



**Crawley Borough Council
Community Infrastructure Levy,
SHLAA & Affordable Housing
Viability Assessment**

October 2013



Nationwide CIL Service

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Executive Summary

1.1 The report will provide an appraisal of the viability of the Crawley Preferred Strategy in terms of the impact of its policies on the economic viability of development proposed to be delivered by the Strategy. The study will consider policies that might affect the cost and value of development (Affordable Housing and Community Infrastructure Levy, Design and Construction Standards) as well as site specific cost constraints identified in the SHLAA study(eg contamination, access issues, flood defence etc). The SHLAA Appraisal also considers delivery over a 15 year plan period.

The study should be seen as a strategic overview of plan level viability rather than as any specific interpretation of Crawley Borough Council policy on the viability of any individual site or application of planning policy to affordable housing, CIL or developer contributions. Similarly the conclusions and recommendations in the report do not reflect the policy position of Crawley Borough Council.

Study Area

1.2 The study area covers the whole of the administrative area of Crawley Borough Council. The assessment first considers the existence of economic sub-market areas for residential and commercial development within the study area which may also form the basis for the Authority's CIL Charging Zones in the event that Crawley pursues the adoption of CIL.

Methodology

1.3 The study seeks to assess the viability of individual residential development and commercial sites taking account of all relevant factors. The study considers delivery of residential sites within three time periods from 2014-2029 (0-5 years, 6-10 years and 11-15 years). The cost and value assumptions are adjusted accordingly to reflect market forecasts for residential costs and values over these periods. Commercial site delivery is based on current market assumptions.

1.4 The study involves an assessment of market values for residential and commercial development in Crawley based on valuation advice from Heb Surveyors. The study uses the base construction costs and rates based on advice from Gleeds cost consultants. The study assumptions are based on up to date available market evidence. Specific advice has been obtained from Gleeds costs consultants on reasonable allowance for abnormal site constraints.

1.5 The Study firstly tests mixed residential and commercial development scenarios considered relevant and likely to emerge in the study area to assess the potential to adopt a Community Infrastructure Levy. The study then tests specific sites being proposed for allocation in the Plan to determine viability over the Plan Period.

1.6 The viability appraisal considers two principal land value benchmarks from which development is likely to emerge – Greenfield and Brownfield.

Executive Summary

1.7 The residential valuation assessment study factors in the Authority's preferred affordable housing targets. Affordable Housing is exempt from CIL charges and this is also factored into the appraisal.

1.8 The CIL viability assessment produces maximum rates of CIL that can be applied whilst maintaining the economic viability of development

Key Findings

1.9 The residential viability testing illustrated that, in general terms, most forms of residential development in all locations in Crawley are viable and can accommodate significant CIL charges, having factored in the Council's Affordable Housing aspirations. The assessment of residential land and property values indicated that the Authority did not possess clear residential sub-markets that might warrant a differential rate approach to CIL based on geographical zones.

| Residential Viability Appraisal | | | | | |
|------------------------------------|-------------------------------|-------------------------------|--------------------------------|---------------------------|------------------------|
| Maximum CIL Rates Per Sq Metre | | | | | |
| Affordable Housing Proportion | Mixed Residential Development | Medium Size Mixed Development | Intermediate Mixed Development | Small Housing Development | Town Centre Apartments |
| 40% Affordable | | | | | |
| Greenfield | £275 | £298 | £293 | £367 | £377 |
| Brownfield | £110 | £136 | £125 | £197 | £271 |
| 30% Affordable 10% Low Cost | | | | | |
| Greenfield | £298 | £323 | £317 | £392 | £411 |
| Brownfield | £122 | £148 | £137 | £209 | £288 |

1.10 The study tested a range of affordable housing targets from 25%-45% with a tenure split of 30% Intermediate/ 70% Affordable Rent. The study also considered the impact of an alternative tenure mix of 30% Intermediate and 70% Social Rent to determine if alternative tenures would be required to balance the successful operation of a CIL system. The results of the assessment based on the Council's preferred original mix were such that tenure mix alterations were not deemed necessary for the proposed CIL charges to operate effectively. An additional test reflecting 30% Affordable plus 10% Low Cost Housing was also undertaken. The study considered five different residential development scenarios to reflect the type of residential that might emerge over the plan period. These included mixed residential (apartments, 2, 3, 4 and 5 bed housing), various scales of mixed housing development and town centre low rise apartments.

Executive Summary

1.11 The results demonstrate that residential development in Crawley is capable of delivering 40% Affordable Housing using the 30% Intermediate/70% Affordable rent tenure mix and significant levels of CIL. The viability position is marginally improved with an alternative delivery scenario of 30% Affordable Housing and 10% Low Cost Housing.

1.12 At 40% Affordable Housing delivery greenfield development demonstrated viable CIL rate potential of £275-£377 per sqm. Brownfield rates varied from £110-£271 per sqm. At 30% Affordable Housing and 10% Low Cost Housing delivery greenfield development demonstrated viable CIL rate potential of £298-£411 per sqm. Brownfield rates varied from £122-£288 per sqm. Apartment development was demonstrated to be the most viable.

1.13 It is clear that the economic viability of brownfield development on previously developed sites in the urban area is very different to that of greenfield development. It is important that CIL does not threaten either the economic viability of development or the delivery of the development strategy. It is envisaged that the majority of new development will emerge from brownfield sites over the plan period. It is therefore recommended that the brownfield CIL results guide rate setting in the Borough balanced with the appropriate Affordable Housing targets.

Key Findings – Commercial Development

1.14 The assessment of commercial land and property values indicated that the Authority could be divided into two principal sub-market areas, with distinctly higher values for certain types of commercial property being encountered around Gatwick Airport. As such it is recommended that a differential CIL charging system is justified based on two zones as illustrated on the following plan. The viability appraisals also illustrated that many categories of commercial development are not viable in current market circumstances in Crawley, which is evident by the lack of activity in these sectors.



Commercial CIL Zone Map

Executive Summary

1.15 Food supermarket retail and general retail were assessed to be viable and capable of accommodating CIL in both greenfield and brownfield development scenarios. Food supermarket retail indicated potential rates of £772-£899 per sqm and general retail of £109-£171 per sqm for general greenfield and brownfield scenarios. The retail rates are not considered to vary between the Airport Zone and the rest of the Borough.

1.16 In the main Borough zone industrial development is only considered viable for CIL on Greenfield sites. However in the Airport Zone both greenfield and brownfield sites are considered capable of yielding significant levels of CIL (£27-£99 per sqm).

Conclusions

1.17 It is recommended that there are insufficient variations in residential value to justify a differential zone approach to setting residential CIL rates. Based on an Affordable Housing target of 40% (with a tenure mix of 30% Intermediate and 70% Affordable Rent), and taking account of the primarily brownfield delivery strategy, the potentially viable CIL rates vary from £110-£271 for the residential scenarios tested.

1.18 It is envisaged that the majority of housing sites in Crawley will be small to intermediate scale with a significant number of apartments. Taking account of the viability results, the generic nature of the tests, a reasonable buffer to allow for additional site specific abnormal costs we would recommend the following residential CIL rates:-

| Residential CIL | |
|-----------------|---------|
| Boroughwide | £100sqm |

1.19 It is recommended that a two zone approach is taken to setting commercial CIL rates to reflect the potential for industrial development around Gatwick Airport to generate infrastructure funding through CIL. The viability results indicate that there should be no differential in retail rates between the zones. Food supermarket and general retail viability is significantly different but in view of the difficulties in separately defining supermarkets for the purpose of charging CIL it is recommended a single rate of £80 sqm is adopted to take account of the viability of both categories.

1.20 The development strategy for the Airport Zone is primarily brownfield so it is recommended that rates are set to reflect a reasonable buffer from the brownfield viability with a recommended rate of £20sqm for Industrial development.

Executive Summary

| Airport Zone | |
|--------------------------------|--------|
| Industrial B1(b) B1(c) B2 B8 | £20sqm |
| Retail A1-A5 | £80sqm |
| All Other Non Residential Uses | £0sqm |
| Boroughwide | |
| Retail A1-A5 | £80 |
| All Other Non Residential Uses | £0sqm |

CIL Revenue Potential

1.21 In order to estimate residential CIL over the plan period, the recommended CIL rate is applied to an average dwelling size of 90 sq metres for eligible dwellings. In Crawley it is estimated that 1394 dwellings do not currently have planning permission and would therefore potentially be liable for CIL. Assuming 30% of these are exempt as affordable Housing, the projected CIL liable floorspace is 976 x 90sqm = 87840sqm

1.22 The floorspace projections for commercial categories of development that would be liable for CIL in the Airport Zone, over the plan period, are set out in the table below. It should be noted that due to aviation safeguarding the level of industrial floorspace that may be permitted is limited (and may only relate to extensions to existing premises). At this stage therefore no firm allowance has been made for new floorspace and if Crawley decides to pursue the adoption of CIL it may decide not to adopt a separate commercial zone around the airport.

| Charging Zone | Category | CIL Rate | Eligible Floorspace | CIL Revenue |
|---------------|-------------|----------|---------------------|-------------------|
| Boroughwide | Residential | £100 | 87840 | £8,784,000 |
| Boroughwide | Retail | £80 | 4300 | £344,000 |
| Airport | Industrial | £20 | 0 | £0 |
| | | | Total | £9,128,000 |

SHLAA Appraisal

1.23 The specific testing of the SHLAA sites indicates whether individual development sites are considered viable on a 'traffic light' red, green, amber approach (having applied draft CIL rates as well as the policy impacts considered in the CIL analysis).

Executive Summary

Green – Site considered viable having made allowance for all reasonable development impacts, a standard developers profit and return to the landowner.

Amber – Site considered capable of viable development making allowance for all reasonable development impacts, a standard developers profit but acknowledging that landowners may need to accept land value reductions for abnormal site development costs if development is to proceed.

Red – Site not currently considered viable based on implementation of Council policies and standard returns to landowners. It should be recognised that sites in this category may be viable if (a) the abnormal costs of bringing the site into a developable state (including some up front infrastructure investment) are deducted from the land value, (b) the Council is minded to relax affordable housing or infrastructure contributions or (c) landowner/developers accept some reduced profit return to stimulate the development.

1.24 The study illustrated that all greenfield sites in the initial 0-5 year delivery period (ie the 5 year land supply) are viable based on the adopted assumptions. All remaining sites are brownfield and demonstrate positive or such marginal negative viability to the extent that they may be considered deliverable. Viability improves in both the medium term (6-10 years) and longer term (11-15 years) with all sites demonstrating positive viability.

1.25 In conclusion, the assessment of all proposed residential sites in Crawley has been undertaken with due regard to the requirements of the NPPF and the best practice advice contained in 'Viability Testing Local Plans'. It is considered that all greenfield sites are viable across the entire plan period. The delivery of a small number of brownfield sites may require landowners to be realistic about value reductions to take account of abnormal development costs and the Council may need to marginally reduce affordable housing aspirations to encourage development in the short term. The vast majority of sites have been demonstrated to be viable and deliverable and as such the overall residential delivery strategy is considered sound.

1.26 It should be noted that this study should be seen as a strategic overview of plan level viability rather than as any specific interpretation of Crawley Borough Council policy on the viability of any individual site or application of planning policy to affordable housing, CIL or developer contributions. Similarly the conclusions and recommendations in the report do not necessarily reflect the policy position of Crawley Borough Council.

2 Introduction

2.1 The purpose of the study is to assess the overall viability of the Local Plan by assessing the specific viability of sites being considered for allocation in the Plan.

2.2 In order to provide a robust assessment, the study first uses generic development typologies to consider the cost and value impacts of Local Plan policies and determine whether any additional viability margin exists to accommodate a Community Infrastructure Levy. The study then goes on to assess the viability of the individual development sites proposed for allocation. The individual viability assessments take account of adopted planning policies, affordable housing requirements, the potential Community Infrastructure Levy and site specific constraints to determine whether the proposed sites are viable and deliverable in the plan period.

The NPPF and Relevant Guidance

2.3 The National Planning Policy Framework 2012 introduces a new focus on viability assessment in considering appropriate Development Plan policy. Paras 173-177 provide guidance on 'Ensuring Viability and Deliverability' in plan making. They state :-

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

174. Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence.....

177. It is equally important to ensure that there is a reasonable prospect that planned infrastructure is deliverable in a timely fashion. To facilitate this, it is important that local planning authorities understand -wide development costs at the time Local Plans are drawn up. For this reason, infrastructure and development policies should be planned at the same time, in the Local Plan. Any affordable housing or local standards requirements that may be applied to development should be assessed at the plan-making stage, where possible, and kept under review."

2 Introduction

2.4 In response to the NPPF, the Local Housing Delivery Group, a cross industry group of residential property stakeholders including the House Builders Federation, Homes and Communities Agency and Local Government Association, has published more specific guidance entitled 'Viability Testing Local Plans' in June 2012.

2.5 The guidance states as an underlying principle, that :-

"An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered."

2.6 The guidance recommends the following stages be completed in testing Local Plan viability:-

- 1) Review Evidence Base and align existing assessment evidence
- 2) Establish Appraisal Methodology and Assumptions (including threshold land values, site and development typologies, costs of policy requirements and allowance for changes over time)
- 3) Evidence Collation and Viability Modelling (including development costs and revenues, land values, developers profit allowance)
- 4) Viability Testing and Appraisal
- 5) Review of Outputs

2.7 The guidance is not prescriptive about the use of particular financial assessment models but advises that a residual appraisal approach which tests the ability of development to yield a margin beyond all the test factors to determine viability or otherwise is widely used and accepted. The guidance sets out the key elements of viability appraisal and the factors that need to be considered to ensure robust assessment.

2.8 The current study adheres to the principles of the NPPF and 'Viability Testing Local Plans and sets out its methodology and assumptions in the following sections.

3 Methodology

The Process

3.1 There are a number of key stages to Viability Assessment which may be set out as follows.

1) Evidence Base – Land & Property Valuation Study

3.2 Establish an area wide evidence base of land and property values for development in each sub-market area. The evidence base relies on the area wide valuation study undertaken by Heb Surveyors in 2013.

2) Evidence Base – Construction Cost Study

3.3 Establish an area wide evidence base of construction costs for each category of development relevant to the local area. The study will also indicate construction rates for professional fees, warranties, statutory fees and construction contingencies. The evidence base relies on the Construction Cost Study by Gleeds undertaken in 2013. In addition specific advice on reasonable allowances for abnormal site constraints was obtained from Gleeds and is outlined in the report.

3) Identification of Sub Market Areas

3.4 The Heb Valuation Evidence considered the existence of potential sub-markets within the study area which might form differential Charging Zones adopted as part of the Community Infrastructure Levy and which warrant the application of varied assumptions to the individual site viability assessments.

4) Delivery Timescale

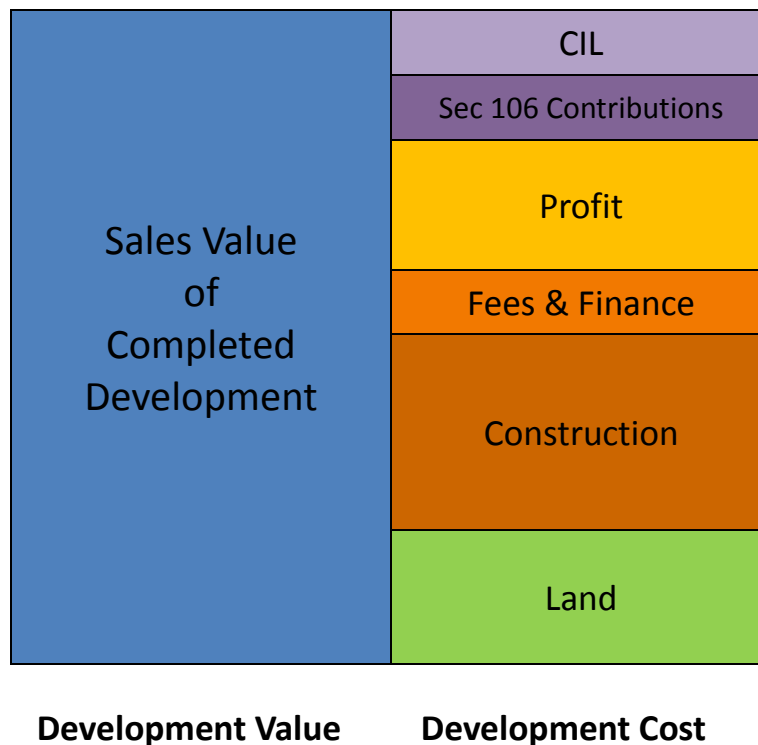
3.5 The study factors in projections for changes to property costs and values for the 0-5, 6-10 and 11-15 year delivery periods within the overall delivery timescale of the Development Plan.

5) Viability Appraisal

3.6 Appraisal of every allocated site taking account of site area, unit numbers, brownfield or greenfield status, site specific abnormal constraints, policy requirements and affordable housing targets. The appraisal uses a Residual Appraisal Model to determine whether any margin exists beyond a reasonable developer's return.

3 Methodology

The Development Equation



3.7 The appraisal model is illustrated by the above diagram and summarises the 'Development Equation'. On one side of the equation is the development value ie the sales value which will be determined by the market at any particular time. The variable element of the value in residential development appraisal will be determined by the proportion and mix of affordable housing applied to the scheme. Appropriate discounts for the relevant type of affordable housing will need to be factored into this part of the appraisal.

3.8 On the other side of the equation, the development cost includes the 'fixed elements' ie construction, fees, finance and developers profit. Developers profit is usually fixed as a minimum % return on gross development value generally set by the lending institution at the time. The flexible elements are the cost of land and the amount of developer contribution (CIL and Planning Obligations) sought by the Local Authority.

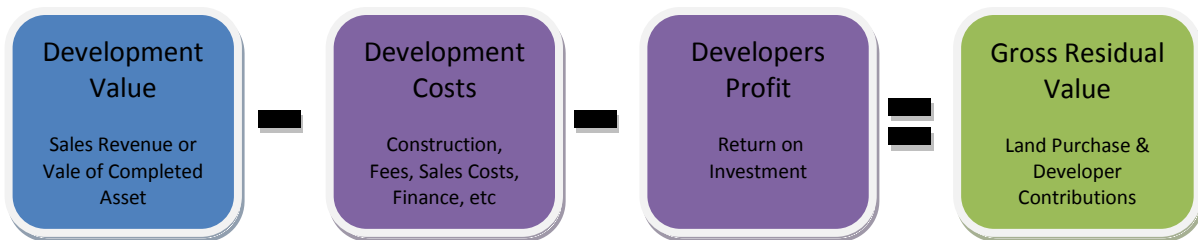
3.9 We assess economic viability using an industry standard Residual Model approach. The model firstly calculates development value and then subtracts the Land Value and the Fixed Development Costs to determine the margin available for Policy Based Contributions (S106, CIL etc). Importantly the methodology attempts to establish a realistic land value – one that reflects the reasonable contributions expectations of Authorities but which also provides sufficient return to persuade landowners to release sites (see Land Value Assumptions).

3 Methodology

Land Value Assumptions

3.10 It is generally accepted that planning policy based developer contributions, will be extracted from the residual land value (ie the margin between development value and development cost including a reasonable allowance for developers profit). For the purpose of Local Plan Viability Assessment a benchmark or Threshold Land Value must be established to ascertain the remaining margin for CIL contributions.

Stage 1 – Residual Valuation



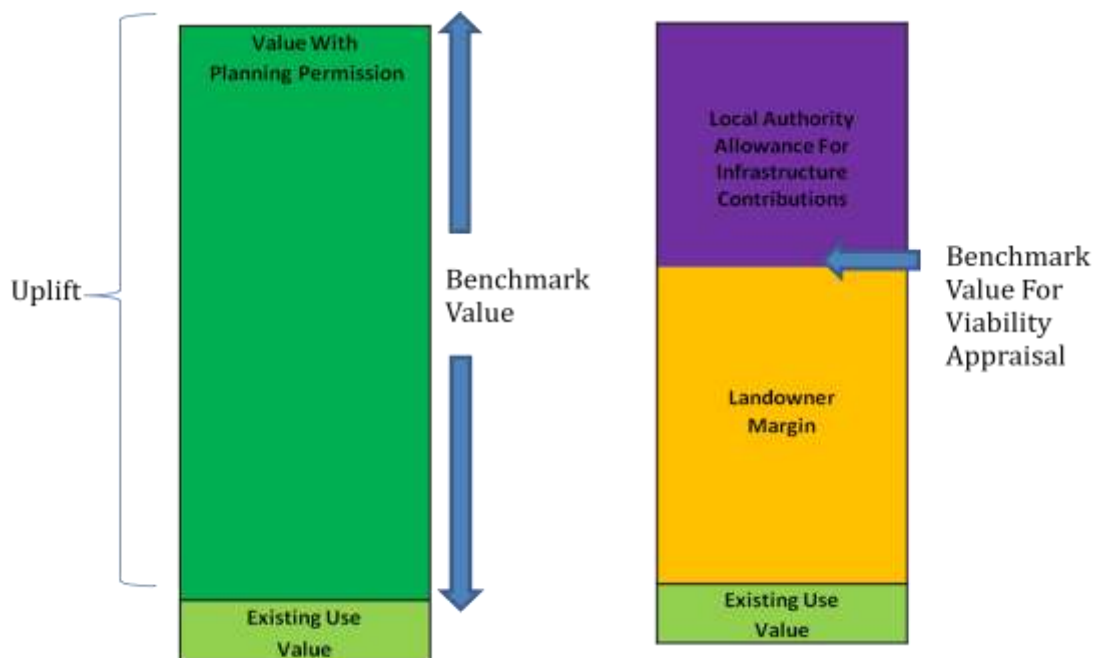
3.11 The approach to assessing the land element of the gross residual value is therefore the key to the robustness of any viability appraisal. There is no single method of establishing threshold land values for the purpose of viability assessment for CIL but the NPPF and emerging best practice guidance does provide a clear steer on the appropriate approach as discussed in the previous section.

Stage 2 – Establishing Threshold Land Value



3 Methodology

Land Value Benchmarking (Threshold Land Values)



3.11 The above diagram illustrates the principles involved in establishing a robust benchmark for land value. Land will have an existing use value (EUV) based on its market value. This is generally established by comparable evidence of the type of land being assessed (eg agricultural value for greenfield sites or perhaps industrial value for brownfield sites may be regarded as reasonable existing use value starting points and may be easily established from comparable market evidence)

3.12 The Alternative Use Value is established by assessing the gross residual value between development value and development cost after a reasonable allowance for development profit, assuming planning permission has been granted. The gross residual value does not make allowance for the impact of development plan policies on development cost and therefore represents the maximum potential value of land that landowners may aspire to.

3.13 In order to establish a benchmark land value for the purpose of CIL viability appraisal, it must be recognised that Local Authorities will have a reasonable expectation that, in granting planning permission, the resultant development will yield contributions towards infrastructure and affordable housing. The cost of these contributions will increase the development cost and therefore reduce the residual value available to pay for the land.

3.14 The appropriate benchmark value will therefore lie somewhere between existing use value and gross residual value based on alternative planning permission. This will of course vary significantly dependent on the category of development being assessed

3 Methodology

3.15 The key part of this process is establishing the point on this scale that balances a reasonable return to the landowner beyond existing use value and a reasonable margin to allow for infrastructure and affordable housing contributions to the Local Authority.

Benchmarking and Threshold Land Value Guidance

3.16 Benchmarking is an approach which the Homes and Communities Agency refer to in 'Investment and Planning Obligations: Responding to the Downturn'. This guide states: *"a viable development will support a residual land value at a level sufficiently above the site's existing use value (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner"*.

3.17 The NPPF has introduced a more stringent focus on viability in planning considerations. In particular para 173 states:-

"To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable"

3.18 The NPPF recognises that, in assessing viability, unless a realistic return is allowed to a landowner to incentivise release of land, development sites are not going to be released and growth will be stifled. The Local Housing Delivery Group guidance 'Viability Testing Local Plans' states :-

"Another key feature of a model and its assumptions that requires early discussion will be the Threshold Land Value that is used to determine the viability of a type of site. This Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development, before payment of taxes (such as capital gains tax)".

Different approaches to Threshold Land Value are currently used within models, including consideration of:

- *Current use value with or without a premium.*
- *Apportioned percentages of uplift from current use value to residual value.*
- *Proportion of the development value.*
- *Comparison with other similar sites (market value).*

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values. The precise figure that should be used as an appropriate premium above current use value should be determined locally. But it is important that there is evidence that it represents a sufficient premium to persuade landowners to sell".

3 Methodology

NCS Approach to Land Value Benchmarking (Threshold Land Values)

3.19 NCS has given careful consideration to how the Threshold Land Value (ie the premium over existing use value) should be established.

3.20 We have concluded that adopting a fixed % over existing value is inappropriate because the premium is tied solely to existing value – which will often be very low - rather than balancing the reasonable return aspirations of the landowner to pursue a return based on alternative use as required by the NPPF. Landowners are generally aware of what their land is worth with the benefit of planning permission. Therefore fixed % uplift over existing use value will not generally be reflective of market conditions and may not be a realistic method of establishing threshold land value.

3.21 We believe that the uplift in value resulting from planning permission should effectively be shared between the landowner (as a reasonable return to incentivise the release of land) and the Local Authority (as a margin to enable infrastructure and affordable housing contributions). The % share of the uplift will vary dependent on the particular approach of each Authority but based on our experience the landowner will expect a minimum of 50% of the uplift in order for sites to be released. Generally, if a landowner believes the Local Authority is gaining greater benefit than he is, he is unlikely to release the site and will wait for a change in planning policy. We therefore consider that a 50:50 split is a reasonable benchmark and will generate base land values that are fair to both landowners and the Local Authority.

The Wokingham Appeal Decision (APP/X0360/A/12/2179141) in January 2013 has provided clear support for this approach to establishing a 'reasonable return the landowner' under the requirements of the NPPF. The case revolved around the level of affordable housing and developer contributions that could be reasonably required and in turn the decision hinged on the land value allowed to the applicant as a 'reasonable return' to incentivise release of the site. The Inspector held that the appropriate approach to establishing the benchmark or threshold land value would be to split the uplift in value resulting from planning permission for the Alternative Use - 50:50 between landowner and the community.

The Threshold Land Value is established as follows :-

Existing Use Value + % Share Of Uplift from Planning Permission = Threshold Land Value

3.22 The resultant threshold values are then checked against market comparable evidence of land transactions in the Authority's area by our valuation team to ensure they are realistic. We believe this is a robust approach which is demonstrably fair to landowners and more importantly an approach which has been accepted at CIL and Local Plan Examinations we have undertaken.

3 Methodology

Worked Example Illustrating % over Existing Use vs % Share of Uplift

3.23 A landowner owns a 1 Hectare field at the edge of a settlement. The land is proposed to be allocated for residential development. Agricultural value is £20,000 per Ha. Residential land is being sold in this area for £1,000,000 per Ha. For the purposes of CIL viability assessment what should this Greenfield site be valued at?

Using Fixed % over EUV the land would be valued at £24,000 (£20,000 + 20%)

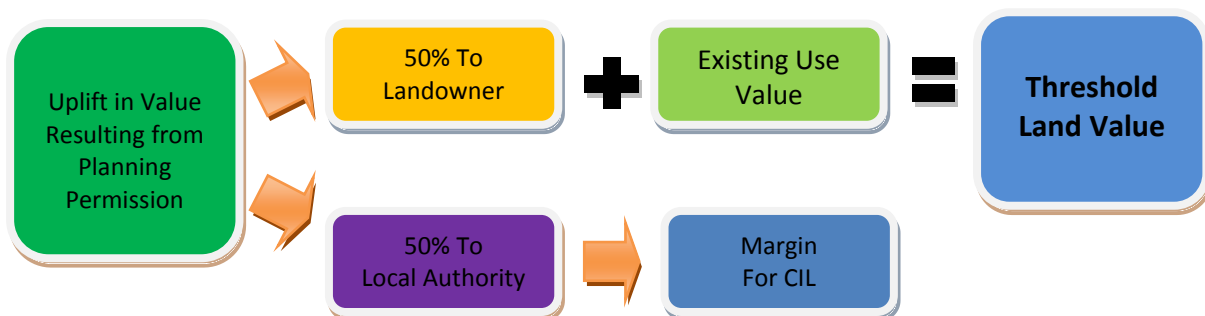
Using % Share of Uplift in Value the land would be valued at £510,000 (£20,000 + 50% of the uplift between £20,000 and £1,000,000) – realising a market return for the landowner but reserving a substantial proportion of the uplift for infrastructure contribution.

Benchmarking Based on % Share of Uplift in Land Value

Stage One



Stage Two



3 Methodology

Brownfield and Greenfield Land Value Benchmarks

3.24 In order to represent the likely range of benchmark scenarios that might emerge in the plan period for the appraisal it will be necessary to test alternative threshold land value scenarios. A greenfield scenario will represent the best case for developer contributions as it represents the highest uplift in value resulting from planning permission. The greenfield existing use is based on agricultural value

3.25 The median brownfield position recognises that existing commercial sites will have an established value. The existing use value is based on a low value brownfield use (industrial). The appropriate brownfield base value for benchmarking across a wide range of development scenarios is a difficult issue. Clearly some central sites will potentially have higher established base values but benchmarking must rely on the premise that land will only become available for alternative use if there are inherent difficulties with its existing use that prevent it reaching that intrinsic value and producing a viable development. In Crawley the relatively high level of vacancies on town centre sites may require landowners to readjust land value expectations to reflect the lack of market activity. In these circumstances the approach which assumes a share of uplift from a depressed value starting point is still considered reasonable and appropriate.

3.26 The viability testing firstly assesses the gross residual value (the maximum potential value of land based on total development value less development cost with no allowance for affordable housing, CIL, sec 106 contributions or planning policy cost impacts). This is then used to apportion the share of the potential uplift in value to the greenfield and brownfield benchmarks. This is considered to represent a reasonable scope of land value scenarios in that change from a high value use (eg retail) to a low value use (eg industrial) is unlikely.

3.27 In CIL appraisal work, as a sense check, the viability appraisals are also undertaken based on market comparable evidence of actual land transactions in the relevant use category. Actual market evidence will not always be available for all categories of development, the valuation team make reasoned assumptions. It is not recommended that these results are used as the basis for setting CIL rates or Affordable Housing targets since the market transaction land values may not necessarily reflect proper allowance for planning policy impacts – particularly where a policy that has a direct ‘land taxation’ impact (like CIL) has not previously been in existence.

Residential

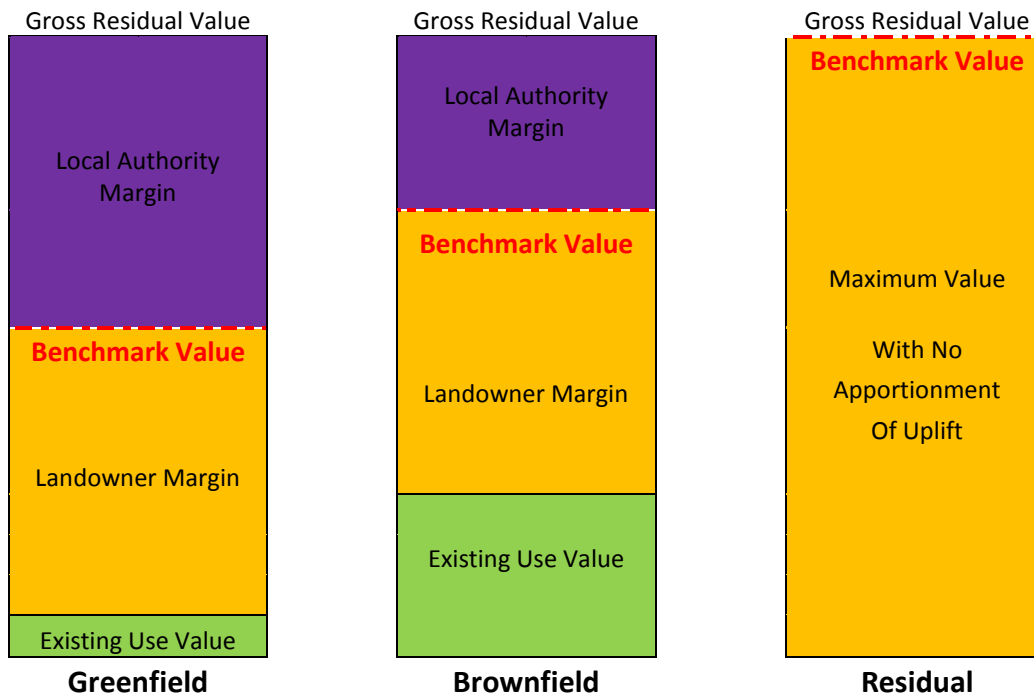
| | | |
|-------------|-------------------|---|
| Benchmark 1 | Greenfield | Agricultural – Residential |
| Benchmark 2 | Brownfield | Industrial – Residential |
| Benchmark 3 | Market Comparable | Based on transactional evidence where available (CIL Appraisal only) |

Commercial

| | | |
|-------------|-------------------|---|
| Benchmark 1 | Greenfield | Agricultural – Proposed Use (Maximum CIL Potential) |
| Benchmark 2 | Brownfield | Industrial – Proposed Use |
| Benchmark 3 | Market Comparable | Based on transactional evidence where available (CIL Appraisal only) |

3 Methodology

3.28 The viability study normally assumes that affordable housing land has no value because development costs generally exceed affordable housing sales value. In very high value areas adjustments are made to this assumption to reflect affordable housing land value as appropriate.



3.29 The above diagram illustrates the concept of Benchmark Land Value. The level of existing use value for the three benchmarks is illustrated by the green shading. The uplift in value from existing use value to proposed use value is illustrated by the purple and gold shading. The gold shading represents the proportion of the uplift allowed to the landowner for profit. The blue shading represents the allowance of the uplift for developer contributions to the Local Authority. The Residual Value assumes maximum value with planning permission with no allowance for planning policy cost impacts. This benchmark is used solely to generate the brownfield and greenfield threshold values.

3.30 Whilst brownfield land evaluation with a higher benchmark land value will necessarily indicate that less margin exists for policy cost impacts.

3.31 The 'Market Comparable' land values will normally represent the highest land value assumptions of the three assessed benchmarks as they cannot make allowance for the introduction of the new policy that is being assessed and which will have subsequent impact on value, once adopted.

3 Methodology

Residual Valuation & Development Appraisal

3.32 NCS do not rely solely on residual value appraisal to assess viability. Alternative methodologies rely on subtracting development costs and profit from development value and inputting assumed developer contributions and policy impact costs to give a residual value for land. This residual value is then compared to a benchmark value. If it is equal to or higher to the benchmark the development is deemed to be viable.

3.33 The problem with the residual value approach is that it doesn't factor in the finance cost of land – which will be the element of development cost that is incurred up front and carry finance costs through the entire development process. The omission of this finance cost could potentially give a false picture of development viability.

3.34 NCS therefore adopt a development appraisal approach rather than a residual land value approach. NCS has developed a bespoke model specifically to assess the economic viability of development. This model factors in land value (threshold land value as discussed in the previous section) as a key element of development cost. In this way the finance charges for of all elements of development cost are properly assessed including land.

| | |
|---|-------------------|
| Development Value (Based on Floor Area) Eg 10 x 3 Bed 100sqm Houses x £2,200per sqm | £2,200,000 |
| Development Costs | |
| Land Value | £400,000 |
| Construction Costs | £870,000 |
| Abnormal Construction Costs (Optional) | £100,000 |
| Professional Fees (% Costs) | £90,000 |
| Legal Fees (% Value) | £30,000 |
| Statutory Fees (% Costs) | £30,000 |
| Sales & Marketing Fees (% Value) | £40,000 |
| Contingencies (% Costs) | £50,000 |
| Section 106 Contributions/Policy Impact Cost Assumptions/CIL (SHLAA or Site Testing Only) | £90,000 |
| Finance Costs (% Costs) | £100,000 |
| Developers Profit (% Return on GDV) | £350,000 |
| Total Costs | £2,175,000 |
| Output | |
| Viability Margin | £50,000 |
| Potential CIL Rate (CIL Appraisal only) | £50 sqm |

3 Methodology

3.35 The NCS model is based on standard development appraisal methodology, comparing development value to development cost. The model factors in a reasonable return for the landowner with the established threshold value, a reasonable profit return to the developer and the assessed cost impacts of proposed planning policies to determine if there is a positive or negative residual output. Provided the margin is positive (ie Zero or above) then the development being assessed is deemed viable. The principles of the model are illustrated below.

Property Sales Values

3.36 The sale value of the development category will be determined by the market at any particular time and will be influenced by a variety of locational, supply and demand factors as well as the availability of finance. The study uses appropriate available evidence to give an accurate representation of the market circumstances on which Development Plan policy will be based. Sales value evidence is based on the Valuation survey undertaken by Heb Surveyors in 2013.

| Sales Values | | Sales Value £sqm | | | | |
|-----------------------------------|--|------------------|-------|-------|-------|-------|
| | | Apartment | 2 Bed | 3 Bed | 4 Bed | 5 Bed |
| Sub Market Area/CIL Charging Zone | | | | | | |
| Boroughwide | | 3000 | 2800 | 2750 | 2500 | 2500 |

4 Viability Appraisal Assumptions

Sub Market Areas

4.1 The Heb valuation study concluded that Crawley could be divided into 2 principal sub-market areas for commercial land and property due to the influence of Gatwick Airport. These sub-market areas formed the basis for the viability testing and the Authority's draft CIL Charging Zones and are illustrated on the following plans :-



Commercial Sub Markets/CIL Charging Zones

The valuation study did not however find similar distinctions in residential land and property values and a single zone Boroughwide approach was adopted to the residential CIL and SHLAA viability assessment.

4 Viability Appraisal Assumptions

Affordable Housing

4.2 The residential viability tests factor in affordable housing in accordance with the Council's relevant policy on proportion and mix. The following extract from a residential viability appraisal model illustrates how affordable housing is factored into the residential valuation assessment. The relevant variables (eg unit numbers, types, sizes, affordable proportion, tenure mix etc) are inputted into the highlighted cells. The model will then calculate the overall value of the development taking account of the relevant affordable unit discounts.

| | | | | | | |
|---------------------------------|-------------------------------|--------------------|------------------|------------------------|--------------|--------------------|
| DEVELOPMENT SCENARIO | Mixed Residential Development | | | | Apartments | 10 |
| BASE LAND VALUE SCENARIO | Greenfield to Residential | | | | 2 bed houses | 20 |
| DEVELOPMENT LOCATION | Urban Zone 1 | | | | 3 Bed houses | 40 |
| DEVELOPMENT DETAILS | 100 | Total Units | | | 4 bed houses | 20 |
| Affordable Proportion | 30% | 30 | Affordable Units | | 5 bed house | 10 |
| Affordable Mix | 30% | Intermediate | 40% | Social Rent | 30% | Affordable Rent |
| Development Floorspace | 6489 | Sqm Market Housing | 2,163 | Sqm Affordable Housing | | |
| Development Value | | | | | | |
| Market Houses | | | | | | |
| 7 | Apartments | 65 | sqm | 2000 | £ per sqm | £910,000 |
| 14 | 2 bed houses | 70 | sqm | 2200 | £ per sqm | £2,156,000 |
| 28 | 3 Bed houses | 88 | sqm | 2200 | £ per sqm | £5,420,800 |
| 14 | 4 bed houses | 115 | sqm | 2200 | £ per sqm | £3,542,000 |
| 7 | 5 bed house | 140 | sqm | 2200 | £ per sqm | £2,156,000 |
| Intermediate Houses | | | | | | |
| | | 60% | Market Value | | | |
| 3 | Apartments | 65 | sqm | 1200 | £ per sqm | £210,600 |
| 5 | 2 Bed house | 70 | sqm | 1320 | £ per sqm | £415,800 |
| 2 | 3 Bed House | 88 | sqm | 1320 | £ per sqm | £209,088 |
| Social Rent Houses | | | | | | |
| | | 40% | Market Value | | | |
| 4 | Apartments | 65 | sqm | 800 | £ per sqm | £187,200 |
| 6 | 2 Bed house | 70 | sqm | 880 | £ per sqm | £369,600 |
| 2 | 3 Bed House | 88 | sqm | 880 | £ per sqm | £185,856 |
| Affordable Rent Houses | | | | | | |
| | | 50% | Market Value | | | |
| 3 | Apartments | 65 | sqm | 1000 | £ per sqm | £175,500 |
| 5 | 2 Bed house | 70 | sqm | 1100 | £ per sqm | £346,500 |
| 2 | 3 Bed House | 88 | sqm | 1100 | £ per sqm | £174,240 |
| 100 | Total Units | | | | | |
| Development Value | | | | | | £16,459,184 |

It is important to note that the model applies % proportions and further % tenure splits to the housing scenarios which will generate fractional unit numbers. The model automatically rounds to the nearest whole number and therefore some results appear to attribute value proportions to houses which do not register in the appraisal. The fractional distribution of affordable housing discounts is considered to represent the most accurate illustration of the impact of affordable housing policy on viability.

4 Viability Appraisal Assumptions

4.3 Affordable Housing delivery from 25-40% was tested against the potential to yield CIL based on a tenure mix of 30% Intermediate and 70% Affordable Rent. The Council considers that, in view of the scarcity of Social Housing Grant, a tenure mix of Intermediate and Affordable Rent Housing would be appropriate to meet the needs of the Borough. In addition 30% affordable Housing and 10% Low Cost Housing delivery was assessed (based on a 15% discount from open market value at initial sale). The following Affordable Housing assumptions were employed in the viability testing relating to the tenure mix between Intermediate, Affordable Rent and Low Cost housing types. Finally the transfer values in terms of % of open market value are set out for each tenure type.

| Affordable Housing | | | | |
|---------------------------|--------------|--------------|----------|-----------------|
| | Proportion % | Tenure Mix % | | |
| | | Intermediate | Low Cost | Affordable Rent |
| Boroughwide | 25-40% | 30% | 0% | 70% |
| Boroughwide | 40% | 22% | 25% | 53% |
| Transfer Values | | 70% | 85% | 60% |

4.4 An Affordable Housing target of 40% was used to generate draft CIL rates and for the purpose of assessing the viability of the SHLAA sites.

Residential Density

4.5 Residential densities vary significantly dependent on house type mix and location. Mixed housing developments may vary from 10-50 dwellings per Hectare. Town Centre apartment schemes may reach densities of over 150 units per Hectare. We generate plot values for residential viability assessment related to specific house types. The plot values allow for standard open space requirements per Hectare.

4.6 The density assumptions for house types related to plot values are as follows :-

| | |
|-------------|------------------|
| Apartment | 100 units per Ha |
| 2 Bed House | 40 units per Ha |
| 3 Bed House | 35 units per Ha |
| 4 Bed House | 25 units per Ha |
| 5 Bed House | 20 units per Ha |

These assumptions are considered to take account of the minimum garden standards adopted in Local Plan Policy of 45 – 90sqm for 2Bed – 5 Bed Dwellings.

4 Viability Appraisal Assumptions

House Types and Mix

4.7 The study uses the following standard house types as the basis for valuation and viability testing as unit types that are generally reflective of market circumstances in Crawley .

| | |
|-----------------|---------|
| 2 Bed Apartment | 60 sqm |
| 2 Bed House | 75 sqm |
| 3 Bed House | 88 sqm |
| 4 Bed House | 120 sqm |
| 5 Bed House | 150 sqm |

4.8 Housing values and costs are based on the same gross internal area. However apartments will contain circulation space (stairwells, lifts, access corridors) which will incur construction cost but which is not directly valued. We make an additional construction cost allowance of 15% to reflect the difference between gross and net floorspace.

Residential Development Scenarios

4.9 The CIL appraisal considered 5 generic housing mixes to generate potential CIL rates as follows :-

| | |
|---|-----------|
| 1. Mixed Housing (Apt, 2, 3, 4 & 5 Bed Housing) | 100 Units |
| 2. Medium Scale Mixed Housing (Apt,2,3 & 4 Bed Housing) | 60 Units |
| 3. Town Centre Apartments | 35 Units |
| 4. Small scale Infill Housing (2 & 3 Bed Housing) | 5 Units |
| 5. Intermediate Scale Mixed Housing (2,3 & 4 Bed Housing) | 25 Units |

The individual SHLAA site assessments all tested mixed residential development using a mix considered to represent the type of residential development likely to emerge over the plan period. They may be summarised as follows :-

| Housing Mix | | |
|--------------|-----------------|--------------|
| Title | Residential Mix | |
| Unit Numbers | 20% | Apartments |
| | 20% | 2 bed houses |
| | 40% | 3 Bed houses |
| | 15% | 4 bed houses |
| | 5% | 5 bed house |

4 Viability Appraisal Assumptions

Commercial Development Scenarios

4.10 The CIL appraisal tests all forms of commercial development broken down into use class order categories. For completeness the appraisal includes a sample of sui generis uses. A typical form of development, that might emerge during the plan period, is tested within each use class.

4.11 The viability model also makes allowance for net:gross floorspace. In many forms of commercial development such as industrial and retail, generally the entire internal floorspace is deemed lettable and therefore values per sqm and construction costs per sqm apply to the same area. However in some commercial categories (eg offices) some spaces are not considered lettable (corridors, stairwells, lifts etc) and therefore the values and costs must be applied differentially. The net:gross floorspace ratio enables this adjustment to be taken into account.

4.12 The table below illustrates the commercial category and development sample testing as well as the density assumptions and net:gross floorspace ratio for each category.

| Commercial Development Sample Typology | | | | | |
|--|-----------------|-----------|------------|-----------|----------------------|
| Unit Size & Land Plot Ratio | | | | | |
| | | Unit Size | Plot Ratio | Gross:Net | Sample |
| | | Sqm | % | | |
| Industrial | B1b B1c B2 B8 | 1000 | 200% | 1.0 | Factory Unit |
| Office | B1a | 2000 | 200% | 1.2 | Office Building |
| Food Retail | A1 | 3000 | 300% | 1.0 | Supermarket |
| General Retail | A 1 A2 A3 | 300 | 150% | 1.0 | Roadside Retail Unit |
| Residential Inst | C2 | 4000 | 150% | 1.2 | Care Facility |
| Hotels | C3 | 3000 | 200% | 1.2 | Mid Range Hotel |
| Community | D1 | 200 | 150% | 1.0 | Community Centre |
| Leisure | D2 | 2500 | 300% | 1.0 | Bowling Alley |
| Agricultural | | 500 | 200% | 1.0 | Farm Store |
| Sui Generis | Car Sales | 1000 | 200% | 1.0 | Car Showroom |
| Sui Generis | Vehicle Repairs | 300 | 200% | 1.0 | Repair Garage |

Whilst the density assumptions are fairly broad the land:floorplate industrial assumption of 2:1 is considered to take account of additional landscape buffer requirements for the Manor Royal Industrial estate which have been adopted in the SPD.

Construction Costs & Code for Sustainable Homes

4.13 The construction rates will reflect allowances for external works, drainage, servicing preliminaries and contractor's overhead and profit. The viability assessment will include a 5% allowance for construction contingencies. The study adopts CoSH 3 to reflect basic residential construction rates required by Crawley. An additional allowance to reflect Crawley's policy cost impact of the Local plan's energy and water recycling requirements is made separately in the policy impact section.

4 Viability Appraisal Assumptions

Abnormal Construction Costs

4.14 Abnormal Site Constraint Costs associated with the development of individual sites have been identified for the individual testing of allocated sites. Advice on cost allowances for these constraints was obtained from Gleeds and is summarised in the table below.

| Abnormal Site Development Costs | Budget Cost £/Hectare |
|--|--------------------------|
| <p>Archaeology</p> <p>Typically, Archaeology is addressed by a recording/monitoring brief by a specialist, to satisfy planning conditions Intrusive archaeological investigations are exceptional and not allowed for in the Budget cost</p> | £10,000 |
| <p>Flood Defence Works</p> <p>Generally involves raising floor levels above flood level, on relevant sites Budget £2,000 per unit x 35 units/Hect, apply to 1 in 3 sites</p> | £25,000 |
| <p>Site Specific Access Works</p> <p>New road junction and S278 works, allowance for cycle path linking Major off-site highway works not allowed for.</p> | £20,000 |
| <p>Land Contamination</p> <p>Heavily Contaminated land is not considered, as remediation costs will be reflected in the land sales values</p> <p>Allow for remediation/removal from site of isolated areas of spoil with elevated levels of contamination</p> | £25,000 |
| <p>Ground Stability</p> <p>Former Mining area. Allow raft foundations to dwellings, on 75% of sites Budget £2000 per unit x 35 units x 25% of sites</p> | £20,000 |
| <p>Utilities</p> <p>Allowance for Infrastructure Upgrade</p> | £80,000 |
| <p>Noise Insulation</p> <p>Acoustic outlets to ventilation, MHVR and no window vents</p> | £100,000 |
| <p>Site Specific Biodiversity Mitigation/Ecology</p> <p>Allow for LVIA and Ecology surveys and mitigation and enhancement allowance.</p> | £20,000 |

4 Viability Appraisal Assumptions

4.15 It will not, of course, be possible to provide accurate assessment of site specific abnormal construction costs. Viability assessment of this nature is necessarily a generic test. Nevertheless it is considered that the assumptions are sufficiently robust to provide an overview of the viability of the allocated sites in the Plan, accepting that more detailed assessment may be required for individual sites at planning application stage.

Planning Policy Cost Impacts

4.16 CIL is likely to replace some if not all planning obligation contributions. The purpose of the study is to test the maximum margin available for CIL that is available from various types of development. CIL, once adopted, will represent the first 'slice' of tax on development. Planning Obligations may still be used for site specific mitigation and the CIL Guidance 2013 indicates that Authorities should demonstrate that the development plan is deliverable by funding infrastructure through a mixture of CIL and planning obligation contributions in the event that the Authority does not intend to completely replace planning obligations with CIL.

4.17 Costs have been factored into the viability appraisals to reflect the impact of relevant development plan policy and the residual use of planning obligations for site specific mitigation. The cost impact of these mitigation measures has been assessed by Gleeds and may be summarised as follows :-

Energy & Water Recycling Credit & Decentralised Energy Facilities CoSH 3 + £453 per dwelling

This cost relates to additional facilities required by Crawley to conserve energy and recycle water and to make housing network ready to connect to a decentralised energy network.

BREAAM Standards

The construction costs for commercial development make allowance for BREAAM 'Excellent' rating including additional professional fees.

Residual Planning Obligations for site specific mitigation

£500 per dwelling
£20 per sqm commercial

4.18 Historical evidence demonstrates that where planning obligations have been charged an average of £2056 per dwelling and £28 per sqm for commercial development. It is likely that CIL will replace a significant part of this funding requirement in the future. Therefore an ongoing allowance of £500 per dwelling has been made to reflect potential future contributions for residential development. The allowance has been rounded down to £20sqm for commercial development..

4 Viability Appraisal Assumptions

4.19 The total 'policy cost impact' allowance (over and above the CoSH Code 3 construction rates) for residential development based on the above has been made at £953 per dwelling in the residential appraisals and £20 per sqm applied to the commercial appraisals.

Community Infrastructure Levy

4.20 The results of the CIL Viability Assessment are considered in the next section. CIL is factored into the SHLAA appraisals in accordance with the draft CIL Charging Rates being considered by Crawley as summarised in the table below.

| Community Infrastructure Levy – Residential | |
|---|--------------------------|
| Charging Zone | CIL Rate Per sq metre |
| Boroughwide | £100 |

4.21 Affordable Housing is exempt from CIL charges and the viability assessments therefore only apply the CIL rates to market housing floorspace.

It should be noted that the above rate has not been formally considered by Crawley Council and represent potential CIL rates based on the evidence and other factors set out in the report

Developers Profit

4.22 Developers profit is generally fixed as a % return on gross development value or return on the cost of development to reflect the developer's risk. In current market conditions, and based on the minimum lending conditions of the financial institutions. A 20% return on GDV is used in the residential CIL viability appraisals to reflect speculative risk. A reduced level of 17.5% return is used in the commercial appraisals to reflect the likelihood that commercial development will be pre-let or pre-sold with a reduced level of risk.

Delivery Timescale

4.23 The delivery of housing and sites has been considered over a plan period of 15 years and broken down into 5 year delivery periods from 0-5 years, 6-10 years and 11-15 years. Larger sites have assumed phased delivery across all three periods.

4 Viability Appraisal Assumptions

4.24 Based on forecasts from industry research (Savills for regional residential market trends and Gleeds for construction cost forecasts) the following broad assumption adjustments have been applied to the values and costs in the study in the three appraisal periods. There will obviously be significant fluctuations over a 15 year plan period with higher residential value growth likely in the early part of the cycle but the figures are considered to represent reasonable estimates for the purpose of the Viability Appraisal.

| Assumption Adjustments | | | |
|---------------------------------------|-----------|------------|-------------|
| Residential Values Av Annual Increase | 2015-2030 | 3% | |
| Construction Costs Av Annual increase | 2015-2030 | 2% | |
| Delivery Period | 0-5 Years | 6-10 Years | 11-15 Years |
| Value Adjustment | 9% | 27% | 46% |
| Costs Adjustment | 6% | 17% | 29% |

4.25 The adjustment applied to the 0-5 year period assumes a median position with compounded adjustments applied over 3 years. A period of 8 years of compounded adjustments is applied to the 6-10 year period and 13 years for the 11-15 year period. Adjustments are similarly applied to CIL Rates and Abnormal Site Constraint Costs.

5 CIL Viability Appraisal Results

5.1 The results of the CIL Viability Testing are set out in the tables on the following pages. The residential results are illustrated for the 5 different Affordable Housing tests (25-40% Delivery based on 30% Intermediate/70% Affordable Rent tenure mix) for the five residential development scenarios. The residential tables illustrate the potential CIL rates in £ per sqm for each rate of affordable housing delivery in each of the four sub markets (ie the draft CIL Charging Zones). The commercial table illustrates the potential CIL rates across the two sub market areas

5.2 Each category of development produces a greenfield and brownfield result in each test area. These results reflect the benchmark land value scenario. The first result assumes greenfield development which generally represents the highest uplift in value from current use and therefore will produce the highest potential CIL Rate. The second result assumes that development will emerge from low value brownfield land. The Market Comparable rate should be regarded as a sensitivity test only as it is based on non benchmarked land values which reflect historic land transactions that could not make allowance for the future introduction of a new land tax in the form of CIL. The greenfield and brownfield results should guide the actual rates of CIL adopted, dependent on the prevailing development strategy of the Development Plan.

5.3 It should be recognised that the CIL Rates that have emerged from the study are maximum potential rates. The viability tests are necessarily generic and do not factor in site specific abnormal costs that may be encountered on many development sites. The tests produce maximum contributions for infrastructure and therefore ultimate CIL charges may need to allow for additional unforeseen costs and site specific abnormal.



Maximum Commercial CIL Rates per sqm

| Charging Zone/Base Land Value | Industrial (B1b B1c B2 B8) | Office (B1a) | Food Supermarket (A1) | General Retail (A1-A5) | Hotel (C1) |
|-------------------------------|-------------------------------|-----------------|-----------------------------|---------------------------|---------------|
| General Zone | | | | | |
| Greenfield | £40 | -£188 | £899 | £171 | -£785 |
| Brownfield | -£42 | -£259 | £772 | £109 | -£857 |
| Market Comparable | -£38 | -£305 | £865 | £135 | -£860 |
| Airport Zone | | | | | |
| Greenfield | £132 | £43 | £899 | £171 | £81 |
| Brownfield | £44 | -£29 | £772 | £109 | £9 |
| Market Comparable | £110 | -£98 | £865 | £135 | £45 |

5 CIL Viability Appraisal Results

Maximum Commercial CIL Rates per sqm

| Charging Zone/Base Land Value | Residential Institution (C2) | Community (D1) | Leisure (D2) | Agricultural (A1-A5) | Sui Generis |
|-------------------------------|------------------------------|----------------|--------------|----------------------|-----------------------|
| General Zone | | | | | |
| Greenfield | -£1,073 | -1905 | -588 | -£442 | Car Sales -£388 |
| Brownfield | -£1,127 | -1967 | -717 | na | Car Repairs – -703 |
| Market Comparable | -£1,100 | -1870 | -722 | na | |
| Airport Zone | | | | | |
| Greenfield | -£1,073 | -1905 | -588 | -£442 | Car Sales -£409 |
| Brownfield | -£1,127 | -1967 | -717 | na | Car Repairs -£703 |
| Market Comparable | -£1,073 | -1870 | -722 | na | |

Maximum Residential CIL Rates per sqm

| Charging Zone/Base Land Value | Mixed Residential Development | Medium Size Mixed Development | Intermediate Mixed Development | Small Housing Development | Town Centre Apartments |
|---------------------------------|-------------------------------|-------------------------------|--------------------------------|---------------------------|------------------------|
| 25% Affordable | | | | | |
| Greenfield | £290 | £315 | £309 | £379 | £404 |
| Brownfield | £139 | £167 | £155 | £229 | £315 |
| Market Comparable | -£65 | -£33 | -£62 | £25 | £191 |
| 30% Affordable | | | | | |
| Greenfield | £287 | £312 | £306 | £375 | £396 |
| Brownfield | £131 | £158 | £146 | £219 | £302 |
| Market Comparable | -£77 | -£46 | -£75 | £11 | £171 |
| 35% Affordable | | | | | |
| Greenfield | £282 | £305 | £300 | £374 | £387 |
| Brownfield | £122 | £148 | £137 | £209 | £288 |
| Market Comparable | -£92 | -£62 | -£90 | -£5 | £149 |
| 40% Affordable | | | | | |
| Greenfield | £275 | £298 | £293 | £367 | £377 |
| Brownfield | £110 | £136 | £125 | £197 | £271 |
| Market Comparable | -£109 | -£81 | -£108 | -£23 | £127 |
| 30% Aff Hsg 10% Low Cost | | | | | |
| Greenfield | £298 | £323 | £317 | £392 | £411 |
| Brownfield | £122 | £148 | £137 | £209 | £288 |
| Market Comparable | -£114 | -£85 | -£112 | -£28 | £121 |

6 SHLAA Viability Appraisal Results

6.1 The study has undertaken Viability Appraisals of all sites being promoted by the Crawley Local plan.

6.2 The residential appraisals are based on a standard residential mix to allow direct comparison of all sites. The mix is considered reflective of the type of housing development likely to emerge over the plan period as illustrated below.

| Housing Mix | | |
|-------------|-----------------|--------------|
| Title | Residential Mix | |
| | Unit Numbers | 20% |
| | 20% | 2 bed houses |
| | 40% | 3 Bed houses |
| | 15% | 4 bed houses |
| | 5% | 5 bed house |

6.3 The study assumed 40% Affordable Housing delivery. The tenure mix between Intermediate, Social Rent and Affordable Rent housing types and the relevant transfer values in terms of % of open market value are set out below.

| Affordable Housing | | | | |
|------------------------|--------------|--------------|-------------|-----------------|
| | Proportion % | Tenure Mix % | | |
| | | Intermediate | Social Rent | Affordable Rent |
| Districtwide | 40% | 30% | 0% | 70% |
| Transfer Values | | 70% | 40% | 60% |

6.4 The study also assumed that the following draft CIL rates would be charged. It should be noted that the rates have not been formally considered by Crawley Council and represent potential CIL rates based on the evidence and other factors set out in the report. The CIL charges have been indexed in line with the construction cost trajectories for the three delivery periods (as outlined in section 4.22 above).

| Community Infrastructure Levy – Residential | |
|---|--------------------------|
| Charging Zone | CIL Rate Per sq metre |
| Boroughwide | £100 |

6 SHLAA Viability Appraisal Results

6.5 Both the Residential and Commercial appraisals factored in site specific abnormal costs and mitigation factors as set out in the tables below. These costs were adjusted for the 6-10 and 11-15 year delivery periods in the residential assessment (as outlined in section 4.22 above)

| Residential Abnormal Costs | | | | | | | |
|----------------------------|------------|-------------|-------------|----------------|-----------------------|------------------------|-----------------------|
| Archlogy (Ha) | Flood (Ha) | Access (Ha) | Contam (Ha) | Sec 106 (unit) | Ground Stability (Ha) | Utilities Upgrade (Ha) | Noise Insulation (Ha) |
| 10000 | 25000 | 20000 | 25000 | 1000 | 20000 | 80000 | 100000 |

6.9 The site specific testing indicates whether individual development sites are considered viable on a 'traffic light' red, green, amber approach (having applied draft CIL rates as well as the policy impacts considered in the CIL analysis).

Green – Site considered viable having made allowance for all reasonable development impacts, a standard developers profit and return to the landowner.

Amber – Site considered capable of viable development making allowance for all reasonable development impacts, a standard developers profit but acknowledging that landowners may need to accept land value reductions for abnormal site development costs if development is to proceed.

Red – Site not currently considered viable based on implementation of Council policies and standard returns to landowners. It should be recognised that sites in this category may be viable if (a) the abnormal costs of bringing the site into a developable state (including some up front infrastructure investment) are deducted from the land value, (b) the Council is minded to relax affordable housing or infrastructure contributions or (c) landowner/developers accept some reduced profit return to stimulate the development.

6 SHLAA Viability Appraisal Results

SHLAA Sites 0-5 Year Delivery

| Viability Results | | Zone 1 | | 0-5 Year Delivery | |
|-------------------|--|--------|-------|-------------------|------------|
| Ref | Site | Size | Units | Type | Viability |
| 4 | Southern Counties, West Green | 0.63 | 150 | Brownfield | -£68,929 |
| 38 | Former Thomas Bennett School, Tilgate | 2.40 | 100 | Greenfield | £540,437 |
| 286 | North East Sector Neighbourhood, Pound Hill | 46.30 | 1900 | Greenfield | £1,033,996 |
| 197 | Fairfield House, West Green Drive, West Green | 0.65 | 93 | Brownfield | -£31,790 |
| 57 | Brunel Place, West of Southgate Avenue, Southgate | 0.14 | 15 | Brownfield | £15,763 |
| 177 | Crossways, Balcombe Road, Pound Hill | 0.26 | 7 | Brownfield | £12,230 |
| 191 | Oak Tree Filling Station, 114 London Road, Northgate | 0.18 | 17 | Brownfield | -£13,275 |
| 216 | Former TSB Site, Russell Way, Three Bridges | 0.30 | 40 | Brownfield | £14,181 |
| 254 | Langley Green Youth Centre, Lark Rise, Langley Green | 0.17 | 9 | Brownfield | £9,458 |
| 264 | 6 - 10 Ifield Road, West Green | 0.09 | 14 | Brownfield | £14,712 |
| 263 | 1 - 3 Denne Road, Southgate | 0.09 | 8 | Brownfield | £8,407 |
| 211 | 8 Goffs Park Road, Southgate | 0.09 | 6 | Brownfield | £10,483 |
| 214 | 70 Spencers Road, West Green | 0.13 | 13 | Brownfield | £13,661 |
| 25 | 5 - 7 Brighton Road, Southgate | 0.44 | 48 | Brownfield | £3,947 |
| 166 | Alpine Works, Oak Road, Southgate | 0.13 | 6 | Brownfield | £10,483 |
| 326 | Crawley Community Church, 40 Springfield, Southgate | 0.06 | 8 | Brownfield | £8,407 |
| 328 | Former Oak, Maple & Beech House, Waterside Close, Bewbush | 0.30 | 14 | Brownfield | £14,712 |
| 43 | Ifield Community College, Ifield | 3.90 | 125 | Brownfield | -£191,253 |
| 294 | 15 - 29 Broadway, Northgate | 0.12 | 57 | Brownfield | £20,207 |
| 295 | Land Adj to Langley Green Primary School, Langley Drive, Langley Green | 0.55 | 30 | Greenfield | £186,775 |
| 292 | Zurich House, East Park, Southgate | 0.30 | 59 | Brownfield | £20,916 |
| 298 | Goffs Park Depot, Old Horsham Road, Southgate | 0.90 | 30 | Brownfield | £21,081 |
| 45 | Tinsley Lane Playing Fields, Three Bridges | 6.00 | 138 | Greenfield | £190,399 |
| 69 | Telford Place/Southgate Drive, Southgate | 0.75 | 95 | Brownfield | -£32,474 |
| 312 | Kilnmead Car Park, Northgate | 0.52 | 30 | Brownfield | £21,081 |
| 53 | Traders Market, High Street, West Green | 0.04 | 6 | Brownfield | £10,483 |

6 SHLAA Viability Appraisal Results

SHLAA Sites 6-10 Year Delivery

| Viability Results | | Zone 1 | | 6-10 Year Delivery | |
|-------------------|---|--------|-------|--------------------|------------|
| Ref | Site | Size | Units | Type | Viability |
| 204 | 21, 25, 27 & 29 Tushmore Lane, Northgate | 0.60 | 63 | Brownfield | £362,058 |
| 42 | Town Centre North, Northgate | 1.00 | 75 | Brownfield | £396,360 |
| 52 | North East Sector Residual Land (North), Pound Hill | 5.44 | 100 | Greenfield | £576,628 |
| 291 | Longley Building, East Park, Southgate | 0.27 | 48 | Brownfield | £422,715 |
| 296 | Land Adj to Horsham Road & South of Silchester Drive, Gossops Green | 1.32 | 52 | Greenfield | £1,000,973 |
| 288 | 102-112 London Road & 2-4 Tushmore Lane, Northgate | 0.39 | 44 | Brownfield | £2,483,927 |
| 289 | 116-136 London Road, Northgate | 0.56 | 64 | Brownfield | £379,496 |
| 290 | 138-144 London Road, Northgate | 0.27 | 27 | Brownfield | £213,320 |
| TBC | Breezehurst Drive Playing Fields, Bewbush | 4.80 | 100 | Greenfield | £1,860,848 |
| TBC | Land at Bewbush West, Bewbush | 0.60 | 48 | Greenfield | £923,975 |
| 155 | Dingle Close/Ifield Road, Rear Gardens, West Green | 0.70 | 18 | Greenfield | £352,259 |
| 156 | Snell Hatch/Ifield Road, Rear Gardens, West Green | 0.50 | 15 | Greenfield | £298,357 |
| 195 | 2-12 Friston Walk, Ifield | 0.53 | 21 | Greenfield | £410,969 |

SHLAA Sites 11-15 Year Delivery

| Viability Results | | Zone 1 | | 11-15 Year Delivery | |
|-------------------|--|--------|-------|---------------------|-----------|
| Ref | Site | Size | Units | Type | Viability |
| 54 | Fire Station, Ifield Road, West Green | 0.35 | 32 | Brownfield | £542,556 |
| 58 | Central Sussex College Site, Three Bridges | 0.60 | 32 | Brownfield | £542,556 |
| 63 | Ambulance Station, Ifield Avenue, West Green | 0.40 | 16 | Brownfield | £278,739 |
| 297 | Station Way Car Park, West of Overline House, Northgate | 0.23 | 33 | Brownfield | £559,510 |
| 311 | Parkside Car Park, Northgate | 0.05 | 10 | Brownfield | £178,876 |
| 310 | Land Adj to St John's Church, Church Walk, Northgate | 0.15 | 20 | Brownfield | £348,424 |
| 52 | NES Residual Land (North), Pound Hill | 5.44 | 75 | Greenfield | £700,806 |
| TBC | NES Residual Land to the Southeast Heathy Farm, Pound Hill | 4.30 | 75 | Greenfield | £997,527 |
| TBC | Land South of Barclays Bank, High Street, West Green | 0.30 | 18 | Brownfield | £313,582 |
| TBC | 94-98 High Street & Brittingham House | 0.23 | 36 | Brownfield | £610,375 |

7 Conclusions

CIL & Affordable Housing Study - Residential

7.1 The viability study firstly concluded that the variations in the values of residential development were not significant enough to warrant a differential rate approach to CIL and that a single zone approach should be adopted for residential CIL.

7.2 The CIL Viability Appraisals illustrated that, in general terms, most forms of residential development in all locations in Crawley are viable and can accommodate significant CIL charges, having factored in the Council's Affordable Housing aspirations.

7.3 The study tested a range of affordable housing targets from 25%-45% with a tenure split of 30% Intermediate/ 70% Affordable Rent. An additional test reflecting 30% Affordable plus 10% Low Cost Housing was also undertaken. The study considered five different residential development scenarios to reflect the type of residential that might emerge over the plan period. These included mixed residential (apartments, 2, 3, 4 and 5 bed housing), various scales of mixed housing development and town centre low rise apartments.

| Residential Viability Appraisal | | | | | |
|--|--------------------------------------|--------------------------------------|---------------------------------------|----------------------------------|-------------------------------|
| Maximum CIL Rates Per Sq Metre | | | | | |
| Affordable Housing Proportion | Mixed Residential Development | Medium Size Mixed Development | Intermediate Mixed Development | Small Housing Development | Town Centre Apartments |
| 40% Affordable | | | | | |
| Greenfield | £275 | £298 | £293 | £367 | £377 |
| Brownfield | £110 | £136 | £125 | £197 | £271 |
| 30% Affordable 10% Low Cost | | | | | |
| Greenfield | £298 | £323 | £317 | £392 | £411 |
| Brownfield | £122 | £148 | £137 | £209 | £288 |

7.4 The results demonstrate that residential development in Crawley is capable of delivering 40% Affordable Housing and significant levels of CIL. The viability position is marginally improved with an alternative delivery scenario of 30% Affordable Housing and 10% Low Cost Housing.

7.5 At 40% Affordable Housing delivery greenfield development demonstrated viable CIL rate potential of £275-£377 per sqm. Brownfield rates varied from £110-£271 per sqm. At 30% Affordable Housing and 10% Low Cost Housing delivery greenfield development demonstrated viable CIL rate potential of £298-£411 per sqm. Brownfield rates varied from £122-£288 per sqm. Apartment development was demonstrated to be the most viable..

7 Conclusions

7.6 It is clear that the economic viability of brownfield development on previously developed sites in the urban area is very different to that of greenfield development. It is important that CIL does not threaten either the economic viability of development or the delivery of the development strategy. It is envisaged that the majority of new development will emerge from brownfield sites over the plan period. It is therefore recommended that the brownfield CIL results guide rate setting in the Borough, balanced with the appropriate Affordable Housing targets.

CIL Study – Commercial

7.7 The assessment of commercial land and property values indicated that the Authority could be divided into two principal sub-market areas, with distinctly higher values for certain types of commercial property being encountered around Gatwick Airport. As such it is recommended that a differential CIL charging system is justified based on two zones as illustrated on the following plan.. The viability appraisals also illustrated that many categories of commercial development are not viable in current market circumstances in Crawley, which is evident by the lack of activity in these sectors.



Commercial CIL Zone Map

7 Conclusions

7.8 Food supermarket retail and general retail were assessed to be viable and capable of accommodating CIL in both greenfield and brownfield development scenarios. Food supermarket retail indicated potential rates of £772-£899 per sqm and general retail of £109-£171 per sqm for general greenfield and brownfield scenarios. The retail rates are not considered to vary between the Airport Zone and the rest of the Borough. We would recommend some caution in respect of food retail rates. Whilst the study has made a reasoned assessment of land values, transactional evidence is low due to lack of activity in the sector. As specific retail projects emerge it is likely that landowners will expect significant premiums in order to release sites, which may reduce viability levels significantly and this should be taken into consideration in rate setting.

7.9 In the main Borough zone industrial development is only considered viable for CIL on greenfield sites. However in the Airport Zone both greenfield and brownfield sites are considered capable of yielding significant levels of CIL (£44-£132 per sqm). Similarly in the Airport Zone, Hotel and office development was deemed CIL viable in both greenfield and brownfield scenarios and capable of yielding CIL (£9-£81 and £9-£79 respectively).

CIL & Affordable Housing Recommendations

7.10 It is important that the Development Strategy of the Authority is considered in setting CIL rates based on an economic viability assessment. The Local Plan envisages that the majority of new development over the plan period will emerge from brownfield sites. As such it is considered appropriate that the brownfield results act as the primary guide to rate setting.

7.11 The results illustrate maximum potential CIL rates which could be applied without threatening the economic viability of development. The appraisals are necessarily generic tests which do not make allowance for site specific abnormal costs. As such we would recommend that CIL rates are set within the identified viability margins to take account of these unknown factors, setting the appropriate balance within the context of Crawley. It is also important that CIL rates take account of the impact of Local Plan policies on the economic viability of development.. The CIL Guidance April 2013 states

“Charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area. Charging authorities should show, using appropriate available evidence, including existing published data, that their proposed charging rates will contribute positively towards and not threaten delivery of the relevant Plan as a whole at the time of charge setting and throughout the economic cycle.”

As such it is considered that a ‘viability buffer’ should be adopted when setting CIL rates from the results of the study.

7 Conclusions

7.12 It is recommended that there are insufficient variations in residential value to justify a differential zone approach to setting residential CIL rates. Based on an Affordable Housing target of 40% (with a tenure mix of 30% Intermediate and 70% Affordable Rent), and taking account of the primarily brownfield delivery strategy, the potentially viable CIL rates vary from £110-£271 for the residential scenarios tested.

7.13 It is envisaged that the majority of housing sites in Crawley will be small to intermediate scale with a significant number of apartments. Taking account of the viability results, the generic nature of the tests, a reasonable buffer to allow for additional site specific abnormal costs we would recommend the following residential CIL rates:-

| Residential CIL | |
|-----------------|---------|
| Boroughwide | £100sqm |

7.14 It is recommended that a two zone approach is taken to setting commercial CIL rates to reflect the potential for industrial development around Gatwick Airport to generate infrastructure funding through CIL. The viability results indicate that there should be no differential in retail rates between the zones. Food supermarket and general retail viability is significantly different but in view of the difficulties in separately defining supermarkets for the purpose of charging CIL it is recommended a single rate is adopted to take account of the viability of categories. Taking account of the factors expressed in para 7.11 a retail CIL rate of £80 per sqm is recommended.

7.15 The development strategy for the Airport Zone is primarily brownfield so it is recommended that rates are set to reflect a reasonable buffer from the brownfield viability appraisal results. It is recommended that £20sqm is a reasonable rate for Industrial based on its gross brownfield viability of £44sqm. However office and hotel development only demonstrated Greenfield viability. Hotel development demonstrated brownfield viability of £9sqm but this is considered *de minimis* for the purpose CIL rate setting and it is recommended that only industrial development in the Airport zone incurs CIL charges.

| Airport Zone | |
|--------------------------------|--------|
| Industrial B1(b) B1(c) B2 B8 | £20sqm |
| Retail A1-A5 | £80sqm |
| All Other Non Residential Uses | £0sqm |
| Boroughwide | |
| Retail A1-A5 | £80 |
| All Other Non Residential Uses | £0sqm |

7 Conclusions

CIL Revenue Potential

7.16 In order to estimate residential CIL over the plan period, the recommended CIL rate is applied to an average dwelling size of 90 sq metres for eligible dwellings. In Crawley it is estimated that 1394 dwellings do not currently have planning permission and would therefore potentially be liable for CIL. Assuming 30% of these are exempt as affordable Housing, the projected CIL liable floorspace is 976 x 90sqm = 87840sqm

7.17 The floorspace projections for commercial categories of development that would be liable for CIL in the Airport Zone, over the plan period, are set out in the table below. It should be noted that due to aviation safeguarding the level of industrial floorspace that may be permitted is limited (and may only relate to extensions to existing premises). At this stage therefore no firm allowance has been made for new floorspace and if Crawley decides to pursue the adoption of CIL it may decide not to adopt a separate commercial zone around the airport.

| Charging Zone | Category | CIL Rate | Eligible Floorspace | CIL Revenue |
|---------------|-------------|----------|---------------------|-------------|
| Boroughwide | Residential | £100 | 87840 | £8,784,000 |
| Boroughwide | Retail | £80 | 4300 | £344,000 |
| Airport | Industrial | £20 | 0 | £0 |
| | | | Total | £9,128,000 |

SHLAA Study Conclusions

7.18 The viability testing of proposed residential sites in Crawley has been undertaken, accounting for the following policy impacts and key assumptions :-

- Greenfield or Brownfield Development
- Delivery Timescale
- Affordable Housing Delivery of 40%
- Key Planning Policy Cost Impacts (Renewable Energy, CoSH etc)
- Community Infrastructure Levy
- Residual Planning Obligation Allowances
- Site Specific Abnormal Costs and Mitigation Factors

7.19 The study is a strategic assessment of whole plan viability and as such is not intended to represent a detailed viability assessment of every individual site. The study applies the general assumptions in terms of affordable housing, planning policy costs impacts and identified site mitigation factors based on generic allowances. It is anticipated that more detailed mitigation cost and viability information may be required at planning application stage to determine the appropriate level of affordable housing and planning obligation contributions where viability issues are raised. The purpose of the study is to determine whether the development strategy proposed by the Plan is deliverable given the policy cost impacts of the Plan.

7 Conclusions

7.20 The study illustrated that all greenfield sites in the initial 0-5 year delivery period (ie the 5 year land supply) are viable based on the adopted assumptions. All remaining sites are brownfield and demonstrate positive or very marginal negative viability to the extent that they may be considered deliverable.

7.21 One brownfield site demonstrated negative viability . This is not necessarily a fair reflection of actual market circumstances. An extract of the results tables below demonstrates this issue. All of the individual site assessments make allowances for abnormal costs and site specific mitigation factors. These factors are not taken into account in the land value allowance for the site. In order to reflect a reasonable return to the landowner (as required by the NPPF for the purposes of viability appraisal), the land value must assume that the site can gain planning permission and be in a developable state. Therefore the abnormal costs of bringing a site into a developable state would normally be deducted from the site value. This would certainly be the assumption adopted by any Housebuilder in purchasing land.

7.22 The level of negative viability on the site is such that deduction of abnormal costs from the land value would make the developments only marginally non-viable such that a very minor adjustment to land value aspiration would render them viable.

| Ref | Site | Size | Units | Type | Viability | Abnormal Costs | Land Value |
|-----|----------------------------------|------|-------|------------|-----------|----------------|------------|
| 43 | Ifield Community College, Ifield | 3.90 | 125 | Brownfield | -£191,253 | £132,500 | £4,674,428 |

In the above example at Ifield, if abnormal costs of £132,500 are deducted from the land value, negative viability reduces to only £58,733. This represents only 1% of the adjusted land value which is considered marginal and the sort of reduction which is not considered to be unrealistic in current market conditions.

7.23 Viability improves in both the medium term (6-10 years) and longer term (11-15 years) with all sites demonstrating positive viability.

7.24 It should also be recognised that the assessment necessarily relies on fixed assumptions and generic application of allowances for standard and abnormal construction costs. There will be significant variations dependent on specification, construction methods and associated build cost and indeed sales rates which will make some types of development more or less viable and individual assessments may still be necessary at planning application stage where variations to policy requirements are sought.

7 Conclusions

7.25 In conclusion, the assessment of all proposed residential sites in Crawley has been undertaken with due regard to the requirements of the NPPF and the best practice advice contained in 'Viability Testing Local Plans'. It is considered that all greenfield sites are viable across the entire plan period. The delivery of a small number of brownfield sites may require landowners to be realistic about value reductions to take account of abnormal development costs and the Council may need to marginally reduce affordable housing aspirations to encourage development in the short term. The vast majority of sites have been demonstrated to be viable and deliverable and as such the overall residential delivery strategy is considered sound.

7.26 It should be noted that this study should be seen as a strategic overview of plan level viability rather than as any specific interpretation of Crawley Borough Council policy on the viability of any individual site or application of planning policy to affordable housing, CIL or developer contributions. Similarly the conclusions and recommendations in the report do not necessarily reflect the policy position of Crawley Borough Council.

Valuation Report

Construction Cost Study

Sub Market Area/ Charging Zone Maps

