each table.

3.1.6 In some circumstances on the smallest sites tested with on-site affordable housing (15+ dwellings), we have rounded up or down the affordable housing to the nearest whole number. This can have an effect on the result especially on any schemes that fall beneath the new national 11 dwellings minimum threshold as we assume will apply in this district since 28th November 2014 if policy is developed to also "capture" smaller schemes amounting to more than 1,000 sq. m of development.

3.1.7 Related to this and the probable nature of many smaller schemes in Epping Forest District, amongst the options for the Council's consideration may be the use of a financial contributions approach to affordable housing provision from smaller sites with small numbers (below the threshold) of large dwellings on site areas above the threshold if those are to fall within the scope of a new affordable housing policy.

3.1.8 Schemes of 1 and 2 units (tables 1a and 1b), including no affordable housing but with a significantly higher build cost assumed (see Appendix I), have been appraised given that through the statutory requirements the CIL would take effect on developments from a single (non-self-build) dwelling upwards.

3.1.9 Related to the points above, further appraisals and reporting could be considered at the proposed second stage of assessment - dependent on how the Council's review of the balance between affordable housing requirements and CIL / other obligations progresses.

3.1.10 Currently, for scenarios of 11 or more dwellings (represented by the tests at 15+) the exploration of the impact of affordable housing percentage variation are shown moving from top to bottom within each results overview table at Appendix IIa.

3.1.11 Further sensitivities added in due course could enable the viewing of varying potential cumulative costs impacts – again based on how the Council's potential revised policy areas develop and also how those relate to the new optional technical housing standards.

3.1.12 In terms of residential values, although in practice values patterns will not usually respect boundaries as such (values tend to vary very locally, influenced by schools, views, proximity to amenities and facilities, etc.), we can indicate the relevance of the Values Levels (VLs) to the market levels for new builds (as far as seen at the time of research) and the district's main settlements / localities.

3.1.13 This allows us to consider the sensitivity of outcomes to this key input varying and to consider a suitably localised view of the influence of values on viability; and therefore on the potential for the district's various localities and scheme types supporting CIL funding scope alongside affordable housing and other development plan policy requirements. Amongst the next steps, and in conjunction with the Council progressing its development strategy work, we will need to check the relevance of the various localities (and therefore VLs) and scenario tests to the expected distribution of housing growth (i.e. their relevance to overall plan delivery). This will directly affect the final selection of the policy set (particularly with regard to affordable housing) and CIL charging rates.

3.1.14 Figure 10 below provides a brief summary of the interaction of values across the district:

Figure 10:

<table>
<tr><th>Assumed Market (sales) Value Level (VL)</th><th>VL1</th><th>VL2</th><th>VL3</th><th>VL4</th><th>VL5</th><th>VL6</th><th>VL7</th><th>VL8</th><th>VL9</th></tr>
<tr><td rowspan="3">Indicative occurrence by location</td><td colspan="2">Waltham Abbey, Loughton Lower (Fairmead and Broadway)</td><td></td><td colspan="2">Waltham Abbey High Beech, Fyfield, Abridge, Stapleford Abbots, Buckhurst Hill East, Epping Lindsey, Lower Nazeing</td><td colspan="2">Theydon Bois</td><td></td><td></td></tr>
<tr><td></td><td colspan="2">Chipping Ongar, North Weald, Loughton Alderton, Waltham Abbey North East</td><td></td><td colspan="2">Buckhurst Hill West, Epping Hemnall, Loughton St Johns, Epping Green</td><td colspan="2">Loughton Forest, High Ongar, Matching Green, Chigwell Village,</td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Sheering, Willingdale, Moreton, Loughton Roding, Roydon, Thornwood Common, Chigwell Row</td><td></td><td></td><td></td><td colspan="2">Loughton St Marys</td></tr>
<tr><td>1 Bed Flat</td><td>£123,750</td><td>£146,250</td><td>£168,750</td><td>£191,250</td><td>£213,750</td><td>£236,250</td><td>£258,750</td><td>£281,250</td><td>£303,750</td></tr>
<tr><td>2 Bed Flat</td><td>£165,000</td><td>£195,000</td><td>£225,000</td><td>£255,000</td><td>£285,000</td><td>£315,000</td><td>£345,000</td><td>£375,000</td><td>£405,000</td></tr>
<tr><td>2 Bed House</td><td>£206,250</td><td>£243,750</td><td>£281,250</td><td>£318,750</td><td>£356,250</td><td>£393,750</td><td>£431,250</td><td>£468,750</td><td>£506,250</td></tr>
<tr><td>3 Bed House</td><td>£261,250</td><td>£308,750</td><td>£356,250</td><td>£403,750</td><td>£451,250</td><td>£498,750</td><td>£546,250</td><td>£593,750</td><td>£641,250</td></tr>
<tr><td>4 Bed House</td><td>£343,750</td><td>£406,250</td><td>£468,750</td><td>£531,250</td><td>£593,750</td><td>£656,250</td><td>£718,750</td><td>£781,250</td><td>£843,750</td></tr>
<tr><td>Value House (£/m2)</td><td>£2,750</td><td>£3,250</td><td>£3,750</td><td>£4,250</td><td>£4,750</td><td>£5,250</td><td>£5,750</td><td>£6,250</td><td>£6,750</td></tr>
</table>

(Source: DSP 2014)

3.1.15 Within the overall spread of residential values relevant to the district there is wide variation, as per the above general hierarchy of values and the overlapping that has been found. Variation is seen within all areas at a street-by-street level and according to local facilities, schooling and the like; all usual factors creating values variation. New-build schemes tend also to set their own values which do not necessarily fit the prevailing levels in an area. Larger scale sites could also well set their own value levels, depending on location and proximity to facilities, etc.

3.1.16 The areas and site types that are likely to deliver the majority of the housing growth, collectively, are likely to influence the Council's consideration of CIL charging rates, affordable housing and potentially other policies.

3.1.17 VL1 represents the lowest market values sensitivity test, with values increasing through a scale including the highest market values sensitivity test at VL9.

3.1.18 VL1 is largely to be regarded as lower-end sensitivity test for residential development under current market conditions and in the main outside the range of typical values considered relevant to delivery moving forward. This therefore represents the effect of a falling market from the current lower-end values.

3.1.19 In general terms (and see draft Appendix III for more detail) the most relevant part of the values range lies between approximately £3,250 to £5,250/sq. m (i.e. VLs 2 to 6). There are instances of lower values especially around the Waltham Abbey area and certain parts of Loughton (Fairmead / Broadway) for example. Those lower values also tend to be quite sensitive to viability in terms of the values / costs relationships for viability – i.e. at or around Value Level 1-2 viability is quite finely balanced when combined with the other cost and policy assumptions used.

3.1.20 There are also large parts of the district with significantly higher values. Again, it will be important to the Stage 2 process that an understanding of the relevance of those areas to housing projections and the degree to which differentiation of policy in terms of CIL, affordable housing or potentially both could be appropriate. Early stage discussions on the potential balance between these factors suggest that given the level of importance attached to affordable housing by the Council, there may be a leaning towards seeking affordable housing at the highest level realistically achievable and doing so as consistently as possible across the district; with CIL rates differentiation varied in response to that based on the overall viability scope. However, there is much to consider on this and the current aim is to set out the overall parameters within which the local balance might be considered.

3.1.21 Aiming to differentiate for policy application and / or CIL charging rates in an endeavour to reflect the whole range of values variation subtleties is very likely to over-complicate matters and is not justified; the approach needs to be readily explained and operated – it should be reasonably strategic as part of delivering the plan as a whole.

Commercial / Non-Residential

3.1.22 For each commercial / non-residential scheme type tested the Appendix IIb tables show:

- Increasing value (this time meaning rental value that underpins the completed scheme (sale) value – or GDV - in combination with the yield percentage) – L (low); M (medium); H (high). The medium value levels were considered to be the key area regarding current balanced interpretation of results. 'L' and 'H' allow us to consider the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location; and / or market movements.

- For each table (2 to 7) the yield percentage assumed for capitalising the annual rental assumptions in each case; overall yield range 5 to 7.5%.

3.1.23 Tables 2 to 7 at Appendix IIb include the information for the commercial / non-residential results – only where full development appraisals were carried out (retail, offices, industrial / warehousing, hotel and residential institution (nursing /care home). These tables show in their heading the rental yield percentage assumed for each set.

3.1.24 Overall, the range of yield percentages used assumes high quality, well-located new-build development as assumed relevant to a new development plan and to a CIL associated with that. It should be noted that in respect of some development uses in the local context (particularly the 'B' (business) Class uses) the yield percentage tests shown are at the positive end of the potential range and are used so that we can see to what extent realistic assumptions support positive scheme viability and, from there, any scope for CIL payments. Therefore this also provides us with a preliminary indication of the extent to which, viewed now, optimistic looking (e.g. wider commercial market improvement based) assumptions are needed to support more positive results that would provide more consistent headroom for reliable CIL charging across a range of developments. For the development use types considered, where poor or marginal outcomes are shown generally (B, C1 and C2 Uses – business, hotels, care / nursing homes) we can see that results would deteriorate further with increased yield percentage trials if those were applicable.

3.1.25 Only the results relating to key commercial / non-residential development trials are included at Appendix IIb. This is because at the early stages of this study, it became apparent that the strength of the relationship between the values and build costs was poor. The results showed there to be no point developing the current stage testing process beyond those initial trial appraisals. This applies to those scenarios that were seen to be clearly unviable as development uses, as summarised in the following table (Figure 11). As with other aspects, this could be revisited at the second stage of assessment, following further consideration of the types of development relevant to the overall delivery of the planned growth and therefore the infrastructure requirements and CIL supporting that.

Figure 11: Other development uses (examples with insufficient viability to support clear CIL charging scope)

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost BCIS**	Viability prospects and Notes
Cafés	£30 - £300	£300 - £3,000	Approx. £1,210 - £3,580	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	£12 - £70 per	£120 - £700	Approx. £1,195 - £1,730	Clear lack of development viability
Day Nurseries	£50 - £150	£500 - £1500	Approx. £1430 - £1,975	Insufficient viability to clearly and reliably outweigh the costs
Equestrian - Stables / Livery	Approx. £250 - £400 per unit		Approx. £640 - £1,100	Insufficient evidence of viability to clearly and reliably outweigh the costs
Garages and Premises	£40 - £75	£400 - £750	Approx. £530 - £1,040	Low grade industrial (B uses) - costs generally exceed values
Halls - Community Halls (General purpose Halls)	£10 - £60	£100 - £600	Approx. £1,400 - £1,755	Clear lack of development viability – subsidy needed

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost BCIS**	Viability prospects and Notes
Leisure Centre - Health and Fitness	£70 - £150	£933 - £2,000 @ 7.5% yield (upper-end)	Approx. £922 - £1,800	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Leisure Centre Other - Bowling / Cinema	Little information available - say £120 - £150	approx. £1,800 @ 7.5% yield	Approx. £1,100 - £1,585	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Museums	No comparable information available		Approx. £780 - £1,430	Likely clear lack of development viability – subsidy needed
Storage Depot and Premises – e.g. Agricultural	£25 - £70	£250 - £700	Approx. £198 - £937 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	£110 - £500 per sq. m	£1100 - £5000 per sq. m	Approx. £1,290 - £1,700 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs based on other than high-end looking value assumptions.
Visitor Centres and similar	No comparable information available		Approx. £1,615 - £2,580	Likely clear lack of development viability – subsidy needed

(Source: DSP 2015, using VOA and BCIS data)

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

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

3.1.26 In the current Epping Forest context it is likely that even the highest yield percentage trials (7.5% - results at table 7, Appendix IIb) may well represent too positive a scenario in some cases, and particularly for the B uses. However, as above, these trials served the purpose of exploring how positive the assumptions would need to become to support viability where poor initial outcomes were seen and, hence, potentially, how far they would need to move so as to provide scope for CIL charging. It follows that if those and other scenarios produce poor results with these assumptions then we can see that the results would deteriorate further (become increasingly negative) with a range of less favourable yield (or other) assumptions that might be seen in practice. Conversely, market improvements underpinning more positive viability assumptions could improve the outcomes, however, and once again the current stage findings could be reviewed as the viability assessment picture builds.

3.1.27 For more general context here, in our wider work we are seeing that for prime sectors and locations the commercial market is showing signs of picking-up from the recent recessionary period. For example in some areas we are seeing an increase in distribution property development, research and development facilities and in some cases offices and other forms of development. To date, however, the signs of new commercial development activity appear limited in Epping Forest, which by and large does not have an extensive and well-established prime commercial property offer. While the district has a varied stock of industrial property, in the main it is not a key location for commercial development activity of a significant scale. While we will not expect to see a sufficiently significant switch in the viability of such schemes to support a great deal of speculative development here, again this will be a factor for further review particularly in respect of final checks on the CIL charging potential.

<u>Results Trends</u>

3.1.28 Within each of the results tables, the coloured table cells (see below) act as a guide to the trends seen across the range of results as represent the scenarios relevant to considering the scope for potential CIL charging in the context of the emerging plan. The trial CIL rates – in £/sq. m - shown across the top row are applied as a key part of the process of exploring the effect on likely viability. These trial rates are considered in combination with the key areas of potential policy that impact on viability.

3.1.29 The sensitivity tests on affordable housing are the key factor in that respect, but also allowances were made for other typical policies that at this stage are considered likely to have a direct development cost implication. Emerging policy specifics that have a varied impact on viability compared with the current stage assumptions will need to be considered on further review.

3.1.30 The overall trends show lower RLVs and therefore increased viability impact (reduced viability outcomes) as those trial CIL charging rates increase (moving from left to right within all Appendix IIa and IIb tables) and, more so, as the affordable housing percentage increases moving from top to bottom within the Appendix IIa residential results table set once an assumed affordable housing requirement takes effect (i.e. potentially on schemes providing more than 11 dwellings or more than 1,000 sq. m new housing).

3.1.31 Realistically this testing of trial CIL rates has to be carried out in steps to control to reasonable parameters the extent of the appraisal modelling exercise. Provided that these trial rates span a sufficient range, and the steps between each trial level are not too large, an element of interpolation can be applied and considered.

3.1.32 It is not necessary, and would not be practical or economic to further extend this process. In this case, we considered potential charging rates of £0 to £350/sq. m for residential and commercial scenarios to give a sufficient range for review; we could see that higher rates were unlikely to be suitable within the range of local circumstances, so this wide results set would in our experience provide us with suitable parameters and context for review with the Council. The emerging results did not warrant further exploration of higher potential CIL charging rates alongside the other assumptions included.

3.1.33 It is important to note that the colour coding shown on the tables at Appendices IIa and IIb provides only a rough guide – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science - this guide to the trends must not be over-interpreted as representing any strict cut-offs for viability / non-viability. In practice, switch-points between viability and non-viability will be variable. This process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable in the balance between viability of the CIL rates on the one hand and the opposing tension of the local infrastructure needs. This is all in the context of the emerging Plan development strategy so far as it was possible to make financial assumptions at this first assessment stage; in advance of the proposals for more settled policy and delivery details.

3.1.34 The colours within the results tables therefore show trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from white £/Ha results areas (representing very poor outcomes – negative RLVs, i.e. clear non-viability) to the boldest green coloured results (indicating the greatest level confidence in viability across a wider range of land value comparisons representing different host site types). In practice a range of outcomes within the non-white table areas could prove viable depending on particular scheme and site circumstances. The footnotes to the Appendix IIa and IIb tables describe these as a series of 'viability tests', referring to the various land value comparison levels considered:

- Boldest green cells - considered to provide very good viability prospects; the best results from the range produced; likely to be workable across the full range of site types.

- Mid-green cells - considered to provide good viability prospects of the scenarios tested and meeting a wide range of likely former commercial use and lower residential value land values / high level of scope for enhancement to greenfield land use values; but possibly not reaching sufficient levels for a limited range of high-value commercial / non-residential developments (e.g. potentially large format retail / similar scenarios). Therefore whilst these results indicate workable schemes on a range of previously developed land (PDL) site types, they may be viewed with a lower confidence level overall than the darker green shaded RLV indications (as above) that are considered capable of working even on the highest value PDL scenarios in the Epping Forest context.

- Paler green cells – Positive RLVs, but which are under our higher land value comparisons and therefore indicating reduced confidence in results in respect of PDL scenarios. Potentially representative of scenarios that may be workable on lower value PDL (commercial) or (with greater confidence) on greenfield sites.

- White (uncoloured) table cells (results) – negative RLVs – scenarios in financial deficit and in any event representative of clearly poor viability outcomes – no prospect of viable schemes based on the collective assumptions used in each case. In most of the table rows that have part white (unshaded) areas, it can be seen that the CIL trial rate is seen to have relatively little impact on scenarios that are inherently unviable. In a small number of cases, however, it can be seen that a nil or very low CIL rate might contribute to supporting a level of viability in greenfield or other lower land value scenarios. That effect could be relevant for example in the case of any larger scale developments also carrying significant site-specific costs sought through s.106, or where similar cost impacts are involved in bringing those forward. Such scenarios will need to be considered further once the probable locations for development are clearer.

3.1.35 For ease of reference, the above results table colour scale, showing the results trends within Appendices IIa and IIb (as per the table footnotes there) is as follows:

(White / unshaded £/Ha RLVs)	Negative RLV
(Palest green shaded £/Ha RLVs)	Positive RLV beneath Viability Test 1 (RLV <£800,000/ha)
	RLV exceeding Viability Test 1 (RLV £800,000 - £1,500,000/ha)
	RLV exceeding Viability Test 2 (RLV £1,500,000 - £2,500,000/ha)
	RLV exceeding Viability Test 3 (RLV £2,500,000 - £3,500,000/ha)
(Boldest green shaded £/Ha RLVs)	RLV exceeding Viability Test 4 (RLV £3,500,000/ha)

3.1.36 As seen here the table footnotes provide a reminder of the land value benchmarks (comparisons) applied in arriving at this picture; all bearing in mind the context and explanations provided within this report.

3.1.37 The results discussion within this report, and the reported policy and CIL options / scope that is supported by our findings, is based on the current stage assumptions. This in no way determines Council Policy positions or its CIL charging rate(s) proposals; it is merely to further inform the development and ongoing review of those.

3.1.38 Government guidance states that the CIL charging rates should not be set up to their potential limits (up to 'the margins of viability', or similar phrases). On reviewing the results and for the Council taking this further into the wider consideration of its Preliminary Draft Charging Schedule (PDCS) CIL rate(s) proposals, a number of key principles have been and will need to be considered as set out below.

3.1.39 Costs will vary from these assumptions levels with specific sites and over time (in particular build costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some scope may be needed where costs are higher through such factors as site-specific abnormals, scheme-specific design / materials, further carbon reduction measures longer term, etc. When viewed overall, the various assumptions made represent market norms but are tailored to the Epping Forest characteristics where more specific / local information pointed to particular assumptions or adjustments being used. Through applying our well established and tested approach the assessment is strategic in a way that is relevant to informing and supporting the development of the plan and to informing the associated approach to any updated CIL proposals by the Council.

3.1.40 Landowners' situations and requirements will vary. However, their expectations will need to be realistic and take account of policy and CIL requirements. As part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from some existing or alternative uses in the prevailing market – for example in the case of some redundant commercial premises. Nevertheless, land values could be outside the ranges that we indicate as benchmarks purely for the use of making our overview, including at higher levels.

3.1.41 The wider economic backdrop remains mixed, although over the course of this stage 1 assessment process the residential market has been positive and house prices have increased (Appendix III provides further information). A level of continued development activity and interest in promoting sites suggests a good level of underlying strength in the local market. Nevertheless, the uncertainties and experiences of the last few years could remain or could still increase to some extent. We cannot rely on any assumptions related to increasing house prices and improved viability that may flow out of that trend; the use of the residential values levels (VLs) range in that way purely provides indications on a sensitivity basis so that to inform the viability scope put to the Council we are looking at the range of values expected, from the information currently available. The same principles have been considered and applied in respect of the commercial / non-residential scenarios.

3.1.42 Certainly a significant factor for the residential scenarios, as is always the case, will be the Council's approach to affordable housing provision secured from market developments. This assessment aims to test alternatives so as to provide advice on potential for affordable housing target percentages within the new Plan, as well as on how those considerations will affect the selection of CIL charging rates.

3.1.43 Developers' profit level requirements (and in some cases related funders' stipulations) could well vary. Our recent experience together with a variety of appeal outcomes suggests that in practice we could see lower profit level requirements than those we have assumed (i.e. at 20% GDV purely for the assessment purpose). This applies to commercial development scenarios especially. However, we considered it appropriate overall to acknowledge that there may need to be some scope in this regard; or in respect of other commercial scheme costs / risks. This, again, is part of setting assumptions which fit with arriving at a balanced approach overall and do not mean that the consideration of CIL charging rates involves pushing to the margins of viability. It is important to avoid removing cost from collective assumptions so that scheme prospects become too dependent on those particular assumptions proving absolutely correct in practice. When it comes to site specifics, all individual appraisal inputs will vary and, therefore, how they interact will vary too.

3.1.44 The potential CIL charging rates need to be considered alongside other factors relevant to the locality and the development plan delivery. Amongst these, the location and frequency of site and scheme types forming key parts of the local growth planning options is key – i.e. considering where in the main development will be coming forward (in relation to the site types and values patterns for example).

3.1.45 The types and frequency of schemes likely to be relevant under the emerging plan will influence the selection of the Council's approach to implementing any refreshed approach to affordable housing policy and the CIL; and may subsequently vary for future CIL charging schedules. In practice, the variation of schemes types could be very wide – including for commercial / non-residential development, where schemes could be seen in many shapes and sizes, widely varying uses and combinations of uses. However, it is necessary to consider the local relevance of those in terms of the plan delivery as a whole alongside their likely typical scope to support viability. Focus needs to be on the main relevant types, given that plan delivery and the Council's proposals for new housing and economic development based schemes across its administrative area as a whole are of greatest importance.

3.1.46 The modelling (including of any further scenarios at a subsequent stage) does not need to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the expected EFDC delivery.

3.1.47 Under the potential Plan development strategy options that may be considered, strategic scale housing delivery from relatively large developments (e.g. urban area extensions) with potentially significant infrastructure requirements looks set to be relevant at least to some extent in considering the scope to bear affordable housing and CIL costs in addition to a typically high level of site-specific costs.

3.1.48 Therefore, CIL could be most relevant to the scattering of generally smaller development proposals (as represented by the scenarios of up to say 100 dwellings, with most being well within that bracket).

3.1.49 As the Council's picture on the sites likely to be contributing to the delivery becomes clearer through the settling of outcomes from the early stages Plan development work and review process, the implications of CIL charging alongside the site-specific costs and planning obligations will need to be considered further. Given the nature of CIL and the need to keep it as simple as possible, in any event this could in some cases mean that other planning obligations aspects may need to be negotiated with CIL in place at levels suitable for the majority of sites.

3.1.50 It is important to note that some individual schemes (residential and commercial) may not be able to support the collective requirements; they may not be viable either prior to or following the imposition of CIL (alongside other costs and requirements). Such viability outcomes are unlikely to be solely due to CIL charging, however. They are more likely to be associated with market factors (arguably the biggest single factor) as impact a particular scheme, affordable housing, scheme design / construction / specification requirements (including but not limited to sustainable construction) and wider planning objectives. Usually, the collective costs impact on schemes will be relevant for consideration where issues arise, so that some level of prioritisation may be required – but, as noted above, bearing in mind that once in place a CIL would be non-negotiable.

3.1.51 Under the CIL principles this is accepted, so that the inevitable non-viability of some individual schemes need not prejudice the plan delivery and the approach to CIL. This also means, however, that the viability of schemes that are critical to overall plan delivery needs to be assured, including to the extent that the approach to CIL as it affects such sites must not have too significant an effect on their viability so as to place their delivery at risk (alongside the affordable housing policy / strategy ultimately chosen). In due course this may mean more specific consideration of particular sites or site types, most likely including an appropriate level of viability review related to any strategic scale development proposals that may be planned.

3.1.52 Conversely, this means also understanding that in theory some schemes / scheme types may have been able to fund a greater level of CIL than the recommended levels (and / or greater levels of other obligations). This is again in the context of seeking an appropriate local balance in setting the charging rate(s); not adding undue risk to delivery and therefore moving forward with the local economy and development to support that, whilst collecting a reasonable level of contributions towards meeting the infrastructure needs associated with the required new development. The latter points here tie in with the Government's latest CIL Guidance (as noted earlier) as they relate also to local authorities putting in place a CIL regime that will not only avoid prejudicing the plan delivery as a whole, but will contribute positively to the development of the area. The Council will need to be able to show that it has struck an appropriate balance between infrastructure needs and viability / delivery considerations in any re-setting of its CIL charging rates.

3.1.53 As above, the variety of site and scheme types that is expected to come forward is an important consideration – meaning reviewing the scale of results in the context of a range of potential locations and land value comparison levels. We do not consider it appropriate to rely on comparisons at a single land value level for each scenario as development will come forward in various forms and on a range of site types over time. In assessing results it has been necessary to consider viability outcomes across the results range and against various land value comparison levels. In many cases it can be seen that the land value comparisons are greatly exceeded, showing that higher levels of land value expectations could be met in those scenarios (assumptions sets) if needed under certain circumstances. Whilst the reducing boldness of the green colour-coding within the results tables indicates scenarios that are unlikely to be viable against the higher land value benchmarks, in many cases those outcomes meet or exceed requirements where lower land values are likely to be sufficient. The range of results should be viewed in this wide context.

3.1.54 The reality is that the viability of specific sites will involve a wide range of land value scenarios. Whilst these will often be within or well within this upper benchmark given that a range of greenfield and some former commercial sites are likely to be relevant, higher levels should also be considered, however, in order to provide the full context for review of results. As noted here, many results support higher land values than the benchmarks that have been considered for comparison purposes.

3.1.55 Consideration is to be given to the scale of local infrastructure needs associated with the planned growth (rather than the deficit of needs associated with existing development) that require funding contributions and development viability amount to opposing tensions. The Council needs to strike the right balance with its approach to CIL and other policy requirements in order to reach the most appropriate mix of ingredients to allow and promote appropriate development by ensuring that the viability impacts are not too great, and yet ensuring that an optimal level of affordable housing and infrastructure is also provided.

3.1.56 At the time of this assessment stage, work on infrastructure requirements is ongoing and is likely to be further updated. Nevertheless, there is growing evidence of a notable funding gap in Epping Forest; meaning that the Council needs to secure a level of CIL that is as meaningful as possible, but realistic. This is a key ingredient of the overall growth and funding packages, in support of its development strategies; focussed on the emerging plan.

3.1.57 CIL charging calculations relate to net new development – added floor-space. As is typical, in practice we understand that in line with the CIL regulations a number of developments in the district will entail some level of "netting-off" of existing floor-space within the charging calculations. This means that the selected CIL rate will not be applied to the full scale of new development in many cases. This could be by way of replaced or re-used / part re-used buildings. Our appraisals have not factored-in any netting-off in this way, because this will have a highly variable influence on scheme outcomes. The netting-off effect is expected to further contribute to ensuring that schemes remain deliverable and that the charging rates(s) are not set right 'at the margins of viability' [23] as part of this overall theme.

3.1.58 Local authorities (the charging authorities, including in this case Epping Forest DC) have significant scope to consider exactly how they will assess what the right balance is given the particular characteristics of their area. As a part of this, the viability assessment work does not need to be followed precisely. Instead, the Council should

[23] DCLG – Community Infrastructure Levy Guidance (February 2014)

be able to show how the assessment, along with its wider evidence base, has informed the selected CIL approach and policies.

3.1.59 A common theme running through all of the results (residential and commercial) is that they are highly sensitive to varied appraisal inputs and to the land value comparisons considered as potential benchmark ranges. A relatively small adjustment, particularly in some assumptions areas, can have a significant effect on the outcome.

3.1.60 Many of these factors are universal. It is important to note, when we refer to highly variable outcomes / sensitive results, that:

- These are not factors that only affect Local Plan and CIL considerations in Epping Forest. They have to be recognised in any similar study and applied through practical local application of the Government's approach – through the NPPF, Planning Practice Guidance (PPG) and the CIL regime – regardless of location;

- These characteristics would also apply regardless of the CIL rate(s) set, so that with particular scheme difficulties (for all development types) setting a significantly lower CIL rate would not necessarily resolve any viability issues; we could still see a range of unviable or marginally viable schemes with even a zero (£0/sq. m) CIL rate – as the results show for many non-residential scheme types (Appendix IIb) and for the lowest value and/or highest affordable housing percentage and highest trial CIL rate residential sensitivities.

3.2 Current stage residential outcomes – Affordable Housing

3.2.1 In Epping Forest the recently imposed national minimum threshold of 11 dwellings for affordable housing policy requirements will be relevant; we understand that the district contains no defined rural areas within which a lower threshold of 6 dwellings could be applied.

3.2.2 However, the Government's 28th November 2014 changes also introduced the scope to operate a dual approach to the affordable housing policy threshold, whereby the Council could implement a policy to seek affordable housing provision / contributions from developments providing fewer than 11 dwellings but where the new housing floor area exceeds 1,000 sq. m. In a district where smaller developments comprising larger properties may well continue to be frequent, the Council may wish to consider this potential scope. If so, we suggest that this could be considered for additional more targeted appraisal scenario testing as a part of the ongoing review.

3.2.3 Whilst considering the balance between CIL and affordable housing obligations, however, an alternative for the Council may be to consider whether and to what extent its CIL charges might reflect (balance-up) any improved viability on schemes without affordable housing requirements, compared to those with them. This would amount to differentiating by scale of development for CIL charge setting, as is now permitted, based on a switch in viability outcomes.

3.2.4 Another affordable housing consideration could be a reduced target (relative to the policy headline target percentage) applied to smaller schemes in the event that the approach noted at 3.2.2 is pursued – based on sliding scale principles where smaller scheme sensitivities are recognised through reduced affordable housing requirements (but again on the basis that this could only be implemented on sites of 1,000sq.m of residential development).

3.2.5 That principle could be considered for schemes falling within the 11 to 14 dwellings range too, since in the larger settlements (i.e. with 3,000+ population) the Council's adopted policy seeks affordable housing only from sites providing 15 or more dwellings. Whilst a new threshold of 11 dwellings appears as appropriate to us as one at 15, urban area sites would be impacted more than through the adopted policy and could benefit from reduced requirements until the policy has been in place and the development market has adjusted to it. There is also the site supply issue and the nature of developments to consider in this respect – smaller developments may tend to be brought forward on established commercial, existing residential or residential intensification sites (for example purchasing residential properties and increasing density) – those with amongst the highest existing use values and thus most difficult in viability terms.

3.2.6 From the results to date, the emerging picture is that an affordable housing headline target of 40% applicable to sites of 11 or more dwellings (or alternatively 15 or more as at 3.2.5 above) would appear more appropriate than a continued 50% target (as applied to the rural areas / smaller settlements through adopted policy). At this level, we consider that there would be meaningfully greater scope to achieve a reasonable combination of both affordable housing and CIL, bearing in mind that the CIL rates ultimately set will need to be "buffered" and well within the apparent maximum rates.

3.3 Current stage residential outcomes – CIL

3.3.1 In reviewing the results, the emerging CIL rates for residential development obviously need to be allied to the affordable housing proportion. To a significant degree this is a circular issue as there is an inversely proportional relationship between the two. The eventual rate / affordable housing proportion will rely on a decision by the Council taking into account the trade-offs.

3.3.2 If we look at Table 1f, for example (25 unit residential scheme of houses), and assume VL4 values (£4,250/sq. m) representative of new build values in parts of Loughton or the lower-end of new builds in Epping, we see that to exceed a £2.5m/ha benchmark, with 50% affordable housing the scheme could support up to approximately £275/sq. m CIL (maximum – i.e. prior to allowing for buffering – not charging to the limits of viability). By comparison, calculating the maximum CIL rate if the affordable housing proportion is reduced to, say, 40%, the maximum CIL rate based on a land value benchmark of £2.5m/ha is approximately £400/sq. m.

3.3.3 Interpolating between Value Levels 3 and 4 (£4,000/sq. m), representing new build house values in higher value parts of Waltham Abbey for example, we see that with 40% affordable housing, a CIL rate of approximately £190/sq. m (again maximum) is possible. As an illustration, if we trial a reduction of the affordable housing to 30% in that scenario, the potential maximum CIL rate increases to approximately £300/sq. m (maximum).

3.3.4 This type of information begins to illustrate the scale of trade-off there can be between affordable housing proportion and CIL level, of course on the basis that all of the other high level assumptions and land value benchmarks remain fixed. Changes in those affect the outcome. Density assumptions also play a significant role in the ability to calculate a surplus from which to recommend viable CIL rates. The above examples are all "maximum" CIL rates based on the assumptions used and we would need to recommend strongly that a significant buffer should applied in order to get back to realistic, achievable CIL rates supported by the evidence as a whole.

3.3.5 At a very high level we see that in viability terms, Loughton, Epping, Chigwell and several of the large and small villages have the potential to support reasonably significant affordable housing proportions (based on a target of say 40% affordable housing) and CIL rates (at up to around half of the maximum theoretical indication at 3.3.2 above – i.e. at up to around £200/sq. m).

3.3.6 Some limited level of differentiation within the overall residential approach seems likely to be warranted, or at least an option needed for consideration, however. Waltham Abbey values are more typically such that it is likely that a lower differential CIL rate and / or lower affordable housing target may be required there or in areas / scenarios with similar values to ensure delivery of the Council's potential growth aspirations. It remains to be seen, for example, what relevance values in the proximity of Harlow may have on the proposals in this regard. Although associated with a high level of uncertainty at the moment, it is likely that significant growth at the edge of Harlow would tend to set its own values and thus viability impact. It may be necessary to consider further review to include that at stage 2. Equally, there are areas of Loughton (Broadway / Fairmead) and some other areas of the district that appear to indicate some lower values than discussed above.

3.3.7 If relevant to site supply pattern then it is possible that further differentiation may be required. Conversely, if little new development is envisaged in such areas (i.e. they are not critical to Plan delivery when viewed overall) then differentiation may not be required. As noted above, the type of site supply (greenfield / PDL and development scale) is also important in this respect. For example, greenfield sites with no significant specific mitigation / infrastructure requirements will tend to offer more viability scope than higher value PDL sites.

3.3.8 From what we can see so far (preliminary work and also informed by sensitive information related to other larger strategic sites / viability reviews elsewhere) sites that carry significant on-site / site specific infrastructure and mitigation costs (through s.106) are unlikely to support the same level of CIL funding as the smaller non-strategic sites in the rest of the district. Potential consideration will need to be given in those instances to a £0/sq. m CIL rate or very low rate relative to the provisional potential noted above especially if the District-wide target for affordable housing (at whatever level is agreed) is to be achieved on these large strategic sites, where a significant amount of affordable housing across the District would inevitably be provided. This is of course subject to further testing and review which will be dependent on the sites and locations.

3.3.9 Overall, for non-strategic development we are of the opinion that (assuming a 40% affordable housing policy as a target), a CIL rate of between £150 - £225/m² is likely to be appropriate across much of the district (with the likely exception of much of Waltham Abbey and any other relevant areas having similar house prices).

3.3.10 To some degree, the level of CIL in the smaller settlements may not need to be differentiated if there is limited development likely to yield significant CIL receipts in those areas. Whilst this may be subject also to more localised views, generally it is not appropriate to over-complicate a CIL charging schedule where the resulting receipts benefit will be marginal in the overall scheme of things. Generally CIL charging would only be applicable to smaller scale developments in such areas, and it may be considered that there are benefits from avoiding placing affordable housing provision under further pressure from viability potentially adversely impacted by increased CIL charges. Where schemes are small and are outside the affordable housing policy scope, however, differentiation by scale of development may be appropriate. This could be significant given initial pointers to maximum CIL rates prior to buffering considerations likely to be well beyond our scale of current trials perhaps to £500/sq. m or more based on mid-range values as could be relevant to smaller settlement locations. That would suggest potential for CIL rates consideration in relevant circumstances at or beyond the upper level noted at £225/sq. m. However, these considerations need to be tempered by the likely need to exceed higher land value benchmarks, the build costs levels and to some degree on the smallest sites (those likely to make up the new development supply in the smaller settlements) a need to look not just at the RLV in £/ha terms but also the actual RLV (£ figure per plot values) produced.

3.3.11 As part of informing - and in response to - the emerging Plan development, the balance between affordable housing targets and CIL rate(s) will need to be discussed between the Council and DSP before final recommendations can be made.

3.3.12 All in all, we are of the opinion that it may not be possible to set a single district-wide residential CIL rate given the viability differences for example between Waltham Abbey, the rest of the district and potential strategic scale development. A 3-tier approach with one rate for Waltham Abbey, a second, higher rate for the rest of the district area and a third rate for strategic development site(s) currently appears to have the potential to be the most workable especially if a District-wide affordable housing target is adopted, which appears to be the most appropriate approach in our view. Potential further variation by scale of development in response to affordable housing thresholds may also be considered. This is unless further differentiation is required to respond to the different characteristics of significant development in other lower value areas of the district (relatively speaking, and perhaps most notably at Harlow's edge). Of course CIL charging rates below those provisionally explored above would also aid viability should the Council consider that appropriate; and would be within the scope of our recommendations.

3.3.13 Appendix IIa includes at table 1i the appraisal results based on specific assumptions reflective of our wide experience of retirement living (sheltered housing) apartments schemes, included because those are likely to form part of the wide spectrum of market housing developments relevant to overall supply in the district. In our experience this form of market apartments based development is capable of supporting similar CIL viability outcomes and financial contributions for the provision of affordable housing off-site and competing very effectively with general market / non-retirement housing developments and other uses for suitable sites. Although we have considered in depth the representations made and discussed in-depth at CIL examinations the merits or otherwise of charging CIL on sheltered housing schemes, we do not propose any differentiation for that form of housing. We are of the opinion that it should not be treated differently to other forms of C3 market development. To date, all examiners reviewing with our clients' CIL Charging Schedules and evidence have supported that view.

3.3.14 By sheltered / retirement housing we are referring to housing-led (rather than care provision based) schemes. These are generally high-density apartment-based schemes providing retirement housing in self-contained dwellings, usually with some element of common space and warden support; but where no significant element of care is provided. As a characteristic in common with other mainstream residential development, these schemes generally trigger affordable housing requirements on a negotiated basis (which in our experience may often be provided by way of negotiated financial contributions given the potential development mix, management and service charge issues than might otherwise arise in some scenarios by seeking to integrate an affordable housing element). They are regarded as falling under Use Class C3 (dwelling houses). They are distinct in our view from care /

nursing homes which would generally fall within Use Class C2 as have also been considered, through a different scenario type, for this assessment purpose.

3.3.15 There are various forms of similar developments, so that the Council will need to consider the characteristics of forms such as "extra-care". Housing for the elderly is becoming an increasingly important consideration and we are of the view that accommodation that is care based may well need to be considered differently. This is considered provisionally within the current scope of the commentary on commercial / non-residential development and CIL below. As above, the relevant Use Class and applicability of affordable housing requirements is likely to be a key indicator. In DSP's view, where the care provision is central to the development, so that it is not purely housing-led (where any visiting / part-time care would more likely be incidental), this may indicate characteristics closer to care / nursing homes development rather than market housing.

3.3.16 All affordable schemes would be nil-rated for CIL in any event, by virtue of the statutory exemption under the CIL regulations.

3.3.17 In due course the Council may also wish to consider the relevance to its CIL proposals (and wider policy approach) of the Government's recently increased emphasis on other dimensions of housing supply too – for example 'self-build' homes, which no longer attract a CIL liability but may have viability implications when included within developments; and potentially related to a wider emerging view on other forms of affordable housing /tenure and a greater variety of providers of that.

3.3.18 Appendix III to this report provides wider market context, which we will not discuss further here. [EFDC - *Please note that draft Appendix III will require further checking / updating (it is our working version) and our preference and usual practice is to review and finalise it as one of the last project activities. Then we can include any subsequent relevant information and make the market commentary as topical as possible at the current stage assessment close.*]

3.4 Current stage RESIDENTIAL viability – Summary:

3.4.1 Overall: Likely parameters for CIL charging rate(s) - **£150/sq. m to approx. £225/sq. m** for a district-wide rate except for Waltham Abbey and large scale strategic development. In addition, any Harlow fringes related development may also require consideration of differential treatment due to the significant amount of on-site infrastructure that would be required. In no cases within the district do we expect the suitable CIL rates scope to significantly exceed these levels where affordable housing is also being sought, although they can be further “pressure tested” at the subsequent stage 2 of review.

3.4.2 We suggest that a lower CIL charging rate or lower affordable housing proportion (or combination of both) may well be needed to ensure viable development in Waltham Abbey – **potentially at around half the above, so say £80 - £100/sq. m (not more)** - unless on small scale greenfield sites (i.e. with minimal strategic infrastructure requirements) where no significant established / alternative use value applies. This is based on equivalent thinking to that used in considering the potential higher rates scope noted more generally (for district-wide application as discussed above). The same principles of lower suitable rates, with levels again to be confirmed, are likely to apply if sites come forward that are relevant to Plan delivery within some of the other lower value areas of the district (e.g. certain Ward areas in Loughton and potentially around Harlow).

3.4.3 The selection of a rate or rates (which will be better informed at the Stage 2 report stage) within this will be guided by discussion of potential options as above, plan relevance (of different delivery areas and development types), potential CIL yields vs. administrative burdens, appropriate level of clarity / simplicity, etc., as well as by the primary driver of viability.

3.4.4 At whichever level(s) the affordable housing target(s) are settled, and even if at a very low percentage, all viability issues may not be removed. Poor viability, i.e. a weak relationship between the development values and costs, is more likely to be inherent to some degree in the scheme and / or site. In any event they must be treated as targets, to be operated practically where the viability circumstances show flexibility to be necessary. Circumstances may dictate local priorities and the most appropriate balancing of other objectives, etc. Some compromises will inevitably be necessary irrespective of the particular affordable housing policy positions. The Council’s approach will need to recognise these aspects of the overall viability picture, particularly as the delivery detail and guidance develops around the plan and its development strategy.

3.4.5 As a common finding across our wide range of assessments for local authorities, no lower level set for CIL (i.e. even if at £0/sq. m) could ensure the deliverability of all individual schemes on a guaranteed basis. In this sense, CIL alone is unlikely to be solely responsible for poor or non-viability. These are not just local factors; we find them in much of our wider viability work. The same principles apply to commercial schemes too. The key test in terms of the CIL principles is that the rates selected do not put at undue risk the overall plan delivery; it is accepted that some schemes may not work and that those do not in themselves necessarily prejudice the bigger picture on overall plan delivery.

3.4.6 Affordable housing, along with the market conditions and other factors (as noted previously) consistently have a far greater effect on viability than CIL. We observe this throughout our extensive work on CIL and it is relevant to stress this in the Epping Forest context too. CIL typically has a relatively small impact on overall scheme viability as its level increases gradually. This is seen reading from left to right in the results tables, compared with reading vertically between rows for scenarios representative of varying sales values or variant affordable housing trials. However, it cannot be added as a fixed cost to scenarios which are lacking a sufficiently positive viability starting point and always the collective cost involved in development is the most important to bear in mind.

3.4.7 Ultimately, all differential CIL charging rates (assuming that course were followed) would need to be mapped; the viability-led zones would need to be shown for clarity within the consultation stages Preliminary Draft Charging Schedule (PDCS), draft charging schedule (DCS) and then the submission version schedule.

3.4.8 The above is based on a headline target assumption of 40% affordable housing and potentially reduced affordable housing proportion / financial contribution on the smallest sites depending on how those are dealt with below the current 15 dwelling threshold (for urban areas). The 40% noted here is purely provisional but put forward owing to current stage viability findings and the fact that this has been the urban areas / larger settlements target in place with EFDC adopted policy which will be better informed at the Stage 2 report stage. This is to be discussed with the Council as the potential trade-offs between affordable housing and CIL are reviewed in the context of developing knowledge of the site supply moving forward.

3.4.9 Purely as an additional "measure" of potentially appropriate CIL charging rates (based on our experience so far), we also consider how any proposed rate equates to the gross development value of a scheme. This is quite separate from the viability testing – it simply provides extra information for thinking about the level and proportionality of the potential charging rates. The following table will give the Council a range of indications on what the trial CIL rates are equivalent to as a proportion of the GDV (completed scheme value). Typically we look to see how our results compare to a rate equivalent to approximately 3% to 5% of GDV; usually not more based on the results of Inspector's decisions, Examinations and charging schedules elsewhere (both as part of DSP's client base and others). The green shaded table entries below show the combinations where this range of percentages is seen, broadly. This is certainly not to say that other combinations should be ruled out as definitely unworkable on this basis. Looked at in this type of way, however, CIL should not have a significantly greater influence on viability than a relatively modest level of movement in house prices or adjustments seen through other costs or value factors. We can also see here that CIL rates equivalent to lower percentages GDV would be within the current stage findings scope and recommendations, being more positive for viability.

Figure 12 – Example CIL trial rates expressed as a proportion of GDV (residential)

Scheme Type	CIL Rate (£/sq. m)	Value Level				
		VL2	VL3	VL4	VL5	VL6
Capital Value (GDV - £/sq. m)		**£3,250**	**£3,750**	**£4,250**	**£4,750**	**£5,250**
Residential	**£25**	0.77%	0.67%	0.59%	0.53%	0.48%
	£50	1.54%	1.33%	1.18%	1.05%	0.95%
	£75	2.31%	2.00%	1.76%	1.58%	1.43%
	£100	3.08%	2.67%	2.35%	2.11%	1.90%
	£125	3.85%	3.33%	2.94%	2.63%	2.38%
	£150	4.62%	4.00%	3.53%	3.16%	2.86%
	£175	5.38%	4.67%	4.12%	3.68%	3.33%
	£200	6.15%	5.33%	4.71%	4.21%	3.81%
	£225	6.92%	6.00%	5.29%	4.74%	4.29%
	£250	7.69%	6.67%	5.88%	5.26%	4.76%
	£275	8.46%	7.33%	6.47%	5.79%	5.24%
	£300	9.23%	8.00%	7.06%	6.32%	5.71%
	£325	10.00%	8.67%	7.65%	6.84%	6.19%
	£350	10.77%	9.33%	8.24%	7.37%	6.67%

3.4.10 Another type of comparison which may be useful in considering potential CIL charging rates and their likely impact is how they compare on an approximate £ per dwelling basis with the previous / existing s.106 levels on a range of developments. It will be possible to provide further information on this as work to further hone the findings continues alongside the Council's Plan development. As a provisional indication for now, however, at say £150/sq. m the CIL payment for a 2-bed property of say 75 sq. m (approx. 807 sq. ft.) would amount to £11,250; for a larger assumed 4-bed property at say 125 sq. m (approx. 1,345 sq. ft.) at this rate the payment would be £18,750.

3.5 Other aspects of CIL – Commercial / non-residential – Stage 1 findings

3.5.1 A similar review process was considered with respect to commercial and non-residential scenarios. Again, this involved a refreshed look first at whether or not there were any particular values patterns or distinct scenarios that might influence the implementation of a next version CIL charging schedule for the Epping Forest district area (non-residential aspects).

3.5.2 As with residential, the starting point aim should be a simple approach to the charging regime as far as development viability, and the relationship of that to the emerging plan relevance, permits.

3.5.3 In essence, after considering the forms of development most relevant and the research on values, we decided that the focus for differentiation should be on varying development use types as informed by the viability findings.

3.5.4 From the research and findings developed to this point, based on realistic current assumptions for the district we must acknowledge the viability difficulties or at best potential / marginal outcomes associated with most forms of non-residential development.

3.5.5 This is not unusual, although as has been noted with other aspects, it will be appropriate to check and review this provisional overview following the passing of time (for monitoring market movements and any developments coming forward) and based on any further information available at the stage 2 assessment.

3.5.6 Whilst developments associated with retail and particularly in larger formats (supermarkets / retail warehousing) are often found to be amongst the most viable in our experience, based on current rents as evidenced by the VOA Rating List for the district, our indications are that these forms appear to have reduced viability prospects compared with those we have found in a number of other areas. This is in part due to the relatively high land values that we would expect to be relevant here, and in part to the relatively low tone of rents that seems appropriate to assume from the currently available information.

3.5.7 This is an area that we will need to review and look again at more closely but at this stage we would anticipate CIL rates below those shown for the upper end residential rates discussed above. As with the residential aspects discussed above, we would need to try and anticipate what types of proposals are likely to be whole plan relevant in any event; and in what localities as particular siting and timing could significantly influence the views on rental assumptions etc.

3.5.8 Provisionally, any town centre, smaller shops / local parades type development, if occurring as new-build, are unlikely to support a significant level CIL charge. Again, at this stage we feel that at best the applicable rate(s) likely to be explored fall within or beneath the provisional residential charging rates parameters outlined at 3.4.1 above.

3.5.9 Looking at equivalent information to that provided at 3.4.9 (Figure 13) we see the following indications on trial CIL rates expressed as percentages GDV in respect of example retail types – purely for wider information (see table below):

Figure 13: Retail trial CIL charging rates as percentage of GDV

Scheme Type	Trial CIL Rate (£/sq. m)	5% Yield			5.5% Yield			6% Yield		
		L	M	H	L	M	H	L	M	H
Capital Value (GDV - £/sq. m)		£3,600	£4,000	£4,400	£3,273	£3,636	£4,000	£3,000	£3,333	£3,667
Supermarket	£25	0.69%	0.63%	0.57%	0.76%	0.69%	0.63%	0.83%	0.75%	0.68%
	£50	1.39%	1.25%	1.14%	1.53%	1.38%	1.25%	1.67%	1.50%	1.36%
	£75	2.08%	1.88%	1.70%	2.29%	2.06%	1.88%	2.50%	2.25%	2.05%
	£100	2.78%	2.50%	2.27%	3.06%	2.75%	2.50%	3.33%	3.00%	2.73%
	£125	3.47%	3.13%	2.84%	3.82%	3.44%	3.13%	4.17%	3.75%	3.41%
	£150	4.17%	3.75%	3.41%	4.58%	4.13%	3.75%	5.00%	4.50%	4.09%
	£175	4.86%	4.38%	3.98%	5.35%	4.81%	4.38%	5.83%	5.25%	4.77%

Scheme Type	Trial CIL Rate (£/sq. m)	5% Yield			5.5% Yield			6% Yield		
		L	M	H	L	M	H	L	M	H
	£200	5.56%	5.00%	4.55%	6.11%	5.50%	5.00%	6.67%	6.00%	5.45%
	£225	6.25%	5.63%	5.11%	6.88%	6.19%	5.63%	7.50%	6.75%	6.14%
	£250	6.94%	6.25%	5.68%	7.64%	6.88%	6.25%	8.33%	7.50%	6.82%
	£275	7.64%	6.88%	6.25%	8.40%	7.56%	6.88%	9.17%	8.25%	7.50%
	£300	8.33%	7.50%	6.82%	9.17%	8.25%	7.50%	10.00%	9.00%	8.18%
	£325	9.03%	8.13%	7.39%	9.93%	8.94%	8.13%	10.83%	9.75%	8.86%
	£350	9.72%	8.75%	7.95%	10.69%	9.63%	8.75%	11.67%	10.50%	9.55%
Capital Value (GDV - £/sq. m)		**£2,800**	**£3,400**	**£4,000**	**£2,545**	**£3,091**	**£3,636**	**£2,333**	**£2,833**	**£3,333**
Retail Warehousing	£25	0.89%	0.74%	0.63%	0.98%	0.92%	0.69%	1.07%	0.88%	0.75%
	£50	1.79%	1.47%	1.25%	1.96%	1.83%	1.38%	2.14%	1.76%	1.50%
	£75	2.68%	2.21%	1.88%	2.95%	2.75%	2.06%	3.21%	2.65%	2.25%
	£100	3.57%	2.94%	2.50%	3.93%	3.67%	2.75%	4.29%	3.53%	3.00%
	£125	4.46%	3.68%	3.13%	4.91%	4.58%	3.44%	5.36%	4.41%	3.75%
	£150	5.36%	4.41%	3.75%	5.89%	5.50%	4.13%	6.43%	5.29%	4.50%
	£175	6.25%	5.15%	4.38%	6.88%	6.42%	4.81%	7.50%	6.18%	5.25%
	£200	7.14%	5.88%	5.00%	7.86%	7.33%	5.50%	8.57%	7.06%	6.00%
	£225	8.04%	6.62%	5.63%	8.84%	8.25%	6.19%	9.64%	7.94%	6.75%
	£250	8.93%	7.35%	6.25%	9.82%	9.17%	6.88%	10.71%	8.82%	7.50%
	£275	9.82%	8.09%	6.88%	10.80%	10.08%	7.56%	11.79%	9.71%	8.25%
	£300	10.71%	8.82%	7.50%	11.79%	11.00%	8.25%	12.86%	10.59%	9.00%
	£325	11.61%	9.56%	8.13%	12.77%	11.92%	8.94%	13.93%	11.47%	9.75%
	£350	12.50%	10.29%	8.75%	13.75%	12.83%	9.63%	15.00%	12.35%	10.50%
Capital Value (GDV - £/sq. m)		**£2,500**	**£3,000**	**£3,500**	**£2,273**	**£2,727**	**£3,182**	**£2,083**	**£2,500**	**£2,917**
Other Retail - Town Centre	£25	1.00%	0.83%	0.71%	1.10%	0.92%	0.79%	1.20%	1.00%	0.86%
	£50	2.00%	1.67%	1.43%	2.20%	1.83%	1.57%	2.40%	2.00%	1.71%
	£75	3.00%	2.50%	2.14%	3.30%	2.75%	2.36%	3.60%	3.00%	2.57%
	£100	4.00%	3.33%	2.86%	4.40%	3.67%	3.14%	4.80%	4.00%	3.43%
	£125	5.00%	4.17%	3.57%	5.50%	4.58%	3.93%	6.00%	5.00%	4.29%
	£150	6.00%	5.00%	4.29%	6.60%	5.50%	4.71%	7.20%	6.00%	5.14%
	£175	7.00%	5.83%	5.00%	7.70%	6.42%	5.50%	8.40%	7.00%	6.00%
	£200	8.00%	6.67%	5.71%	8.80%	7.33%	6.29%	9.60%	8.00%	6.86%
	£225	9.00%	7.50%	6.43%	9.90%	8.25%	7.07%	10.80%	9.00%	7.71%
	£250	10.00%	8.33%	7.14%	11.00%	9.17%	7.86%	12.00%	10.00%	8.57%
	£275	11.00%	9.17%	7.86%	12.10%	10.08%	8.64%	13.20%	11.00%	9.43%
	£300	12.00%	10.00%	8.57%	13.20%	11.00%	9.43%	14.40%	12.00%	10.29%
	£325	13.00%	10.83%	9.29%	14.30%	11.92%	10.21%	15.60%	13.00%	11.14%
	£350	14.00%	11.67%	10.00%	15.40%	12.83%	11.00%	16.80%	14.00%	12.00%

(Source: DSP 2014)

3.5.10 We have found development uses such as hotels and care homes to be non-viable using the key assumptions or potentially moved to marginally viable at best; and so not supportive of clear CIL funding scope based on work to date.

3.5.11 In respect of the current / short term prospects for business development (meaning 'B' class uses) viability the work to date suggests poor outcomes and a challenge in promoting development opportunities in the most accessible, most valuable locations to work with other agencies and the private sector to help facilitate delivery as the market appetite develops for it given the current more mixed emerging and gradually spreading news within the commercial property sector. We have to provide these sorts of messages; as to present a fully healthy picture of all sectors of commercial development viability will not be realistic. At present this more positive news is mainly relevant to prime property and locations.

3.5.12 In evidencing our picture for the Council, as with all aspects of assumptions informing the CIL study, we are not able to benefit the CIL rates through assuming negotiated build costs, any flexible profit views, or other appraisal input movements that might be possible on progressing an actual development. Good practice on testing viability, experience and examination outcomes to date all point to the use of openly sourced data for assumptions, rather than any costs-trimmed delivery type approach.

3.5.13 We are also carrying out some initial high level consideration of other development uses such as glasshouse industry, leisure (e.g. leisure / fitness / gym) or other D class elements such as health / clinics / nurseries etc. Bearing in mind the key development value / cost relationship that we are examining here, we find that it is not necessary to carry out full appraisals of these because a simple comparison of the completed value with the build cost (before consideration of other development costs) points to poor to (at best) marginal development viability. This is one of the key reasons why some forms of development are generally not seen stand-alone, but tend to be provided as part of mixed use schemes that are financially driven by the residential and /or retail development. Much the same applies to elements such as health / clinics.

3.5.14 We are able to vary / expand the scenarios range for commercial / non-residential scenarios as we build and further test this picture to some degree (though we also need to keep an eye on the number of appraisals and interpretation of growing results sets). So far as we can see, it may not be appropriate to give consideration to purpose-built students' housing, for example – but TBC following discussion with the Council.

3.5.15 **So in summary on commercial / non-residential, we are likely to firm up on:**

- **Potentially positive charging scope for some forms of retail development – currently at a relatively modest rate certainly not exceeding the residential parameters headline rates provisionally put forward (range £150-225/sq. m) and more likely within or beneath those (i.e. closer to the provisional lower residential rates scope of say £80-100/sq. m);**

- **All other development uses – currently expected to produce, with more certainty, nil CIL charging scope (£0/sq. m) but as with all other aspects, subject to further consideration.**

3.5.16 The above provisional outcomes and comments are consistent with findings from our wider recent Local Plan and CIL viability work. However, given the more mixed market signs and improvement of occupier demand in some sectors, we will need to re-review this further for Epping Forest DC as we move to subsequent reporting stages. We are seeing that information on yields is beginning to reflect improved prospects for some property types and locations. The results are very sensitive to these assumptions. Whilst the key sensitivities considered at the moment all show poor results, we will need to look at whether subsequent information on yields combined with local rental views give us any improved prospects; think about the degree of assumptions movement necessary to create clear viability and whether that is realistic. This applies to all types and always requires a view based on very latest information.

3.5.17 In each of these cases, the above indications are to be considered further. There is very little readily available evidence for commercial new-builds, which again is not unusual in our recent / current viability study experience. This is all provisional. Once again, it is in no way intended to prescribe anything that affects discussions on either site-specific cases or firm new policy / CIL related positions.

Main text of Stage 1 Assessment report ends – Final version (v2).
June 2015.
Appendices follow.