

**Sevenoaks District Council  
Community Infrastructure Levy**

**Viability – Brief Addendum**

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## **CIL Viability Assessment – Brief Addendum**

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### **1 Introduction – context, purpose and notes**

- 1.1 This document is an Addendum to the Council's Community Infrastructure Levy (CIL) Viability Assessment - June 2012. The Viability Assessment informed the development of the Council's CIL Preliminary Draft Charging Schedule (PDCS), which was published for consultation between 28<sup>th</sup> June and 9<sup>th</sup> August 2012.
- 1.2 The purpose of this brief Addendum is purely to further inform and support the Council's approach to the local implementation of CIL as it takes stock following the first formal consultation stage and moves from the PDCS to develop its Draft Charging Schedule (DCS). The DCS will also be subject to consultation, prior to formal submission to the Examination in Public (EIP) stage.
- 1.3 In undertaking further review and carrying out additional appraisals, principally on a sensitivity basis, Dixon Searle partnership (DSP) has used the same principles, methodology and appraisal tools (Argus Developer and HCA Development Appraisal Toolkit (DAT) as those used in preparing the main body of the viability assessment.
- 1.4 Therefore this brief report should not be read in isolation – the methodological explanations and their context will not be repeated here. Only the points which have been added or adjusted in comparison with those set out in the main Assessment report (June 2012) will be noted here.
- 1.5 The emphasis here is to provide additional appraisals (summary output sheets of which are to be founded Appended to the rear of this report) to further inform the Council's consideration of potential options for its proposed CIL charging approach to retail development. This is because as charging authorities' approaches to CIL develop across the Country, the Council wishes to consider as closely as possible how to apply principles and the viability findings most appropriately to its local context.

- 1.6 In terms of retail development, this context refers to the various types of that, to their planned or expected occurrence in the District (i.e. their local relevance) and to the ways in which they might be best described, including by the use of any floor-area based thresholds aimed to add clarity to the operation of the Charging Schedule once that is adopted in its final form in due course.
- 1.7 The other area considered in this report for the Council's information, and again in our wide experience of CIL matters a commonly occurring theme, is the treatment of sheltered housing developments under the CIL regime. In our experience, as is appropriate, typically these are being treated as the development of self-contained residential dwellings that fall within Use Class C3 ('dwelling houses') rather than aligned to 'residential institutions' under Use Class C2 (for example care or nursing homes – where the provision of on-site care also creates a distinction).
- 1.8 In order to carry out this type of review a large quantity of data is reviewed and a range of assumptions are required alongside that, which rarely fits 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 any CIL funding potential.
- 1.9 As expressed in the Viability Assessment, it should be noted that in practice every scheme is different and no study of this nature can reflect the variances seen in site specific cases. This does not affect the appropriateness of this type of review however. The CIL Regulations and Guidance recognise this.
- 1.10 Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. As previously, we are satisfied that our assumptions are reasonable in terms of further building on the appropriate viability overview provided by the Assessment; and therefore with the nature of the further exercise now completed to support the Council's on-going consideration of these areas.

## **2 Outline of additional appraisals and outcomes**

### **Retail**

**2.1 Retail development potentially covers a myriad of different scenarios. The Council has formed the view that it would be beneficial to add to the overall review scope a layer of high level consideration of town centre retail; how the viability of that looks relative to the other formats reviewed. This is because town centre retail (principally envisaging comparison shopping in Sevenoaks, and potentially in other centres) is considered to be relevant to the Core Strategy. Appropriate economic conditions are amongst the greatest influences on scheme viability, as is being shown in a national context at present. In the event that conditions develop to drive demand and support town centre retail development the Council's CIL charging approach needs to be ready to respond appropriately; the Council will need to be clear on how it will be treated once the scope to use s.106 for pooled local area infrastructure contributions is removed – beyond April 2014.**

**2.2 Representative of town centre retail in Sevenoaks, following discussion and liaison with the Council's planning and estates officers, we prepared additional appraisals that reflected in summary the scenario of:**

- A development of 3,000 sq m (2,100 sq m net), principally assuming a single large store and a land-take of approximately 0.4 ha;**
- Overall (averaged) rental values of £130/sq m (considered realistic) and £195/sq m (sensitivity trial for viability exploration);**
- Yield of 6% (together with a sensitivity trial at 4% carried out on an iterative basis - purely for viability exploration);**
- Other assumptions as set out in the Viability Assessment (BCIS build costs at £922/sq m; external works at 20%; contingency at 5%; BREEAM at 5%; professional and other fees at 12%; development profit at 20% GDV; other fees – legal, marketing/letting/purchasers costs, etc. – as per Assessment (see chapter 2 and Appendix I).**

- 2.3** With the assumptions used, the base scenario (£130/sq m rent and 6% yield – see the first appraisal summary appended to the rear of this report) produced a deficit of (equivalent to a negative RLV) of approximately £716,000. Viewed in per hectare (/ha) terms, this equates to a negative RLV of approximately (minus) £1.79m/ha. This is clearly a poor outcome that falls a long way short of indicating a viable or even marginally viable scheme. We do not consider it realistic to make more optimistic assumptions for viability at the current point. The rental assumption made here was considered with the Council's officer responsible for property assets, Council disposals and the like. Rents in other centres in the District would tend to be at lower levels than those in Sevenoaks and as such could be expected to produce poorer viability outcomes; a further pointer towards careful consideration of the scope for town centre comparison retail to bear CIL charging costs and within that a potential nil charging rate. A prime town centre Sevenoaks town pitch would command a 'zone A' rent significantly higher than this rental assumption as applicable to a larger unit, but could also come with higher development costs.
- 2.4** In order to put this viability indication in context and consider the extent to which the trial appraisal assumptions might need to improve to provide scope for a viable scheme, we also adjusted the rental assumption. With a revised trial level of £195/sq m assumed (but all other assumptions constant), the appraisal outcome moved from the significant deficit outlined at 2.3 above - to a positive RLV of approaching £2.2m/ha. This indicates the degree to which rental level improvement from the base assumption level is needed in order to begin to support scheme viability.
- 2.5** The other assumptions sensitivity trial carried out was to explore how far the yield % assumption needed to be adjusted (made more positive for the rental capitalisation – i.e. lowered) – see 2.2 above. With the rent left at our assumed base level of £130/sq m overall, we found that we needed to bring the yield down to 4% in order to get to a land value of approximately £2.2m/ha; a broadly equivalent outcome to that created by using the £195/sq m overall rent and 6% yield combination. We did not consider there to be scope to adjust other assumptions significantly in favour of viability without eroding the appropriateness of the overview and removing buffering scope that is built in to the approach by way of the collection of assumptions used. With variable site specifics, appraisal inputs outside the scope of ours could well be seen. It is worth noting

- that a yield increased from the based assumption here (say to 6.5% to 7.5%) would produce a deterioration from the already negative base outcome.
- 2.6** The further review and associated outcomes outlined at 2.1 to 2.5 above are in all cases based on £0/sq m (nil) CIL; the usual starting point for CIL viability testing which, by our usual methods, is then introduced via further layers of appraisals that trial CIL rates gradually stepping-up. It can be seen that in the case of these appraisals, those further trials were not necessary; they would not be meaningful.
- 2.7** Overall, at the present time, and for the foreseeable future likely to be relevant to the life of the first Charging Schedule, we do not consider that realistic Viability Assessment assumptions point to the clear, reliable viability of town centre retail in the District.
- 2.8** The Council will need to review the implications of this, but if town centre retail is considered relevant to overall plan (Core Strategy) delivery, then at the current time amongst the options this would point to it considering a nil (£0/sq m) CIL charging rate for this. In considering this, however, it is also worth noting that it is not the CIL payments that are making those scenarios unviable – the indicated non-viability is inherent in the strength of the relationship between the assumed development values and costs as the primary factor.
- 2.9** Aside from the selected route on town centre retail, this increased information layer need not affect the Council's view on the treatment of other forms of retail development as per the information, scope and potential options set out in the Viability Assessment. For example, it does not affect the information set out on the different forms of retail development that have to date and would generally be expected to take place in locations around the fringes of or away from the town centres – larger convenience stores (supermarkets / superstores) and retail warehousing.
- 2.10** However, while preparing additional appraisals the Council also asked DSP to further consider the aspect of a potential floor-space based threshold that may be used with the aim of adding clarity, as at 1.6 above.
- 2.11** For this area of the further viability review, DSP has included further sensitivity trials. These used assumptions all as per the main Assessment appraisal work (again see

Chapter 2 and Appendix I of the Assessment), but with the only exception being to make a wider series of alterations to the floor area assumptions for each of the formats explored (representing larger and smaller retail, more usually developed away from town centres).

2.12 Building on and further exploring the picture outlined at 3.5.5 to 3.5.7 of the Assessment, the table below summaries the floor area variations that were considered.

**Small convenience store – exploring the effect of floor area variation**

Gross floor area (sq m)	Net floor area (sales) (sq m)	Site size - rounded (60% site coverage maintained) (Ha)	Land value (RLV) indication (£)	Land value (RLV) indication / Ha
300	270	0.05	£38,302	£766,040
400	360	0.07	£50,754	£761,310
500	450	0.08	£64,161	£769,932

**Retail warehousing - exploring the effect of floor area variation**

Gross floor area (sq m)	Net floor area (sales) (sq m)	Site size - rounded (31% site coverage maintained) (Ha)	Land value (RLV) indication (£)	Land value (RLV) indication / Ha
500	450	0.16	£393,541	£2,439,954
600	540	0.19	£472,438	£2,440,930
700	630	0.23	£545,234	£2,414,608
800	720	0.26	£623,392	£2,415,644
900	810	0.29	£701,550	£2,416,450
1000	900	0.32	£779,708	£2,417,095

2.13 In accordance with the Assessment and earlier background trials, the floor area variance does not itself create different outcomes, as can be seen with the constant land value levels noted in the tables above. Explanatory text is included in the Viability Assessment. To reiterate, however, in DSP's experience the use type and the nature of the retail offer (together with the location and site type associated with those) creates the

differentiation, so that each type may will fall within a bracket of sizes but is not likely to be driven by specific floor area criteria or limits except for the implications of the Sunday Trading provisions, which do tend to influence and provide a clear distinguishing feature for the smaller convenience store development. An additional supermarket scenario (on top of the original assessment set) was prepared at 500 sq m net. As above, varying floor area was not seen to influence outcomes significantly except if taken down to a level where in practice it would then change to a smaller convenience store format providing a very different retail offer.

- 2.14 The Council will be able to consider how to most appropriately apply these reinforced findings to its local circumstances. There is scope, and appropriate evidence, in viability terms to support a threshold of between approximately 270 and 500 sq m (net / sales) floor-space for assisting with clarity, if required, in making any distinction between the larger and smaller convenience retail formats as explored; if there are to be differential CIL charging rates for these carried through to the Council's subsequent progression of its Charging Schedule. Our view is that the primary descriptors for any differential will remain the nature of the uses and retail offers; and the most appropriate definitions for those (words used to describe them). Threshold(s) would be a secondary measure for adding clarity of operation, in our view.
- 2.15 As can be seen from the second table section at 2.12 above, exactly the same principles apply for retail warehousing. In that scenario, we added to the information with appraisals at 450 to 900 sq m net floor area and again the changing floor area was not in itself a driver of altered viability outcomes; RLVs remained constant based on all other assumptions remaining unchanged, as we consider is appropriate at this level of review given that the nature of the use and offer would not alter sufficiently significantly to drive other key assumptions changes within that floor-area bracket. Once again, there are no strict limits to this. The sizes within each range for further exploration were simply selected at 100 sq m overall unit size (gross area) steps – it would be possible to carry out hundreds of appraisals aimed at exploring other unit notional sizes around this. We would not expect such an exercise to change the overview.
- 2.16 Given the range of factors involved, setting CIL charges which seek to find the appropriate balance in the local circumstances will involve the Council considering



whether it would be appropriate to set a charge for smaller convenience stores. We understand that the most likely local relevance of those as new-builds is considered to be within the town centres. Therefore, whilst there could be a limited occurrence of developments of this type in other locations, our view is that the appropriate local balance is perhaps best reached through a charging rate aligned to that for town centre retail. This form of development is not expected on a significant scale in the District, but it would appear inequitable to set differing rates based on the use type (retail offer) operated from a unit which could equally be occupied for comparison retailing and at a very similar rental level etc. In practice, it would be unusual to see the individual uses prescribed or controlled to an extent that created fixed differences in any event. Overall, a relatively simple approach fitting the CIL principles is suggested in preference to a potentially complex one that includes more levels of differentiation. As well as the potential effect on schemes and the factors around the equity of its approach, the Council could also factor-in other aspects to its on-going consideration of this, such as the operational / administrative involvement relative to the potential level of CIL receipts. A number of aspects will be involved in weighing up the right balance.

- 2.17 Further rental values information is included within the Appendix to this report (relating to retail warehousing and sourced from the VOA as per the Viability Assessment Appendix III information).

### **Sheltered Housing**

- 2.18 In DSP's experience of dealing with a range of site-specific viability scenarios, while there are differences between them and general market apartment developments these tend to balance-out to a large degree and we find that overall the viability outcomes are broadly similar; they are capable of supporting similar levels of land value after allowance of all relevant development costs.
- 2.19 This experience was borne out by a series of trials and adjustments made to other (general market flatted development) appraisals as part of our wider viability review, but has now been added to with a tailored appraisal assumptions set; developed for this addendum using the HCA DAT (as is often used in site-specific discussions).

**2.20** Again, some assumptions were not altered (relative to those typical of a general flatted development), but the following key adjustments were incorporated into this:

- **Representative 48 unit scheme;**
- **Indicative density 126 dph;**
- **Mix of 1 bed (21 no) and 2 bed (8 no) retirement apartments for private sale (29 no total); assumed mix of 1 bed (15 no) and 2 bed (5 no) for affordable tenure (19 total; i.e. 40% policy content);**
- **Affordable assumed on-site for this exercise purpose and comparisons involved, although our experience in practice is that this is generally not achieved and often not workable so that a financial contribution in-lieu is normally negotiated instead, subject to the rationale and planning objectives being agreed and evidenced. Nevertheless, this reinforces the parallel with general market housing rather than this form of development necessarily being considered differently for these purposes;**
- **Affordable housing revenue based on a blended tenure approach assumed at 50% MV;**
- **25% floor area adjustment (net to gross ratio) – significantly higher than any adjustment made in most housing developments;**
- **Base build costs, before external works, contingencies, fees, etc, at £1,106/sq m (all applied to an extended floor area as per the allowance noted above);**
- **Extended sales period – running to approximately 24 months after construction completed;**
- **Increased marketing costs – 6% (compared with 3% basis in other housing appraisals);**
- **Empty property costs ('voids') allowance at £4,000/unit;**
- **Additional build costs allowance at £3,500/ unit (e.g. renewable energy, Code related enhancements);**
- **Developer's profit (20% GDV) and other aspects maintained;**
- **Noting that these are assumptions and, as with any other area of study assumptions, are not intended to create any form of blueprint or prescription that affects site-specific delivery**

- 2.21 Based values assumptions aligned to similar units that have recently been marketed at Edenbridge in the District, market values averaged at approximately £3,600/sq m have been assumed, after allowance from recent marketing price indications. This level of value falls between Value Levels (VLs) 6 and 7 as used in the Assessment.
- 2.22 With £75/sq m CIL included, as would be applicable in that locality based on our viability work and the Council's current CIL proposals, the HCA DAT appraisal produces a positive RLV equating to approximately £2.09m/Ha. This is very similar to the RLV (£/Ha) of approximately £1.97m produced by the relevant VL6 scenario of 80 flats; as shown with Assessment Appendix IIa, Table 1.
- 2.23 Overall, this outcome, which fits with our wider experience, supports the overview finding of broadly similar viability outcomes from this form of development when compared with those from "general market" flatted development. Positive viability factors like the premium levels of values and often reduced scope of external works frequently seen for such schemes, compared with others, do tend to be balanced out by the increased costs that can be seen on review in certain respects.
- 2.24 Our findings confirm that for CIL purposes there should be no differentiation for this form of development; it cannot be sufficiently distinguished from other housing forms in viability terms, especially bearing in mind that a range of viability scenarios will be seen across the housing development spectrum in any event.

### **3 Summary – additional recommendations**

- 3.1 For town centre retail, primarily relevant to comparison shopping in the Sevenoaks District context, reflective of the viability indications, the Council should consider within its option for CIL charging a nil rate (£0/sq m charge). This would mean this being treated the same as all other uses which do not have a positive charging rate specified. In our view it would be appropriate not to further differentiate from that for smaller convenience store development which is likely to be most relevant set in a similar context; that should also be considered for alignment to a £0/sq m rate.
- 3.2 Within the balanced consideration of the CIL rates proposed for residential development, there should be no differentiation for sheltered housing (based on the

**development of self-contained dwellings and falling within Use Class C3, as normally attract affordable housing provision / contribution requirements).**

**Viability Addendum text ends – Appraisal summaries follow in Appendix**

**December 2012**