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# **Community Infrastructure Levy: Viability Study**

Prepared for  
Sheffield City Council

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# 1 Executive Summary

- 1.1 This report tests the ability of a range of development types throughout Sheffield to yield contributions to infrastructure requirements through the Community Infrastructure Levy ('CIL'). Levels of CIL have been tested in combination with the Council's other planning requirements, including the provision of affordable housing.

## Methodology

- 1.2 The study methodology compares the residual land values of a range of hypothetical developments to a range of benchmark land values (values at which it is assumed land will be brought forward for development, see paragraphs 3.6 to 3.19). If a development incorporating a given level of CIL generates a higher value than the benchmark land value, then it can be judged that the proposed level of CIL will be viable.
- 1.3 The study utilises the residual land value method of calculating the value of each development. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance and CIL) and developer's profit. CIL is included as a development cost. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site. This approach is adopted for both residential and commercial developments.
- 1.4 The housing and commercial property markets are inherently cyclical and the Council is testing its proposed rates of CIL at a time when values have fallen below their peak but have subsequently recovered to some degree. Despite this recovery, there is some uncertainty as to the likely short term trajectory of house prices. We have allowed for this by running a sensitivity analysis which tests a fall in sales values of 5%, to enable the Council to take a view on the impact of any adverse movements in sales values in the short term. We have also tested an increase in sales values of 10% and build costs by 5%. This analysis is indicative only, but is intended to assist the Council in understanding the levels of CIL that are viable in today's terms but also the impact of changing markets on viability. Our commercial appraisals incorporate sensitivity analyses on rent levels and yields.

## Key findings

- 1.5 The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be reviewed, if necessary, to reflect any future changes.
- 1.6 Our recommendations on levels of CIL are therefore summarised as follows:
- The ability of **residential schemes** to make CIL contributions varies depending on area, the current use of the site and the quantum of affordable housing that the Council will seek to secure. Having regard to these variations, residential schemes should be able to absorb an affordable housing quantum of 0% to 30% (depending on area) in combination with a **maximum** CIL rate of up to £70 per square metre in South West (Area 7), with lower rates in all other areas. Developments in areas 4 and 5 are unviable at the current time and we therefore suggest a

nil or nominal rate, if other evidence supports viability. CLG guidance requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount to the maximum rate, with discounts ranging from circa 30% to 50%. Taking a broad view across our appraisals, our suggested maximum and discounted rates are shown in Table 1.6.1:

**Table 1.6.1: Maximum CIL rates – residential**

Area	Maximum CIL £s per sqm	Discount to maximum CIL rate	Suggested CIL after buffer £s per sqm
Area 1 - Chapeltown / Ecclesfield, Rural Upper Don Valley	£70	57%	£30
Area 2 - City Centre	£100	50%	£50
Area 3 - City Centre West, Manor / Arbourthorne / Gleadless, North West, South East, Stocksbridge & Deepcar	£50	40%	£30
Area 4 - East	No viable developments	n/a	£10
Area 5 - North East	No viable developments	n/a	£0
Area 6 - South	£120	58%	£50
Area 7 - South West	£160	50%	£80

- Whilst the maximum rates are higher than the proposed rates, the buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and ‘shocking’ the market). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority’s judgement.
- Our appraisals indicate that, at the current time, **office, industrial and warehouse** developments are unlikely to be sufficiently viable to absorb CIL contributions. We would therefore suggest a nil rate on these types of development.
- Residual values generated by **Retail developments in the prime City Centre market and Meadowhall** are higher than current use values. However, to a degree retail development will involve the re-use of existing retail space, so the differential in value between current and newly developed space is modest in areas where rents are low. Our appraisals indicate that the development of new retail space is sufficiently viable to absorb CIL. In the prime City Centre market, we recommend a rate of £30 per square metre, which will allow for a substantial buffer below the maximum rate. At Meadowhall, we recommend a rate of £60 per square metre, which again will allow for a substantial buffer below the maximum rate.
- **Retail outside the prime City Centre and Meadowhall areas** is unlikely to generate significant surplus value and we recommend a nil CIL on these developments.

- **Retail park and superstore** developments are viable throughout the City and could also absorb a CIL contribution. Allowing a buffer below the maximum rates indicated by our appraisals, we would recommend a rate of £60 per square metre, which allows a 54% discount below the maximum rate.
- **Student housing** in the City generates sufficient surplus residual values to absorb a CIL of up to £50 per square metre. After allowing for a buffer for site-specific factors, we suggest a rate of £30 per square metre.
- **Hotel developments** are able to absorb a maximum CIL of £100 per square metre when built on sites with higher existing use values. After allowing a buffer for site-specific factors, we suggest a rate of £40 per square metre).
- **D1 and D2** uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 and D2 uses.
- **D2 out of town leisure** development has been seen in the City and the Council expects to receive significant amounts of additional development of this type. Our appraisals indicate that this type of development could absorb a CIL of up to £60 per square metre. After allowing a buffer for site-specific factors and other risks, a CIL of £30 per square metre could be levied.
- **Car showrooms** are another development type that the Council anticipates will be significant over the life of the Charging Schedule. Our appraisals of this type of development indicate that they are unlikely to generate sufficient surpluses to absorb a CIL contribution.

1.7 The suggested CIL rates are summarised in Table 1.7.1, with buffers below the maximum rate ranging from 40% to 80%. Clearly there is an option of simplifying the residential rates by combining some of the areas together, given the relatively small differences in rates of CIL. An option of combined rates is provided in Table 1.7.2, with buffers below the maximum rate ranging from 40% to 58%.

**Table 1.7.1: Proposed CIL rates**

Development type	Proposed CIL rate						
	Area 1	Area 2	Area 3	Area 4	Area 5	Area 6	Area 7
Residential	£30	£50	£30	£10	Nil	£50	£80
Student Housing	£30						
Hotel	£40						
Retail (City centre)	£30						
Retail (Meadowhall)	£60						
Retail park/ superstores	£60						
Out of town leisure	£30						
All other uses	Nil						

**Table 1.7.2: Optional combined rates for residential**

Development type	Proposed CIL rate		
	Areas 2 and 6	Areas 1 and 3	Area 7
Residential	£50	£30	£80
Student Housing	£30		
Hotel	£40		
Retail (City centre)	£30		
Retail (Meadowhall)	£60		
Retail park/ superstores	£60		
Out of town leisure	£30		
All other uses	Nil		

- 1.8 For developments in the City, the application of CIL of is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme value, CIL will be a modest amount, typically accounting for between 0.75% and 2.62% of value (see Table 1.8.1). This is lower than a typical contingency allowance that developers include in their appraisals. At the rates proposed, CIL is a marginal factor that is unlikely to have a significant impact upon the viability of development of the area as a whole.

**Table 1.8.1: CIL as a proportion of scheme value**

Development type	Suggested CIL after buffer (£s per sqm)	CIL as % of development costs <sup>1</sup>
Residential	Areas 1 and 3 - £30 Area 7 - £0	Area 3 - 2.1% Area 6 - 2.5%
Student Housing	£30	1.24%
Hotel	£40	0.99%
Retail (City centre)	£30	0.78%
Retail (Meadowhall)	£60	0.75%
Retail park/ superstores	£60	2.62%
Out of town leisure	£30	1.68%

<sup>1</sup> The percentages here assume that CIL is levied on the entire floorspace of the development (except for affordable housing, which benefits from social housing relief) and that there is no deduction for existing floorspace. These percentages therefore represent the worst case scenario.

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## 2 Introduction

- 2.1 This study has been commissioned to contribute towards an evidence base to inform Sheffield City Council's ('the Council') CIL Draft Charging Schedule ('DCS'), as required by Regulation 14 of the CIL Regulations April 2010 (as amended). The aims of the study are summarised as follows:
- to test the impact of a range of CIL rates upon the economics of residential development;
  - for residential schemes, to test CIL alongside the Council's requirements for affordable housing and other planning obligations; and
  - to test the ability of commercial schemes to make a contribution towards infrastructure through CIL.
- 2.2 We have adopted a standard residual valuation approach to testing the impact on development viability of a range of levels of CIL, with CIL incorporated as a development cost. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique), mean that conclusions must always be tempered by a level of flexibility in application of policy requirements on a site by site basis. It is therefore essential that levels of CIL are set so as to allow a sufficient margin to allow for these site specific variations.

### CIL Policy Context

- 2.3 As of April 2015 or the adoption of a CIL Charging Schedule (whichever is the sooner), the current S106/planning obligations system i.e. the use of 'pooled' S106 obligations will be limited. The adoption of a CIL Charging Schedule is discretionary for the Council; however, the scaling back of the use of pooled S106 obligations is not discretionary. As such, should the Council elect not to adopt a CIL Charging Schedule, it is likely to have significant implications with regard to funding infrastructure in the city and the Council will need to be aware of such implications in their decision-making.
- 2.4 It is worth noting that some site specific S106 obligations will remain available for negotiation after the adoption of CIL/April 2015. However these will be restricted to site specific mitigation and to the provision of affordable housing. They cannot be used for securing payments towards infrastructure that benefit more than one development.
- 2.5 The CIL regulations enable local authorities to set differential rates (including zero rates) for different zones within which development would take place and also for different types of development. The amendment to the Statutory CIL Guidance in April 2013 clarified that CIL Regulation 13 permits charging authorities to levy 'differential rates by reference to different intended uses of development provided that the different rates can be justified by a comparative assessment of the economic viability of those categories of development. The definition of "use" for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987, although that Order does provide a useful reference point.' (Para 35).
- 2.6 The CIL regulations state that in setting a charge, local authorities must strike "*an appropriate balance*" between revenue maximisation on the one hand and the potentially adverse impact upon the viability of development on the other. The regulations also state that local authorities should take account of other sources of available funding for infrastructure when setting CIL rates. This

report deals with viability only and does not consider other sources of funding (this is considered elsewhere within the Council's evidence base).

- 2.7 The payment of CIL becomes mandatory on all new buildings and extensions to buildings with a gross internal floorspace over 100 square metres once a charging schedule has been adopted. The CIL regulations allow a number of reliefs and exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if controlled by a charity) are subject to relief. Secondly, local authorities may, if they choose, elect to offer an exemption on proven viability grounds. A local authority wishing to offer exceptional circumstances relief in its area must first give notice publicly of its intention to do so. The local authority can then consider claims for relief on chargeable developments from landowners on a case by case basis. In each case, an independent expert with suitable qualifications and experience must be appointed by the claimant with the agreement of the local authority to assess whether paying the full CIL charge would have an unacceptable impact on the development's economic viability.
- 2.8 The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed. To be eligible for exemption, regulation 55 states that the Applicant must enter into a Section 106 agreement and that the Authority must be satisfied that granting relief would not constitute state aid. It should be noted however that CIL cannot simply be negotiated away or the local authority decide not to charge CIL.
- 2.9 At present CIL Regulation 40 includes a vacancy period test for calculating CIL liability so that vacant floorspace can be offset in certain circumstances. That is where a building has not been in lawful use for a continuous period of at least six months within the last 12 months, ending on the day planning permission first permits the chargeable development, the floorspace may not be offset. However, forthcoming amendments to the Regulations will extend the vacancy test to occupation of a building for 6 months in the previous 3 years before planning is granted.
- 2.10 The 2010 regulations set out clear timescales for payment of CIL, which varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allow local authorities to set their own timescales for the payment of CIL if they choose to do so. This is an important issue that the Council will need to consider, as the timing of payment of CIL can have an impact on an Applicant's cashflow (the earlier the payment of CIL, the more interest the Applicant will bear before the development is completed and sold).
- 2.11 Local authorities must consult relevant stakeholders on the nature and amount of any proposed CIL at two stages; after publication of the Preliminary Draft Charging Schedule ('PDCS') and the Draft Charging Schedule ('DCS'). Following consultation, a charging schedule must be submitted for independent examination.
- 2.12 Several local authorities have undertaken viability assessments and have drafted CIL charging schedules, which they have submitted for independent examination. To date, a number of charging authorities (including *inter alia* the Mayor of London, Portsmouth, Newark and Sherwood, Huntingdonshire, Wandsworth, Shropshire, Bristol, Poole, Mid-Devon, Waveney, Brent, Barnet, Croydon, Harrow, Wycombe, Plymouth, Exeter, Waltham Forest, Chelmsford, Bedford, Islington and Redbridge) have been through the examination process and are at various stages of implementation.



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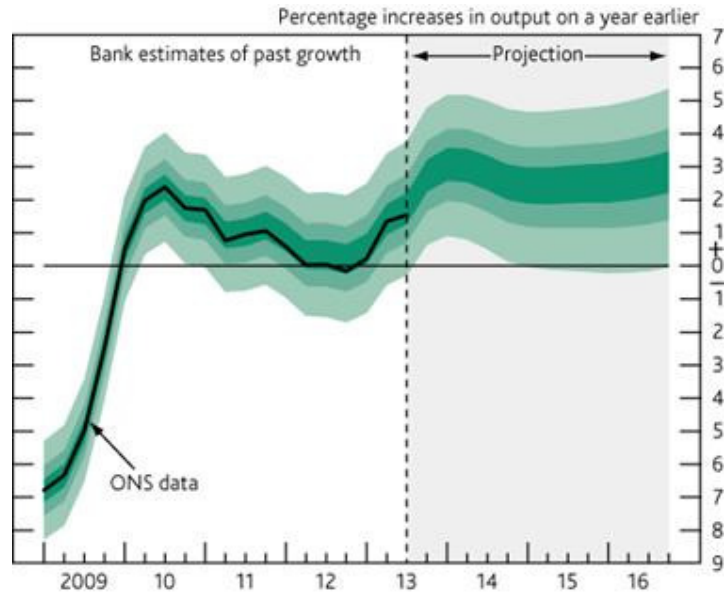
## Key planning requirements

- 2.13 The Council's key planning requirements are set out in the '*Sheffield Development Framework Core Strategy*', adopted in March 2009 and '*Sheffield Local Plan City Policies and Sites (Pre-Submission)*' (April 2013). In addition to financing infrastructure, the Council expects residential developments to provide a mix of affordable housing tenures, sizes and types to help meet identified housing needs and contribute to the creation of mixed, balanced and inclusive communities. Policy CS40 of the Council's Core Strategy (adopted on 4 March 2009) states that "*In all parts of the city, developers of all new housing developments will be required to contribute towards the provision of affordable housing where this is practicable and financially viable*". The Council's 'Affordable Housing Interim Planning Guidance ('IPG') 2009 Update indicates that the Council will seek affordable housing from schemes providing 15 or more units (or 60 or more student bed spaces in purpose built student housing schemes). The Council will seek contributions to affordable housing in all parts of the city where it is practicable and financially viable, with a tenure mix negotiated on a site by site basis, taking account of strategic priorities and the need for particular types of homes in each area. However, this IPG is in the process of being updated for 2014 to reflect the latest economic conditions and proposed CIL charges. It is likely that targets will be reduced to reflect the assumptions referred to in paragraphs 1.6 and 4.4. For the purposes of our appraisals, we have assumed a tenure mix of 50% rented and 50% shared ownership. The Council's requirements are applied flexibly, having regard to individual site circumstances, including viability of development.

## Economic and housing market context

- 2.14 The historic highs achieved in the UK housing market by mid 2007 followed a prolonged period of real house price growth. However, a period of 'readjustment' began in the second half of 2007, triggered initially by rising interest rates and the emergence of the US sub prime lending problems in the last quarter of 2007. The subsequent reduction in inter-bank lending led to a general "credit crunch" including a tightening of mortgage availability. The real crisis of confidence, however, followed the collapse of Lehman Brothers in September 2008, which forced the government and the Bank of England to intervene in the market to relieve a liquidity crisis.
- 2.15 The combination of successive shocks to consumer confidence and the difficulties in obtaining finance led to a sharp reduction in transactions and a significant correction in house prices in the UK, which fell to a level some 21% lower than at their peak in August 2007 according to the Halifax House Price Index. Consequently, residential land values fell by some 50% from peak levels. One element of government intervention involved successive interest rate cuts and as the cost of servicing many people's mortgages is linked to the base rate, this financial burden has progressively eased for those still in employment. This, together with a return to economic growth early 2010 (see Figure 6.1.1, November 2013 Bank of England GDP fan chart below, showing the range of the Bank's predictions for GDP growth to 2016) has meant that consumer confidence continued to improve.

**Figure 6.1.1 November 2013 Bank of England GDP fan chart**



**Source: Bank of England**

- 2.16 Throughout the first half of 2010 there were some tentative indications that improved consumer confidence was feeding through into more positive interest from potential house purchasers. Against the background of a much reduced supply of new housing, this would lead one to expect some recovery in prices. However, this brief resurgence abated with figures falling and then fluctuating in 2011 and 2012, with the Halifax House Price Indices showing a fall of 0.6% in the year to March 2012. The Halifax attributed some of the recovery during that period to first time buyers seeking to purchase prior to the reintroduction of Stamp Duty from 1 April 2012. The signs of improvement in the housing market towards the end of 2012 continued through 2013 and into 2014 and both The Halifax and Nationwide continue to report positively in their January 2013 Housing Price Index updates. They both refer to the housing market's escalating improvement, referencing the improvement in employment and improving confidence.
- 2.17 Nationwide's economist, Robert Gardner, identifies that, 'The housing market is continuing to gather momentum on the back of further solid gains in employment, record low mortgage rates and rising confidence.' Whilst The Halifax's economist Martin Ellis reports that, 'Mounting signs that the economic recovery is becoming firmly established, together with a predicted decline in unemployment, should further boost consumer confidence over the coming months. This will increase the likelihood that more people will consider buying a property in 2014, therefore supporting housing demand.'
- 2.18 Both reports refer to an increase in market activity, however Nationwide is more positive stating that, 'there have been encouraging signs that activity levels in the housing market are also gradually returning towards more normal levels. According to HMRC, the total number of housing transactions increased to 103,000 in December, 30% higher than the same month in 2012. The pickup in activity appears to be fairly broad-based, and it is encouraging that first time buyers are a key driving factor behind the upturn.'
- 2.19 The Halifax however refers to a potential for increase in activity as a result of,

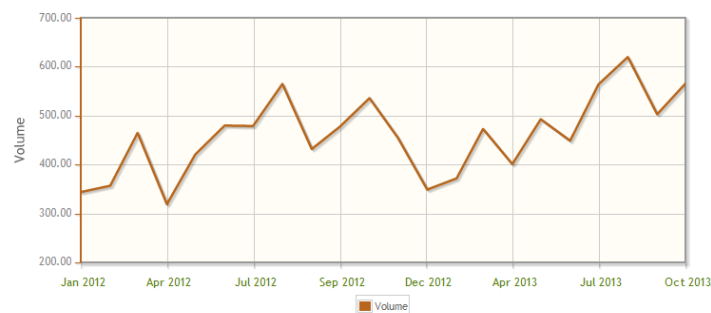
'the recent strengthening in house prices' [which] is increasing the amount of equity that many homeowners have in their home. This will potentially encourage and enable more owners to put their property on the market for sale over the coming year, therefore boosting supply. Indeed, our consumer confidence research shows that there has been a significant improvement in sentiment towards selling in recent months. These factors should help to curb the upward pressure on prices.'

- 2.20 Nationwide highlights that house prices, 'recorded their thirteenth successive monthly increase in January 2014, rising by 0.7% on the month', however the rate of increase fell slightly compared with that recorded in December 2013, which was 1.4%. Notwithstanding this, the price of a typical home was 8.8% higher than January 2013 and 'House prices are now around 4% below the 2007 peak'. The Halifax reports that, 'House prices in the final three months of 2013 were 1.9% higher than in the previous three months. This was within the narrow range of 1.8 - 2.1% for this measure recorded in each of the preceding six months. The annual rate of price increase fell slightly compared with last month with prices in the three months to December, 7.5% higher than in the same three months last year.'
- 2.21 On this basis, the outlook for the UK economy and house prices would appear to be improving and we expect prices to continue to rise in 2014.

**Figure 2.21.1: House prices in Sheffield**



**Figure 2.21.2: Sales volumes in Sheffield**



Source: Land Registry

- 2.22 According to Land Registry data, residential sales values in Sheffield have recovered since the lowest point in the cycle in June 2009. Between January 2012 and December 2013, prices in Sheffield increased by 3.8%.

- 2.23 The future trajectory of house prices is currently uncertain, although Savills' current prediction is that values are expected to increase in the UK as a whole over the next five years. Medium term predictions are that properties in mainstream Yorkshire & Humberside markets<sup>2</sup> will fall over the period between 2012 to 2016<sup>3</sup>. Savills predict that values in these markets will increase by 5% in 2014, 4.5% in 2015, 3.5% in 2016, 3.5% in 2017 and 2.5% in 2018. This equates to a cumulative increase of 20.5% between 2014-2018 inclusive, compared to a UK average of 25.2% cumulative growth over the same period. At the time of completing our first CIL Viability Study (finalised in January 2013), Savills were predicting a fall of -2% over the period 2012 – 2016 inclusive. Prospects for the Sheffield housing market have therefore improved markedly.

### **Development context**

- 2.24 Developments in the city are diverse, reflecting its part 'inner-urban' and part suburban characteristics<sup>4</sup>. Sites in the city range from major regeneration sites in former B2 or B8 use; major regeneration schemes on former residential sites; to small in-fill sites in residential areas. Over the past decade, the developments in the city have increased in density, with the densest schemes located in the City Centre close to transport hubs.
- 2.25 There are significant variations in residential sales values between different parts of Sheffield, with the East and North East areas having the lowest values, and South and South West Sheffield and the City Centre having the highest values.

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<sup>2</sup> Savills do not publish forecasts for individual cities, only regions.

<sup>3</sup> *Savills Research: Residential Property Focus, Quarter 4 2013*

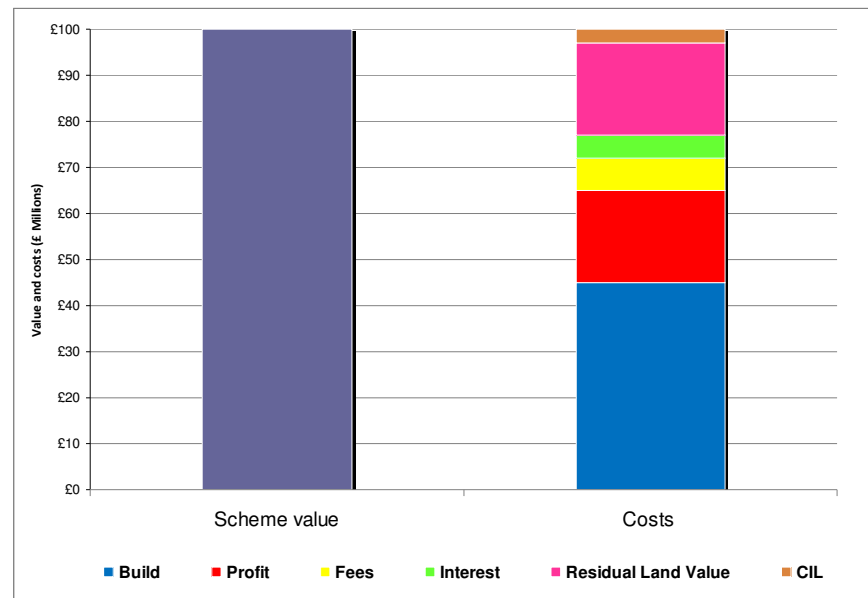
<sup>4</sup> Sheffield City Council is the planning authority for the metropolitan area of Sheffield, but not the parts of the Peak District National Park which lie within its borders.

## 3 Methodology and appraisal inputs

- 3.1 Our methodology follows standard development appraisal conventions, using assumptions that reflect local market and planning policy circumstances. The study is therefore specific to Sheffield and reflects the Council's planning policy requirements.

### Approach to testing development viability

- 3.2 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar<sup>5</sup>. In the case of a residential scheme, this includes the sales receipts from the private housing and the payment from a Registered Social Landlord ('RSL') for the completed affordable housing units. The model then deducts the build costs, fees, interest, CIL (at varying levels and included as a development cost) and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the pink portion of the right hand bar in the diagram.



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

<sup>5</sup> In this particular example, we are assuming a residential scheme, with the private housing value represented by the blue portion of the bar and the affordable housing value represented by the red portion of the bar. For a commercial scheme, the value would be arrived at by calculating the investment value of the rental income receivable from tenants.

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

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

### Viability benchmark

- 3.6 The CIL Regulations provide no specific guidance on how local authorities should test the viability of their proposed charges. However, there is a range of good practice generated by both the Homes and Communities Agency and appeal decisions that assist in guiding planning authorities on how they should approach viability testing for planning policy purposes.
- 3.7 In 2009, the Homes and Communities Agency published a good practice guidance manual 'Investment and Planning Obligations: Responding to the Downturn'. This defines viability as follows: "*a viable development will support a residual land value at level sufficiently above the site's existing use value<sup>6</sup> (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner*".
- 3.8 A number of planning appeal decisions provide guidance on the extent to which the residual land value should exceed existing use value to be considered viable:

**Barnet & Chase Farm: APP/Q5300/A/07/2043798/NWF**

*"the appropriate test is that the value generated by the scheme should exceed the value of the site in its current use. The logic is that, if the converse were the case, then sites would not come forward for development"*

**Bath Road, Bristol: APP/P0119/A/08/2069226**

*"The difference between the RLV and the existing site value provides a basis for ascertaining the viability of contributing towards affordable housing."*

**Beckenham: APP/G5180/A/08/2084559**

*"without an affordable housing contribution, the scheme will only yield less than 12% above the existing use value, 8% below the generally accepted margin necessary to induce such development to proceed."*

**Oxford Street, Woodstock: APP/D3125/A/09/2104658**

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

<sup>6</sup> This term should not be confused with the RICS *Red Book* definition. Existing Use Value in this context is taken to mean the value of the site in its current use, disregarding opportunities for redevelopment of the site for other uses.

*Appellants addition of the 10% premium is not unreasonable in these circumstances.”*

- 3.9 The guidance issued by the Local Housing Delivery Group<sup>7</sup> ('LHDG') on 22 June 2012 advocates the use of current use value plus an appropriate premium as a benchmark for testing CIL and local plan policy requirements.
- 3.10 It is clear from the LHDG guidance, planning appeal decisions and HCA good practice publication that the most appropriate test of viability for planning policy purposes is to consider the residual value of schemes compared to the existing or current use value plus a premium. As discussed later in this report, our study adopts a range of benchmark land values, reflecting differing circumstances in which sites are brought forward.
- 3.11 The recent examination on the Mayor of London's CIL charging schedule considered the issue of an appropriate land value benchmark. The Mayor had adopted existing use value, while certain objectors suggested that 'Market Value' was a more appropriate benchmark. The Examiner concluded that:
- “The market value approach... while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context.” (para 8) and that “I don't believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done” (para 9).*
- 3.12 In his concluding remark, the Examiner points out that
- “the price paid for development land may be reduced [so that CIL may be accommodated]. As with profit levels there may be cries that this is unrealistic, but a **reduction in development land value is an inherent part of the CIL concept**. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges. (para 32 – emphasis added).*
- 3.13 It is important to stress, however, that there is no single benchmark land value at which land will come forward for development. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of demand for the site's current use in comparison to others; how offers received compare to the owner's perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single benchmark land value, it is difficult for policy makers to determine the minimum land value that sites should achieve. This will ultimately be a matter of judgement for each individual Charging Authority. Our approach to determining benchmark land values is discussed at paragraphs 4.25 to 4.36.
- 3.14 Respondents to the PDCS consultation have made various references to the RICS Guidance on 'Viability in Planning' and have suggested that the Council should run its analysis on market values. This would be an extremely

<sup>7</sup> This group was led by the Homes and Communities Agency and comprises representatives from the National Home Builders Federation, the Royal Town Planning Institute, local authorities and valuers (including BNP Paribas Real Estate).

misleading measure against which to test viability, as market values should reflect *existing policies already in place*, and would consequently tell the Council nothing as to how future policies might impact on viability. It has been widely accepted elsewhere that market values are inappropriate for testing levels of CIL.

- 3.15 The issue of viability benchmarks has been considered at length by the Local Housing Delivery Group. The Harman Guidance counsels against using market values in testing of planning policies and CIL. Relying upon historic transactions is a fundamentally flawed approach, as offers for these sites will have been framed in the context of current planning policy requirements, so an exercise using these transactions as a benchmark would tell the Council nothing about the potential for sites to absorb as yet unadopted policies. Various CIL examiners have accepted the key point that CIL will ultimately result in a reduction in land values, so benchmarks must consider a reasonable minimum threshold which landowners will accept. For local authority areas such as Sheffield, where most sites have been previously developed, the 'bottom line' in terms of land value will be the value of the site in its existing use. This fundamental point is recognised by the RICS at paragraph 3.4.4. of their Guidance Note on 'Financial Viability in Planning':

*"For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted should be able to meet the cost of planning obligations while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project (the NPPF refers to this as 'competitive returns' respectively). The return to the landowner will be in the form of a land value in excess of current use value".*

- 3.16 The Guidance goes on to state that "*it would be inappropriate to assume an uplift based on set percentages ... given the diversity of individual development sites*".

- 3.17 However, given that the Viability Study is not testing specific sites, it is not possible to reflect the individual nature of all sites, so it is necessary to introduce some set percentages in terms of uplifts above current use values. This approach has been accepted at numerous other CIL examinations, including the Mayoral CIL examination, where the RICS-preferred approach was considered and rejected.

- 3.18 Other respondents also make reference to 'market testing' of CIL rates. This is another variant of the benchmarking advocated by respondents outlined at paragraph 3.15. These respondents advocate using benchmarks that are based on the prices that sites have been bought and sold for. There are significant weaknesses in this approach which none of the respondents who advocate this have addressed. In brief, prices paid for sites are a highly unreliable indicator of their actual value, due to the following reasons:

- Transactions are often based on bids that 'take a view' on squeezing planning policy requirements below target levels. This results in prices paid being too high to allow for policy targets to be met. If these transactions are used to 'market test' CIL rates, the outcome would be unreliable and potentially highly misleading.
- Historic transactions of housing sites are often based on the receipt of grant funding, which is no longer available.
- There would be a need to determine whether the developer who built out the comparator sites actually achieved a profit at the equivalent level



to the profit adopted in the viability testing. If the developer achieved a sub-optimal level of profit, then any benchmarking using these transactions would produce unreliable and misleading results.

- Developers often build assumptions of growth in sales values into their appraisals, which provides a higher gross development value than would actually be achieved today. Given that our appraisals are based on current values, using prices paid would result in an inconsistent comparison (i.e. current values against the developer's assumed future values). Using these transactions would produce unreliable and misleading results.

3.19 For the reasons set out above, the approach of using current use values is a more reliable indicator of viability than using market values or prices paid for sites, as advocated by certain respondents.

## 4 Development appraisals

### Residential development

- 4.1 We have appraised a series of hypothetical developments, reflecting both the range of sales values/capital values and also sizes/types of development and densities of development across the City. The inputs to the appraisals are based on research on the local housing markets. CIL (at varying levels) is incorporated as a development cost into all the appraisals.

### Residential sales values

- 4.2 Residential values in the City reflect national trends in recent years but do of course vary between different sub-markets. We have considered comparable evidence of both transacted properties in the area and properties currently on the market to establish appropriate values for testing purposes. This exercise indicates that developments in the City will attract average sales values ranging from circa £1,292 to £2,368 per square metre (see Table 4.2.1).

**Table 4.2.1: Average sales values used in appraisals**

Area	Average values £s per sq ft	Average values £s per sq m
Area 1 - Chapeltown/Ecclesfield, Rural Upper Don Valley	£180	£1,938
Area 2 - City Centre	£200	£2,153
Area 3 - City Centre W, Manor/Arb/Gld/NW/SE/S&D	£170	£1,830
Area 4 - East	£120	£1,292
Area 5 - North East	£130	£1,399
Area 6 - South	£200	£2,153
Area 7 - South West	£220	£2,368

- 4.3 As noted earlier in the report, Savills predict that sales values across the Yorkshire and Humberside region will increase by a circa 20% over the next five years. To test the impact of the potential fall in sales values, we have modelled a sensitivity analysis with a fall in prices of 5%, to provide the Council with an indication of the impact of a reverse in values would have on viability. We have also tested the impact of growth in sales values of 10%, accompanied by 5% increase in costs (the latter assuming a pick up in construction activity and higher labour and materials costs).

### Affordable housing tenure and values

- 4.4 The Council's policy position is that developers of all new housing developments will be required to contribute towards the provision of affordable housing where this is practicable and financially viable, with a tenure mix to be negotiated on a site-by-site basis. For the purposes of our appraisals, we have assumed a tenure mix of 50% rented housing and 50% intermediate housing.
- 4.5 The Council accepts the new Affordable Rent tenure, with rents of up to 80% of market rents. The Council does not restrict rent levels below this maximum level, but the Registered Provider is expected to ensure the rents are affordable and have due regard to limits imposed by the Universal Credit and Local Housing Allowances. This requires that rents are set at lower

proportions of market rents for larger properties. For modelling purposes, we have assumed that rents are no higher than the relevant local housing allowance.

- 4.6 The CLG/HCA '2011-2015 Affordable Homes Programme – Framework' (February 2011) document clearly states that RSLs will not receive grant funding for any affordable housing provided through planning obligations. Consequently, all our appraisals assume nil grant. We recommend that the Council revisits this assumption when it next reviews its charging schedule, by which time a new funding programme may have been introduced by central government.
- 4.7 For shared ownership units, we have assumed that RSLs will sell 25% to 50% initial equity stakes and charge a rent of 2.75% on the retained equity. A 10% charge for management is deducted from the rental income and the net amount is capitalised using a yield of 5.25%.
- 4.8 For the purposes of determining CIL rates for the various areas within the City, the Council has instructed us to assume the affordable housing percentages shown in Table 4.8.1.

**Table 4.8.1: Affordable housing percentage targeted in each sub market**

Area	Proposed affordable housing requirement (% of units)
Area 1 - Chapeltown / Ecclesfield, Rural Upper Don Valley	10%
Area 2 - City Centre	0%
Area 3 - City Centre West, Manor / Arbourthorne / Gleadless, North West, South East, Stocksbridge & Deepcar	10%
Area 4 - East	0%
Area 5 - North East	0%
Area 6 - South	30%
Area 7 - South West	30%

#### **Residential development types, density and mix**

- 4.9 We have run appraisals using the range of densities that are typically encountered in the City. Tables 4.9.1 and 4.9.2 summarise the different development typologies formulated for testing purposes. These are intended to reflect the range of developments across the City.

**Table 4.9.1: Unit Mix**

Site type	1 Bed flat	2 bed flat	3 bed flat	2 bed house	3 bed house	4 bed house
Unit size	50 sqm	65 sqm	85 sqm	75 sqm	95 sqm	110 sqm
1	-	-	-	39%	31%	30%
2	35%	45%	20%	0%	0%	0%
3	10%	10%	-	20%	35%	25%
4	-	-	-	25%	40%	35%
5	5%	15%		35%	35%	10%
6	45%	35%	20%			
7	-	-	-	35%	45%	20%
8	-	-	-	50%	35%	15%
9	-	-	-	45%	45%	10%

**Table 4.9.2: Development typologies**

Site type	Number of units	Housing type	Development density units per ha	Gross site area (ha)
1	4	Houses	40	0.10
2	12	Flats	100	0.12
3	25	Houses and flats	75	0.33
4	50	Houses	40	1.25
5	75	Houses and flats	75	1.00
6	100	Flats	100	0.67
7	100	Houses	100	2.50
8	125	Houses – higher density	125	2.78
9	150	Houses – higher density	150	3.33

#### Residential build costs

- 4.10 We have sourced build costs for the residential schemes from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes. In addition to the build costs outlined below, our appraisals include a contingency of 5% of build costs. The bulk of development across the City will be houses, with some flats on some schemes in more central areas.
- 4.11 Median BCIS costs for houses in the City are £776 per square metre and £903 per square metre for flats.
- 4.12 We have added 15% to the base costs to account for external works, which are not accounted for by BCIS. This assumption is based on an average cost for external works on live developments.
- 4.13 A further 6% is added to the base costs to account for the cost of meeting Code for Sustainable Homes level 4. This assumption is based on the CLG

studies in 2008 and 2010.

- 4.14 For flats, we have assumed a gross to net ratio of 85%. The difference between the gross area of the building and the net saleable area relates to the entrances and stair cores. This ratio is considered suitable for low rise blocks of flats that will not require significant common space. Although the City has seen some high rise flatted schemes, these are unlikely to come forward during the life of the CIL charging schedule as they will be uneconomic to build in the absence of a significant increase in sales values.

#### **Professional fees**

- 4.15 In addition to base build costs, schemes will incur professional fees, covering design, valuation, highways consultants and so on. Our appraisals incorporate an allowance of 10%, covering all professional inputs and planning fees, EPCs and NHBC costs.
- 4.16 Our appraisals incorporate an allowance of 3% of GDV to cover marketing costs. An additional £600 per unit is included for legal costs on sales.

#### **Finance costs**

- 4.17 Our appraisals incorporate finance costs on land and build at 7%.

#### **Stamp duty and acquisition costs**

- 4.18 We include stamp duty at 4% of land costs, agents fees of 1% and legal fees on acquisition of 0.8%.

#### **Section 278 and residual Section 106 costs**

- 4.19 Our appraisals incorporate an allowance of £1,000 per unit to address any Section 278 and residual Section 106 costs. This accords with the Council's evidence of sums sought on planning applications in the City.

#### **Development and sales periods**

- 4.20 Development and sales periods vary between type of scheme. However, our sales periods are based on an assumption of a sales rate of 2 to 4 units per month. This is reflective of current market conditions, whereas in improved markets, a sales rate of up to 6 units per month might be expected. The build and sales periods for each scheme type are summarised in Table 4.37.1 below.

#### **Developer's profit**

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

it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals.

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

#### **Phasing of CIL payments**

- 4.25 The Council is yet to formulate its instalment policy. For testing purposes, we have assumed that any CIL due will be split into three equal instalments, payable at the months shown in Table 4.37.1. In practice, the Council may wish to consider whether this split is appropriate. For smaller payments, for example, a single instalment or two instalments may be simpler to administer.

#### **Benchmark land values for the residential analysis**

- 4.26 Benchmark land values, based on the current use value or alternative use value of sites are key considerations in the assessment of development economics for testing planning policies and tariffs. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the land's current use value. Current use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. Current use value or alternative use value are effectively the 'bottom line' in a financial sense and therefore a key factor in this study.
- 4.27 We have arrived at a broad judgement on the likely range of benchmark land values. On previously developed sites, the calculations assume that the landowner has made a judgement that the current use does not yield an optimum use of the site; for example, it has fewer storeys than neighbouring buildings; or there is a general lack of demand for the type of space, resulting in low rentals, high yields and high vacancies (or in some cases no occupation at all over a lengthy period). We would not expect a building which makes optimum use of a site and that is attracting a reasonable rent to come forward for development, as residual value may not exceed current use value in these circumstances.
- 4.28 In considering the value of sites in existing commercial use, it is necessary to understand the concept of 'yields'. Yields form the basis of the calculation of a building's capital value, based on the net rental income that it generates. Yields are used to calculate the capital value of any building type which is rented, including both commercial and residential uses. Yields are used to

calculate the number of times that the annual rental income will be multiplied to arrive at a capital value. Yields reflect the confidence of a potential purchaser of a building in the income stream (i.e. the rent) that the occupant will pay. They also reflect the quality of the building and its location, as well as general demand for property of that type. The lower the covenant strength of the occupier (or potential occupiers if the building is currently vacant), and the poorer the location of the building, the greater the risk that the tenant may not pay the rent. If this risk is perceived as being high, the yield will be high, resulting in a lower number of years rent purchased (i.e. a lower capital value).

- 4.29 Over the past four years, yields for commercial property have ‘moved out’ (i.e. increased), signalling lower confidence in the ability of existing tenants to pay their rent and in future demand for commercial space. This has the effect of depressing the capital value of commercial space. However, as the economy recovers, we would expect yields to improve (i.e. decrease), which will result in increased capital values. Consequently, current use values might increase, increasing the base value of sites that might come forward, which may have implications for landowners’ decisions on releasing sites for alternative uses.
- 4.30 Redevelopment proposals that generate residual land values below current use values are unlikely to be delivered. While any such thresholds are only a guide in ‘normal’ development circumstances, it does not imply that individual landowners, in particular financial circumstances, will not bring sites forward at a lower return or indeed require a higher return. If proven current use value justifies a higher benchmark than those assumed, then appropriate adjustments may be necessary. As such, current use values should be regarded as benchmarks rather than definitive fixed variables on a site by site basis.
- 4.31 The four benchmark land values used in this study have been selected to provide a broad indication of likely land values across the City, but it is important to recognise that other site uses and values may exist on the ground. There can never be a single threshold land value at which we can say definitively that land will come forward for development, especially in urban areas.
- 4.32 It is also necessary to recognise that a landowner will require an additional incentive to release the site for development<sup>8</sup>. The premium above current use value would be reflective of specific site circumstances (the primary factors being the occupancy level and strength of demand from alternative occupiers). For policy testing purposes it is not possible to reflect the circumstances of each individual site, so a blanket assumption of a 20% premium has been included to reflect the ‘average’ situation.
- 4.33 **Benchmark Land Value 1 - £931,000 per hectare:** This benchmark is based on an adjusted Valuation Office Agency figure for residential land values in Sheffield. The most recent VOA Property Market Report (January 2011) reports that land values in the City are £1.33 million per hectare, assuming a clean and serviced site, with planning permission. We have adjusted this value to reflect that sites coming forward will not have planning permission and there is a degree of planning risk attached to them. Valuers typically allow a 30% - 50% discount for planning risk. Taking the lower end of this range would result in a benchmark of £931,000 per hectare. Residential land values will vary and this benchmark reflects likely values in higher value parts of the City.

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<sup>8</sup> This approach is therefore consistent with the National Planning Policy Framework, which indicates that development should provide “competitive returns” to landowners. A 20% return above current use value is a competitive return when compared to other forms of investment.

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- 4.34 **Benchmark Land Value 2 - £741,000 per hectare:** This benchmark adopts the same approach as for Benchmark 1, but this time reflective of lower residential land values within the City.
- 4.35 **Benchmark Land Value 3 - £494,000 per hectare:** This benchmark assumes lower value secondary (and redundant) industrial space on a hectare of land, with 60% site coverage.
- 4.36 **Benchmark Land Value 4 - £247,000 per hectare:** This benchmark assumes greenfield or (more relevant to Sheffield) land that was previously developed but has been cleared, adopting the lower end of the range indicated by CLG research<sup>9</sup>.
- 4.37 We would draw readers' attention to the comments on land values in Examiner's report on the Mayor of London's CIL<sup>10</sup>, which indicates that owners will need to adjust their expectations to accommodate allowances for infrastructure.
- 4.38 Our residential appraisal inputs are summarised in Table 4.37.1.

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<sup>9</sup> CLG 'Cumulative impacts of regulations on house builders and landowners' Research Paper March 2011

<sup>10</sup> Para 32: "the price paid for development land may be reduced.... a reduction in development land value is an inherent part of the CIL concept.... in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges."



**Table 4.37.1: Residential appraisal assumptions for each site type**

Appraisal input	Source/Commentary	Site type number and assumptions						
		1	2	3	4	5	6	7,8 & 9
Number of units	Also see tables 4.8.1 and 4.8.2	4	12	25	50	75	100	100 - 150
Base construction costs (£s per sq metre)	BCIS adjusted for location. Based on gross areas before external works.	£776	£903	Houses - £776 Flats - £903	£776	Houses - £776 Flats - £903	£903	£776
External works (% of build costs)	Addition to base build cost, based on average scheme cost.	15%	15%	15%	15%	15%	15%	15%
Code for sustainable homes level 4	Addition to base build costs, based on CLG studies. The Council currently requires CSH3 but will add the Energy and water elements of CSH4 in 2013 and may add others later or by CIL adoption.	6%	6%	6%	6%	6%	6%	6%
Contingency (% of build cost)	Industry norm	5%	5%	5%	5%	5%	5%	5%
Professional fees (% of build)	BNPPRE assumption based on live developments	10%	10%	10%	10%	10%	10%	10%
Construction period (months)	We assume that developers will build at the rate they are able to sell.	13	13	19	25	25	25	30 - 36
Sales period (months)	Determined by ability of market to absorb new stock	4	4	8	16	16	16	24 - 27
Sale start (month from commencement)	Linked to later stages of construction period	13	13	19	12	12	12	24
Sales rate (units per month)	Reflective of current market, could improve.	1	3	3	3	3	3	3
Profit on private % of GDV	Reflective of current funder requirements	20%	20%	20%	20%	20%	20%	20%
Profit on Aff Hsg % of GDV	Reduced risk due to pre-sale to RSL	6%	6%	6%	6%	6%	6%	6%
Phasing of CIL pmts	Equal splits, paid in months shown in table	1 / 6 / 12	1 / 6 / 12	1 / 6 / 18	1 / 12 / 18	1 / 12 / 18	1 / 12 / 18	1 / 18 / 30
Gross to net ratio for flats	BNPPRE assumption	n/a	85%	85%	n/a	85%	85%	85%
Density and site area (ha, developable area)		40 dph 0.10 ha	100 dph 0.12 ha	75 dph 0.33 ha	40 dph 1.25 ha	75 dph 1.00 ha	150 dph 0.67 ha	40 – 45 dph 2.5 – 3.33 ha

## **Commercial development**

- 4.39 We have appraised a series of hypothetical commercial developments, reflecting a range of use classes at average rent levels achieved on lettings of commercial space in actual developments. In each case, our assessment assumes an intensification of the existing use on the site, based on the same type of commercial development. In each case, the current use value assumes that the existing building is between 30% to 50% in terms of floor area of the new development, with a lower rent and higher yield reflecting the secondary nature of the building. Where developments are viable, CIL is incorporated into the appraisals as a development cost.

### **Commercial rents and yields**

- 4.40 Our research on lettings of commercial floorspace indicates a range of rents achieved, as summarised in table 4.40.1. This table also includes our assumptions on appropriate yields to arrive at a capital value of the commercial space.

### **Current use values**

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

### **Commercial build costs**

- 4.42 We have sourced build costs for the commercial schemes from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes. These costs vary between different uses and exclude external works and fees (our appraisals include separate allowances for these costs). Costs for each type of development are shown in Table 4.40.1.

### **Profit**

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

**Table 4.40.1: Commercial appraisal assumptions for each use**

Appraisal input	Source/Commentary	Offices	Retail (City Centre)	Retail (Meadowhall)	Retail (rest of City)	Large retail	Industrial	Student housing	Hotel
Total floor area (sq ft)	Hypothetical scheme	30,000	7,500	7,500	7,500	30,000	30,000	30,000	30,000
Rent (£s per sq ft)	Based on average lettings sourced from EGI and Focus	£15.50	£25.45	£53.00	£13	£14.50	£4.75	£120 per room per week	£94k per room capital value
Rent free/void period (years)	BNPPRE assumption	2	2	2	2	2	2	n/a	n/a
Yield	BNPPRE prime yield schedule, research on comparable evidence and discussions with local agents	7%	6%	6%	6.75%	6.5%	7.5%	6.25%	6.25%
Purchaser's costs (% of GDV)	Stamp duty 4%, plus agent's and legal fees	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Demolition costs (£s per sq ft of existing space)	Based on experience from individual schemes	£5	£5	£5	£5	£5	£5	£5	£5
Gross to net (net as % of gross)	Based on experience from individual schemes	82%	82%	82%	82%	82%	90%	70%	75%
Base construction costs (£s per sq ft)	BCIS costs. Offices – 'generally' for air conditioned offices with adjustment for quality. 'Generally' figure for industrial, supermarkets, retail park and town centre retail.	£119	£140	£140	£75	£75	£50	£125	£145
Section 106 (£s per sq ft)	BNPPRE assumption	£2	£2	£2	£2	£2	£2	£2	£2
External works (% of build costs)	BNPPRE assumption	10%	10%	10%	10%	10%	10%	10%	10%
Contingency (% of build costs)	BNPPRE assumption	5%	5%	5%	5%	5%	5%	5%	5%
Letting agent's fee	(% of first year's rent)	10%	10%	10%	10%	10%	10%	n/a%	10%
Agent's fees and legal fees	(% of capital value)	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
Interest rate	BNPPRE assumption	7%	7%	7%	7%	7%	7%	7%	7%
Professional fees (% of build)	BNPPRE assumption, relates to complexity of scheme	10%	10%	10%	10%	10%	10%	10%	10%
Developer's profit	BNPPRE assumption based on live developments (% of cost)	20%	20%	20%	20%	20%	20%	20%	20%

**Table 4.40.1 (continued) Commercial appraisal assumptions for each use – existing uses**

Appraisal input	Source/Commentary	Offices	Retail (City Centre)	Retail (Meadowhall)	Retail (rest of City)	Large retail	Industrial	Student housing	Hotel
Existing floorspace (sq ft)	Assumed to be between 25% to 50% of new space	30%	30%	30%	50%	30%	50%	30%	50%
Rent on existing floorspace	Reflects poor quality second hand space of same use, low optimisation of site etc and ripe for redevelopment	£5 - £12	£8 - £12	£45 - £50	£7 - £11	£7 - £11	£3.50-£4.25	£7	£10 - £15
Yield on existing floorspace	BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc	8%	8%	6.5%	8.5%-7.75%	8.5% - 7.75%	8.5%	8.5%	8.5%-8%
Rent free on existing space	Years	3	3	2	3	3	3	3	3
Refurbishment costs (£s per sq ft)	General allowance for bringing existing space up to lettable standard	£30	£45	£40	£50	£50	£30	£50	£50
Fees on refurbishment (% of refurb cost)	BNPPRE assumption	7%	7%	7%	7%	7%	7%	7%	7%
Landowner premium	BNPPRE assumption – in reality the premium is likely to be lower, therefore this is a conservative assumption	15% - 20%	15% - 20%	20%	15% - 20%	15% - 20%	15% - 20%	20%	15% - 20%

## 5 Appraisal outputs

### Residential appraisals

- 5.1 The full outputs from our appraisals of residential development are attached as Appendix 2. We have modelled nine hypothetical site types, reflecting different densities and types of development, which are tested in each of the seven sub-market areas identified in Section 4 and against four land value benchmarks. These types are summarised in table 5.1.1 below.

**Table 5.1.1: Development types**

Site type	Number of units	Housing type	Development density units per ha	Gross site area (ha)
1	4	Houses	40	0.10
2	12	Flats	100	0.12
3	25	Houses and flats	75	0.33
4	50	Houses	40	1.25
5	75	Houses and flats	75	1.00
6	100	Flats	150	0.67
7	100	Houses	40	2.50
8	125	Houses – higher density	45	2.78
9	150	Houses – higher density	45	3.33

### Scenarios tested

- 1. Base sales and base costs (including Code for Sustainable Homes Level 4); 40% affordable housing;
  - 2. Sales values fall by 5%;
  - 3. Sales values increase by 10% and build costs increase by 5%;
  - 4. As (1) with 30% affordable housing;
  - 5. As (1) with 20% affordable housing;
  - 6. As (1) with 10% affordable housing; and
  - 7. As (1) with 0% affordable housing.
- 5.2 We assume that all development types will meet Code for Sustainable Homes Level 4. Level 4 is reflected through a 6% adjustment to our base build costs for all tenures.
- 5.3 For all types of site, we have run two sensitivity analyses; firstly, with sales values falling by 5% and secondly, with sales values increasing by 10% and build costs also increasing by 5%. This analysis is provided for illustrative purposes and may assist the Council in understanding how viability might be affected by movements in sales values (up and down) over time and increased sustainability requirements. However, the future trajectory of the housing market is inherently uncertain and predictions cannot be relied upon.
- 5.4 The residual land values from each of the scenarios above in each of the four housing market areas are then compared to four benchmark land values ('BLVs') based on the assumptions set out in paragraphs 4.26 to 4.38. This comparison enables us to determine whether the imposition of CIL would have an impact on development viability. In some cases, the equation RLV less

BLV results in a negative number, so the development would not proceed, whether CIL was imposed or not. We therefore focus on situations where the RLV is greater than BLV and where (all other things being equal) the development would proceed. In these situations, CIL has the potential to 'tip the balance' of viability into a negative position.

### Commercial appraisals

- 5.5 Our research on rents achieved on commercial lettings indicates a range of rents within each main use class. Our commercial appraisals therefore model a base position – assuming average achievable rents - and test the range of rates (higher and lower than the base level) and changes to yields. This enables us to draw conclusions on maximum potential rates of CIL. For each type of development tested, we have run appraisals of a quantum of floorspace, each with rent levels reflecting the range identified by our research.

### Presentation of data

#### Residential appraisals results

- 5.6 The results for each of the site types are presented in seven spreadsheets, as follows:
- Spreadsheet 1: Base sales values, 40% affordable housing (on sites of 15 or more units) CSH level 4 on all tenures;
  - Spreadsheet 2: Sales values -5%;
  - Spreadsheet 3: Sales values + 10%, build costs + 5%;
  - Spreadsheet 4: Scenario 1 with reduced affordable housing (30%);
  - Spreadsheet 5: Scenario 1 with reduced affordable housing (20%);
  - Spreadsheet 6: Scenario 1 with reduced affordable housing (10%); and
  - Spreadsheet 7: Scenario 1 with no affordable housing.
- 5.7 An example from one of the spreadsheets is provided below.

Community Infrastructure Levy Sheffield City Council		Benchmark Land Values (per gross ha)			
		BLV1	BLV2	BLV3	BLV4
		Resi Land (DVS) £931,000	Lower value residential £741,000	Secondary industrial £494,000	Vacant land £247,000

Site type 1		Affordable %		Site area	
Houses		0%		0.10 ha	
No of units	4 units	% rented	60%	Net to gross	
Density:	40 dph	% intermed	40%	100%	
CSH level:	2			Growth	
				Sales	
				Build	
				0%	
				0%	

Chapelton/Ecclesfield, Rural Upper Don Valley Private values £1938 psm

CIL amount per sqm	RLV	RLV per ha	RLV less BLV 1	RLV less BLV 2	RLV less BLV 3	RLV less BLV 4
0	105,128	1,051,280	120,280	310,280	557,280	804,280
10	100,015	1,000,149	69,149	259,149	506,149	753,149
20	96,709	967,092	36,092	226,092	473,092	720,092
30	93,405	934,045	3,045	193,045	440,045	687,045
40	90,099	900,988	-30,012	159,988	406,988	653,988
50	86,794	867,942	-63,058	126,942	373,942	620,942
60	83,488	834,885	-96,115	93,885	340,885	587,885
70	80,184	801,838	-129,162	60,838	307,838	554,838
80	76,878	768,781	-162,219	27,781	274,781	521,781
90	73,573	735,734	-195,266	-5,266	241,734	488,734
100	70,269	702,687	-228,313	-38,313	208,687	455,687
120	63,658	636,583	-294,417	-104,417	142,583	389,583
140	57,048	570,479	-360,521	-170,521	76,479	323,479
160	50,438	504,376	-426,624	-236,624	10,376	257,376
180	43,827	438,272	-492,728	-302,728	-55,728	191,272
200	37,217	372,168	-558,832	-368,832	-121,832	125,168

- 5.8 Each spreadsheet provides residual values at varying amounts of CIL (with CIL incorporated as a development cost), starting at £0 and increasing to £200 per square metre (the limit of the range tested, based on initial testing to understand the likely parameters across the City). CIL applies to net additional floor area only, but our appraisals do not make any assumption of a discount for existing floorspace<sup>11</sup>. In practice, therefore, the burden of CIL on sites with existing floorspace will be lower than that indicated by our appraisals.
- 5.9 The examples show the residual land values generated by the scheme with each level of CIL. The residual is then converted to a per hectare rate and compared with the four benchmark land values. A positive number under each column (RLV less BLV 1, RLV less BLV 2 etc) indicates that a scheme would be viable with the given level of CIL, while a negative number would indicate that a scheme would be unviable.
- 5.10 Separate data tables and charts are provided in each spreadsheet for each of the housing market areas:
- **Area 1:** Chapelton / Ecclesfield, Rural Upper Don Valley;
  - **Area 2:** City Centre;
  - **Area 3:** City Centre West, Manor / Arbourthorne / Gleadless, North West, South East, Stocksbridge & Deepcar;
  - **Area 4:** East;
  - **Area 5:** North East;
  - **Area 6:** South; and
  - **Area 7:** South West.
- 5.11 The RLV is converted to a per hectare rate and compared to the four benchmark land values (see paragraphs 4.26 to 4.37). This is shown in the columns headed 'RLV less BLV1, BLV2' etc. A positive number indicates that the development is viable, as the developer will receive a normal level of development profit and the land value will be sufficient for the site to come forward.
- 5.12 The appraisal model determines the **maximum** CIL rate for each scenario, which is the highest CIL rate at which the scheme generates a positive RLV. The maximum CIL rate is provided for each benchmark land value (an illustration that relates to the example at paragraph 5.7 is provided below). The maximum CIL rates from each appraisal (with various affordable housing percentages) has been distilled into summary tables in Section 6. These summary tables have been used to identify rates of CIL which result in a balance between income maximisation and avoiding adversely impacting upon development across the area as a whole.

#### Example rates from the scenario in paragraph 5.7:

##### Maximum CIL rates (per square metre)

BLV1	BLV2	BLV3	BLV4
£30	£80	£160	£200

<sup>11</sup> Existing buildings must be occupied for their lawful use for at least six months out of the twelve months prior to grant of planning permission to qualify as existing floorspace for the purposes of calculating CIL liability.

### Commercial appraisal results

- 5.13 The commercial appraisal results are more straightforward, due to the narrower range of variables that need to be considered in comparison to residential development. The appraisals include a 'base' rent level, with sensitivity analyses which model rents above and below the base level (an illustration is provided in Chart 5.13.1). The maximum CIL rates are then shown per square metre, against three different current use values ('CUV') (see Table 4.40.1 for the underlying inputs to these CUVs). Chart 5.13.2 provides an **illustration** of the outputs in numerical format, while Chart 5.13.3 shows the data in graph format. In this example, the scheme could viably absorb a CIL of between £0 and £275 per square metre, depending on the current use value. The analysis demonstrates the significant impact of very small changes in yields (see appraisals 4 and 6, which vary the yield by 0.25% up or down) on the viable levels of CIL.

**Chart 5.13.1: Illustration of sensitivity analyses**

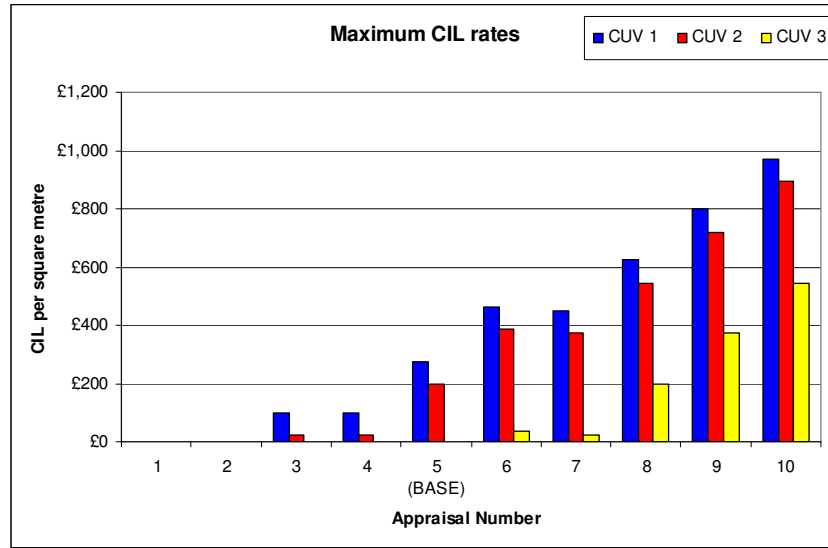
	£s per sqft	Yield	Rent free
Appraisal 1	£21.00	6.50%	2.00 years
Appraisal 2	£22.00	6.50%	2.00 years
Appraisal 3	£23.00	6.50%	2.00 years
Appraisal 4	£24.00	6.75%	2.00 years
<b>Appraisal 5 (base)</b>	<b>£24.00</b>	<b>6.50%</b>	<b>2.00 years</b>
Appraisal 6	£24.00	6.25%	2.00 years
Appraisal 7	£25.00	6.50%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

**Chart 5.13.2: Maximum CIL rates – numerical format**

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



**Chart 5.13.3: Maximum CIL rates – graph format**



## 6 Assessment of the results

- 6.1 This section should be read in conjunction with the full results attached at Appendix 2 (residential appraisal results) and Appendix 3 (commercial appraisal results). In these results, the residual land values are calculated for scenarios with sales values and capital values reflective of market conditions across the City. These RLVs are then compared to benchmark land values.
- 6.2 The CIL regulations state that in setting a charge, local authorities must “*aim to strike an appropriate balance*” between revenue maximisation on the one hand and the potentially adverse impact of CIL upon the viability of development across the whole area on the other. Our recommendations are that:
- Firstly, the Council should take a strategic view of viability. There will always be variations in viability between individual sites, but viability testing should establish the most typical viability position; not the exceptional situations.
  - Secondly, the Council should take a balanced view of viability – residual valuations are just one factor influencing a developer’s decision making – the same applies to local authorities.
  - Thirdly, while a single charge is attractive, it may not be appropriate for all authorities, particularly in areas where sales values vary between areas.
  - Fourthly, markets are cyclical and subject to change over short periods of time. It is important to sensitivity test levels of CIL to ensure they are robust in the event that market conditions improve over the life of a Charging Schedule.
  - Fifthly, the Council should not set rates of CIL at the limits of viability. The Council should leave a margin or contingency to allow for change and site specific viability issues.
- 6.3 The early examinations have seen a debate on how viability evidence should translate into CIL rates. It has now been widely recognised that there is no requirement for a Charging Authority to slavishly follow the outputs of residual valuations. At Shropshire Council’s examination in public, Newark & Sherwood Council argued that rates of CIL should be set at the level dictated by viability evidence which would (if followed literally) have resulted in a Charging Schedule with around thirty different charging zones across the Shropshire area. Clearly this would have resulted in a level of complexity that CIL is intended to avoid. The conclusion of this debate was that CIL rates should not necessarily be determined solely by viability evidence, but *should not be logically contrary* to the evidence. Councils should not follow a mechanistic process when setting rates – appraisals are just a guide to viability and are widely understood to be a less than precise tool. The Council is therefore able to exercise an element of informed judgement when adopting CIL rates, taking account of the evidence presented in this study, but also other appropriate available evidence at its disposal.

### Assessment – residential development

- 6.4 As CIL is intended to operate as a fixed charge, the Council will need to consider the impact on two key factors. Firstly, the need to strike a balance between maximising revenue to invest in infrastructure on the one hand and the need to *minimise* the impact upon development viability on the other. Secondly, as CIL will effectively take a ‘top-slice’ of development value, there is a potential impact on the percentage or tenure mix of affordable housing that

can be secured. This is a change from the current system of negotiated financial contributions, where the planning authority can weigh the need for contributions against the requirement that schemes need to contribute towards affordable housing provision.

- 6.5 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable *regardless of the level of CIL* (including a nil rate) and schemes that are viable *prior* to the imposition of CIL at certain levels. If a scheme is unviable before CIL is levied, it is unlikely to come forward and CIL would not be a factor that comes into play in the developer's/landowner's decision making. We have therefore disregarded the 'unviable' schemes in recommending appropriate levels of CIL. The unviable schemes will only become viable following a degree of real house price inflation, or in the event that the Council agrees to a lower level of affordable housing in the short term<sup>12</sup>.

#### **Determining maximum viable rates of CIL for residential development**

- 6.6 As noted in paragraph 6.5, where a scheme is unviable the imposition of CIL at a zero level will not make the scheme viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. For the purposes of establishing a maximum viable rate of CIL, we have had regard to the development scenarios that are currently viable and that might, therefore, be affected by a CIL requirement. All the results summarised below assume that current affordable housing requirements are met in full (sensitivity analyses which adopt reduced levels of affordable housing are also provided).
- 6.7 Tables 6.7.1 to 6.7.9 summarise the results for site types 1, 2, 3, 4, 5, 6, 7, 8 and 9. Each table includes the maximum amounts of CIL that could be charged in combination with varying levels of affordable housing (40%, 30%, 20%, 10% and 0%). Site types 1 and 2 are not required to contribute towards affordable housing, so the results incorporating any level of affordable housing should be disregarded for rate setting purposes. The values in each cell of tables 6.7.1 to 6.7.9 correspond to a figure derived from the detailed results in Appendix 2. Each value represents the maximum amount of CIL that a scheme can viably absorb (i.e. the residual land value (incorporating CIL as a development cost) less the benchmark land value that results in a figure greater than zero). Where a figure is not shown and the letters 'NV' appear<sup>13</sup>, this indicates that the scheme is not viable at zero CIL.

#### **Sensitivity analysis on affordable housing percentage**

- 6.8 Current experience in the City indicates that delivering the Council's affordable housing target without grant can be challenging and in many cases a reduced level of provision is being accepted upon the acceptance of a proven viability case. We re-tested all site types with a reduced level of affordable housing (30%, 20%, 10% and 0% of units). The results of these analyses are included within tables 6.7.1 to 6.7.9. The primary purpose of this exercise was to determine whether changes to affordable housing requirements on individual schemes would enable unviable sites<sup>14</sup> to contribute towards infrastructure.

<sup>12</sup> However, as shown by the sensitivity analyses (which reduce affordable housing to 30%, 20%, 10% and 0%) even a reduction in affordable housing does not *always* remedy viability issues. In these situations, it is not the presence or absence of planning obligations that is the primary viability driver – it is simply that the value generated by residential development is lower than some existing use values. In these situations, sites would remain in their existing use.

<sup>13</sup> In the excel appraisal outputs at Appendix 2, the equivalent to NV is shown as #N/A.

<sup>14</sup> In this case, meaning unviable with the full 40% affordable housing requirement.

The results show positive movement in terms of the viability of CIL rates when affordable housing levels are reduced. The exercise demonstrates that the Council's flexible application of its affordable housing policy will ensure that CIL will not render development unviable. However, we appreciate that the Council will be keen to minimise the impact on affordable housing as far as possible and this is a key risk factor when determining rates of CIL. The Council has advised that it will be seeking the following levels of affordable housing in the seven housing market areas:

**Table 6.8.1: Affordable housing percentages sought in each housing market area**

Area	Proposed affordable housing requirement (% of units)
Area 1 - Chapeltown / Ecclesfield, Rural Upper Don Valley	10%
Area 2 - City Centre	0%
Area 3 - City Centre West, Manor / Arbourthorne / Gleadless, North West, South East, Stocksbridge & Deepcar	10%
Area 4 - East	0%
Area 5 - North East	0%
Area 6 - South	30%
Area 7 - South West	30%

#### Sensitivity analysis on values and costs

- 6.9 As noted in Section 5, we carried out further analyses which consider the impact of increases in sales values of 10%, accompanied by an increase in build costs of 5%, and a decrease in sales values of 5%. This data is **illustrative only**, as the future housing market trajectory is very uncertain given the economic outlook and technologies for sustainability measures are likely to become cheaper over time. However, **if** such changes were to occur, Appendix 2 shows the results in terms of the levels of CIL that could be absorbed.

**Table 6.7.1: Site type 1 (4 houses @ 40 dph) - maximum viable rates of CIL<sup>15</sup> (£s per square metre)**

Aff Hsg %	Benchmark Land Value																			
	DVS Resi land					Lower value resi land					Secondary employment sites					Greenfield/urban open space				
	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%
Area 1	n/a	n/a	n/a	n/a	30	n/a	n/a	n/a	n/a	80	n/a	n/a	n/a	n/a	160	n/a	n/a	n/a	n/a	200
Area 2	n/a	n/a	n/a	n/a	180	n/a	n/a	n/a	n/a	200	n/a	n/a	n/a	n/a	200	n/a	n/a	n/a	n/a	200
Area 3	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	10	n/a	n/a	n/a	n/a	80	n/a	n/a	n/a	n/a	140
Area 4	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV
Area 5	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV
Area 6	n/a	n/a	n/a	n/a	180	n/a	n/a	n/a	n/a	200	n/a	n/a	n/a	n/a	200	n/a	n/a	n/a	n/a	200
Area 7	n/a	n/a	n/a	n/a	200	n/a	n/a	n/a	n/a	200	n/a	n/a	n/a	n/a	200	n/a	n/a	n/a	n/a	200

**Table 6.7.2: Site type 2 (12 flats @ 100 dph) - maximum viable rates of CIL (£s per square metre)**

Aff Hsg %	Benchmark Land Value																			
	DVS Resi land					Lower value resi land					Secondary employment sites					Greenfield/urban open space				
	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%
Area 1	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV
Area 2	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	20	n/a	n/a	n/a	n/a	70
Area 3	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV
Area 4	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV
Area 5	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV
Area 6	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	NV	n/a	n/a	n/a	n/a	20	n/a	n/a	n/a	n/a	70
Area 7	n/a	n/a	n/a	n/a	100	n/a	n/a	n/a	n/a	140	n/a	n/a	n/a	n/a	180	n/a	n/a	n/a	n/a	200

<sup>15</sup> NV = Site is not viable before CIL is applied. These results are disregarded for the purpose of recommended CIL rates, as the sites would remain in their current use, unless other (non-CIL related) factors were to change.

**Table 6.7.3: Site type 3 (25 houses with flats @ 75 dph) - maximum viable rates of CIL (£s per square metre)**

	Benchmark Land Value																			
	DVS Resi land					Lower value resi land					Secondary employment sites					Greenfield/urban open space				
<i>Aff Hsg %</i>	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%
Area 1	NV	NV	NV	10	60	NV	NV	0	50	90	NV	NV	50	100	120	NV	50	100	140	160
Area 2	NV	50	120	160	200	20	100	160	200	200	90	160	2000	200	200	160	200	200	200	200
Area 3	NV	NV	NV	NV	NV	NV	NV	NV	NV	10	NV	NV	NV	20	20	NV	NV	NV	60	100
Area 4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 5	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 6	NV	50	120	160	200	20	100	160	200	200	90	90	200	200	200	160	200	200	200	200
Area 7	140	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200

**Table 6.7.4: Site type 4 (50 houses @ 40 dph) - maximum viable rates of CIL (£s per square metre)**

	Benchmark Land Value																			
	DVS Resi land					Lower value resi land					Secondary employment sites					Greenfield/urban open space				
<i>Aff Hsg %</i>	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%
Area 1	NV	NV	NV	NV	30	NV	NV	NV	40	90	NV	10	80	120	160	60	120	160	200	200
Area 2	NV	0	80	140	180	0	80	80	200	200	120	180	200	200	200	200	200	200	200	200
Area 3	NV	NV	NV	NV	NV	NV	NV	NV	NV	10	NV	NV	0	40	80	NV	30	90	120	160
Area 4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 5	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 6	NV	0	80	140	180	0	0	80	140	200	120	180	200	200	200	200	200	200	200	200
Area 7	80	180	200	200	200	180	180	200	200	200	200	200	200	200	200	200	200	200	200	200

**Table 6.7.5: Site type 5 (75 Houses with flats @ 75 dph) - maximum viable rates of CIL (£s per square metre)**

Aff Hsg %	Benchmark Land Value																			
	DVS Resi land					Lower value resi land					Secondary employment sites					Greenfield/urban open space				
	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%
Area 1	NV	NV	NV	40	80	NV	NV	20	80	120	NV	20	80	120	160	10	80	140	180	200
Area 2	NV	80	140	200	200	40	120	180	200	200	120	180	200	200	200	200	200	200	200	200
Area 3	NV	NV	NV	NV	NV	NV	NV	NV	NV	40	NV	NV	0	50	90	NV	NV	50	100	120
Area 4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 5	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 6	NV	80	140	200	200	40	120	180	200	200	120	180	200	200	200	120	200	200	200	200
Area 7	160	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200

**Table 6.7.6 Site type 6 (100 higher density flats @ 150 dph) – maximum viable rates of CIL (£s per square metre)**

Aff Hsg %	Benchmark Land Value																			
	DVS Resi land					Lower value resi land					Secondary employment sites					Greenfield/urban open space				
	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%
Area 1	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 3	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 5	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 6	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 7	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV

**Table 6.7.7: Site type 7 (100 Houses @ 40 dph) - maximum viable rates of CIL (£s per square metre)**

	Benchmark Land Value																			
	DVS Resi land					Lower value resi land					Secondary employment sites					Greenfield/urban open space				
<i>Aff Hsg %</i>	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%
Area 1	NV	NV	NV	NV	NV	NV	NV	NV	NV	10	NV	NV	0	50	90	NV	60	100	140	160
Area 2	NV	NV	NV	50	100	NV	0	60	120	160	NV	100	160	200	200	NV	200	200	200	200
Area 3	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	20	60	100
Area 4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 5	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 6	NV	NV	NV	50	100	NV	0	60	120	160	NV	100	160	200	200	NV	200	200	200	200
Area 7	NV	70	140	200	200	NV	160	200	200	200	NV	200	200	200	200	NV	200	200	200	200

**Table 6.7.8 Site type 8 (100 houses higher density @ 45 dph) – maximum viable rates of CIL (£s per square metre)**

	Benchmark Land Value																			
	DVS Resi land					Lower value resi land					Secondary employment sites					Greenfield/urban open space				
<i>Aff Hsg %</i>	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%
Area 1	NV	NV	NV	NV	NV	NV	NV	NV	NV	30	NV	NV	20	70	100	NV	60	100	140	180
Area 2	NV	NV	10	70	120	NV	20	90	140	180	50	120	180	200	200	180	200	200	200	200
Area 3	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	30	NV	NV	30	70	100
Area 4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 5	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 6	NV	NV	10	70	120	NV	20	90	140	180	50	120	180	200	200	180	200	200	200	200
Area 7	10	100	160	200	200	100	180	200	200	200	200	200	200	200	200	200	200	200	200	200



**Table 6.7.9 Site type 9 (150 houses higher density @ 45 dph) – maximum viable rates of CIL (£s per square metre)**

<i>Aff Hsg %</i>	Benchmark Land Value																			
	DVS Resi land					Lower value resi land					Secondary employment sites					Greenfield/urban open space				
	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%	40%	30%	20%	10%	0%
Area 1	NV	NV	NV	NV	NV	NV	NV	NV	NV	40	NV	NV	30	70	100	10	70	120	160	180
Area 2	NV	NV	20	80	120	NV	20	90	140	180	60	120	180	200	200	180	200	200	200	200
Area 3	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0	40	NV	NV	40	80	100
Area 4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 5	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV
Area 6	NV	NV	20	80	120	NV	20	90	140	180	60	120	180	200	200	180	200	200	200	200
Area 7	10	100	180	200	200	100	180	200	200	200	200	200	200	200	200	200	200	200	200	200

### Maximum rates having regard to differential affordable housing levels

- 6.10 As noted in Section 6.8, the Council has indicated that affordable housing levels are likely to vary in different areas in the City. Tables 6.10.1 to 6.10.7 distil the information in tables 6.7.3 to 6.7.9 to show the maximum CIL rate having regard to the appropriate affordable housing percentage in each area.

**Table 6.10.1: Maximum CIL rate having regard to differential affordable housing level for each area – Site type 3**

Area	Aff Hsg %	DVS Resi Land	Lower value resi land	Secondary employment sites	Greenfield/urban open space
Area 1	10%	10	50	100	140
Area 2	0%	200	200	200	200
Area 3	10%	NV	NV	20	60
Area 4	0%	NV	NV	NV	NV
Area 5	0%	NV	NV	NV	NV
Area 6	30%	50	200	200	200
Area 7	30%	200	200	200	200

**Table 6.10.2: Maximum CIL rate having regard to differential affordable housing level for each area – Site type 4**

Area	Aff Hsg %	DVS Resi Land	Lower value resi land	Secondary employment sites	Greenfield/urban open space
Area 1	10%	NV	40	120	200
Area 2	0%	180	200	200	200
Area 3	10%	NV	NV	40	120
Area 4	0%	NV	NV	NV	NV
Area 5	0%	NV	NV	NV	NV
Area 6	30%	NV	200	180	200
Area 7	30%	180	200	200	200

**Table 6.10.3: Maximum CIL rate having regard to differential affordable housing level for each area – Site type 5**

Area	Aff Hsg %	DVS Resi Land	Lower value resi land	Secondary employment sites	Greenfield/urban open space
Area 1	10%	40	80	120	180
Area 2	0%	200	200	200	200
Area 3	10%	NV	NV	50	100
Area 4	0%	NV	NV	NV	NV
Area 5	0%	NV	NV	NV	NV
Area 6	30%	80	120	180	200
Area 7	30%	200	200	200	200

**Table 6.10.4: Maximum CIL rate having regard to differential affordable housing level for each area – Site type 6**

Area	Aff Hsg %	DVS Resi Land	Lower value resi land	Secondary employment sites	Greenfield/urban open space
Area 1	10%	NV	NV	NV	NV
Area 2	0%	NV	NV	NV	NV
Area 3	10%	NV	NV	NV	NV
Area 4	0%	NV	NV	NV	NV
Area 5	0%	NV	NV	NV	NV
Area 6	30%	NV	NV	NV	NV
Area 7	30%	NV	NV	NV	NV

**Table 6.10.5: Maximum CIL rate having regard to differential affordable housing level for each area – Site type 7**

Area	Aff Hsg %	DVS Resi Land	Lower value resi land	Secondary employment sites	Greenfield/urban open space
Area 1	10%	NV	NV	50	140
Area 2	0%	100	160	200	200
Area 3	10%	NV	NV	NV	60
Area 4	0%	NV	NV	NV	NV
Area 5	0%	NV	NV	NV	NV
Area 6	30%	NV	NV	100	200
Area 7	30%	70	160	200	200

**Table 6.10.6: Maximum CIL rate having regard to differential affordable housing level for each area – Site type 8**

Area	Aff Hsg %	DVS Resi Land	Lower value resi land	Secondary employment sites	Greenfield/urban open space
Area 1	10%	NV	NV	70	140
Area 2	0%	120	180	200	200
Area 3	10%	NV	NV	NV	70
Area 4	0%	NV	NV	NV	NV
Area 5	0%	NV	NV	NV	NV
Area 6	30%	NV	20	120	200
Area 7	30%	100	180	200	200

**Table 6.10.7: Maximum CIL rate having regard to differential affordable housing level for each area – Site type 9**

Area	Aff Hsg %	DVS Resi Land	Lower value resi land	Secondary employment sites	Greenfield/urban open space
Area 1	10%	NV	NV	70	160
Area 2	0%	120	180	200	200
Area 3	10%	NV	NV	NV	180
Area 4	0%	NV	NV	NV	NV
Area 5	0%	NV	NV	NV	NV
Area 6	30%	NV	20	120	200
Area 7	30%	100	180	200	200

### Suggested CIL rates

- 6.11 Although the results indicate that viability of residential development is currently challenging, it should be possible for rates of CIL to be levied across some parts of the City, subject to allowing for a buffer or margin to address risks to delivery. There are five key risk factors:
- individual sites might incur exceptional costs (decontamination, difficult ground conditions etc) and as a result the residual land value could fall. Developers will try and reflect such costs in their offer to the landowner, but the extent of any issues is not always fully apparent until the land value is fixed. Where sites have an existing use, an owner will not be prepared to accept a reduction below the value of the current building to accommodate exceptional costs on a redevelopment;
  - current use values on individual sites will inevitably vary and will fall somewhere between the values used in our appraisals. As a result, the ability of schemes to absorb high rates of CIL could be adversely affected;
  - setting rates of CIL at too high a level may impact on the ability of sites to provide affordable housing;
  - sales values could fall or normal build costs could rise over the life of the Charging Schedule, adversely affecting scheme viability; and
  - imposing a high rate of CIL (that vastly exceeds the current levels of Section 106 obligations) in the Council's first Charging Schedule could 'shock' the land market with a consequential risk that land supply falls. This factor has led many charging authorities to seek to limit their CIL rates to around 5% of development costs, or to set their CIL rates so that they are broadly comparable to existing Section 106 contributions<sup>16</sup>.
- 6.12 In arriving at a conclusion on recommended rates, it is necessary to consider the different weight that should be attached to appraisal results tested against each of the four benchmark land values. The bulk of housing land supply will come from sites in former employment use and from cleared former housing land, which are towards the lower end of the benchmark land value range. At these land values, a greater amount of CIL could be absorbed in comparison

<sup>16</sup> For example, Wandsworth Council has adopted this approach in the Vauxhall Nine Elms Opportunity Area, where the existing tariff has been converted into a per square metre CIL rate.

to the higher benchmark land values.

- 6.13 It is also important to consider that where a scheme is shown as unviable before the application of CIL, it will be other factors such as sales values and build costs that will need to adjust for the scheme to become viable.
- 6.14 Our judgement on the maximum rates of CIL indicated by our appraisals is outlined below. The results show an explicit trade off between affordable housing and levels of CIL. The Council has indicated that the balance should allow for zero affordable housing in the City Centre and areas 4 and 5; 10% in areas 1 and 3; and 30% in areas 6 and 7. The results of our testing incorporating varying levels of affordable housing only are provided at Appendix 2. Given the range of results above, and the risk factors outlined in the previous paragraph, our conclusion is that the rates of CIL that the Council might set – having regard to the range of the results and taking account of viability across the City as a whole – should be set at a discount to the maximum rates, as shown in Table 6.15.1. It is also noteworthy that some of the assumptions used in the appraisal are generous; for example, our appraisals assume no existing floorspace on site and that CIL will be levied on the entire floorspace. In some cases, there will be existing floorspace that will be deducted from the new floorspace when calculating the chargeable floor area.
- 6.15 The maximum rates are derived from the results in tables 6.10.1 to 6.10.7 and 6.7.1 and 6.7.2. The maximum rates are those where the impact on viability is minimised, with particular reference to the ‘secondary employment land’ benchmark and urban open space/greenfield benchmarks, where the majority of development will take place. In the City Centre zone, we have placed more weight on the residential land benchmarks.

**Table 6.15.1: Maximum and suggested CIL rates**

Area	Maximum CIL £s per sqm	Suggested CIL after buffer £s per sqm
Area 1 - Chapeltown / Ecclesfield, Rural Upper Don Valley	£70	£30
Area 2 - City Centre	£100	£50
Area 3 - City Centre West, Manor / Arbourthorne / Gleadless, North West, South East, Stocksbridge & Deepcar	£50	£30
Area 4 - East	No viable developments	£10
Area 5 - North East	No viable developments	£0
Area 6 - South	£120	£50
Area 7 - South West	£160	£80

- 6.16 In determining the maximum levels of CIL and the recommended rates above, we have based our assessment on current costs and values only. We have run a set of appraisals that show the impact of an increase in sales values, accompanied by an increase in build costs and a further set of results that show the impact of a fall in sales values (the results are included in Appendix 2). These appraisals provide an indication of the likely movement in viability that any ‘buffer’ below the maximum rates would need to accommodate.

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### **Retirement housing**

- 6.17 Development of retirement housing differs from mainstream residential development in two main ways. Firstly, the net to gross area falls from around 85% for a standard residential scheme to 70%, due to the need to provide communal space and facilities. Secondly, the sales rate tends to be slower, due to the more limited market in comparison to standard residential. Our appraisals of a 50 unit flatted development indicate that these two factors would result in negative residual land value in all areas of the City. Therefore, this type of development is unlikely to come forward at the current time.

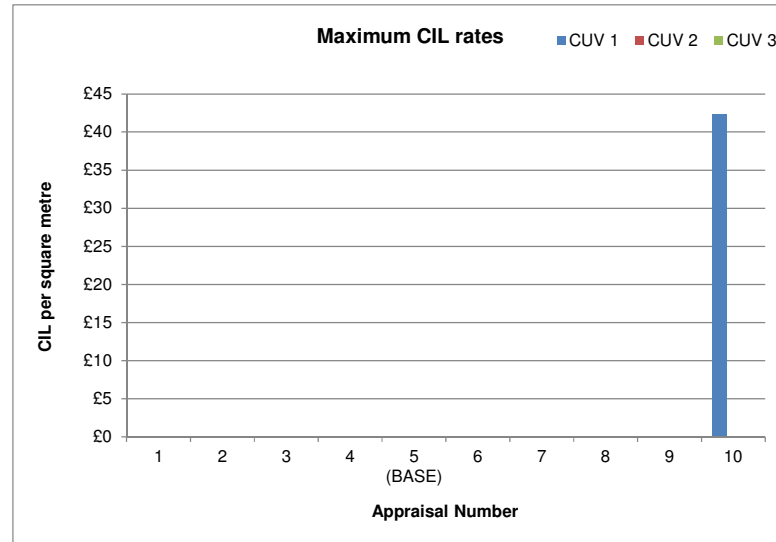
### **Assessment – commercial development**

- 6.18 Our appraisals indicate that the potential for commercial schemes to be viably delivered varies between different uses and between location. Retail rents are higher in the prime retail areas at Meadowhall and in the City Centre and developments might generate sufficient surplus residual value to absorb a CIL. For other types of development, such as offices, there is unlikely to be sufficient demand to warrant development of significant amounts of new floorspace. As a result of limited demand, rent levels are too low to generate sufficiently positive residual land values to encourage development.
- 6.19 As noted in section 4, the level of rents that can be achieved for commercial space varies according to exact location; quality of building; and configuration of space. Consequently, our appraisals adopt a 'base' position based on average rents for each type of development and show the results of appraisals with lower and higher rents. As noted in Section 5, 'appraisal 5' on the charts in the following sections (and Appendix 3) This analysis will enable the Council to consider the robustness of potential CIL charges on commercial uses, including the impact that changes in rents might have on viability.

### **Office development**

- 6.20 The results of our research in the Central Sheffield office market indicates that rent levels here of circa £15 per sq ft) are significantly higher than in the rest of the City (circa £10 per sq ft).
- 6.21 The 'base' scenario in our appraisals indicates that office development in the prime market in Sheffield is very unlikely to generate surplus residual land value that could be used to fund CIL contributions. This situation would continue to apply until rents increase significantly above their current levels (appraisal number 10 in Chart 6.21.1 assumes a rent of £22 per sq ft, representing a significant increase above the current level of £15 per sq ft). Unless office rents reach £22 per sq ft, offices would be unviable and therefore not able to absorb any CIL. Consequently, no bars appear on the Chart on appraisals 1 to 9, as they have no capacity to absorb CIL.

**Chart 6.21.1: Office development (Prime Sheffield)**



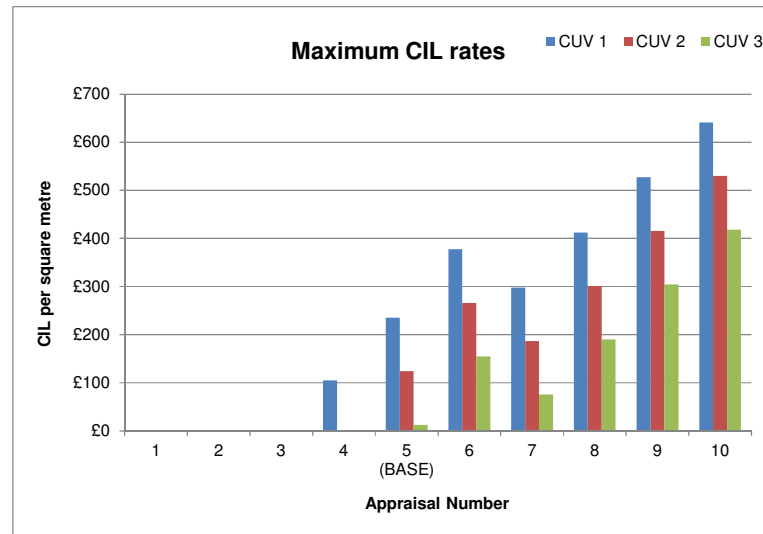
- 6.22 In light of the above findings, office developments are unlikely to be viable, unless rents increase significantly over the life of the Charging Schedule. Given the context of limited additional demand for offices in the City, short to medium term appetite for new office development is likely to be weak and it is therefore unlikely that any significant level of office development will come forward
- 6.23 Outside the central prime office market, rents are considerably lower, as noted in paragraph 6.20. Our appraisal (attached as Appendix 3) indicates that developments would be unviable at current rent levels.

#### **Retail development – Prime City Centre and Meadowhall**

- 6.24 The existing prime retail market in the City is located in the City Centre (with the prime pitch on Fargate) and at Meadowhall Shopping Centre, which is located 3.5 miles to the north east of the City Centre. Much of the retail floorspace is arranged in traditional high street; consequently, a significant proportion of development activity involves recycling existing retail floorspace, rather than additional space. However, there is a pipeline of potential new development amounting to 430,000 sq ft of retail floorspace which would – if built out – increase total retail floorspace in the City by 27.8%. Current vacancy levels are running at 12.7%, a fall since 2009<sup>17</sup>.
- 6.25 Our appraisals indicate that development of new retail floorspace on existing retail sites is likely to generate surplus residual land values that could fund CIL. Chart 6.25.1 summarises the retail development appraisal in the City Centre, with appraisal 5 (labelled 'BASE') representing current average rents and yields. Appraisals 1 to 4 show the results with lower rents, while appraisals 6 to 10 show the results with higher rents. Although the chart indicates that a CIL could be levied against the three current use values (between £13 and £235 per square metre), these rates would fall as a result of changes in rents and/or yields. Any rate of CIL on retail would need to be set to reflect these downside risks. When tested against the middle current use values, the maximum rate of CIL would fall to £124 per square metre.

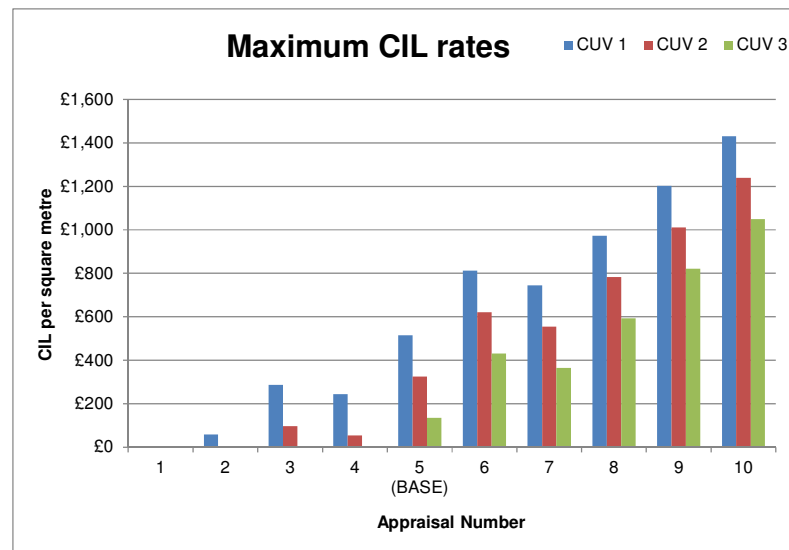
<sup>17</sup> Source: Property Market Analytics; 'PROMIS' report

**Chart 6.25.1: Viable levels of CIL on prime retail development (City Centre)**



6.26 Rents for retail floorspace at Meadowhall are significantly higher than prime City Centre rents (£375 per sq ft Zone A compared to £180 per sq ft Zone A in the City Centre). However, current site values are also likely to be higher, which is reflected in our assessment. Our appraisals indicate that retail development at Meadowhall should be able to absorb higher rates of CIL than retail development in the prime City Centre area (see Chart 6.26.1). When tested against the middle current use of the three current use values, the maximum rate of CIL would be £326 per square metre.

**Chart 6.26.1: Retail development – Meadowhall**

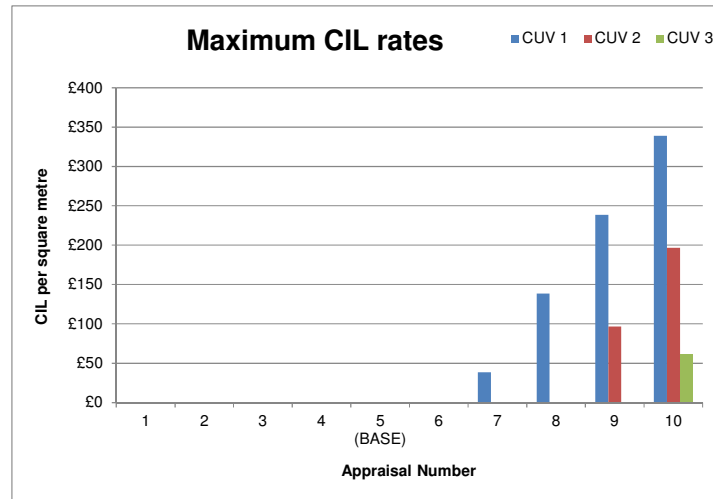




### Retail development – rest of City

- 6.27 Elsewhere in the City (with the exception of Meadowhall), rents for retail floorspace are lower, typically circa £13 per sq ft. Consequently, it is unlikely that retail development will be sufficiently viable to attract significant interest from developers at the current time. Our appraisals indicate that it is unlikely that CIL could be levied on retail in district centres outside the City Centre.

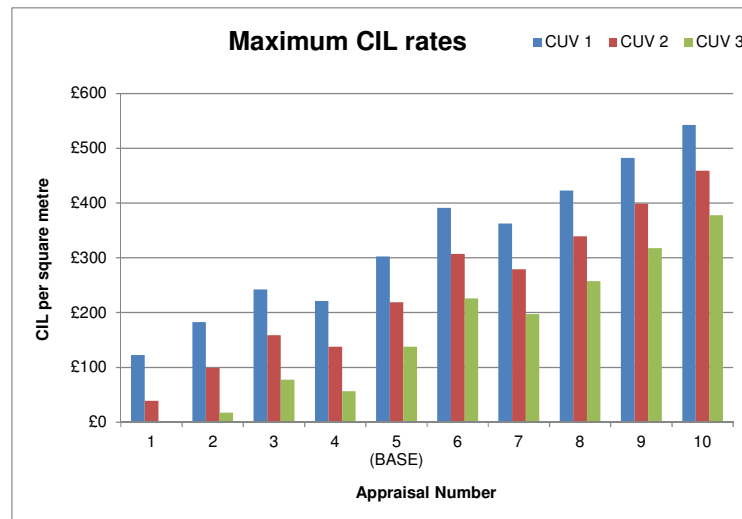
**Chart 6.27.1: Retail development – rest of City**



### Retail parks and superstore development

- 6.28 The retail park/superstore market in the City attracts rents of circa £14.50 per sq ft and as such could absorb a CIL without adversely affecting viability of development (see Chart 6.28.1). At this base rent, a CIL of between £138 to £303 per square metre could be levied. However, the level of CIL falls significantly as a result of small changes in rents and yields. A significant buffer below these rates would mitigate this impact. This would suggest a CIL of around £130 per square metre.

**Chart 6.28.1 Out of town retail parks/superstore**



### Industrial and warehouse development

- 6.29 Our appraisals of industrial development indicate that residual values are likely to be too low to absorb any level of CIL. A considerable increase in new build industrial rents would be required before any CIL could be absorbed, even if developed on greenfield sites. It is also not necessarily the case that greenfield sites are cheaper to develop for industrial than previously developed land due to the need for infrastructure.

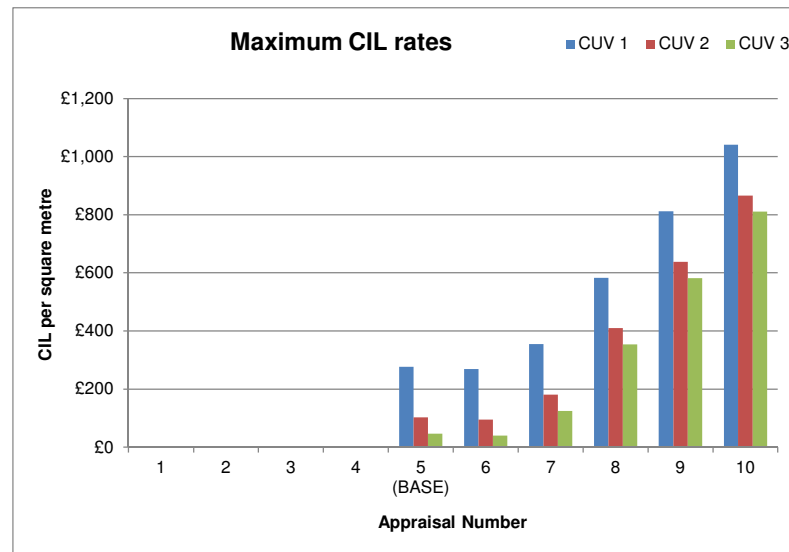
### Student Housing

- 6.30 The City has a relatively good supply of student accommodation to meet its requirements. However, it is possible that additional purpose built accommodation may come forward over the life of the Charging Schedule. Our appraisal of student accommodation development (attached as Appendix 3) indicates that developments of this type could absorb a CIL of up to £56 per square metre, assuming rents of £120 per room per week.

### Hotel development

- 6.31 Our appraisal of hotel development is attached at Appendix 3. This indicates that at current values, this type of development could absorb a maximum CIL rate of around £100 per square metre when taking into account the medium surplus compared to the three current use values (see Chart 6.31.1).

**Chart 6.31.1: Hotel development**



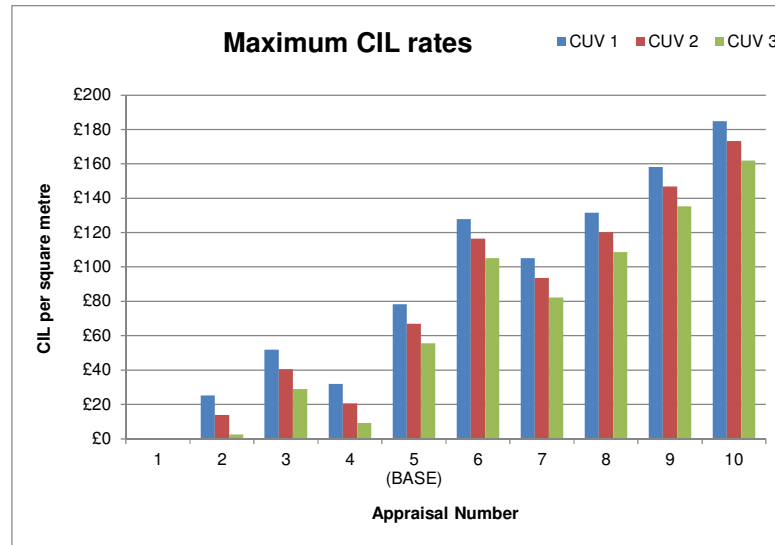
### D1 and D2 floorspace development

- 6.32 D1 and D2 floorspace typically includes uses that do not accommodate revenue generating operations, such as schools, health centres, museums and places of worship. Other uses that do generate an income stream (such as swimming pools) have operating costs that are far higher than the income and require public subsidy. Many D1 uses will be infrastructure themselves, which CIL will help to provide. It is therefore unlikely that D1 and D2 uses will be capable of generating any contribution towards CIL. We have not separately considered cinemas and casinos as development activity of these uses is likely to be limited. Sui generis uses such as nightclubs are likely to

occupy existing space, rather than be developed as new floorspace.

- 6.33 The City has seen development of out of town D2 leisure floorspace in the form of health and fitness centres and gyms, and cinemas and expects to receive significant additional development of this type in the future. We have tested the viability of this type of development, with the results summarised in Chart 6.33.1. This shows that D2 out of town leisure development could absorb a maximum CIL of £60 per square metre.

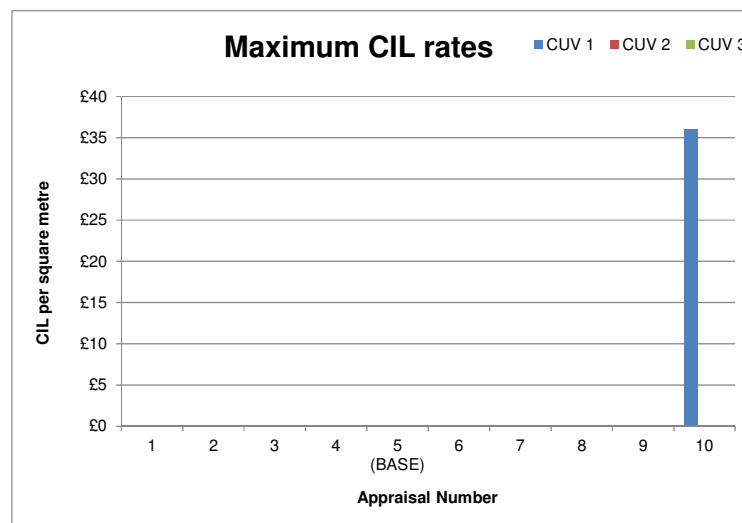
**Chart 6.33.1: D2 out of town leisure**



### Car showrooms

- 6.34 We have also appraised car showrooms, which is another development type that the Council expects to see in significant volumes over the life of the Charging Schedule. Chart 6.34.1 summarises the results of our appraisals, indicating that it is unlikely that developments will be able to absorb any CIL.

**Chart 6.34.1: Car showrooms**



### Maximum rates and proposed rates

6.35 Table 6.35.1 summarises the maximum rates identified for each type of commercial development and shows the proposed rates after a buffer.

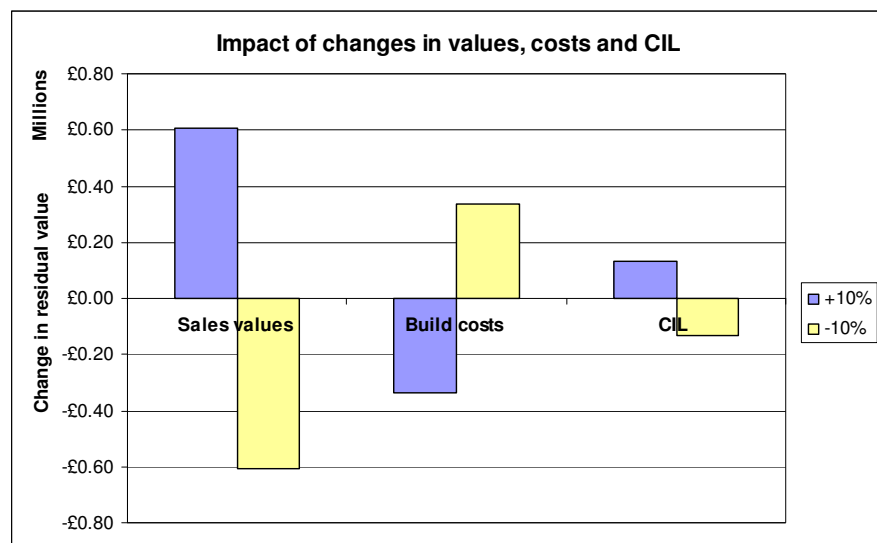
**Table 6.35.1: Commercial development – maximum and proposed rates**

Development type	Maximum rate £s per sq m	Discount from maximum rate	Suggested rate £s per sq m
City Centre Retail	£100	70%	£30
Meadowhall Retail	£300	80%	£60
Retail park/superstores	£130	54%	£60
Student accommodation	£50	40%	£30
Hotel	£100	60%	£40
D2 out of town leisure	£60	50%	£30
Car showrooms	Nil	n/a	Nil

## 7 Conclusions and recommendations

- 7.1 The results of our analysis indicate a degree of variation in viability of development in terms of different development types and different areas of the City. In light of these variations, two options are available to the Council under the CIL regulations. Firstly, the Council could set a single CIL rate across the City, having regard to the least viable types of development and least viable locations. This option would suggest a reduction in income, depending of course on where the bulk of housing growth is located. Sites that could have provided a greater contribution towards infrastructure requirements would not do so. In other words, the Council could be securing the benefit of simplicity at the expense of potential income foregone that could otherwise have funded infrastructure. Secondly, the Council has the option of setting different rates for different types of development and different areas. The results of our study point towards the second option as potentially preferable, particularly for residential development. However, the option of differential rates would need to be considered alongside the potential additional income that would be secured; if the additional income is minimal, the Council might prefer to set a single rate.
- 7.2 We have also referred to the results of development appraisals as being highly dependent upon the inputs, which will vary significantly between individual developments. In the main, the imposition of CIL is not *the* critical factor in determining whether a scheme is viable or not (with the relationship between scheme value, costs and land value benchmarks being far more important). This is evidenced by the very marginal differences between the results of the appraisals with and without CIL shown in the charts at Appendix 2. This point is also illustrated in Chart 7.2.1 below, which compares the impact on the residual value of a scheme of a 10% increase and decrease in sales values and a 10% increase and decrease in build costs to a £100 per sq metre change in CIL.

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



7.3 Given CIL's nature as a fixed tariff, it is important that the Council selects rates that are not on the limit of viability. This is particularly important for commercial floorspace, where the Council does not have the ability to 'flex' other planning obligations to absorb site-specific viability issues. In contrast, the Council could in principle set higher rates for residential schemes as the level of affordable housing could be adjusted in the case of marginally viable schemes. The relationship between affordable housing levels and different rates of CIL is clear (see tables 6.7.1 to 6.7.9). Consequently, sensitive CIL rate setting for residential schemes is vital to minimise the impact on affordable housing delivery.

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

- The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future changes.
- The ability of **residential schemes** to make CIL contributions varies depending on area, the current use of the site and the quantum of affordable housing that the Council will seek to secure. Having regard to these variations, residential schemes should be able to absorb an affordable housing quantum of 0% to 30% (depending on area) in combination with a **maximum** CIL rate of up to £80 per square metre in South West (Area 7), with lower rates in all other areas. Developments in areas 4 and 5 are unviable at the current time and we therefore suggest a nil or nominal rate. CLG guidance requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount to the maximum rate, with discounts ranging from circa 30% to 50%. Taking a broad view across our appraisals, our suggested maximum and discounted rates are shown in Table 7.4.1:

**Table 7.4.1: Maximum CIL rates – residential**

Area	Maximum CIL £s per sqm	Discount to maximum CIL rate	Suggested CIL after buffer £s per sqm
Area 1 - Chapelton / Ecclesfield, Rural Upper Don Valley	£70	57%	£30
Area 2 - City Centre	£100	50%	£50
Area 3 - City Centre West, Manor / Arbourthorne / Gleadless, North West, South East, Stocksbridge & Deepcar	£50	40%	£30
Area 4 - East	No viable developments	n/a	£10
Area 5 - North East	No viable developments	n/a	£0
Area 6 - South	£120	58%	£50
Area 7 - South West	£160	50%	£80

- **Retirement housing** is unlikely to generate positive residual land values and a nil rate is therefore proposed.
- Whilst the maximum rates are higher than the proposed rates, the buffer

will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and ‘shocking’ the market). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority’s judgement. In addition to the buffer, it is also important to note that our assumptions err on the side of caution, including (for example) the assumption that all residential sites have no existing floorspace which might reduce the amount of CIL paid.

**Table 7.4.2: Maximum CIL rates – commercial**

Development type	Maximum rate £s per sq m	Discount from maximum rate	Suggested rate £s per sq m
City Centre Retail	£100	70%	£30
Retail – Meadowhall	£300	80%	£60
Retail park/superstores	£130	54%	£60
Student accommodation	£50	40%	£30
Hotel	£100	5560%	£40
D2 out of town leisure	£60	50%	£30

- Our appraisals indicate that, at the current time, office, industrial and warehouse developments are unlikely to be sufficiently viable to absorb CIL contributions. We would therefore suggest a nil rate on these types of development.
- Residual values generated by **Retail developments in the prime City Centre market and Meadowhall** are higher than current use values. However, to a degree retail development will involve the re-use of existing retail space, so the differential in value between current and newly developed space is modest in areas where rents are low. Our appraisals indicate that the development of new retail space is sufficiently viable to absorb CIL. In the prime City Centre market, we recommend a rate of £30 per square metre, which will allow for a substantial buffer below the maximum rate. At Meadowhall, we recommend a rate of £60 per square metre, which again will allow for a substantial buffer below the maximum rate.
- **Retail outside the prime City Centre and Meadowhall areas** is unlikely to generate significant surplus value and we recommend a nil CIL on these developments.
- **Retail park and superstore** developments are viable throughout the City and could also absorb a CIL contribution. Allowing a buffer below the maximum rates indicated by our appraisals, we would recommend a rate of £60 per square metre, which allows a 54% discount below the maximum rate.
- **Student housing** in the City generates sufficient surplus residual values to absorb a CIL of up to £50 per square metre. After allowing for a buffer for site-specific factors, we suggest a rate of £30 per square metre.
- **Hotel developments** are able to absorb a maximum CIL of £100 per

square metre when built on sites with higher existing use values. After allowing a buffer for site-specific factors, we suggest a rate of £40 per square metre).

- **D1 and D2** uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 and most D2 uses.
- **D2 out of town leisure** development has been seen in the City and the Council expects to receive significant amounts of additional development of this type. Our appraisals indicate that this type of development could absorb a CIL of up to £60 per square metre. After allowing a buffer for site-specific factors and other risks, a CIL of £30 per square metre could be levied.
- **Car showrooms** are another development type that the Council anticipates will be significant over the life of the Charging Schedule. Our appraisals of this type of development indicate that they are unlikely to generate sufficient surpluses to absorb a CIL contribution.

7.5 The suggested CIL rates are summarised in Table 7.5.1, with buffers below the maximum rate ranging from 40% to 80%. Clearly there is an option of simplifying the residual rates by combining some of the areas together, given the relatively small differences in rates of CIL. An option of combined rates is provided in Table 7.5.2, with buffers below the maximum rate ranging from 33% to 60%.

**Table 7.5.1: Proposed CIL rates**

Development type	Proposed CIL rate						
	Area 1	Area 2	Area 3	Area 4	Area 5	Area 6	Area 7
Residential	£30	£50	£30	£10	Nil	£50	£80
Student Housing	£30						
Hotel	£40						
Retail (City centre)	£30						
Retail (Meadowhall)	£60						
Retail park/ superstores	£60						
Out of town leisure	£30						
All other uses	Nil						



**Table 7.5.2: Optional combined rates for residential**

Development type	Proposed CIL rate		
	Areas 2 and 6	Areas 1 and 3	Area 7
Residential	£50	£30	£80
Student Housing	£30		
Hotel	£40		
Retail (City centre)	£30		
Retail (Meadowhall)	£60		
Retail park/ superstores	£60		
Out of town leisure	£30		
All other uses	Nil		

7.6 For developments in the City, the application of CIL of is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme value, CIL will be a modest amount, typically accounting for between 0.75% and 2.62% of value (see Table 7.6.1). This is lower than a typical contingency allowance that developers include in their appraisals. At the rates proposed, CIL is a marginal factor that is unlikely to have a significant impact upon the viability of development of the area as a whole.

**Table 7.6.1: CIL as a proportion of scheme value**

Development type	Suggested CIL after buffer (£s per sqm)	CIL as % of development costs
Residential	Areas 1 and 3 - £30 Area 7 - £80	Area 3 - 2.1% Area 7 <sup>18</sup> - 2.5%
Student Housing	£30	1.05%
Hotel	£40	0.99%
Retail (City centre)	£30	0.78%
Retail (Meadowhall)	£60	0.75%
Retail park/ superstores	£60	2.62%
Out of town leisure	£30	1.68%

<sup>18</sup> The percentages here assume that CIL is levied on the entire floorspace of the development (except for affordable housing, which benefits from social housing relief) and that there is no deduction for existing floorspace. These percentages therefore represent the worst case scenario.

## Appendix 1 Map of housing sub-market areas

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## Appendix 2 Residential appraisal results - Summary

## Appendix 3 Sample full residential appraisal

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## Appendix 4 Commercial appraisal results

