Viability Report

South Lakeland Development Management Policies DPD and CIL Viability Assessment

South Lakeland District Council

September 2017

Quality Assurance

Date	30th September 2017
Version	V7
Filename and path	S:_Client Projects\1702 LPlan and CIL Viability Assessment_South Lakeland DC_Reports\1708 SLDC Viability Report\180108 SLDC DM DPD and CIL Viability Report_v7_inc Exec Sum.docx
Checked by	
Authorised by	

Limitation

This report has been prepared on behalf of and for the exclusive use of Aspinall Verdi Limited's Client and it is subject to and issued in connection with the provisions of the agreement between Aspinall Verdi Limited and its Client. Aspinall Verdi Limited accepts no liability or responsibility whatsoever for or in respect of any use of or reliance upon this report by any third party.

Contents

Aspinall Verdi

Tables & Figures

Appendices

Executive Summary

ES 1 AspinallVerdi has been appointed by South Lakeland District Council (SLDC) to provide economic viability advice in respect of the cumulative impact on development of the existing and emerging Local Plan policies. The study will play an important part in supporting the Council both complete the remaining parts of its current Local Plan and Development Management Policies, and provide a sound evidence base to underpin the commencement of work on the Council's new Single Local Plan.

ES 2 Our specific instructions are:

- to prepare a District wide viability appraisal to support the Development Management Policies DPD through examination;
- to update the recent Arnside and Silverdale AONB DPD Viability Study and support the DPD through examination (this is contained in a separate report);
- to provide viability evidence to underpin the commencement of the Single Local Plan; and
- to make recommendations as to whether the current CIL rates remain appropriate (and the cumulative impact thereof).

ES 3 Note that the study area is the South Lakeland Planning Authority Area, which *excludes* areas incorporated into the Lake District and Yorkshire Dales National Parks. Throughout the rest of this report, where reference is made to 'South Lakeland' or 'the District', this refers to our study area only, unless otherwise stated.

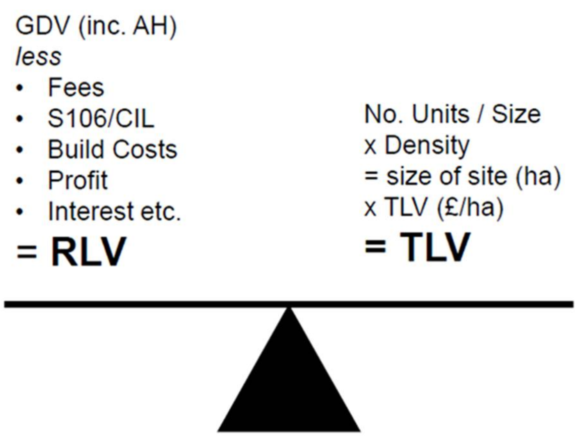
ES 4 Alongside this study, the draft Arnside and Silverdale AONB DPD Viability Study has been reviewed and updated. This is contained within a separate report for the AONB, which reviews the implications of the draft Development Management Policies DPD and the draft Arnside and Silverdale AONB DPD policies for viability in the AONB. This also includes planning policies relevant to the AONB within Lancaster City Council's draft consultation Strategic Policies and Land Allocations DPD.

ES 5 Our economic viability appraisal has been carried out having regard to the various statutory requirements comprising primary legislation, Statutory Regulations and guidance – including the Housing White Paper (February 2017) and the CIL Review (October 2016) (see section 2).

ES 6 We have carried out a comprehensive review of the market for new build residential sales values and land values (see Appendices 3 and 4 respectively). We have also carried out a review of the commercial property market for retail and business (B1, B2 and B8) property to inform the CIL recommendations (see Appendix 7).

ES 7 Our general approach is illustrated on the diagram below (ES.1). This is explained in more detail in section 4 – Viability Assessment Method.

Figure ES.1 – Balance between RLV and TLV



Source: AspinallVerdi © Copyright

ES 8 We have carried out residual appraisals to establish the Residual Land Value (RLV). This is a traditional model having regard to: the gross development value (GDV) of the scheme; including Affordable Housing; and deducting all costs; including CIL; to arrive at the RLV. A scheme is viable if the RLV is positive for a given level of profit. We describe this situation herein as being 'fundamentally' viable.

ES 9 We have had regard to the cumulative impact of the Local Plan policies. The impact of each of the policies (either direct or indirect) is set out on the policies matrix (at Appendix 1).

ES 10 This is then compared to the Threshold Land Value (TLV). The TLV is the price at which a landowner will be willing to sell their land for development and is derived from benchmark Market Values and Existing Use Values (EUV), the size of the hypothetical scheme and the development density assumption.

ES 11 The RLV less TLV results in an appraisal 'balance' which should be interpreted as follows:

- If the 'balance' is positive, then the proposal / policy is viable. We describe this as being 'viable for plan making purposes' herein.

- If the 'balance' is negative, then the proposal / policy is 'not viable for plan making purposes' and the CIL and/or Affordable Housing policy should be reviewed.

ES 12 In addition to the RLV appraisals and TLV analysis, we have also prepared a series of sensitivity scenarios for each of the typologies. This is to assist in the analysis of viability and to appreciate the sensitivity of the appraisals to key variables such as: Affordable Housing %; TLV and profit; and, to consider the impact of rising construction costs. This is to de-emphasise the TLV in each typology and help consider viability 'in-the-round' i.e. in the context of sales values, development costs, contingency, developer's profit which make up the appraisals inputs.

ES 13 We have analysed the Council's allocations for housing in order to group them into typologies by size and location. This has resulted in 30 residential development typologies (excluding the AONB) to reflect the type of sites coming forward in the emerging Local Plan and specifically the preferred housing allocations in the Pre-Publication Consultation Draft Plan. These typologies are reflected in our typologies matrix which is appended (Appendix 2).

ES 14 **It is important to note that the TLV's contained herein are for 'high-level' plan viability purposes and the appraisals should be read in the context of the TLV sensitivity table (contained within the appraisals). It is important to emphasise that the adoption of a particular TLV £ in the base-case appraisal typologies in no way implies that this figure can be used by applicants to negotiate site specific planning applications. Where sites have obvious abnormal costs (e.g. retaining walls for sloping sites) these costs should be deducted from the value of the land. The land value for site specific viability appraisals should be thoroughly evidenced having regard to the existing use value of the site. I.e. this report is for plan-making purposes and is 'without prejudice' to future site specific planning applications**.

ES 15 Our detailed assumptions and results are set out in sections 5 - 8 of this report together with our detailed appraisals which are appended. In summary we make the following recommendations:

Residential Uses

ES 16 Based on the residential viability results, we recommend that:

i The affordable housing policy of 35% is viable across the District having regard to the cumulative impact of the Plan policies including the current CIL Charge (£55.86 psm).

ii Rural Exceptions Sites (RES) are maintained as just that, exceptions. Any policy to enable affordable housing on RES schemes by the introduction of market housing has the potential to raise land values and landowners apply 'hope value' for future open market residential development. This outcome would not facilitate the delivery of affordable housing in rural areas.

ES 17 Consequently, based on the assumptions, appraisals and sensitivity analyses' contained herein, the proposed Development Management Policies do not undermine the viability of residential development on the whole within the District. We acknowledge that there will always be schemes at the margins (depending on site specific characteristics), but the Core Strategy (policy CS 6.3) states that, exceptionally a lower requirement for affordable housing will be acceptable where there is clear, independently verified evidence that it would make the development unviable.

Supported Living

ES 18 In addition to the above we make the following recommendations in respect of supported living typologies:

iii The maximum equivalent commuted sum for Age Restricted / Sheltered Housing is £388 psm and it may be more appropriate to move away from the margins of viability and incorporate a lower commuted sum within the policy e.g. (say) £370 psm – which would give a 'buffer' of c. 5%. This is based on 34.5% (say 35%) affordable housing on-site.

iv The equivalent maximum commuted sum for the Assisted Living / Extra Care Homes is £249 psm. Again this is right on the margins of viability and it may be more appropriate to move away from the margins of viability and incorporate a lower commuted sum within the policy e.g. (say) £235 psm – which would give a 'buffer' of c. 5%. This is based on 20% affordable housing on-site.

Retail Uses

ES 19 We have appraised various retail typologies (A Use Class) as described above in section 7. We have found varying levels of viability depending on the assumptions and hypothetical locations of the schemes (e.g. greenfield or brownfield). Based on our sampling we confirm that the *current* CIL rate remains viable:

v Supermarkets and retail warehouses - £167.58 psm CIL

Commercial Uses

ES 20 Our appraisals show that commercial office and industrial development is not viable based on the assumptions of speculative development herein. We therefore recommend:

vi All commercial (office and industrial) uses - £0 CIL

Aspinall Verdi

ES 21 In addition, we recommend that, in accordance with best practice, the plan wide viability is reviewed on a regular basis to ensure that the plan remains relevant as the property market cycle(s) change.

ES 22 Furthermore, to facilitate the process of review, we recommend that the Council monitors the development appraisal parameters herein, but particularly data on land values across the District.

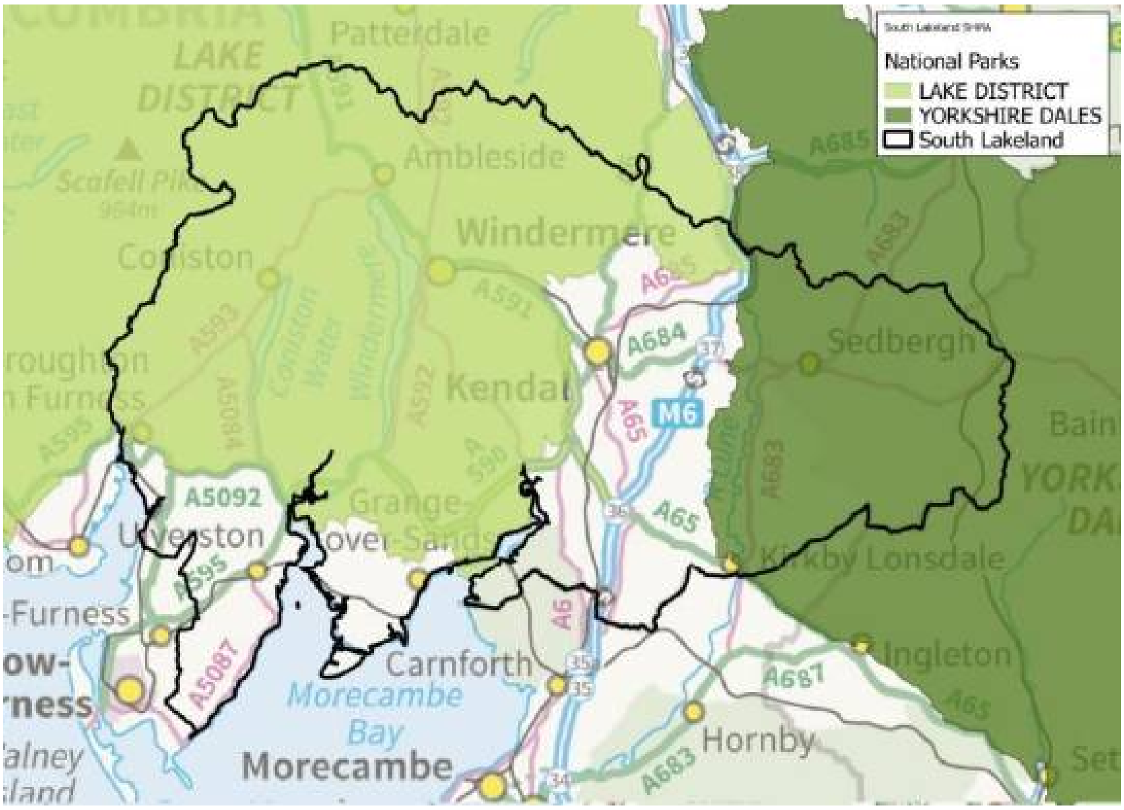
1 Introduction

1.2 AspinallVerdi has been appointed by South Lakeland District Council (SLDC) to provide economic viability advice in respect of the cumulative impact on development of the existing and emerging Local Plan policies. The study will play an important part in supporting the Council both complete the remaining parts of its current Local Plan and Development Management Policies, and provide a sound evidence base to underpin the commencement of work on the Council's new Single Local Plan.

1.3 Note that the study area is the South Lakeland *Planning Authority Area*, which excludes areas incorporated into the Lake District and Yorkshire Dales National Parks. The figure below shows a map of South Lakeland overall. Our study area is balance of the District which is not in the National Parks (i.e. not shaded in green).

1.4 Throughout the rest of this report, where reference is made to 'South Lakeland' or 'the District', this refers to our study area only, unless otherwise stated.

Figure 1.1 - Map of Study Area



Source: GL Hearn, SHMA – Housing Market Geographies, Interim Findings, 2017

1.5 The Council's existing Local Plan (formerly Local Development Framework or LDF) comprises of a number of separate Development Plan Documents (DPDs) which are as follows:

Development Plan Document	Status
Local Plan Part 1: Core Strategy DPD Sets an annual housing target of 400 dwellings per annum and an employment land requirement of 60ha.	Adopted October 2010
Local Plan Part 2: Land Allocations DPD Allocates enough land to meet the housing and employment land targets.	Adopted December 2013
Local Plan Part 3: Development Management Policies DPD	Currently nearing Publication Stage. Due to be submitted for examination in Autumn 2017
Local Plan Part 4: Arnside and Silverdale Area of Outstanding Natural Beauty (AONB) DPD	Currently nearing Publication Stage. Due to be submitted for examination in Autumn 2017

Source: SLDC (2017)

1.6 Our specific instructions are:

- to prepare a District wide viability appraisal to support the Development Management Policies DPD through examination;
- to update the recent Arnside and Silverdale AONB DPD Viability Study and support the DPD through examination (this is contained in a separate report);
- to provide viability evidence to underpin the commencement of the Single Local Plan; and
- to make recommendations as to whether the current CIL rates remain appropriate (and the cumulative impact thereof).

1.7 The work towards the new Single Local Plan has already commenced, with the commission of a Strategic Housing Market Assessment (SHMA) to assess objectively-assessed housing need and affordable housing need. The new Local Plan is set to be adopted in 2021.

1.8 An up to date and robust assessment of viability across the District will underpin the early work on the new Local Plan and will inform strategy, policy development and site assessment work.

1.9 The Council adopted a Community Infrastructure Levy (CIL) in June 2015, and this study reviews the current charging rates taking into consideration new viability evidence.

1.10 Alongside this study, the draft Arnside and Silverdale AONB DPD Viability Study has been reviewed and updated. This is contained within a separate report for the AONB, which reviews the implications of the draft Development Management Policies DPD and the draft Arnside and Silverdale AONB DPD policies for viability in the AONB. This also includes planning policies relevant to the AONB within Lancaster City Council's draft consultation Strategic Policies and Land Allocations DPD.

1.11 The remainder of this report is structured as follows:

Section:	Contents:
Section 2 – National Planning Policy Context	This section sets out the statutory requirements for the Local Plan and CIL viability including the NPPF, CIL Regulations and PPG website.
Section 3 – Local Planning Context	This section sets out the details of the current adopted Local Plan, the existing evidence base, and the emerging Local Plan policies which will have a direct impact on viability.
Section 4 – Viability Assessment Method	This section describes our generic methodology for appraising the viability of development which is based on the residual approach as required by guidance and best practice.
Sections 5 – 8	These sections summarise the evidence base, property market context, development monitoring and viability for each sector of the property market including residential, older persons housing, retail and commercial uses.
Section 9 – Conclusions and Recommendations	Finally, we make our recommendations in respect of the Plan viability, Affordable Housing and CIL.

2 National Planning Policy Context

2.1 Our economic viability appraisal has been carried out having regard to the various statutory requirements comprising primary legislation, planning policy, statutory regulations and guidance.

National Planning Policy Framework

2.2 The National Planning Policy Framework (NPPF) sets out the Government's planning policies for England and how these are expected to be applied[1]. It was first published on 27 March 2012 and is now online (see below).

Paragraph 173

2.3 The NPPF places viability and deliverability at the fore. Paragraph 173 deals explicitly with ensuring viability and deliverability. Paragraph 173 states that –

> *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**.*[2] (our emphasis).

Affordable Housing

2.4 In terms of affordable housing, the NPPF specifically requires that local planning authorities should –

> *use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area, as far as is consistent with the policies set out in this Framework, including identifying key sites which are critical to the delivery of the housing strategy over the plan period;*[3]

[1] http://planningguidance.communities.gov.uk/blog/policy/introduction/ (accessed 11/1/16)
[2] Department of Communities and Local Government (March 2012) The National Planning Policy Framework ISBN: 978-1-4098-3413-7 paragraph 173
[3] Department of Communities and Local Government (March 2012) The National Planning Policy Framework ISBN: 978-1-4098-3413-7 paragraph 47

Planning Obligations

2.5 Finally, the NPPF sets the context for planning obligations (S106 Agreements) following the introduction of CIL. The NPPF sets out the following –

Planning obligations should only be sought where they meet all of the following tests[4] *-*

- *necessary to make the development acceptable in planning terms;*
- *directly related to the development; and*
- *fairly and reasonably related in scale and kind to the development.*

2.6 It is important to note that the CIL Regulations limit the use of planning obligations to a maximum of five S106 agreements in order to limit the use of pooled S106's to fund infrastructure and (therefore) encourage the uptake of CIL[5].

Planning Policy Guidance

2.7 On 6 March 2014 the Department for Communities and Local Government (DCLG) launched this planning practice guidance web-based resource[6]. This enables all planning practice guidance to be available entirely on-line. This contains particularly important sections for this report, which we summarise in the following sections –

- Viability
- Starter Homes (noting the Housing White Paper)
- Local Plans
- Planning Obligations
- Community Infrastructure Levy (CIL) (again noting the recent CIL Review (LIT/SIT)).

2.8 In addition, the PPG sets out national guidance on the 10-unit threshold for affordable housing.

2.9 We do not propose to rehearse every paragraph of this guidance here, but we set out below the key guidance relevant to South Lakeland District Council making reference where appropriate to the Housing White Paper and the recent CIL review.

---

[4] Department of Communities and Local Government (March 2012) The National Planning Policy Framework ISBN: 978-1-4098-3413-7 paragraph 204
[5] The Community Infrastructure Levy Regulations 2010 in force from 6 April 2010 under section 222(2)(b) of the Planning Act 2008, Regulation 123
[6] http://planningguidance.communities.gov.uk/about/ (accessed 11/1/16)

Viability

2.10 The NPPF says that plans should be deliverable and that the sites and 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]

2.11 Development of plan policies should be iterative – with draft policies tested against evidence of the likely ability of the market to deliver the plan's policies, and revised as part of a dynamic process.[8] This is what South Lakeland District Council has done by engaging with key stakeholders and consultees during this process.

2.12 Evidence should be ***proportionate*** to ensure plans are underpinned by a broad understanding of viability. Greater detail may be necessary in areas of known marginal viability or where the evidence suggests that viability might be an issue – for example in relation to policies for strategic sites which require high infrastructure investment.[9] (our emphasis)

2.13 Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable; ***site typologies may be used to determine viability at policy level.*** Assessment of samples of sites may be helpful to support evidence and more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies.[10] (our emphasis) – In this respect we have set out our rationale for the site typologies for each use within the relevant section below.

2.14 Plan makers should ***not plan to the margin of viability but should allow for a buffer*** to respond to changing markets and to avoid the need for frequent plan updating. ***Current costs and values*** should be considered when assessing the viability of plan policy. Policies should be deliverable and should not be based on an expectation of future rises in values at least for the first five years of the plan period. This will help to ensure realism and avoid complicating the assessment with uncertain judgements about the future. Where any relevant future change to regulation or policy (either national or local) is known, any likely impact on current costs should be considered.[11] (our emphasis) Our sensitivity appraisals within this report clear show where the margins of viability fall.

2.15 Local Plan policies should reflect ***the desirability of re-using brownfield land***, and the fact that brownfield land is often more expensive to develop. Where the cost of land is a major barrier, landowners should be engaged in considering options to secure the successful development of sites. Particular consideration should also be given to Local Plan policies on

[7] Paragraph: 001 Reference ID: 10-001-20140306 (accessed 12/1/16)
[8] Paragraph: 005 Reference ID: 10-005-20140306 (accessed 12/1/16)
[9] Paragraph: 005 Reference ID: 10-005-20140306 (accessed 12/1/16)
[10] Paragraph: 006 Reference ID: 10-006-20140306 (accessed 12/1/16)
[11] Paragraph: 008 Reference ID: 10-008-20140306 (accessed 12/1/16)

planning obligations, design, density and infrastructure investment, as well as in setting the Community Infrastructure Levy, ***to promote the viability of brownfield sites*** across the local area. [12] (our emphasis)

2.16 ***Central to the consideration of viability is the assessment of land or site value.*** The most appropriate way to assess land or site value will vary but there are common principles which should be reflected. In all cases, estimated land or site value should:

- ***reflect emerging policy requirements and planning obligations*** and, where applicable, any Community Infrastructure Levy charge;
- ***provide a competitive return to willing developers and land owners*** (including equity resulting from those building their own homes); and
- ***be informed by comparable, market-based evidence*** wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.[13] (our emphasis)

2.17 The NPPF states that viability should consider "competitive returns to a willing landowner and willing developer to enable the development to be deliverable." This ***return will vary significantly between projects to reflect the size and risk*** profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.[14] (our emphasis)

2.18 A ***competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land*** for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.[15] (our emphasis)

[12] Paragraph: 025 Reference ID: 10-025-20140306 (accessed 12/1/16)
[13] Paragraph: 014 Reference ID: 10-014-20140306 (accessed 12/1/16)
[14] Paragraph: 015 Reference ID: 10-015-20140306 (accessed 12/1/16)
[15] Paragraph: 015 Reference ID: 10-015-20140306 (accessed 12/1/16)

Starter Homes

2.19 The PPG contains a complete section on Starter Homes (dated 10 03 2015). At the time of writing this guidance is still 'live' however, the Housing White Paper amends the definition of affordable housing to include Starter Homes within other forms of Low Cost Home Ownership. We have therefore sought to reflect the Housing White Paper proposals to ensure our report as up to date as possible (see Housing White Paper below).

2.20 The *current* Starter Homes policy is an exception sites policy. Paragraph: 001 Reference ID: 55-001-20150318 states –

> *'Starter Homes exception sites policy helps to meet the housing needs of young first time buyers, many of whom increasingly cannot afford to buy their own home, by allowing Starter Homes to be offered to them at below their open market value. The exception site policy enables applications for development for Starter Homes on under-used or unviable industrial and commercial land that has not been currently identified for housing. It also encourages local planning authorities not to seek section 106 affordable housing and tariff-style contributions that would otherwise apply. Local planning authorities should work in a positive and proactive way with landowners and developers to secure a supply of land suitable for Starter Homes exception sites to deliver housing for young first time buyers in their area.'*

2.21 The PPG goes on to describe the implementation of the Starter Homes exceptions sites policy by defining what land is suitable for Starter Homes (Paragraph: 007 Reference ID: 55-007-20150318) and what are underused or unviable industrial commercial sites (Paragraph: 008 Reference ID: 55-008-20150318).

2.22 The PPG also confirms that. '*Local planning authorities can use their discretion to include a small proportion of market homes on Starter Homes exception sites where it is necessary for the financial viability of the site. The market homes on the site will attract section 106 or Community Infrastructure Levy contributions in the usual way*'. (Paragraph: 012 Reference ID: 55-012-20150318).

2.23 The Planning and Housing Act (2016) provides some further information:

(1) In this Chapter "starter home" means a building or part of a building that—

> *(a) is a new dwelling,*
>
> *(b) is available for purchase by qualifying first-time buyers only,*
>
> *(c) is to be sold at a discount of at least **20% of the market value**,*
>
> *(d) is to be sold for less than the price cap, and*

(e) is subject to any restrictions on sale or letting specified in regulations made by the Secretary of State.

(2) "New dwelling" means a building or part of a building that—

(a) has been constructed for use as a single dwelling and has not previously been occupied, or

(b) has been adapted for use as a single dwelling and has not been occupied since its adaptation.

(3) "Qualifying first-time buyer" means an individual who—

(a) is a first-time buyer,

(b) is at least 23 years old but has not yet reached the age of 40, and

(c) meets any other criteria specified in regulations made by the Secretary of State (for example, relating to nationality).

2.24 The initial 'cap' is to be **£250,000** outside London.

2.25 Notwithstanding this, DCLG issued technical consultation on the Starter Homes Regulations in March 2016. This was to widen the scope of Starter Homes to all sites and not just exceptions sites. Furthermore, the consultation was based on the introduction of a flat rate of 20% Starter Homes on all sites of 11 or more units (i.e. in effect a third tenure form of affordable housing).

2.26 This theme has been followed through in the HM Government's White Paper, 'Fixing our broken housing market' dated February 2017.

Housing White Paper

2.27 The White Paper clearly states that, '*the Government will not introduce a statutory requirement for starter homes at the present time. This is because of concerns expressed in response to our consultation last year that this would not respond to local needs. Instead we want local authorities to deliver starter homes as part of a mixed package of affordable housing of all tenures that can respond to local needs and local markets*.'[16]

2.28 Government's express intention is to publish a revised definition of affordable housing[17] – to broaden the definition of affordable housing, to include a range of low cost housing opportunities for those aspiring to own a home, including starter homes. In doing so this

[16] Paragraph A.124 DCLG, 'Fixing our broken housing market,' February 2017.
[17] Paragraph A.121 DCLG, 'Fixing our broken housing market,' February 2017.

approach would seek to retain all types of housing that are currently considered affordable housing[18]. This is to build on existing practice.[19]

2.29 The proposed definition of affordable housing includes[20]:

- Affordable housing
- Social rented housing
- Affordable rented housing
- Starter homes
- Discounted market sale housing
- Affordable private rented housing
- Intermediate housing.

2.30 Accordingly, Starter homes will form part of the tenue types under 'home ownership' affordable housing products (as opposed to rented affordable housing tenure).

2.31 Furthermore, the White Paper also states that, *'following any proposed change to the definition of affordable housing, local planning authorities will have to consider the broadened definition of affordable housing in their evidence base for plan-making. However, to promote delivery of affordable homes to buy, we propose to make it clear in national planning policy that local authorities should seek to ensure that a* ***minimum of 10% of all homes on individual sites are affordable home ownership products****. We consider that this strikes an appropriate balance between providing affordable homes for rent and helping people into home ownership'*[21].

2.32 The PPG has not been updated following the technical consultation. However, for the purposes of our economic viability appraisal, we have assumed that starter homes are included within the general affordable 'Low Cost Home Ownership' tenure alongside existing intermediate and sub-market typologies. We have set the affordable housing tenure mix to ensure that the home ownership tenures equate to 10% (see typologies matrix Appendix 2).

[18] Paragraph A.119 DCLG, 'Fixing our broken housing market,' February 2017.
[19] Paragraph A.115 DCLG, 'Fixing our broken housing market,' February 2017.
[20] Box 4, page 100, DCLG, 'Fixing our broken housing market,' February 2017.
[21] Paragraph A.126 DCLG, 'Fixing our broken housing market,' February 2017.

Local Plans

2.33 The Local Plans section of the PPG website sets out the key issues for Local Plan preparation, examination and adoption.

2.34 In addressing how detailed a Local Plan should be the guidance makes it clear that -

2.35 While the content of Local Plans will vary depending on the nature of the area and issues to be addressed, all Local Plans should be as focused, concise and accessible as possible. They should concentrate on the critical issues facing the area – including its development needs – and the strategy and opportunities for addressing them, ***paying careful attention to both deliverability and viability****.*[22]

2.36 The guidance sets out how the local planning authority should show that a Local Plan is capable of being delivered including provision for infrastructure. In this respect -

A Local Plan is an opportunity for the local planning authority to set out a positive vision for the area, but the plan should also be realistic about what can be achieved and when (including in relation to infrastructure). This means paying careful attention to providing an adequate supply of land, identifying what infrastructure is required and how it can be funded and brought on stream at the appropriate time; and ***ensuring that the requirements of the plan as a whole will not prejudice the viability of development****.*[23]

2.37 Paragraph 017 requires that the evidence which accompanies an emerging Local Plan should show how the policies in the plan have been tested for their impact on the viability of development – hence this viability assessment.

Planning Obligations

2.38 Paragraph 204 of the NPPF sets out the following tests for planning obligations which must be: *necessary to make the development acceptable in planning terms; directly related to the development; and fairly and reasonably related in scale and kind to the development*.

2.39 The PPG website provides further detailed guidance on the implementation of planning obligations.

2.40 The guidance sets out how planning obligations relate to other contributions -

> *Developers may be asked to provide contributions for infrastructure in several ways. This may be by way of the Community Infrastructure Levy and planning obligations in the form of section 106 agreements and section 278 highway agreements. Developers will also have to comply with any conditions attached to their planning permission.*

[22] Paragraph: 009 Reference ID: 12-009-20140306 (accessed 22/2/17)
[23] Paragraph: 017 Reference ID: 12-017-20140306 (accessed 22/2/17)

> *Local authorities should ensure that **the combined total impact of such requests does not threaten the viability** of the sites and scale of development identified in the development plan.*[24]

2.41 In terms of plan making, the policy for seeking planning obligations should be grounded in an understanding of development viability through the plan making process[25] - hence this economic viability assessment having regard to the cumulative impact of South Lakeland's policies on planning obligations and other requirements.

Community Infrastructure Levy

2.42 In South Lakeland CIL has already been adopted and there is a current Charging Schedule in Place. This study is to review the CIL in the context of the Development Management DPD, emerging single Local Plan and AONB draft DPD.

2.43 The guidance on the Planning Practice Guidance website replaces all previous standalone guidance.

2.44 Charging authorities should set a [CIL] rate which does not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan. They will need to draw on the infrastructure planning evidence that underpins the development strategy for their area. Charging authorities should use that evidence to strike ***an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development*** across their area.[26] (our emphasis)

2.45 In this respect, CIL **Regulation 14** requires that -

> a charging authority must strike what appears to the charging authority to be an appropriate balance between —
>
> > (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and
> >
> > (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.[27]

2.46 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

[24] Paragraph: 001 Reference ID: 23b-001-20161116 (accessed 22/02/17)
[25] Paragraph: 006 Reference ID: 23b-006-20140306 (accessed 22/02/17)
[26] Paragraph: 008 Reference ID: 25-008-20140612 (accessed 12/1/16)
[27] The Community Infrastructure Levy Regulations 2010, 6 April 2010 under section 222(2)(b) of the Planning Act 2008 Regulation 14

investment to support development and the potential effect on the viability of developments.[28] (our emphasis)

2.47 A charging authority should be able to explain how their proposed levy rate or rates will contribute towards the implementation of the relevant Plan…, and support development across their area. Charging authorities will need to summarise their economic viability evidence [i.e. this report(s)]. As background evidence, the charging authority should also provide information about the amount of ***funding collected in recent years through section 106 agreements***. This should include information on ***the extent to which their affordable housing and other targets have been met.*** [29] (our emphasis)

2.48 A charging authority must use ***'appropriate available evidence'*** (as defined in the Planning Act 2008 section 211(7A)) to inform their draft charging schedule. The Government recognises that the available data is ***unlikely to be fully comprehensive.*** Charging authorities need to demonstrate that their proposed levy rate or rates are ***informed by 'appropriate available' evidence and consistent with that evidence across their area*** as a whole. [30] (our emphasis)

2.49 In addition, a charging authority should directly sample an appropriate range of types of sites across its area, in order to supplement existing data. This will require support from local developers. The exercise should ***focus on strategic sites*** on which the relevant Plan … relies, and those sites where the impact of the levy on economic viability is likely to be most significant (such as ***brownfield sites***). [31] (our emphasis)

2.50 Charging authorities that decide to set ***differential rates*** may need to undertake more fine-grained sampling, on a higher proportion of total sites, to help them to estimate the boundaries for their differential rates. Fine-grained sampling is also likely to be necessary where they wish to differentiate between categories or scales of intended use. [32] (our emphasis)

2.51 The focus should be in particular on ***strategic sites*** on which the relevant Plan relies and those sites (such as ***brownfield sites***) where the impact of the levy is likely to be most significant. [33] (our emphasis)

2.52 A charging authority's proposed rate or rates should be reasonable, given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence. For example, this might not be appropriate if the evidence pointed to setting a charge right at the margins of viability. There is room for some pragmatism. It would be ***appropriate to ensure***

[28] Paragraph: 009 Reference ID: 25-009-20140612 (accessed 12/1/16)
[29] Paragraph: 018 Reference ID: 25-018-20140612 (accessed 12/1/16)
[30] Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)
[31] Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)
[32] Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)
[33] Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)

that a 'buffer' or margin is included, so that the levy rate is able to support development when economic circumstances adjust. [34] (our emphasis)

2.53 The regulations allow charging authorities to apply ***differential rates*** in a flexible way, to help ensure the viability of development is not put at risk. Differential rates should not be used as a means to deliver policy objectives. Differential rates may be appropriate in relation to -

- geographical zones within the charging authority's boundary
- ***types*** of development; and/or
- scales of development. [35] (our emphasis)

2.54 It is important to note that the CIL Regulations refer to **'use'** here rather than **'type'** of development. Regulation 13 states that –

A charging authority may set differential rates—

(a) for different zones in which development would be situated;
*(b) by reference to different intended **uses** of development.*
(c) by reference to the intended gross internal area of development;
(d) by reference to the intended number of dwellings or units to be constructed or provided under a planning permission. [36]

2.55 This is important, because development on brownfield land could be considered a 'type' of development, but it is not a 'use'. Paragraph: 022 Reference ID: 25-022-20140612 refers to 'How can rates be set by type of use?' This states that 'the definition of "use" for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987. Therefore, it is not entirely clear whether differential rates can or cannot be set by reference to brownfield (previously developed land) typologies, however, in our experience most Charging Authorities are interpreting 'type' to mean 'use' as in the Regulations.

2.56 A charging authority that plans to set differential rates should seek to ***avoid undue complexity.*** Charging schedules with differential rates should not have a disproportionate impact on particular sectors or specialist forms of development. Charging authorities should consider the views of developers at an early stage. [37] (our emphasis)

2.57 If the evidence shows that the area includes a zone, which could be a strategic site, which has low, very low or zero viability, the charging authority should consider setting a low or zero levy

[34] Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)
[35] Paragraph: 021 Reference ID: 25-021-20140612 (accessed 12/1/16)
[36] The Community Infrastructure Levy Regulations 2010 and (Amendment) Regulations 2014
[37] Paragraph: 021 Reference ID: 25-021-20140612 (accessed 12/1/16)

rate in that area. The same principle should apply where the evidence shows similarly low viability for particular types and/or scales of development. [38]

CIL Review – Local Infrastructure Tariff / Strategic Infrastructure Tariff

2.58 As mentioned in the introduction, the CIL Review Group submitted its report to the Communities Secretary and the Minister of Housing and Planning in October 2016 and this report was published alongside the Housing White Paper in February 2017. The review has been generally well received by the development industry.

2.59 The purpose of the review was to -

> *"Assess the extent to which CIL does or can provide an effective mechanism for funding infrastructure, and to recommend changes that would improve its operation in support of the Government's wider housing and growth objectives."*[39]

2.60 The report found that there are 130 authorities charging CIL (not including the Mayor of London and the London Legacy Development Corporation) and a further 88 working towards adopting a CIL. Once completed, this would give a coverage of just under 60% of charging authorities. However, the report notes that some of the 88 authorities have abandoned the idea of charging CIL as several local authorities consulted on preliminary draft charging schedules in 2012/13 and have taken no action since. Also that implementation is much patchier in the north, midlands and Wales[40].

2.61 The original impact assessments for the creation of CIL suggested that it might raise £4,700 million to £6,800 million over a ten-year period with the top end increasing to £1 billion in later assessments. If this were to be split evenly over a ten-year period, this would result in an average of £470 million to £680 million per annum. However, the CIL Review team estimate that CIL raised was approximately £170 million by the end of March 2015. In this context neither the developer nor the community has the certainty that the required 'school/surgery/road' will be delivered on time which in turn affects the developer's ability to sell completed houses. This effect is exacerbated by the way in which CIL has effectively transferred financial and construction risk from developers to local authorities which often lack the capacity to deliver. The Review team noted that this can result in a 'catch 22' situation where charging authorities have not accumulated sufficient CIL revenues to fund key elements of enabling infrastructure that will unlock house building; so the house building does not take place and the related CIL payments needed to deliver infrastructure are not made[41].

[38] Paragraph: 021 Reference ID: 25-021-20140612 (accessed 12/1/16)
[39] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 para 1.1.1
[40] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 para 3.2.1
[41] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 section 3.3-3.4

2.62 The Review also found the following weaknesses of CIL:

- Neighbourhood Share[42] - doubts as to whether the community or neighbourhood share is having any impact on a community's likelihood of accepting or even welcoming development. Charging Authorities were generally concerned that allocating a substantial portion of their CIL receipts to neighbourhoods reduced their ability to fund some of the larger infrastructure, such as roads and schools.

- Complexity[43] - the CIL regulations are 155 pages long and consist of 129 separate regulations. They have been amended each year since they were first introduced in 2010 to deal with policy changes and technical issues.

- Implementation and Rate Setting Process[44] - the EIP process was dominated by a small number of development typologies, generally large residential developments on greenfield strategic sites and noted that a small number of advisors were having the same arguments (e.g. about Threshold Land Value) on behalf of developers and councils at most EIPs with little public benefit.

- Exemptions and Reliefs[45] - applying for exemptions can require a considerable amount of paperwork for both the applicant and the local authority. For the local authority this is particularly burdensome as they receive no CIL revenue in compensation.

2.63 The CIL Review team recommended[46] -

- that the Government should replace the Community Infrastructure Levy with a hybrid system of a broad and low level **Local Infrastructure Tariff (LIT)** and Section 106 for larger developments

- that Combined Authorities should be enabled to set up an additional Mayoral type **Strategic Infrastructure Tariff (SIT)**

2.64 The CIL Review proposes a twin track system of a new low level tariff (LIT), combined with Section 106 for larger sites. The low level infrastructure tariff is meant to provide a means of ensuring that all development makes some contribution to the wider cumulative infrastructure need in an area that comes from development pressures generally. It is not for site specific impact mitigation.

2.65 The LIT should be applied to all development, almost without exception.

[42] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 section 3.7
[43] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 section 3.8
[44] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 paragraphs 3.8.5 - 3.8.10
[45] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 paragraph 3.8.11
[46] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 paragraph 4.3.6 – 4.3.8

2.66 Larger developments which require direct mitigation to make them acceptable in planning terms or very specific major infrastructure on or close by the development including infrastructure delivered up-front, would be subject to an additional Section 106, strictly in accordance with the Regulation 122 tests.

2.67 Also, given the changing nature of the local government geography and the emergence of Combined Authorities, the CIL Review team consider there is a good case for making the necessary legislative and regulatory provision to enable CAs to collect a 'Mayoral' type CIL as a contribution to major pieces of infrastructure. This would not be obligatory and indeed would only be relevant where there was a requirement for such large infrastructure (e.g. Crossrail in London).

2.68 The intention is that LIT would be set by a standard calculation based on 1.75 - 2.5% of the sale price for a "standardised 100 square metre three bedroom family home, and divide that by 100 to reach a square metre rate, which would then be applied to all residential development."[47] This would make LIT rate setting much simpler and the argument goes that, because it applies to nearly all development without exception has the potential to raise equally, if not more, funding for infrastructure as CIL.

2.69 Note, that should the Council introduce LIT/SIT in the future, it should do so having regard to the cumulative impact of the Local Plan policies at that time.

2.70 For the purposes of the current review we have used the current CIL Charging Schedule rates as the 'base case' and provided sensitivity scenarios in the financial modelling (e.g. against Affordable Housing).

[47] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 paragraph 5.1.2

10 Unit Threshold

2.71 In November 2014, the PPG was updated to introduce the “10-unit threshold” for ‘affordable housing and tariff style planning obligations’. This was the subject of a legal challenge and following an order of the Court of Appeal dated 13 May 2016, legal effect was given to the policy set out in the Written Ministerial Statement (WMS) of 28 November 2014.

2.72 The Guidance states that[48], ‘affordable housing and tariff style planning obligations (section 106 planning obligations)’ should not be sought from small scale and self-build development.’ Specifically,

- contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1,000 sqm
- 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 may 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.
- 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.

2.73 The whole of South Lakeland District (excluding Kendal, Ulverston and Grange) is a designated rural area. This would reduce the 10-unit threshold to 5 units (with a commuted sum for units 6-10).

2.74 Following challenges nationally to the WMS, the Planning Inspectorate (PINS) has confirmed that it does not automatically outweigh local policies in a letter to the London Borough of Richmond upon Thames[49].

2.75 SLDC has a long-standing policy position for the delivery of affordable housing on small sites and, will continue to require 35% (50% in the AONB) on-site affordable housing on small sites as follows:

- On nine or more dwellings in the Principal / Key Service Centres
- On three or more dwellings outside of these areas

2.76 The details of this policy and its implications for viability are discussed in the Planning Policies Matrix (see Appendix 1).

[48] Paragraph: 031 Reference ID: 23b-031-20160519 (accessed 31/8/16)
[49] The Planning Magazine, PINS clarifies approach to small sites statement, March 2017

3 Local Planning Context

3.1 South Lakeland District Council (SLDC) is the Local Planning Authority for South Lakeland outside the Lake District and Yorkshire Dales National Parks. The Council's current Local Plan (formerly Local Development Framework or LDF) comprises of:

- Saved policies from the South Lakeland Local Plan (amended 2006)
- The South Lakeland Local Plan – Core Strategy (adopted 2010)
- The Local Plan – Land Allocations (adopted 2013)

3.2 The old South Lakeland Local Plan (amended 2006) is gradually being superseded following the adoption of a CIL Charging Schedule in 2015 and the preparation of a Development Management Policies document and a dedicated Arnside and Silverdale AONB DPD.

3.3 Therefore, in addition to reviewing the existing policy documents above, we have reviewed the emerging documents listed below:

- South Lakeland Local Plan Draft Development Management Policies (October 2016), Main Changes Pre-Publication consultation document (June 2017) and the emerging Publication stage DPD.
- Arnside and Silverdale AONB Development Plan Document, Draft Plan Consultation Document (November 2016), Pre-Publication consultation document (June 2017) and emerging Publication DPD.

3.4 As noted within the introduction, we have produced a standalone report for the AONB. This also includes the Lancaster City Council planning policies for their part of the AONB.

3.5 In order to appraise the local plan viability, we have analysed each of the above policies in order to determine which policies have a direct or indirect impact on development viability. Those policies with a direct impact on viability have been factored into our economic assessment below. Those policies with an indirect impact have been incorporated into the viability study indirectly through the property market cost and value assumptions adopted.

3.6 It is important to note that all the policies have an indirect impact on viability. The Council's Local Plan sets the 'framework' for the property market to operate within. All the policies have an indirect impact on viability through the operation of the property market and via site allocations which shape supply over time.

3.7 A detailed matrix of all the planning policies is appended (Appendix 1), and this outlines how the directly influential policies have both shaped our typologies appraised and the assumptions adopted within the appraisals. We highlight the directly influential policies below.

Saved Local Plan Policies (amended 2006)

3.8 The majority of Local Plan policies have been superseded by the Core Strategy or Land Allocations DPD. There are a number of policies still adopted, but these are all being superseded by the emerging Draft Development Management Policies. We have therefore not reviewed the Saved Local Plan policies.

Local Plan - Core Strategy (adopted 2010)

3.9 The Core Strategy sets out the development strategy for South Lakeland outside of the National Park areas up to 2025.

3.10 The policies considered to have a direct influence on viability are:

- CS2 – Kendal strategy
- CS3.1 – Ulverston and Furness area
- CS4 – Cartmel Peninsula
- CS5 – The East (including Milnthorpe and Kirkby Lonsdale)
- CS6.3 – Provision of affordable housing
- CS6.4 – Rural exception policy
- CS 6.6 - Making effective and efficient use of land and buildings
- CS7.3 – Education and skills
- CS8.2 – Protection and enhancement of landscape and settlement character
- CS8.3b – Quantity of open space, sport and recreation
- CS8.4 - Biodiversity and geodiversity
- CS8.6 – Historic environment
- CS8.7 - Sustainable construction, energy efficiency and renewable energy
- CS8.10 - Design
- CS9.2 – Developer Contributions
- CS10.2 - Transport impact of new development

3.11 Specific details of how these policies have been factored into our viability assessment are included within the policies matrix (Appendix 1).

Local Plan - Land Allocations (adopted 2013)

3.12 The objective of this plan is to deliver the vision and objectives set out in the Council's adopted Core Strategy, helping to make South Lakeland the best place to live, work and explore by identifying and setting the key development requirements for:

- Housing, employment and other development
- Design and infrastructure for major sites
- Land to be safeguarded for recreation and other purposes
- Green Gaps to prevent settlements losing their identity
- Development boundaries for towns and large villages
- Town Centre and Primary Shopping Areas, the preferred locations for town centre and shopping uses.

3.13 The document is largely compromised of policies in relation to site-specific allocations. These generally do not have a direct impact on viability and will only indirectly influence the property market through the price mechanism. We have used current values (and costs) within our appraisals which are supported by market evidence. Furthermore, the typologies appraised reflect these allocations and therefore cover any nuances or requirements.

Existing Community Infrastructure Levy Charging Schedule

3.14 South Lakeland District Council approved its CIL Charging Schedule on 20 May 2015 which came into effect on 1 June 2015. Table 3.1 outlines the levy rate at which development will be liable for CIL in South Lakeland, outside of the Lake District and Yorkshire Dales National Parks. This is based on an early CIL Viability Study. The table below provides the CIL rates which were originally adopted in 2015 and the current rates which are indexed up in accordance with current regulations:

Table 3.1 - Adopted CIL Charging Schedule

Development Type	Adopted Levy Rate 2015 (psm)	CIL 2017 Levy Rate (psm)
Kendal and Ulverston Canal Head Regeneration Area – all development	£0	£0
Residential	£50	£55.86
Croftlands Strategic Housing Site, south Ulverston	£20	£23.34
Agricultural Workers Dwellings	£0	£0
Super Markets and Retail Warehouses	£150	£167.58
Hotels	£0	£0
Sheltered/Retirement Housing	£50	£55.86
Extra Care Housing	£0	£0
All Other Uses	£0	£0

Source: https://www.southlakeland.gov.uk/planning-and-building/planning/community-infrastructure-levy-cil/

3.15 At the time of the original CIL viability study, there was a discussion about setting a lower CIL rate for the Furness Peninsula given the lower values in this part of the District. It was suggested that if differential rates were to be set geographically, that higher value areas such as the Lune Valley and closer to Kendal, is where the higher rate could be applied. The Council decided it would set a single rate.

3.16 At the Preliminary Draft Charging Schedule stage, the residential rate was proposed to be £60 psm rate for residential uses. This was suggested to be well within the limits of viability other than for development in South Ulverston, but it was lowered to £50 psm following consultation. For the Croftlands Strategic Housing Site in South Ulverston a rate of £20 psm was adopted following the CIL Viability Study Update (2014).

Local Plan Draft Development Management Policies

3.17 This document helps assess whether or not applications should be granted planning permission.

3.18 The plan is anticipated to be formally adopted by the Council by Spring 2018.

3.19 The emerging policies considered to have a direct influence on viability are:

- DM2 – Achieving high quality design
- DM3 – Historic environment
- DM4 – Green infrastructure, open space, trees and landscaping
- DM6 – Surface water disposal, foul water disposal and treatment, watercourses, flood defences and consideration of wider land drainage interests
- DM7 – Addressing pollution and contamination impact
- DM8 – High speed broadband for new developments
- DM11 – Accessible and adaptable homes
- DM14 – Rural exception sites

3.20 Specific details of how these policies have been factored into our viability assessment are included within the policies matrix (Appendix 1).

Adjacent Authority Policies

3.21 The property market for development is a continuum across boundaries within the Cumbria, North Yorkshire and Lancashire regions. It is therefore relevant to consider the Affordable Housing targets and CIL requirements in surrounding authorities/districts. That said, every local jurisdiction has unique economic circumstances and geography which could result in different EVA evidence. We set out below the headline Affordable Housing targets from surrounding authorities for ease of comparison.

Table 3.2 - Neighbouring Authorities Affordable Housing Policies

Local Authority	Affordable Housing Targets (%)	Source
Allerdale	20% subject to viability in Workington 25% in the rest of the Council's jurisdiction	Allerdale Local Plan (Part 1) Adopted July 2014
Barrow District Council	10% affordable on sites of 10 units or over	Barrow Pre-Submission Draft Local Plan 2017
Copeland	15-25% sought subject to viability and local market variation	Copeland Local Plan 2013-2028
Craven District Council	40% affordable 75% affordable rent and 25% intermediate housing	Emerging Local Plan
Eden District Council	30% affordable housing on sites of 4 units or more Below 4 units, the Council will seek a financial contribution towards new affordable housing, paid upon the completion of the units.	Eden local Plan, Proposed Submission Version 2014-2032
Lake District National Park	On allocated sites – 100% affordable Windfall sites – first 3 units local occupancy and the remainder 100% affordable	Lake District National Park, Housing Provision Supplementary Planning Document, 2014
Lancaster	Up to 40% affordable housing (greenfield urban 15+ units; greenfield rural 10+ unis) Up to 30% affordable housing (brownfield urban 15+ units; brownfield rural 10+ unis) Up to 20% affordable housing (urban sites of 5-14 units; rural sites of 5-9 units) Commuted sums on sites of up to 4 units	Lancaster District Local Plan – September 2008, Housing SPD 2013 and Development Management DPD 2014

Local Authority	Affordable Housing Targets (%)	Source
Richmondshire	Central Richmondshire 40% Lower Wensleydale 40% North Richmondshire 30%	Richmondshire Local Plan 2012 – 2028 Core Strategy
Yorkshire Dales National Park (YDNP)	50% affordable homes on sites of 11 or more dwellings or 33% affordable and 33% local occupancy Commuted sums on sites of 6 to 10 dwellings	YDNP Local Plan.

Source: AspinallVerdi

3.22 We note that just one of the authorities above has a CIL charging schedule adopted – Richmondshire. Details of this are presented in Table 3.3 below.

Table 3.3 - Richmondshire CIL Charging Schedule

Location	CIL Rate (£psm)
Catterick Garrison Zone	£0 psm
Moderate Rate Zone	£50 psm
Higher Rate Zone	£120 psm

Source: Community Infrastructure Levy Viability Study – Final Report – PBA – January 2016

4 Viability Assessment Method

4.1 In this section of the report we set out our methodology to establish the viability of the various land uses and development typologies described in the following sections. We also set out the professional guidance that we have had regard to in undertaking the economic viability appraisals and some important principles of land economics.

The Harman Report

4.2 The Harman report 'Viability Testing Local Plans'[50] (June 2012) refers to the concept of 'Threshold Land Value' (TLV). We adopt this terminology throughout this report as it is an accurate description of the important value concept. Harman states that the *'Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development.'*[51]

4.3 The Harman report also advocates that when considering the appropriate Threshold Land Value, consideration should be given to *'the fact that **future plan policy requirements will have an impact on land values and owners' expectations'***. In this context Harman is concerned that *'using a market value approach as the starting point carries the risk of building-in assumptions of **current** policy costs rather than helping to inform the potential for **future** policy'*[52]. (our emphasis)

4.4 Harman does still acknowledge that reference to market values will provide a useful 'sense check' on the Threshold Land Values that are being used in the appraisal model; however, *'it is not recommend that these are used as the basis for input into a model'.*[53]

4.5 Harman recommends that '*the Threshold Land Value is based on a premium over current use values and 'credible' alternative use values'.* However, the report accepts that *'alternative use values are most likely to be relevant in cases where the Local Plan is reliant on sites coming forward in areas (such as town and city centres) where there is competition for land among a range of alternative uses.'*[54]

4.6 The Harman report does not state what the premium over existing use value should be, but states that this should be 'determined locally' – but then goes on to state that *'there is evidence*

[50] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report)
[51] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 28
[52] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 29
[53] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 29
[54] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 29

that it represents a sufficient premium to persuade landowners to sell'[55]. This takes us back to a Market Value approach (see RICS guidance below).

4.7 The guidance further recognises that in certain circumstances, particularly in areas where landowners have '*long investment horizons'* (e.g. family trusts, The Crown, Oxbridge Colleges, Financial Institutions), '*the premium will be higher than in those areas where key landowners are more minded to sell'*[56]. An example of this is in relation to large urban extensions where a prospective seller is potentially making a once in a lifetime decision over whether to sell an asset. In this scenario the uplift on current use value will invariably be significantly higher than those in an urban context. In reconciling such issues, Harman stresses the **importance of using local market evidence** as a means of providing a sense check.

4.8 The Harman report clearly favours an approach to benchmarking which is based on current / existing use value plus a premium. However, this is not how the market works in practice as property is transacted by reference to the Market Value which for development land is derived from the Residual Land Value (RLV). Also, to determine the existing use value you need to know the use which is to be redeveloped. This is relevant for site-specific S106 negotiations but is more problematic for hypothetical typologies for a District-wide strategic context. At numerous points throughout the document, Harman advocates, that the outcome of this approach will need to be 'sense checked' against **local market evidence** (pages 29, 30, 31, 34, 36, 40).

4.9 Indeed the report does acknowledge that, *'if resulting Threshold Land Values do not take account [of local market knowledge], it should be recognised that there is an increasing risk that land will not be released and the assumptions upon which a plan is based may not be found sound.'*[57]

[55] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 29
[56] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 30
[57] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 30

RICS Guidance

4.10 The RICS guidance on Financial Viability in Planning[58] was published after the Harman report in August 2012 (the Harman Report was published in June 2012) and it is much more 'market facing' in its approach.

4.11 The RICS guidance is grounded in the statutory and regulatory planning regime that currently operates in England and is consistent with the Localism Act, the NPPF and CIL Regulations.

4.12 Whilst the RICS Guidance and that from the Local Housing Delivery Group can be seen as complementary the RICS guidance provides more technical guidance on determining an appropriate site / benchmark value.

4.13 The RICS Guidance defines financial viability for the purposes of town planning decisions as -

> *An objective financial viability test of the ability of development to meet its costs **including the cost of planning obligations**, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer[59].*

4.14 In assessing the impact of planning obligations on the viability of the development process, the Guidance does not specify a prescriptive tool or financial model - albeit it does recognise that it is accepted practice to use a residual valuation model as the appraisal framework.[60]

4.15 However, it does emphasise the '***importance of using market evidence** as the best indicator of the behaviour of willing buyers and willing sellers in the market'*[61]. The Guidance warns that -

> *where planning obligation liabilities reduce the Site Value to the landowner and return to the developer below an appropriate level, land will not be released and/or development will not take place. This is recognised in the NPPF.*[62]

4.16 The RICS Guidance defines 'site value', whether this is an input into a scheme specific appraisal or as a [threshold land value] benchmark, as follows -

> *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*

[58] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012
[59] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 paragraph 2.1.1
[60] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 page 16
[61] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 paragraph 3.1.4
[62] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 paragraph 2.1.4

considerations and disregards that which is contrary to the development plan[63] *(Box 7)* (our emphasis)

4.17 The guidance also advocates that any assessment of site value will need to consider prospective planning obligations and recommends that a second assumption be applied to the aforementioned definition of site value, when undertaking Local Plan or CIL (area wide) viability testing. This is set out below -

> *Site value (as defined above) may need to be further* ***adjusted to reflect the emerging policy / CIL charging level.*** *The level of the adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted*… (Box 8) (our emphasis)

4.18 As mentioned above emerging practice has tended to use the existing use value plus premium approach to land value. This is useful to help 'triangulate' the market value for a particular site, but the emphasis does have to be on property market evidence if the scheme is to be grounded in reality and therefore deliverable.

Guidance on Land Value Adjustments

4.19 A number of Planning Inspectorate reports have comments upon the critical issue of land value, as set out below.

Mayor of London CIL (Jan 2012)

4.20 The impact on land value of future planning policy requirements e.g. CIL [or revised Affordable Housing targets] was contemplated in the Examiner's report to the Mayor of London CIL (January 2012)[64].

4.21 Paragraph 32 of the Examiner's report states:

> *…the price paid for development land may be reduced. As with profit levels there may be cries that this is unrealistic, but* ***a reduction in development land value is an inherent part of the CIL concept****. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts*

[63] This includes all Local Plan policies relevant to the site and development proposed

[64] Holland, K (27 January 2012) Report on the Examination of the Draft Mayoral Community Infrastructure Levy Charging Schedule, The Planning Inspectorate, PINS/K5030/429/3

and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges. (our emphasis)

Greater Norwich CIL (Dec 2012)

4.22 The Greater Norwich Development Partnership's CIL Examiner's report adds to this -

*Bearing in mind that the cost of **CIL needs to largely come out of the land value**, it is necessary to establish a threshold land value i.e. the value at which a typical willing landowner is likely to release land for development. Based on market experience in the Norwich area the Councils' viability work assumed that **a landowner would expect to receive at least 75% of the benchmark value**. Obviously what individual land owners will accept for their land is very variable and often depends on their financial circumstances. However in the absence of any contrary evidence **it is reasonable to see a 25% reduction in benchmark values as the maximum** that should be used in calculating a threshold land value[65].* (our emphasis)

Sandwell CIL (Dec 2014)

4.23 Furthermore, the Examiner's report for the Sandwell CIL states -

*The TLV is calculated in the VAs [Viability Assessments] as being **75% of market land values** for each typology. According to the CA, this way of calculating TLVs is based on the conclusions of Examiners in the Mayor of London CIL Report January 2012 and the Greater Norwich Development Partnership CIL Report December 2012. **This methodology was uncontested.**[66]*

HCA Transparent Viability Assumptions (August 2010)

4.24 Finally, in terms of the EUV + premium approach, the HCA (in August 2010) published a consultation paper on transparent assumptions for Area Wide Viability Modelling[67].

4.25 This notes that, '*typically, this gap or premium will be expressed as a percentage over EUV for previously developed land and as a multiple of agricultural value for greenfield land'*[68].

4.26 It also notes that benchmarks and evidence from planning appeals tend to be in a range of '***10% to 30% above EUV in urban areas**. For greenfield land, benchmarks tend to be in a range of **10 to 20 times agricultural value**'*[69].

[65] Report to the Greater Norwich Development Partnership – for Broadland District Council, Norwich City Council and South Norfolk Council, by Keith Holland BA (Hons) Dip TP, MRTPI ARICS, 4 December 2012, File Ref: PINS/G2625/429/6 – paragraph 9

[66] Report to Sandwell Metropolitan Borough Council by Diana Fitzsimons MA MSc FRICS MRTPI an Examiner appointed by the Council, 16 December 2014, File Ref: PINS/G4620/429/9 - paragraph 16

[67] The HCA Area Wide Viability Model, Annex 1 Transparent Viability Assumptions, August 2010, Consultation Version

[68] The HCA Area Wide Viability Model, Annex 1 Transparent Viability Assumptions, August 2010, Consultation Version para 3.3

Brownfield / Greenfield Land Economics

4.27 CIL has its roots in the perceived windfall profit arising from the release of greenfield land by the planning system to accommodate new residential sites and urban extensions[70]. However, lessons from previous attempts to tax betterment[71] show that this is particularly difficult to achieve effectively without stymieing development. It is even harder to apply the concept to brownfield redevelopment schemes with all attendant costs and risks. The difference between greenfield and brownfield scheme economics is important to understand for affordable housing targets, plan viability and CIL rate setting.

4.28 The timing of redevelopment and regeneration of brownfield land particularly is determined by the relationship between the value of the site in its current [low value] use ("Existing Use Value") and the value of the site in its redeveloped [higher value] use ("Alternative Use Value") – less the costs of redevelopment. Any planning gain which impacts on these costs will have an effect on the timing of redevelopment. This is relevant to consider when setting the 'appropriate balance'.

4.29 Fundamentally, CIL is a form of 'tax' on development as a contribution to infrastructure. By definition, any differential rate of tax/CIL will have a distorting effect on the pattern of land uses. The question as to how this will distort the market will depend upon how the CIL is applied.

4.30 Also, consideration must be given to the 'incidence' of the tax i.e. who ultimately is responsible for paying it i.e. the developer out of profit, or the landowner out of price (or a bit from each).

4.31 This is particularly relevant in the context of brownfield sites in the town centres and built up areas. Any CIL on brownfield redevelopment sites will impact on the timing and rate of redevelopment. This will have a direct effect on economic development, jobs and growth.

4.32 In the brownfield context redevelopment takes place at a point in time when buildings are economically obsolete (as opposed to physically obsolete). Over time the existing use value of buildings falls as the operating costs increase, depreciation kicks in and the rent falls by comparison with modern equivalent buildings. In contrast the value of the next best alternative use of the site increases over time due to development pressure in the urban context (assuming there is general economic growth in the economy). Physical obsolescence occurs when the decreasing existing use value crosses the rising alternative use value.

4.33 However, this is not the trigger for redevelopment. Redevelopment requires costs to be incurred on site demolition, clearance, remediation, and new build construction costs. These

[69] The HCA Area Wide Viability Model, Annex 1 Transparent Viability Assumptions, August 2010, Consultation Version para 3.5
[70] See Barker Review (2004) and Housing Green Paper (2007)
[71] the 2007 Planning Gain Supplement, 1947 'Development Charge', 1967 'Betterment Levy' and the 1973 'Development Gains Tax' have all ended in repeal

costs have to be deducted from the alternative use value 'curve'. The effect is to extend the time period to achieve the point where redevelopment is viable.

4.34 This is absolutely fundamental for the viability and redevelopment of brownfield sites. Any tariff, tax or obligation which increases the costs of redevelopment will depress the net alternative use value and simply extend the timescale to when the alternative use value exceeds the existing use value to precipitate redevelopment.

4.35 Contrast this with the situation for development on greenfield land. Greenfield sites are constrained by the planning designation. Once a site is 'released' for development there is significant step up in development value – which makes the development economics much more accommodating than brownfield redevelopment. There is much more scope to capture development gain, without postponing the timing of development.

4.36 That said, there are some other important considerations to take into account when assessing the viability of greenfield sites. This is discussed in the Harman Report[72].

4.37 The existing use value may be only very modest for agricultural use and on the face of it the landowner stands to make a substantial windfall to residential land values. However, there will be a lower threshold (Threshold Land Value) where the land owner will simply not sell. This is particularly the case where a landowner *'is potentially making a once in a lifetime decision over whether to sell an asset that may have been in the family, trust or institution's ownership for many generations.'*[73] Accordingly, the 'windfall' over the existing use value will have to be a sufficient incentive to release the land and forgo the future investment returns.

4.38 Another very important consideration is the promotional cost of strategic greenfield sites. We note there is only one large scale urban extension site identified within South Lakeland. The threshold land value therefore needs to take into account of the often substantial planning promotion costs, option fees etc. and the return required by the promoters of such sites. *'This should be borne in mind when considering the [threshold] land value adopted for large sites and, in turn, the risks to delivery of adopting too low a [threshold] that does not adequately and reasonably reflect the economics of site promotion…'* [74]

4.39 This difference between the development 'gain' in the context of a greenfield windfall site and the slow-burn redevelopment of brownfield sites is absolutely fundamental to the success of any regime to capture development gain such as CIL. It is also key to the 'incidence' of the tax i.e. whether the developer or the land owner carries the burden of the tax.

---

[72] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) pp 29-31

[73] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 30

[74] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 31

4.40 In the case of South Lakeland, the vast majority of proposed housing sites coming forward are greenfield sites and therefore we have focussed our scheme typologies on these sites.

Land Economics Summary

4.41 A very important aspect when considering plan viability is an appreciation of how the property market for development land works in practice.

4.42 Developers have to secure sites and premises in a competitive environment and therefore have to equal or exceed the landowners' aspirations as to value for the landowner to sell. From the developers' perspective, this price has to be agreed often many years before commencement of the development. The developer has to subsume all the risk of: ground conditions; obtaining planning permission; funding the development; finding a tenant/occupier; increases in constructions costs; and changes to the economy and market demand etc. This is a significant amount of work for the developer to manage; but this is the role of the developer and to do so the developer is entitled to a 'normal' developers' profit.

4.43 In this respect we have included an allowance of 20% profit on open market sales (OMS) values with a sensitivity analysis which shows the impact of profit between 15-25% (see section 5).

4.44 The developer will appraise all of the above costs and risks to arrive at their view of the residual site value of a particular site.

4.45 To mitigate some of these risks developers and landowners often agree to share some of these risks by entering into arrangements such as: Market Value options based on a planning outcome; 'subject to planning' land purchases'; and / or overage agreements whereby the developer shares any 'super-profit' over the normal benchmark.

4.46 From the landowners' perspective, they will have a preconceived concept of the value or worth of their site. This could be fairly straight-forward to value, for example, in the case of greenfield agricultural land which is subject to per hectare benchmarks. However, in the case of brownfield sites, the existing use value could be a lot more subjective depending upon the previous use of the property; the condition of the premises; contamination; and/or any income from temporary lets, car parking and advertising hoardings etc. Also, whilst (say) a former manufacturing building could have been state-of-the-art when it was first purchased by the landowner, in a redevelopment context it might now be the subject of depreciation and obsolescence which the landowner finds difficult to reconcile. Accordingly, the existing use value is much more subjective in a brownfield context.

4.47 Furthermore, where there is a possibility of development the landowner will often have regard to 'hope value'. Hope value is the element of open market value of a property in excess of the existing use value, reflecting the prospect of some more valuable future use or development. It takes account of the uncertain nature or extent of such prospects, including the time which would elapse before one could expect planning permission to be obtained or any relevant constraints overcome, so as to enable the more valuable use to be implemented. Therefore, in a rising market landowners may often have high aspirations of value beyond that which the developer can justify in terms of risk and in a falling market the land owner my simply 'do nothing' and not sell in the prospect of a better market returning in the future. The actual amount paid in any particular transaction is the purchase price and this crystallises the value for the landowner.

4.48 Hence land 'value' and 'price' are two very different concepts which need to be understood fully when formulating planning policy and CIL. The incidence of any tax/CIL to a certain extent depends on this relationship and the individual circumstances. For example, a farmer with a long-term greenfield site might have limited 'value' aspirations for agricultural land – but huge 'price' aspirations for residential development. Whereas an existing factory owner has a much higher value in terms of sunk costs and investment into the existing use and the tipping point between this and redevelopment is much more marginal.

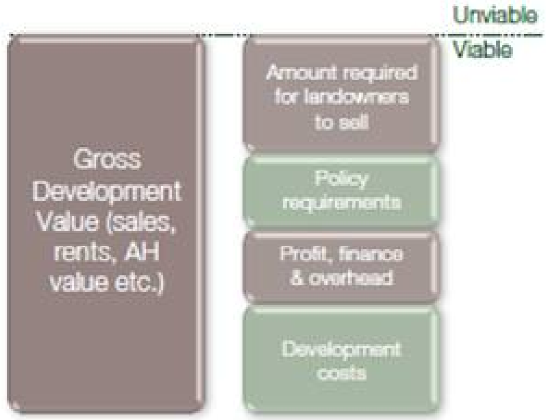
4.49 Detailed research and analysis in respect of land values (Threshold Land Values) set out within the Land Market paper appended (Appendix 4).

Viability Modelling Best Practice

4.50 The general principle is that CIL/planning obligations including affordable housing (etc.) will be levied on the increase in land value resulting from the grant of planning permission. However, there are fundamental differences between the land economics and every development scheme is different. Therefore, in order to derive the potential CIL/planning obligations and understand the 'appropriate balance' it is important to understand the micro-economic principles which underpin the viability analysis.

4.51 The uplift in value is calculated using a RLV appraisal. Figure 4.1 below, illustrates the principles of a RLV appraisal.

Figure 4.1 - Elements Required for a Viability Assessment



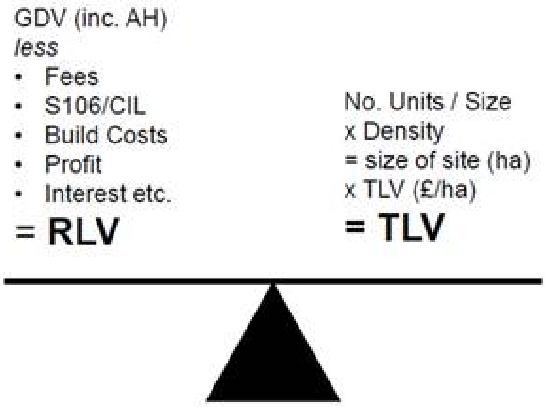
Source: Local Housing Delivery Group, 2012[75]

4.52 Our specific appraisals for each for the land uses and typologies are set out in the relevant section below.

4.53 A scheme is viable if the Gross Development Value (GDV) of the scheme is greater than the total of all the costs of development including land acquisition, planning obligations and profit. Conversely, if the GDV is less than the total costs of development (including land, S106s and profit) the scheme will be unviable.

4.54 However, in order to advise on the ability of the proposed uses/scheme to support affordable housing and CIL/planning obligations we have benchmarked the residual land values (RLV) from the viability analysis against existing or alternative land use relevant to the particular typology – the Threshold Land Value (TLV). This is illustrated in Figure 4.2 below.

Figure 4.2 - Balance between RLV and TLV



Source: AspinallVerdi © Copyright

[75] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 25

How to Interpret the Viability Appraisals

4.55 As mentioned above, a scheme is theoretically viable if the RLV is positive for a given level of profit.

4.56 However, this does not mean that a scheme will come forward for development as the RLV for a particular scheme has to exceed the landowner's TLV. In Development Management terms every scheme will generate a different land value (RLV) for developers to bid against and every landowner's motivations to be sell will be different (TLV).

4.57 For Plan Making purposes it is important to benchmark the RLV's from the viability analysis against existing or alternative land use relevant to the particular typology – the Threshold Land Value – see Figure 4.2 above.

4.58 The results of the appraisals should be interpreted as follows:

- If the 'balance' is positive, then the policy is viable. We describe this as being 'viable for plan making purposes herein'.
- If the 'balance' is negative, then the policy is not viable for plan making purposes and the CIL rates/planning obligations and/or affordable housing targets should be reviewed.

4.59 Thirdly, if the RLV is positive, but the appraisal is not viable due to the TLV assumed – we refer to this as being 'marginal'.

4.60 This is illustrated in the following boxes of our hypothetical appraisals (appended). In this case the RLV at £59.4m is some £37.2m higher than the assumed TLV of £22.2m meaning the balance is positive.

Figure 4.3 - Hypothetical Appraisal, Example of Results

RESIDUAL LAND VALUE						
Residual Land Value (gross)						70,407,546
SDLT		70,407,546	@	5.0%		(4,928,528)
Acquisition Agent fees		70,407,546	@	1.0%		(704,075)
Acquisition Legal fees		70,407,546	@	0.5%		(352,038)
Interest on Land		70,407,546	@	7.0%		(4,928,528)
Residual Land Value (net)		42,496	per plot			**59,494,376**
		1,487,359	£ per ha	601,926	£ per acre	
THRESHOLD LAND VALUE						
Residential Density		35	dph			
Site Area		40.00	ha	98.84	acres	
	density check	3,323	sqm/ha	14,476	sqft/ac	
Threshold Land Value		555,975	£ per ha	225,000	£ per acre	
		15,885	£ per plot			**22,239,000**
BALANCE						
Surplus/(Deficit)		**931,384**	£ per ha	**376,926**	£ per acre	**37,255,376**

Source: AspinallVerdi

4.61 In addition to the above, we have also prepared a series of sensitivity scenarios for each of the typologies. This is to assist in the analysis of the viability (and particularly the viability buffer); the sensitivity of the appraisals to key variables such as CIL, Affordable Housing, TLV and profit; and to consider the impact of rising construction costs. An example of a sensitivity appraisal and how they are interpreted is shown below.

Community Infrastructure Levy Sensitivity

Figure 4.4 - CIL versus Affordable Housing Sensitivity

		AH - % on site						
Balance (RLV - TLV)	(5,927,970)	20%	25%	30%	35%	40%	45%	50%
CIL £psm	0	37,961,097	31,607,576	25,253,007	18,896,866	12,540,726	6,183,171	(176,105)
	10	37,062,713	30,762,984	24,463,255	18,163,525	11,861,688	5,559,143	(744,142)
	20	36,160,140	29,916,821	23,672,562	17,426,746	11,180,931	4,934,179	(1,314,648)
	30	35,256,516	29,067,430	22,878,344	16,689,259	10,498,400	4,306,623	(1,885,305)
	40	34,348,839	28,216,483	22,083,245	15,948,519	9,813,793	3,678,573	(2,459,036)
	50	33,439,887	27,362,212	21,284,537	15,206,861	9,127,705	3,047,469	(3,032,767)
	60	32,527,078	26,506,454	20,484,954	14,462,091	8,439,228	2,416,276	(3,609,339)
	70	31,612,711	25,647,221	19,681,730	13,716,240	7,749,520	1,781,603	(4,186,314)
	80	30,694,740	24,786,623	18,877,589	12,967,369	7,057,150	1,146,930	(4,765,627)
	90	29,774,868	23,922,346	18,069,824	12,217,301	6,363,757	508,947	(5,345,864)
	100	28,851,707	23,056,883	17,261,046	11,464,259	5,667,472	(129,315)	(5,927,970)
	110	27,926,240	22,187,477	16,448,713	10,709,950	4,970,330	(770,579)	(6,511,488)
	120	26,997,860	21,317,120	15,636,222	9,952,665	4,270,108	(1,412,449)	(7,096,639)
	130	26,066,707	20,442,502	14,818,296	9,194,091	3,568,951	(2,057,253)	(7,683,456)
	140	25,133,077	19,567,224	13,999,813	8,432,291	2,864,770	(2,702,752)	(8,271,706)
	150	24,195,949	18,687,109	13,178,269	7,669,428	2,159,531	(3,351,156)	(8,861,842)
	160	23,257,040	17,806,386	12,354,713	6,903,041	1,451,368	(4,000,306)	(9,453,247)
	170	22,313,842	16,921,183	11,528,524	6,135,864	741,979	(4,652,370)	(10,046,719)
	180	21,369,625	16,034,817	10,699,815	5,364,813	29,812	(5,305,190)	(10,641,334)
	190	20,420,263	15,144,608	9,868,954	4,593,299	(683,797)	(5,960,979)	(11,238,162)
	200	19,470,010	14,252,510	9,035,010	3,817,510	(1,399,990)	(6,617,490)	(11,836,044)

Source: AspinallVerdi

4.62 This table shows the sensitivity of the balance (RLV – TLV) for different combinations of Affordable Housing (AH %) across the columns and different amounts of CIL (£ psm) down the rows. Thus:

- You should be able to find the appraisal balance by looking up the base case AH% (35%, 40% or 50%) and the base case CIL (£0, £100, £200 psm)
- Higher % levels of AH will reduce the 'balance' and if the balance is negative the scheme is 'not viable' for Plan Making purposes (note that it may still be viable in absolute RLV terms and viable in Plan Making terms depending on other sensitivities (e.g. TLV, Profit (see below)).
- Lower % levels of AH will increase the 'balance' and if the balance is positive then the scheme is viable in Plan Making terms
- Similarly, higher levels of CIL (£ psm) will reduce the 'balance'
- And, lower levels of CIL (£ psm) will increase the 'balance'

Threshold Land Value Sensitivity

Figure 4.5 - TLV versus Affordable Housing Sensitivity

		AH - % on site						
Balance (RLV - TLV)	27,504,466	20%	25%	30%	35%	40%	45%	50%
	225,000	48,353,962	42,559,137	36,763,301	30,966,514	25,169,727	19,372,940	13,574,285
	300,000	39,995,853	34,201,028	28,405,191	22,608,404	16,811,618	11,014,831	5,216,176
	375,000	31,637,744	25,842,919	20,047,082	14,250,295	8,453,508	2,656,721	(3,141,933)
TLV (per acre)	450,000	23,279,635	17,484,810	11,688,973	5,892,186	95,399	(5,701,388)	(11,500,042)
	525,000	14,921,526	9,126,701	3,330,864	(2,465,923)	(8,262,710)	(14,059,497)	(19,858,151)
	600,000	6,563,417	768,592	(5,027,245)	(10,824,032)	(16,620,819)	(22,417,606)	(28,216,260)
	675,000	(1,794,692)	(7,589,517)	(13,385,354)	(19,182,141)	(24,978,928)	(30,775,715)	(36,574,369)
	750,000	(10,152,801)	(15,947,626)	(21,743,463)	(27,540,250)	(33,337,037)	(39,133,824)	(44,932,478)
	825,000	(18,510,910)	(24,305,735)	(30,101,572)	(35,898,359)	(41,696,146)	(47,491,933)	(53,290,587)
	900,000	(26,869,020)	(32,663,844)	(38,459,681)	(44,256,468)	(50,053,255)	(55,850,042)	(61,648,696)
	975,000	(35,227,129)	(41,021,953)	(46,817,790)	(52,614,577)	(58,411,364)	(64,208,151)	(70,006,806)
	1,050,000	(43,585,238)	(49,380,062)	(55,175,899)	(60,972,686)	(66,769,473)	(72,566,260)	(78,364,915)
	1,125,000	(51,943,347)	(57,738,171)	(63,534,008)	(69,330,795)	(75,127,582)	(80,924,369)	(86,723,024)
	1,200,000	(60,301,456)	(66,096,280)	(71,892,117)	(77,688,904)	(83,485,691)	(89,282,478)	(95,081,133)
	1,275,000	(68,659,565)	(74,454,389)	(80,250,226)	(86,047,013)	(91,843,800)	(97,640,587)	(103,439,242)
	1,350,000	(77,017,674)	(82,812,498)	(88,608,335)	(94,405,122)	(100,201,909)	(105,998,696)	(111,797,351)
	1,425,000	(85,375,783)	(91,170,607)	(96,966,444)	(102,763,231)	(108,560,018)	(114,356,805)	(120,155,460)
	1,500,000	(93,733,892)	(99,528,716)	(105,324,553)	(111,121,340)	(116,918,127)	(122,714,914)	(128,513,569)

Source: AspinallVerdi

4.63 The figure above shows the sensitivity of the balance (RLV – TLV) for different combinations of Affordable Housing (AH %) across the columns and different amounts of TLV (£ per acre) down the rows. Thus:

- The Affordable Housing (%) should be interpreted as for the S106 v AH sensitivity above.
- Higher TLV for Plan Making purposes will reduce the 'balance' and (if negative) show that the Policy is not viable – for that particular typology (and profit margin in the RLV etc.)
- Conversely, lower TLV's will increase the 'balance' and (if positive) show that the Policy is viable.

Density Sensitivity

Figure 4.6 - Density versus Affordable Housing Sensitivity

		AH - % on site						
Balance (RLV - TLV)	(5,927,970)	20%	25%	30%	35%	40%	45%	50%
	28	24,008,289	18,213,464	12,417,628	6,620,841	824,054	(4,972,733)	(10,771,388)
	30	27,302,955	21,508,131	15,712,294	9,915,507	4,118,720	(1,678,067)	(7,476,722)
Density (dph)	32	30,185,789	24,390,964	18,595,128	12,798,341	7,001,554	1,204,767	(4,593,888)
	34	32,729,465	26,934,641	21,138,804	15,342,017	9,545,230	3,748,443	(2,050,212)
	36	34,990,511	29,195,686	23,399,850	17,603,063	11,806,276	6,009,489	210,834
	38	37,013,552	31,218,727	25,422,891	19,626,104	13,829,317	8,032,530	2,233,875
	40	38,834,289	33,039,464	27,243,628	21,446,841	15,650,054	9,853,267	4,054,612

Source: AspinallVerdi

4.64 This sensitivity illustrates the complex nature of development and the sometimes forgotten variables that can have a significant impact on the viability of the Local Plan (and individual schemes).

4.65 The sensitivity shows the balance (RLV – TLV) for different combinations of Affordable Housing (AH %) across the columns and different development densities (dwellings per ha (dph)) down the rows. Thus:

- The Affordable Housing (%) should be interpreted as for the S106 v AH sensitivity above.
- Higher densities of development have the effect of reducing the quantum of land that is required for the particular hypothetical scheme typology which when multiplied by the TLV £ per acre reduces the absolute TLV which increases the 'balance' and (if positive) shows that the Policy is viable
- Conversely, lower development densities increase the quantum of land that is required for the particular hypothetical scheme typology which when multiplied by the TLV £ per acre increases the absolute TLV which reduces the 'balance' and (if negative) shows that the Policy is not viable (in that particular appraisal typology model).

4.66 The sensitivity shows that often small increases to the development density can have significant positive impacts on viability.

Profit Sensitivity

Figure 4.7 - Profit versus Affordable Housing Sensitivity

		AH - % on site						
Balance (RLV - TLV)	(5,927,970)	20%	25%	30%	35%	40%	45%	50%
Profit (private sales & Starter Homes)	15.0%	48,782,891	41,924,106	35,064,309	28,203,561	21,342,814	14,482,066	7,619,451
	16.0%	44,796,655	38,150,661	31,503,656	24,855,701	18,207,745	11,559,790	4,909,967
	17.0%	40,810,418	34,377,217	27,943,004	21,507,840	15,072,677	8,637,514	2,200,482
	18.0%	36,824,181	30,603,772	24,382,351	18,159,980	11,937,609	5,715,237	(509,002)
	19.0%	32,837,944	26,830,327	20,821,699	14,812,120	8,802,540	2,792,961	(3,218,486)
	20.0%	28,851,707	23,056,883	17,261,046	11,464,259	5,667,472	(129,315)	(5,927,970)

Source: AspinallVerdi

4.67 This figure shows the sensitivity of the balance (RLV – TLV) for different combinations of Affordable Housing (AH %) across the columns and different amounts of Profit (%) down the rows. Thus:

- The Affordable Housing (%) should be interpreted as for the S106 v AH sensitivity above.
- Higher levels of Profit (%) will increase the return to the developer, but with a corresponding reduction in RLV and therefore reduce the 'balance' for a given TLV
- Conversely, lower levels of Profit (%) will reduce the return to the developer, and increase the RLV and therefore increase the 'balance' for a given TLV.

Construction Costs Sensitivity

Figure 4.8 - Construction Costs versus Affordable Housing Sensitivity

		AH - % on site					
Balance (RLV - TLV)	37,255,376	20%	25%	30%	35%	40%	45%	50%
	96%	56,036,000	49,945,151	43,854,302	37,763,454	31,672,605	25,581,756	19,490,907
	98%	52,547,835	46,482,832	40,417,828	34,352,824	28,287,820	22,221,875	16,155,581
Construction Cost (£psm)	100%	49,059,671	43,020,512	36,981,228	30,940,802	24,900,376	18,859,951	12,819,525
	102%	45,570,816	39,556,258	33,541,700	27,527,142	21,512,584	15,498,026	9,483,469
	104%	42,079,553	36,090,862	30,102,172	24,113,482	18,124,792	12,134,845	6,144,396
	106%	38,588,289	32,625,467	26,662,645	20,698,863	14,734,307	8,769,751	2,805,195
	108%	35,097,026	29,159,313	23,220,649	17,281,985	11,343,321	5,404,657	(535,821)
	110%	31,603,423	25,690,651	19,777,879	13,866,107	7,951,917	2,035,885	(3,886,831)

Source: AspinallVerdi

4.68 This sensitivity shows the potential impact of increases (and decreases) of construction costs (£ psm) on the viability of the Local Plan (and individual schemes).

4.69 The sensitivity shows the balance (RLV – TLV) for different combinations of Affordable Housing (AH %) across the columns and different % changes to construction costs where 100% is the base case construction cost and 102% represents a 2% increase in costs and 98% represents a -2% decrease in costs and so on.

- The Affordable Housing (%) should be interpreted as for the S106 v AH sensitivity above.
- Higher construction costs result in a lower RLV which reduces the balance.
- Lower construction costs result in a higher RLV which increases the balance.

Caveats

4.70 As you can see from the above, the typologies are very sensitive to small changes to key inputs and particularly S106, Affordable Housing, TLV and profit. We have also tested a number of typologies representing a number of different sized schemes in the various housing market areas. This has resulted in a large number of appraisal results and exponential number of sensitivity scenarios.

4.71 In making our recommendations we have had regard to the appraisal results and sensitivities ‘in the round’. Therefore, if one particular scheme is not viable, whereas other similar typologies are highly viable, we have had regard to the viable schemes in forming policy and cross checked the viability of the outlying scheme against the sensitivity tables (e.g. a small reduction in profit, or a small reduction in TLV which is within the margins of the ‘viability buffer’).

4.72 **It is important to note that the TLV’s contained herein are for ‘high-level’ plan viability purposes and the appraisals should be read in the context of the TLV sensitivity table (contained within the appraisals). It is important to emphasise that the adoption of a particular TLV £ in the base-case appraisal typologies in no way implies that this figure can be used by applicants to negotiate site specific planning applications. Where sites**

have obvious abnormal costs (e.g. retaining walls for sloping sites) these costs should be deducted from the value of the land. The land value for site specific viability appraisals should be thoroughly evidenced having regard to the existing use value of the site. I.e. this report is for plan-making purposes and is 'without prejudice' to future site specific planning applications.

5 Residential

5.1 The residential section of the report sets out our assumptions in relation to the costs and values assumed for the residential typologies to be appraised.

5.2 This section primarily deals with the rationale behind the costs assumed within our residential typologies (see Appendix 2 – Typologies matrix).

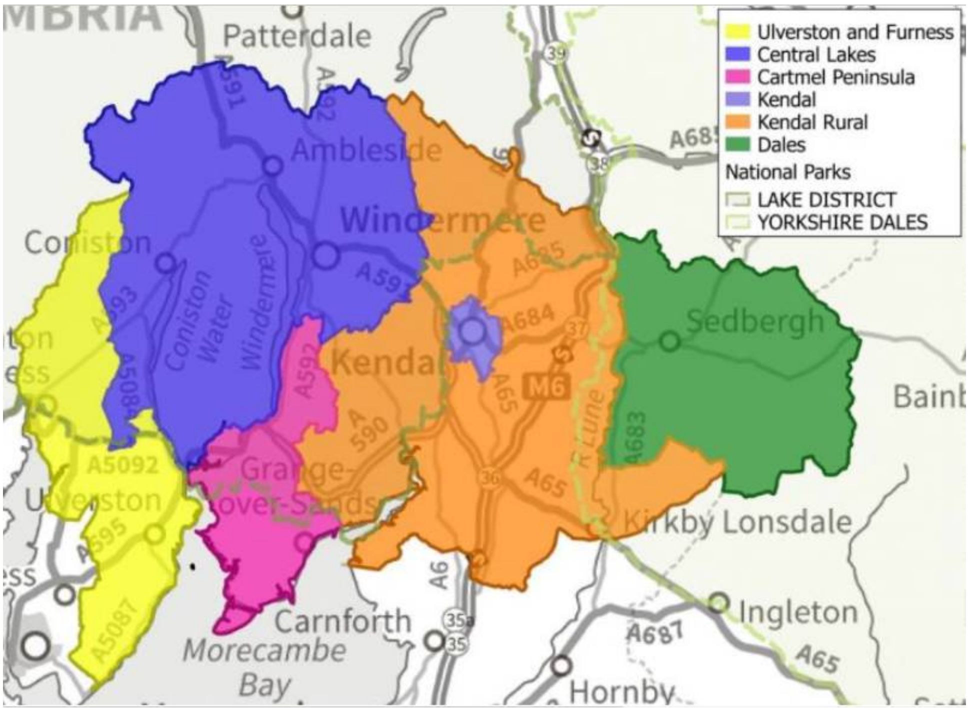
5.3 In terms of values, we append our residential market paper which reviews the existing evidence base and provides a detailed residential market analysis setting out how we have arrived at our assumptions. This report just provides a summary of the findings within this research paper (Appendix 3).

Housing Zones Map

5.4 The figure below shows the housing market areas identified within the draft SHMA (2017). Given that our study excludes the National Parks, our study area focuses on the following market areas below:

- Kendal
- Kendal Rural
- Cartmel Peninsula
- Ulverston and Furness

Figure 5.1 - Housing Sub-Market Geographies



Source: GL Hearn, SHMA – Housing Market Geographies, Interim Findings, 2017

Existing Evidence Base

5.5 In this section we highlight the key metrics adopted within previous viability studies. The more in-depth existing evidence base review (including a summary of SHMA's) is provided within the Residential Market Paper which is appended (Appendix 3).

5.6 Table 5.1 below shows the value assumptions adopted by HDH in the 2013 DPD Viability Study and 2014 CIL Viability Update.

Table 5.1 - Comparison Between Value Assumptions in HDH Studies (£ psm)

	Kendal	Rural Kendal	Milnthorpe	Grange & Cartmel	Ulverston & Furness
Land Allocations DPD Viability 2013	£2,310	£2,630	£2,350	£2,350	£2,113
CIL Viability Update 2014	£2,426	£2,848	£2,258	£2,362	£2,251

Source: AspinallVerdi using HDH 2013 and 2014 Studies

5.7 Note the interim SHMA 2017 identifies Rural Kendal as incorporating Milnthorpe (see Figure 5.1). We have discussed this in more detail within the residential market paper.

Residential Typology Assumptions

5.8 The detailed typologies are set out in the matrix appended (see Appendix 2). There are a number of assumptions within the matrix which are evidenced below.

Number of Units

5.9 We have analysed the SLDC Land Allocations to formulate our typologies by size, greenfield / brownfield and location, taking into consideration the housing market areas within the draft SHMA (2017). We set out below the number of units within the typologies for the respective market areas.

5.10 For Cartmel we have run six appraisals (A-F), with four greenfield and two brownfield typologies. The table below explains the rationale behind the typologies.

Table 5.2 - Rationale for Cartmel Typologies

Typology	Comment
A. 9 Units Greenfield	Represents a scheme below the 10-unit threshold
B. 25 Units Greenfield	There are 8 sites allocated with a yield between 11-30 units, we have taken a rounded average.
C. 15 Units Brownfield	There are 2 brownfield sites allocated with a yield of 15-16.
D. 45 Units Greenfield	There are 3 sites allocated with a yield between 39-46 units, we have taken a rounded average.
E. 30 Units Brownfield	This represents a larger brownfield site coming forward individually or part of a mixed-use development.
F. 200 Units Greenfield	This represents a potential larger scheme which may come forward on greenfield land at the edge of a settlement.

Source: AspinallVerdi

5.11 For Ulverston & Furness we have run eight appraisals (G-N), with one brownfield and seven greenfield typologies (including one strategic site). The table below explains the rationale behind our typologies for Ulverston & Furness.

Table 5.3 - Rationale for Ulverston & Furness Typologies

Typology	Comment
G. 7 Units Greenfield	Represents a scheme below the 10-unit threshold
H. 15 Units Greenfield	There are 2 sites allocated with a yield between 11-16.
I. 25 Units Greenfield	There are 2 sites allocated with a yield between 21-27.
J. 15 Units Brownfield	There are 2 brownfield sites allocated with a yield between 12-18 units.
K. 50 Units Greenfield	Represents an allocation with a yield in the region of 50.
L. 95 Units Greenfield	There are 2 sites allocated with a yield between 90-97.
M. 160 Units Greenfield	Represents an allocation with a yield in the region of 160.
N. 250 Units Greenfield	This represents a number of larger allocations on greenfield sites, which may come forward on the edge of a settlement.

Source: AspinallVerdi

5.12 For Kendal we have run six appraisals (O-T), with one brownfield and five greenfield typologies. The table below explains the rationale behind our typologies for Kendal.

Table 5.4 - Rationale for Kendal Typologies

Typology	Comment
O. 12 Units Brownfield	Represents an allocation with an estimated yield of 12.
P. 12 Units Greenfield	Represents an allocation with an estimated yield in the region of 12.
Q. 25 Units Greenfield	There are 2 sites allocated with a yield between 23-24. We have rounded this typology up to reflect a 25 unit scheme.
R. 65 Units Greenfield	There are 3 sites allocated with a yield between 60-73.
S. 100 Units Greenfield	There are 7 sites allocated with a yield between 100-200, this typology reflects the lower end of this spectrum.
T. 160 Units Greenfield	As above, there are 7 sites with a yield between 100-200, this typology reflects the cluster of sites allocated between 150-200.

Source: AspinallVerdi

5.13 For Kendal Rural we have run six appraisals (U-Z), with one brownfield and five greenfield. The table below explains the rationale behind our typologies for Kendal Rural.

Table 5.5 - Rationale for Kendal RuralTypologies

Typology	Comment
U. 8 Units Greenfield	There are 2 sites allocated with a yield between 7-9.
V. 25 Units Greenfield	There are 6 sites allocated with a yield between 23-31.
W. 20 Units Brownfield	Represents an allocation with an estimated yield of 20.
X. 60 Units Greenfield	There are 3 sites allocated with a yield between 50-61, this typology reflects a rounded average.
Y. 75 Units Greenfield	There are 4 sites allocated with a yield between 70-86, this typology reflects a rounded average.
Z. 125 Units Greenfield	As above, there are 2 sites with a yield between 100-155, this typology reflects the a rounded average.

Source: AspinallVerdi

5.14 Finally, we have run two rural exception site (RES) typologies as set out below.

Table 5.6 - Rationale for Kendal Rural RES Typologies

Typology	Comment
AA.	This typology reflects an allocation of a rural exception site, where 100% affordable housing is delivered.
BB.	This typology reflects an allocation of a rural exception site, where 75% affordable housing is delivered and 25% of market housing is used as cross-subsidy.

Source: AspinallVerdi

Mix

5.15 We have been provided we the housing mix below from the Draft SHMA 2017.

Table 5.7 - Suggested Mix of Housing in the Market and Affordable Sectors

Type of Product	1-bed	2-bed	3-bed	4+ bed
Market	0-5%	35-40%	40-45%	15-20%
Low-cost home ownership	15-20%	45-50%	25-30%	5-10%
Affordable housing (rented)	30-35%	40-45%	15-20%	5-10%

Source: Draft SHMA Executive Summary, South Lakeland District Council

5.16 Our unit mixes have been formulated based on the ranges presented above, however there is a degree of engineering to ensure the scheme mix is divisible and realistic based on the number of units within the respective typologies. The mix has been agreed with the Council and the table below summarises the ranges applied. Please see the typologies matrix for the specific mix assumed for each typology (Appendix 2).

Table 5.8 - AspinallVerdi Generally Assumed Market Mix

Type of Product	1-bed flat	2-bed flat	2-bed house	3-bed house	4-bed house
10 Units or Less	0%	0%	33-38%	38-50%	17-24%
11-99 Units	0%	0%	31-35%	45-46%	20%
100-250 Units	2.5%	6-10%	25-31%	42.5-43%	20%

Source: AspinallVerdi

5.17 It should be noted that there is just one brownfield typology with between 11-99 units where the mix differs from the norm of 35% 2-bed, 45% 3-bed and 20% 4-bed.

5.18 The only 5-bed market housing units included are within rural exception sites with a target affordable housing percentage of 75% rather than 100%.

5.19 We address the mix assumed for ‘Older Persons Housing’ within chapter six (below).

5.20 In terms of the affordable mix, the table below provides a summary of our assumptions. A detailed typology specific breakdown is available in the typologies matrix appended (Appendix 2).

Table 5.9 - AspinallVerdi Generally Assumed Affordable Mix

Type of Product	1-bed flat	2-bed flat	1-bed house	2-bed house	3-bed house	4-bed house
12 Units or Less	22-30%	0%	0%	44-100%	22-33%	11%
15 Units	38%	0%	0%	38%	24%	0%
20-25 Units	29-31%	0%	0%	43-46%	23-28%	0%
30-50 Units	19-25%	11-19%	0%	30-34%	22.5-29%	7.5%
65 Units	20%	17.5%	5%	27.5%	22.5%	7.5%
75-250 Units	20-25%	15-17.5%	0-5%	30%	22.5%	7.5%

Source: AspinallVerdi

5.21 Note that within the smaller sites, there is just one typology with 4-bed units proposed and two typologies with flats. Generally, 2 and 3-bed properties compromise the majority of the mix for typologies with less than 12 units.

Unit Size Assumptions

5.22 For the purposes of our appraisal we have ensured that our assumptions meet or exceed the nationally described housing standards by DCLG. In forming our floor area assumptions to be adopted within the appraisals, the nationally described space standards provide a useful benchmark and are our starting point.

5.23 The DCLG minimum floorspace standards are set out on the table below. The DCLG standards set out a complex matrix of house types and storey heights. We have therefore had to simplify this for our analysis.

Table 5.10 - Technical Housing Standards

Number of bedrooms(b)	Number of bed spaces (persons)	1 storey dwellings	2 storey dwellings	3 storey dwellings	Built-in storage
	1p	39 (37)[2]			1.0
1b	2p	50	58		1.5
	3p	61	70		
2b	4p	70	79		2.0
	4p	74	84	90	
3b	5p	86	93	99	2.5
	6p	95	102	108	
	5p	90	97	103	
	6p	99	106	112	
4b	7p	108	115	121	3.0
	8p	117	124	130	
	6p	103	110	116	
5b	7p	112	119	125	3.5
	8p	121	128	134	
	7p	116	123	129	
6b	8p	125	132	138	4.0

Source: Technical housing standards – nationally described space standard (March 2015)

5.24 We note that South Lakeland District Council has not currently formally adopted these standards and therefore we have supplemented this with local evidence.

5.25 Having reviewed the unit sizes within our achieved and asking price datasets, there is a lack of consistency and thus we have feel that an appropriate assumption for 2 and 3 bedroom units is 79 sqm and 97 sqm respectively. This falls within the 2-storey DCLG standards.

5.26 Using the Land Registry data cross-referenced with the Energy Performance Certificate (EPC) register to establish floor areas creates complexity the larger a property gets, because the range of unit sizes widens and it is not always possible to determine whether a unit in the Land Registry data is 3, 4 or 5+ bedrooms. New-Build market listings therefore provide a stronger indication into unit sizes, because the size of the property by number of beds is explicit (rather than making assumptions applying the DCLG standards to the achieved values data which is cross-referenced with the EPC register).

5.27 We note from our asking price data, that 4-Bed properties currently marketed range between 85-187 sqm and on average equate to133 sqm. We note a wide range of unit sizes within our achieved value data and consider 135 sqm is a representative and appropriate floor area of typical 4-Bed properties built in South Lakeland.

5.28 In terms of 5-Bed properties, current units marketed have floor areas ranging from 165-211 sqm, averaging 182 sqm. This is considerably greater than the minimum prescribed standards shown above. Within the achieved value data, we only note 10 deals for units over 165 sqm, whilst there is a circa 25 units around the 155-165 sqm range. We therefore consider it is appropriate to assume 165 sqm within our appraisals to reflect this wide range and demonstrate that 5-Beds are generally considerably greater than national standards.

5.29 The table below provides a summary of our assumptions:

Table 5.11 - Floorspace Assumptions for Market Sale Units

Property Type	Size Sqm (Sqft)
1-Bed Houses	60 sqm (646 sqft)
2-Bed Houses	79 sqm (850 sqft)
3-Bed Houses	97 sqm (1,044 sqft)
4-Bed Houses	135 sqm (1,435sqft)
5-Bed Houses	165 sqm (1,776 sqft)
1 Bed Flat	50 sqm (538 sqft)
2 Bed Flat	70 sqm (753 sqft)

Source: AspinallVerdi (with SLDC, LSH)

5.30 In terms of affordable units, the table below sets out the minimum floor standards required by South Lakeland District Council and the average floor area of units delivered since 2008.

Table 5.12 - Affordable Units, Floor Area Evidence

Unit type	SLDC minimum floor area (m²)	Average floor area of units delivered (m²)	Total number of units delivered
1 bed flats	40	49	19 units
2 bed flats	50	54	38 units
1 bed houses	60	49 #	2 units
2 bed houses	65	65 ##	75 units
3 bed houses	75	80	83 units
4 bed houses	85	-	0 units

- both units were bungalows
- includes 8 bungalows

Source: South Lakeland District Council and Lambert Smith Hampton, email dated 13/07/17

5.31 However, the emerging policy requires that homes be delivered to Category M4(2) and M4(3) standards for accessibility and adaptability and therefore it is likely that larger units will be required in the future. For the purposes of our appraisals we have been advised by SLDC to use the following floor areas:

Table 5.13 - Floorspace Assumptions for Affordable Units

Property Type	Size Sqm (Sqft)
1-Bed Houses	58 sqm (624 sqft)
2-Bed Houses	70 sqm (753 sqft)
3-Bed Houses	84 sqm (904 sqft)
4-Bed Houses	97 sqm (1,044 sqft)
1 Bed Flat	50 sqm (538 sqft)
2 Bed Flat	61 sqm (656 sqft)

Source: SLDC

Density

5.32 Core Strategy Policy CS6.6 states that the Council requires an average density of 30 dwellings per hectare (dph), seeking higher densities on appropriate sites, particularly those:

- Close to transport hubs such as bus stations or main bus routes;
- In or adjoining Kendal, Ulverston, Grange, Milnthorpe and Kirkby Lonsdale centres.

5.33 Of the 67 sites allocated for housing development, the *average* dph equates to 31. This figure is dependent upon yield assumptions at each site and for the purposes of our appraisals we have sought to reflect the relevant density assumption for the various typologies. This ranges from 25 – 40 dph depending on the site allocations. The typologies matrix (Appendix 2) sets out our density assumptions specific to each typology.

Residential Value Assumptions

5.34 The residential market paper appended (Appendix 3) provides the background to the market housing value assumptions presented below in Table 5.14 and Table 5.15, but also the affordable housing transfer values presented below in Table 5.16 and Table 5.17.

Table 5.14 - AspinallVerdi Market Housing Value Assumptions (£ psm)

Kendal	Kendal Rural	Cartmel Peninsula	Ulverston & Furness
£2,600 psm	£2,900 psm	£2,600 psm	£2,400 psm

Source: AspinallVerdi using Land Registry and existing evidence base.

Table 5.15 – AspinallVerdi Value Assumptions, by Unit Price

	Kendal	Kendal Rural	Cartmel Peninsula	Ulverston & Furness
1 Bed Houses	£156,000	£174,000	£156,000	£144,000
2 Bed Houses	£205,400	£229,100	£205,400	£189,600
3 Bed Houses	£252,200	£281,300	£252,200	£232,800
4 Bed Houses	£351,000	£391,500	£351,000	£324,000
5 Bed Houses	£429,000	£478,500	£429,000	£396,000
1 Bed Flats	£130,000	£145,000	£130,000	£120,000
2 Bed Flats	£182,000	£203,000	£182,000	£168,000

Source: AspinallVerdi – 170926 AspinallVerdi Value Assumptions_v5

Table 5.16 - SLDC Low Cost Home Ownership Transfer Values

Property type (Minimum sizes in brackets)	Affordable Housing Prices (initial fixed sale prices)
1 bed flats (50 sq. m)	£74,382
2 bed flats (61 sq. m)	£85,008
1 bed houses/bungalows (58 sq. m)	£92,669
2 bed houses/bungalows (70 sq. m)	£103,572
3 bed houses (84 sq. m)	£119,925
4 bed houses (97 sq. m)	£136,278

Source: SLDC

Table 5.17 - Affordable Rent Transfer Values, based on Registered Providers (RPs)

Property type (Minimum sizes in brackets)	RP Typical Offer Kendal	RP Typical Offer Ulverston
1 bed flats (50 sq. m)	£62,000	£49,000
2 bed flats (61 sq. m)	£79,000	£61,000
1 bed houses/bungalows (58 sq. m)	£72,000	£49,000
2 bed houses/bungalows (70 sq. m)	£90,000	£63,000
3 bed houses (84 sq. m)	£104,000	£78,000
4 bed houses (97 sq. m)	£123,000	£96,000

Source: Email dated 04/09/2017 'South Lakeland Viability Study - Affordable Rent transfer price assumptions'

Residential Cost Assumptions

5.35 The development costs adopted within our appraisals are evidenced (where necessary) and set out below. Note that we consulted with stakeholders on these assumptions at the workshop on 13 July 2017 (see Appendix 10).

Initial Payments

5.36 Table 5.18 below shows the 'up-front' costs prior-to or at start-on-site.

Table 5.18 - Residential Appraisals Initial Cost Assumptions

Item	Comment
Planning Application Professional Fees and Reports	Allowance for typology, generally 2 times statutory planning fees
Statutory Planning Fees	Based on national formula
CIL	This is the CIL rate (£ psm) and an input to the CIL sensitivity tables which shows the impact of potential movement in the charging schedule which is currently: • £55.86psm for residential typologies • £23.34psm for residential strategic allocations • £0psm for rural exception sites (100% affordable)
Site-Specific S106/S278	Site Specific Allowance for typology – note that this is in addition to external works costs. The appraisals include allowances (£ per dwelling) for • Sport, Open Space and Recreation Contributions • Education Contributions – Primary • Education Contributions – Secondary (note, CIL will be used in Kendal and Ulverston schools and Cartmel Secondary school) • Any site specific Highways Contributions. We have made an allowance of £1,000 per dwelling for Section 106 costs and provide sensitivities upwards and downwards of this.

Source: AspinallVerdi

Construction Costs

5.37 Table 5.19 summarises our build cost assumptions.

Table 5.19 - Build Cost Assumptions

Item	Cost	Comments
Demolition / Site Clearance	£50,000 per acre	For brownfield typologies we have made an allowance for site clearance / demolition
Estate Housing	£906 - £1,016 psm	Lower – Median BCIS. We are aware that from six site-specific EVAs, £909 psm is the average and we have used this figure within our appraisals.
M4(2) Category 2 – Accessible and Adaptable housing	+£521 per unit	DCLG housing Standards Review, Final Implementation Impact Assessment, March 2015, paragraphs 153 and 157 (all units).
M4(3) Category 3 - Wheelchair Adaptable dwellings	+£10,307 per unit	Ditto (5% of units over 40)
External Works	15%	The Harman report states, '[external works] are likely to vary significantly from site to site. The planning authority should include appropriate average levels for each type of site unless more specific information is available. Local developers should provide information to assist in this area where they can, taking into account commercial sensitivity.' For the purposes of our appraisal we have used 15% for external works, which we consider is a more than sufficient enough allowance for a plan-wide study (given we have included 3% 'normal' abnormals and 3% contingency).
'Normal' Abnormals	3%	Having consulted with local stakeholders, we understand that typically sites in South Lakeland are undulating and not readily developable. Also the County Council has additional requirements for highways design etc. Therefore, on all typologies we have included for 'normal' abnormals at 3% of build costs. This represents a change

Item	Cost	Comments
		following the stakeholder consultation.
Contingency	3% of the above construction costs	Higher contingencies are sometimes included in site specific appraisals, but these are generally for specific abnormal costs or ground conditions which are not part of a high level plan wide viability assessment.

Source: AspinallVerdi

Other Cost Assumptions

5.38 The table below summarises all the other costs which have factored into the appraisals (Table 5.20).

Table 5.20 - Other Cost Assumptions

Item	Cost	Comments
Professional Fees	6.5%	Based on average of recent EVA evidence.
Disposal Costs	3% (Marketing & Disposal) 1% (Sale Agents) 0.5% (Sales Legal Fees)	Note that the marketing and promotion costs have to be considered 'in-the-round' with the sales values and gross profit (where developers have internal sales functions).
Finance Costs	6.25% interest rate	Based on average of recent EVAs. Applies to 100% of cashflow to include Finance Fees etc.

Source: AspinallVerdi

Profit Assumptions

5.39 For the purposes of this EVA we consulted on a baseline profit of 17.5% to the private housing (open market sales (OMS) values) - with a sensitivity analysis which shows the impact of profit between 15-20%. We also consulted on 6% profit to the on-site affordable housing (where applicable).

5.40 Following consultation, we have changed our approach to a profit rate comprised of 20% on private housing and 6% on affordable housing (where applicable).

5.41 It is important to note that it is good practice for policy obligations not to be set right up to the margins of viability. However, in certain circumstances developers will agree lower profit margins in order to secure planning permission and generate turnover. The sensitivity analyses within the appendices show the 'balance' (i.e. RLV – TLV) for developer's profit from 25% on private housing down to 15%. This clearly shows the significant impact of profit on viability (especially for larger schemes).

Residential Land Value Assumptions

5.42 The Land Value Paper (Appendix 4) sets out our approach and analysis of the land market in South Lakeland. Within this section we outline the key assumptions around residential land values. Our threshold land value (TLV) assumptions are set out below.

Table 5.21 - Threshold Land Value Assumptions

Typology	Location	GF / BF	EUV -					Uplift Multiplier	TLV -		Policy Adjustment	MV -	
			(per acre) (gross)	(per ha) (gross)	Net: Gross (%)	(per acre) (net)	(per ha) (net)	x [X] x [Y]%	(per acre) (net developable) (rounded)	(per ha) (net developable) (rounded)	- [X] %	(per acre) (net)	(per ha) (net) (rounded)
Residential	Kendal / Cartmel	GF	£10,000	£24,710	75%	£13,333	£32,947	20.0	£267,000	£659,000	21.6%	£340,000	£840,140
Residential	Kendal Rural / AONB	GF	£15,000	£37,065	75%	£20,000	£49,420	20.0	£400,000	£988,000	23.8%	£525,000	£1,297,275
Residential	Ulverston and Furness	GF	£10,000	£24,710	75%	£13,333	£32,947	20.0	£267,000	£659,000	11.1%	£300,000	£741,300
Residential	All District	BF	£200,000	£494,200	100%	£200,000	£494,200	20%	£240,000	£593,040	n/a	n/a	n/a
Residential	Ulverston and Furness	BF	£150,000	£370,650	100%	£150,000	£370,650	20%	£180,000	£444,780	n/a	n/a	n/a

Source: AspinallVerdi (170703 Land Values Research_v3)

5.43 **It is important to note that the TLV's contained herein are for 'high-level' plan viability purposes and the appraisals should be read in the context of the TLV sensitivity table (contained within the appraisals). It is important to emphasise that the adoption of a particular TLV £ in the base-case appraisal typologies in no way implies that this figure can be used by applicants to negotiate site specific planning applications. Where sites have obvious abnormal costs (e.g. retaining walls for sloping sites) these costs should be deducted from the value of the land. The land value for site specific viability appraisals should be thoroughly evidenced having regard to the existing use value of the site. I.e. this report is for plan-making purposes and is 'without prejudice' to future site specific planning applications**.

Residential Viability Results

5.44 We set out below the results of our viability appraisals. For ease of reference, the results are set out by market area and follow our typologies matrix from A through to BB. Where necessary, we provide comment on any nuances in the results.

5.45 The residential appraisals are appended in full at appendix 5. These include a summary table at the end of each batch of appraisals (by market area as described below).

5.46 Note that in the discussion below we have rounded the values for ease of interpretation.

Cartmel Typologies – Schemes A-F

5.47 **These typologies are all viable including 35% affordable housing and £55.86 psm CIL.**

5.48 We have appraised schemes from 9 units up to 200 units on both greenfield and brownfield sites.

5.49 All of the typologies generate a RLV in excess of £425,000 per acre / £1,055,000 per hectare (scheme D) and up to £495,000 per acre / £1,222,000 per hectare (scheme A) – which is a very healthy land value.

5.50 Taking into consideration the TLV, the surplus over the RLV is also very healthy in the context of the Cartmel market area. The surplus over RLV equates to a minimum of £160,000 per acre / £395,000 per hectare (scheme D) up to £227,000 per acre / £562,000 per hectare. This represents a significant 'viability buffer'.

5.51 The differences in the RLV(s) and the surplus(s)/deficit(s) are as a result of the different unit mix depending on the size of the typology and the different greenfield and brownfield assumptions (e.g. density and site clearance costs).

Ulverston & Furness – Schemes G-N

5.52 **These typologies are all viable including 35% affordable housing and £55.86 psm CIL (£23.34 psm for the strategic site (typology N)).**

5.53 The RLV is generally lower in this market area compared to Cartmel above as this market area has the weakest sales values.

5.54 We have appraised schemes from 7 units up to 250 units on both greenfield and brownfield sites.

5.55 All of the typologies generate a RLV in excess of £246,000 per acre / £609,000 per hectare (scheme J) and up to £326,225 per acre / £806,000 per hectare (scheme N).

5.56 Taking into consideration the TLV, all of the typologies generate a positive surplus, albeit this is a smaller surplus than Cartmel (and the other market areas).

5.57 The surpluses over RLV equates to a minimum of £12,330 per acre / £30,460 per hectare (scheme I) up to £66,530 per acre / £164,400 per hectare. This represents a smaller 'viability buffer' but importantly all the schemes are still viable.

5.58 When forming a view about the viability of the Local Plan it is important to consider the sensitivity tables at the foot of each typology appraisal. Take, for example, typology **I** which has the smallest development surplus of RLV over TLV, the sensitivity tables show how this increases for relatively small increments in developers' profit. Thus at 19% developers profit the surplus has doubled from £27,200 to £60,660 and so on until at 15% developers profit the surplus is £194,507 (which equates to £88,000 per acre / £218,500 per hectare). Similarly, if the TLV were to be reduced from £267,000 per acre to say £200,000 per acre this would generate a development surplus of £175,000 (which equates to £79,185 per acre / £196,600 per hectare). This illustrates the sensitivity of the appraisals to changes other than just affordable housing target %.

Kendal Typologies – Schemes O-T

5.59 **These typologies are all viable including 35% affordable housing and £55.86 psm CIL.**

5.60 We have appraised schemes from 12 units up to 160 units on both greenfield and brownfield sites.

5.61 All of the typologies generate a RLV in excess of £470,000 per acre / £1,163,000 per hectare (scheme S) and up to £595,000 per acre / £1,470,000 per hectare (scheme O) – which is a very healthy land value.

5.62 Taking into consideration the TLV, the surplus over the RLV is also very healthy in the context of the Kendal market area. The surplus over RLV equates to a minimum of £179,000 per acre / £442,000 per hectare (scheme T) up to £355,000 per acre / £877,000 per hectare. As with Cartmel, this represents a significant 'viability buffer'.

5.63 Again, the differences in the RLV(s) and the surplus(s)/deficit(s) are as a result of the different unit mix depending on the size of the typology and the different greenfield and brownfield assumptions (e.g. density and site clearance costs).

Kendal Rural – Schemes U-Z

5.64 This is the highest value market area in terms of sales values.

5.65 **These typologies are all viable including 35% affordable housing and £55.86 psm CIL.**

5.66 We have appraised schemes from 8 units up to 125 units on both greenfield and brownfield sites.

5.67 All of the typologies generate a RLV in excess of £477,000 per acre / £1,178,000 per hectare (scheme W) and up to £598,000 per acre / £1,478,000 per hectare (scheme V) - which is a very healthy land value.

5.68 Taking into consideration the TLV, the surplus over the RLV is also very healthy in the context of the Kendal Rural market area. Note that we have applied a higher TLV for the Kendal Rural market area (£400,000 per acre) and hence the surplus is lower than other market areas. The surplus over RLV equates to a minimum of £167,500 per acre / £414,000 per hectare (scheme U) up to £237,000 per acre / £585,000 per hectare. Again, this represents a significant 'viability buffer' and as mentioned the TLV is higher in any event.

5.69 Again, the differences in the RLV(s) and the surplus(s)/deficit(s) are as a result of the different unit mix depending on the size of the typology and the different greenfield and brownfield assumptions (e.g. density and site clearance costs).

RES – Schemes AA-BB

5.70 We have appraised two 9 unit RES (Rural Exception Sites) schemes. One (AA) is based on 100% affordable housing and £15,000 per plot land value (i.e. for HCA funding). The second (BB) assumes 25% of the units are market housing to cross-subsidise the affordable.

5.71 **Neither of the schemes is viable**.

5.72 Scheme AA requires a grant of £161,000 (£17,900 per unit) in order to be viable based on the affordable housing transfer values and the land values based on £15,000 per plot.

5.73 We note that the NPPF specifically states that *'local planning authorities should be responsive to local circumstances, and consider whether allowing some market housing would facilitate the provision of rural exception sites to meet local needs'*[76]

5.74 This is an option for consideration, however, the danger with the above policy of allowing private housing on rural exceptions sites is that landowners will inevitably think that they can charge more for the land i.e. the threshold land value will go up.

5.75 The Housing White Paper refers to giving, *'much stronger support for 'rural exception' sites that provide affordable homes for local people – by making clear that these should be considered positively where they can contribute to meeting identified local housing needs, even if this relies*

[76] Department of Communities and Local Government (March 2012) The National Planning Policy Framework ISBN: 978-1-4098-3413-7 paragraph 54.

on an element of general market housing to ensure that homes are genuinely affordable for local people'. [77]

5.76 This helps to strengthen the link between private housing on RES sites, but we still have concerns about introducing market housing onto RES sites. Landowners will not necessarily make the link between the market housing and the cross-subsidy required to the affordable housing. Landowners will see the market housing as the 'thin end of the wedge' which enables them to attribute 'hope value' to much higher land value than they might otherwise expect the receive for just 100% affordable housing - they will want their uplift in value particularly in comparison with allocated sites. There is a danger that market housing on RES sites could result a spiralling land values for this type of development which would be counter-productive.

5.77 Hence we have appraised a second scenario (BB) with 25% market housing. In this scenario we have assumed a TLV of £400,000 per acre which is consistent with the other scheme typologies (above) for Kendal Rural.

5.78 In this scenario the grant requirement has gone down to £58,800 (£6,500 per plot) - but there is *still* a grant requirement. The market housing is not a panacea.

5.79 It is between the Council and the Registered Providers to retain RES sites with 100% affordable housing, and in the first instance to make up any funding shortfall from the HCA or via internal subsidy from the Registered Providers. However national policy and draft policy DM14 in the Publication Development Management Policies DPD allows for a small element of market housing on RES sites to provide cross subsidy, subject to several criteria including clear evidence on viability.

AONB Appraisals – Schemes A-H

5.80 These appraisals are the subject of a separate report.

[77] Department of Communities and Local Government, Fixing our broken housing market, February 2017, Page 82

6 Older Persons Housing

6.1 Chapter seven of the Residential Market Paper (Appendix 3) sets out our approach to appraising older persons housing. This section provides a summary of the values adopted within the appraisals, and also outlines our typology and cost assumptions.

Typology Assumptions

6.2 Table 6.1 outlines our typology assumptions for older persons housing. Note that our typologies are District-wide and on brownfield sites. The typologies appraised are generic typologies.

Table 6.1 – Older Persons Housing Typology Assumptions

	Scheme CC – Age Restricted / Sheltered Housing	Scheme DD – Assisted Living / Extra-Care Housing
No. of units	55	60
Development Density (dph)	125	100
1 Bed unit size (sqm)	50	60
2 Bed unit size (sqm)	75	80
Non-chargeable communal space (net-to-gross)	75%	65%

Source: AspinallVerdi

Value Assumptions

6.3 The Residential Marker Paper provides a market analysis of two completed retirement living / sheltered housing schemes we have identified in the study area:

- Wainwright Court, Kendal
- Queen Elizabeth Court, Kirkby Lonsdale

6.4 Taking the average achieved value across Wainwright Court and Queen Elizabeth Court, we have assumed the following values for sheltered housing / retirement living properties:

Table 6.2 - Retirement Living / Sheltered Housing Value Assumptions

No. of Beds	Assumed Unit Size	Unit Price	Price psm
1-Bed	50 sqm	£213,000	£4,260
2-Bed	75 sqm	£300,000	£4,000

Source: AspinallVerdi

6.5 We have then applied a 25% premium to establish a value for the extra-care housing. This is based on the Retirement Housing Group[78] base data evidence:

Table 6.3 - Extra-Care Housing Value Assumptions

No. of Beds	Assumed Unit Size	Unit Price	Price psm
1-Bed	60 sqm	£266,000	£4,433
2-Bed	80 sqm	£375,000	£4,687

Source: AspinallVerdi

Cost Assumptions

6.6 The table below outlines the cost assumptions:

Table 6.4 - Older Persons Housing Construction Cost Assumptions

Typologies	Build Cost	Comments
Sheltered Housing	£1,107 - £1,264 psm	Lower – Median BCIS. We have adopted the Median construction cost in our appraisals.
Extra Care Housing	+4%	Based on Retirement Housing Group Viability Base Data evidence[78].
External Works	+10%	These schemes generally have less external areas (e.g. less car parking). This is consistent with the higher development density assumptions.
Contingency	+3%	
Demolition / Site Clearance	£50,000 per acre	For brownfield typologies we have made an allowance of £50,000 per acre for site clearance / demolition.
'Normal' Abnormals	+3%	Having consulted with local stakeholders, we understand that typically sites in South Lakeland are undulating and not readily developable. Therefore, on all typologies we have included for 'normal' abnormals at 3% of build costs.

Source: AspinallVerdi

6.7 The other cost assumptions are the same as for the residential appraisals above.

[78] RHG Retirement Housing Group, Retirement Housing Viability Base Data (April 2013) / Briefing Paper for CIL Practitioners Retirement Housing and the Community Infrastructure Levy (June 2013) by Churchill Retirement Living and McCarthy and Stone

Land Values

6.8 For the purpose of the OHP appraisals, we have included a TLV of £240,000 per acre based on residential brownfield sites for the District (outside of Ulverston and Furness which is lower).

6.9 **Please see the important note on the application of TLVs under the Land Value assumptions in section 5.**

Viability Results

6.10 We have tested both Sheltered Housing and Extra-Care typologies across the District, focussing on previously developed land within the Service Centre locations.

6.11 Key viability issues for these typologies include:

- The high net-to-gross ratio compared to C3 apartment typologies which reduces the saleable area;
- The larger unit sizes which reduces the number of units that can be accommodated within a particular sales area;
- The higher build cost based on the gross area and BCIS data;
- The high development density which reduces the quantum of land assumed and therefore the TLV, but not by enough to off-set the above costs;

CC – Age Restricted / Sheltered Housing (District Wide, Brownfield)

6.12 Due to the above key viability issues, we have prepared three appraisals for typology CC, as follows:

- CC – this is the policy compliant scheme based on 35% affordable housing;
- CC(2) – this is an illustrative scheme which shows the quantum of affordable housing that could, in theory, be viable on-site; and
- CC(3) – this appraisal shows the same viable scheme, but calculates the equivalent maximum as a commuted sum.

6.13 These appraisals are enclosed at Appendix 6.

6.14 As you can see from the CC appraisal appended, the policy compliant scheme is viable (has a positive residual land value (RLV)), however is at the margins of viability because the threshold land value (TLV per acre) is greater than the RLV. Based on the assumptions outlined above, there is a small deficit of £21,300 per acre / £52,700 per hectare.

6.15 The CC(2) appraisal shows the maximum on-site affordable housing that generates a £1 balance / development surplus (34.5%). This is right on the margin of viability for plan-making purposes. Note on the sensitivity tables that any changes to the appraisal assumptions on the downside/negative, put the scheme straight into deficit. Note also that the sensitivity tables also show just a 1% reduction in profit and/or less than a £50,000 per acre change in TLV and the scheme would be viable.

6.16 The CC(3) appraisal shows the equivalent maximum as a commuted sum. This equates to £388 psm. **Again this is right on the margins of viability and we recommend that this is the maximum commuted sum that SLDC could contemplate for Sheltered/Age Restricted housing. It may be more appropriate to move away from the margins of viability and incorporate a lower commuted sum within the policy e.g. (say) £370 psm – which would give a 'buffer' of c. 5%**.

6.17 Note that the sensitivity tables on the CC(3) appraisal are redundant as there is 0% on-site affordable housing.

DD – Assisted Living / Extra-Care Housing (District Wide, Brownfield)

6.18 Similarly, due to key viability issues, we have prepared three appraisals for typology DD, as follows:

- DD – this is the policy compliant scheme based on 35% affordable housing;
- DD(2) – this is an illustrative scheme which shows the quantum of affordable housing that could, in theory, be viable on-site; and
- DD(3) – this appraisal shows the same viable scheme, but calculates the equivalent maximum as a commuted sum.

6.19 Again, these appraisals are enclosed at Appendix 6.

6.20 As you can see from the DD appraisal, the policy compliant scheme is unviable i.e. has a negative RLV of -£640,700 per acre / -£1,583,000 per hectare, with a deficit of £880,700 per acre / £2,176,000 per hectare from the TLV of £240,000 per acre.

6.21 The DD(2) appraisal shows the maximum on-site affordable housing that generates a £1 balance / development surplus (20%). This is right on the margin of viability for plan-making purposes. Note on the sensitivity tables that any changes to the appraisal assumptions on the downside/negative, put the scheme straight into deficit.

6.22 The DD(3) appraisal shows the equivalent maximum as a commuted sum. This equates to £249 psm. **Again this is right on the margins of viability and we recommend that this is the maximum commuted sum that SLDC could contemplate for Assisted Living / Extra Care housing. It may be more appropriate to move away from the margins of viability and incorporate a lower commuted sum within the policy e.g. (say) £235 psm – which would give a 'buffer' of c. 5%.**

Aspinall Verdi

6.23 Note that the sensitivity tables on the DD(3) appraisal are redundant as there is 0% on-site affordable housing.

6.24 Using the 'Goal Seek' function in appraisal DD (2), it is possible to establish the viable level of affordable housing on-site by changing the percentage of affordable housing on-site to derive a RLV with a £1 surplus over the TLV.

7 Retail

7.1 This section deals with all the A use classes.

Retail Market

7.2 We set out at Appendix 7 our Retail and Commercial Market research paper. This sets out our research in respect of high-street retail, supermarkets and retail warehouse development from both a national and a local context.

Retail GDV Assumptions

7.3 Table 7.1 below sets out our retail value assumptions for the appraisals based on the market research above (Appendix 7).

Table 7.1 - Retail Value Assumptions

Typology	Rent £psm	Yield %	Rent Free
Supermarkets (4,000 sqm)	£165 (£15.35 psf)	5.5%	12 months
Medium Supermarket (700 sqm)	£165 (£15.35 psf)	5.5%	6 months
Express Store (200 sqm)	£160 (£14.88 psf)	5.5%	6 months
Discount Supermarkets (1,700 sqm)	£155 (£14.42 psf)	5.5%	12 months
Retail Warehouses (350 sqm)	£120 (£11.16 psf)	6.0%	12 months

Source: AspinallVerdi

Retail Typologies

7.4 The retail typologies are based on the typologies used by the previous consultants to establish the current CIL Charging Schedule.

7.5 These have been updated based on the likely development coming forward across the District and general market trends.

7.6 Our retail typologies are set out on the typologies matrix at Appendix 2.

Retail Cost Assumptions

7.7 The development costs adopted within our appraisals are evidenced (where necessary) and set out below.

Initial Payments

7.8 Table 7.2 below shows the 'up-front' costs prior-to or at start-on-site for retail (and commercial) typologies.

Table 7.2 - Initial Payments Cost Assumptions

Item	Comment
Planning Application Professional Fees and Reports	Allowance for typology, generally 2 times statutory planning fees.
Statutory Planning Fees	Based on national formula.
CIL	This is the relevant CIL rate (£ psm) which is currently £167.58 for supermarkets and retail warehouses.
Site-Specific S106/S278	Site Specific Allowance for typology – note that this is in addition to external works costs.

Source: AspinallVerdi

Construction Costs

7.9 The table below (Table 7.3) summarises our build cost assumptions.

Table 7.3 - Build Cost Assumptions

Item	Cost	Comments
Demolition / Site Clearance	£50,000 per acre	For brownfield typologies we have made an allowance for site clearance / demolition.
Small Express Store / Town Centre Shop	£912 psm	As advised by LSH / SLDC.
Supermarkets	£1,166 psm	As advised by LSH / SLDC based on BCIS.
Retail Warehouses	£697 psm	As advised by LSH / SLDC based on BCIS.
External Works	15%	Industry standard.
Contingency	5% of the above construction costs	Industry standard.

Source: AspinallVerdi

Other Cost Assumptions

7.10 The table below summarises all the other costs which have factored into the appraisals (Table 7.4).

Table 7.4 - Other Cost Assumptions

Item	Cost	Comments
Professional Fees	8%	Typical allowance.
Disposal Costs	15% Letting Agents 5% Letting Legal 1% Investment Sale Agents 0.5% Investment Sale Legal 1% Marketing and Promotion	Industry standard. The sum total represents a more than adequate budget for most typologies / circumstances.
Finance Costs	6.25% interest rate	Based on 100% debt to include all funding fees.

Source: AspinallVerdi

Profit Assumptions

7.11 For the purposes of this EVA we have incorporate profit based on 20% of cost. This is the industry standard approach for retail and commercial developments.

Retail Land Value Assumptions

7.12 The Land Value Paper (Appendix 4) sets out our approach and analysis of the land market in South Lakeland. Our threshold land value (TLV) assumptions are set out below.

Table 7.5 - Retail Threshold Land Values

Typology	Location	GF / BF	EUV -					Uplift Multiplier	TLV -		Policy Adjustment	MV -	
			(per acre) (gross)	(per ha) (gross)	Net: Gross (%)	(per acre) (net)	(per ha) (net)	x [X] x [Y]%	(per acre) (net developable) (rounded)	(per ha) (net developable) (rounded)	- [X] %	(per acre) (net)	(per ha) (net) (rounded)
Retail	Within Development Boundaries	BF	£200,000	£494,200	100%	£200,000	£494,200	20%	£240,000	£593,040	n/a	n/a	n/a
Retail / Commercial	Outside Development Boundaries (most likely to be Ulverston Strategic Site)	GF	£10,000	£24,710	75%	£13,333	£32,947	20.0	£267,000	£659,000	55.6%	£600,000	£1,482,600

Source: AspinallVerdi (170703 Land Values Research_v3)

7.13 **Please see the important note on the application of TLVs under the Land Value assumptions in section 5.**

Retail Viability Results

7.14 We set out below the results of our viability appraisals. For ease of reference, the results are grouped into Small Express / Small Supermarket typologies and then Discount Store / Larger Supermarket / Retail Warehouse typologies.

7.15 The retail appraisals are appended in full at appendix 8. These include a summary table at the end of each group of appraisals (as above).

7.16 Note that in the discussion below we have rounded the values for ease of interpretation.

Small Express / Small Supermarket Typologies A-D

7.17 **These typologies are all viable** in that they deliver a positive RLV and a surplus of the RLV over the TLV – including CIL at £167.58.

7.18 The Small Express typologies generate the greatest surplus based on the lower build costs assumptions and higher development density. This is over £1.3 million per acre / £3.2 million per ha.

7.19 The Small Supermarket typologies generate a more modest surplus due to the higher construction costs and lower development density. For these schemes the surplus is over £275,000 per acre / £680,500 per hectare.

Discount Store / Large Supermarket / Retail Warehouses Typologies E-J

7.20 **These typologies are also all viable** in that they deliver a positive RLV and a surplus of the RLV over the TLV – including CIL at £167.58.

7.21 The Discount Store typology on the brownfield site (scheme E) generates the least surplus (RLV – TLV) at £40,000 per acre / £95,000 per hectare. This is due partly to the increased costs of site clearance and demolition. The equivalent greenfield typology (scheme F) has a development surplus of over £71,000 per acre / £177,300 per hectare.

7.22 Both the brownfield and greenfield Large Supermarket typologies (G and H) have a development surplus of over £190,000 per acre / £475,000 per hectare.

7.23 Again, the retail warehouse schemes (I and J) are both viable in that they deliver a positive RLV and a surplus of the RLV over the TLV – including CIL at £167.58.

7.24 The retail warehouse capital values are less than the supermarket typologies (lower rents and worse yields), however, the build costs assumptions are also correspondingly less. Consequently, these schemes are viable.

7.25 Both retail warehouse schemes generate a development surplus of over £117,000 per acre / £290,000 per hectare.

8 Commercial

8.1 This section deals with all the B use classes.

Commercial Market

8.2 We set out at Appendix 7 our Retail and Commercial Market research paper. This sets out our research in respect of office and industrial uses from both a national and a local context.

8.3 It is important to note that office and commercial uses are currently not charged CIL i.e. they fall within other £0 psm uses. This is because they were found to be unviable on a speculative basis by the previous CIL Viability Study.

Commercial GDV Assumptions

8.4 Table 8.1 below sets out our office and industrial value assumptions for the appraisals based on the market research above (Appendix 7).

Table 8.1 - Commercial GDV Assumptions

Typology	Rent £psm	Yield %	Rent Free
Kendal & Kendal Rural Offices	£125 (£11.63 psf)	8.0%	12 months
Cartmel & Ulverston Offices	£100 (£9.30 psf)	8.5%	12 months
Kendal, Cartmel & Ulverston Industrial	£55 (£5.12 psf)	8.5%	12 months
Kendal Rural Industrial	£75 (£6.98 psf)	8.0%	12 months

Source: AspinallVerdi

Commercial Typologies

8.5 The commercial typologies are based on the typologies used by the previous consultants to establish the current CIL Charging Schedule.

8.6 These have been updated based on the likely development coming forward across the District and general market trends.

8.7 Our commercial typologies are set out on the typologies matrix at Appendix 2.

Commercial Cost Assumptions

8.8 The development costs adopted within our appraisals are similar to the generic retail assumptions set out above. They are not repeated again here.

8.9 We have used the relevant Median BCIS Construction Cost rate (£ psm) within the appraisals.

Profit Assumptions

8.10 For the purposes of this EVA we have incorporate profit based on 20% of cost. This is the industry standard approach for retail and commercial developments.

8.11 Notwithstanding this all of the typologies result in a loss i.e. negative RLV due to the assumption of speculative development and their attendant costs and values.

Retail Land Value Assumptions

8.12 The Land Value Paper (Appendix 4) sets out our approach and analysis of the land market in South Lakeland. For completeness our threshold land value (TLV) assumptions are set out below.

Table 8.2 - Commercial Threshold Land Values

Typology	Location	GF / BF	EUV -					Uplift Multiplier	TLV -		Policy Adjustment	MV -	
			(per acre) (gross)	(per ha) (gross)	Net: Gross (%)	(per acre) (net)	(per ha) (net)	x [X] x [Y]%	(per acre) (net developable) (rounded)	(per ha) (net developable) (rounded)	- [X] %	(per acre) (net)	(per ha) (net) (rounded)
Commercial	Ulverston and Furness	BF	£150,000	£370,650	100%	£150,000	£370,650	20%	£180,000	£444,780	n/a	n/a	n/a
Commercial	All District (Excluding Ulverston & Furness)	BF	£200,000	£494,200	100%	£200,000	£494,200	20%	£240,000	£593,040	n/a	n/a	n/a

Source: AspinallVerdi (170908 Land Values Research_v4)

8.13 This is academic as the RLV is negative for the typologies appraised.

8.14 **Please see the important note on the application of TLVs under the Land Value assumptions in section 5.**

Commercial Viability Results

8.15 We have appraised various small and large office developments and small and large industrial schemes on both greenfield and brownfield sites and in various locations throughout the District.

8.16 **In all cases these typologies are not viable – even with £0 CIL**.

8.17 This is due to the relatively low rents, high yields and void assumptions one is required to make for speculative commercial development. This is compounded by the relatively high BCIS construction rate.

8.18 That is not to say that bespoke pre-let development cannot be delivered or indeed some speculative development in prime locations, however, the development appraisals show that the market is not strong enough to levy CIL on commercial development generally throughout the District.

9 Conclusions and Recommendations

9.1 In this section we draw together the results summary tables from the viability modelling.

Residential Uses

9.2 Based on the residential viability results above, we recommend that:

i the affordable housing policy of 35% is viable across the District having regard to the cumulative impact of the Plan policies including the current CIL Charge (£55.86 psm).

ii Rural Exceptions Sites (RES) are maintained as just that, exceptions. Any policy to enable affordable housing on RES schemes by the introduction of market housing has the potential to raise land values and landowners apply 'hope value' for future open market residential development. This outcome would not facilitate the delivery of affordable housing in rural areas.

9.3 Consequently, based on the assumptions, appraisals and sensitivity analyses' contained herein, the proposed Development Management Policies do not undermine the viability of residential development on the whole within the District. We acknowledge that there will always be schemes at the margins (depending on site specific characteristics), but the Core Strategy (policy CS 6.3) states that, exceptionally a lower requirement for affordable housing will be acceptable where there is clear, independently verified evidence that it would make the development unviable.

Supported Living

9.4 In addition to the above we make the following recommendations in respect of supported living typologies:

iii The *maximum* equivalent commuted sum for Age Restricted / Sheltered Housing is £388psm and it may be more appropriate to move away from the margins of viability and incorporate a lower commuted sum within the policy e.g. (say) £370 psm – which would give a 'buffer' of c. 5%. This is based on 34.5% (say 35%) affordable housing on-site.

iv The equivalent *maximum* commuted sum for the Assisted Living / Extra Care Homes is £249 psm. Again this is right on the margins of viability and it may be more appropriate to move away from the margins of viability and incorporate a lower commuted sum within the policy e.g. (say) £235 psm – which would give a 'buffer' of c. 5%. This is based on 20% affordable housing on-site.

Retail Uses

9.5 We have appraised various retail typologies (A Use Class) as described above in section 7. We have found varying levels of viability depending on the assumptions and hypothetical locations of the schemes (e.g. greenfield or brownfield). Based on our sampling we confirm that the *current* CIL rate remains viable:

v Supermarkets and retail warehouses - £167.58 psm CIL

Commercial Uses

9.6 Our appraisals show that commercial office and industrial development is not viable based on the assumptions of speculative development herein. We therefore recommend:

vi All commercial (office and industrial) uses - £0 CIL

9.7 In addition, we recommend that, in accordance with best practice, the plan wide viability is reviewed on a regular basis to ensure that the plan remains relevant as the property market cycle(s) change.

9.8 Furthermore, to facilitate the process of review, we recommend that the Council monitors the development appraisal parameters herein, but particularly data on land values across the District.

Appendix 1 – Policies Matrix

Appendix 2 – Typologies Matrix

Appendix 3 – Residential Market Paper

Appendix 4 – Land Value Paper

Aspinall Verdi

Appendix 5 – Residential Appraisals

Appendix 6 – Older Persons Housing Appraisals

Appendix 7 – Retail and Commercial Market Paper

Appendix 8 – Retail Appraisals

Appendix 9 – Commercial Appraisals

Appendix 10 – Stakeholder Workshop Slides and Attendees

Appendix 11 – Stakeholder Workshop Feedback Matrix