



Newport City Council CIL Viability Assessment

October 2015



Nationwide CIL Service

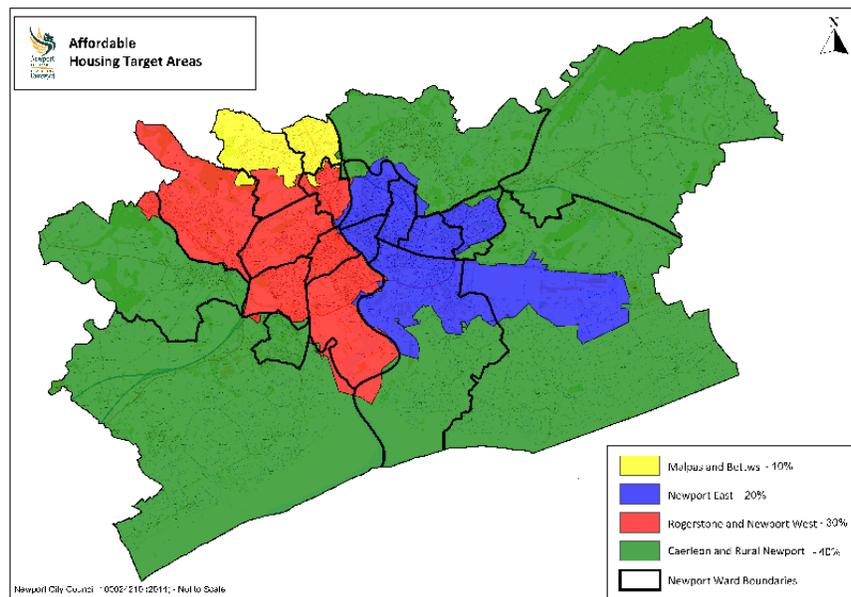
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Executive Summary

1.1 The report will provide an assessment of the viability of the principal categories of development in Newport and the ability of those developments to make contributions to new infrastructure through a Community Infrastructure Levy. The study will consider the impacts on the Local Development Plan and its policies on the economic viability of development proposed to be delivered by the Plan (eg Affordable Housing Design and Construction Standards) and the remaining potential for development to yield CIL.

Study Area



1.2 The study area covers the administrative area of Newport City Council. The assessment first considers the existence of economic sub-market areas for residential and commercial development within the study area which may form the basis for the Authority's CIL Charging Zones. The sub-market areas take account of the differential Affordable Housing zones identified in the Council's development strategy and set out on the above map.

Methodology

1.3 The study seeks to assess the viability of residential development and commercial sites taking account of all relevant factors.

1.4 The study involves an assessment of market values for residential and commercial development in Newport based on valuation advice from Heb Surveyors. The study uses the base construction costs and rates based on advice from Gleeds cost consultants.

Executive Summary

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.

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

1.7 The residential valuation assessment study factors in the Authority’s affordable housing targets. Affordable Housing is deemed 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

CIL Viability Appraisals

1.9 The viability study firstly concluded that the variations in the values of residential development were significant enough to warrant differential assumptions being applied to different geographical locations in the study area and that two distinct sub-market areas existed. Similarly the results of the viability testing indicated that a differential rate approach to CIL would be appropriate.

Maximum Residential CIL Rates per sqm					
Affordable Housing Zone & Base Land Value	Mixed Residential Development	Medium Sized Mixed Development	Intermediate Mixed Development	Small Housing Development	Town Centre Apartments
Malpas & Bettws					
Greenfield	£139	£135	£134	£151	-£211
Brownfield	£105	£101	£101	£118	-£228
Newport East					
Greenfield	£108	£101	£98	£120	-£266
Brownfield	£72	£65	£63	£85	-£282
Rog/Newport West					
Greenfield	£76	£65	£62	£88	-£320
Brownfield	£39	£29	£26	£52	-£336
Caerleon/Rural					
Greenfield	£122	£113	£110	£136	-£242
Brownfield	£85	£77	£75	£101	-£258

Executive Summary

1.10 Based on Newport City Council's proposed differential Affordable Housing targets of 10-40% the study illustrated that all forms of residential development are viable and capable of yielding significant levels of CIL. The viability results demonstrated that the higher affordable housing targets of 20-30% constrained CIL potential to some extent in the lower value zones. Potential CIL rates for mainstream housing in the 10% Affordable Housing Zone ranged from £134-£151 sqm for greenfield development and £101-£118 for brownfield development. In the Higher Value 40% Affordable Housing Zone maximum rates ranged from £110-£136 sqm for greenfield development and £75-£101 for brownfield development. Apartment development was shown to be incapable of accommodating CIL charges across the study area.

1.11 The valuation study concluded that any variations in the value of commercial locations in Newport are not significant enough to warrant a differential charging zone approach to commercial CIL rates. The viability appraisals also illustrated that most categories of developer led commercial development are not viable based on current market circumstances in Newport. The viability results do not mean that commercial and employment development cannot be delivered in Newport. Many forms of commercial development may be undertaken direct by occupiers and where the development return can be reduced from a developers profit to a margin that reflects occupiers operational or opportunity costs then development could then be viable.

1.12 Food supermarket retail and general retail were assessed to be viable and capable of accommodating CIL in both greenfield and brownfield development scenarios. Potential Food Supermarket Rates varied significantly dependent on scale. The smaller convenience and supermarket appraisals for units under 3000sqm indicated rates of £377-£423 dependent on greenfield or brownfield scenarios. The larger supermarket and superstore tests demonstrated much higher CIL potential of £734-£764 dependent on greenfield or brownfield scenario. General Retail uses (A1-A3) of the scale and type envisaged to emerge over the plan period indicated potential rates of £98-£113 per sqm dependent on brownfield or greenfield scenarios.

1.13 It is important that the Development Strategy of the Authority is considered in setting CIL rates based on an economic viability assessment. The Local Development Plan envisages that a substantial proportion of new development over the plan period will emerge from brownfield sites. It is estimated that all allocated residential development will be on previously developed sites in the Malpas & Bettws/Newport East/Rogerstone & Newport West areas. Conversely all allocated development in the Caerleon/Rural area is anticipated to be on greenfield sites. It is not possible to accurately predict the precise location of windfall development so for the purpose of the appraisal, the windfall site projections have been spread across the zones evenly. The appropriate greenfield and brownfield viability results therefore guide CIL rates in these differential zones.

1.14 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 Newport.

Executive Summary

1.15 It is recommended that the variations in residential viability are sufficiently significant to justify a differential charging zone approach to setting residential CIL rates. Based on the differential Affordable Housing delivery zones, and taking account of the brownfield and greenfield delivery envisaged in these areas as well as a reasonable buffer to allow for additional site specific abnormal costs we would recommend the following residential CIL rates:-

Residential CIL Rates & Zones	
Apartments	£0
Malpas & Bettws Houses	£60sqm
Newport East Houses	£45sqm
Rogerstone/Newport West Houses	£20sqm
Caerleon/Rural Houses	£60sqm

1.16 It is recommended that a single zone approach is taken to setting commercial CIL rates. The viability assessment results indicate that all non-retail commercial uses should be zero rated. The retail viability assessment results indicate that differential rates could be legitimately applied to both types of retail use and, in the case of food supermarket development also to scale of development. Based on the viability assessment results and taking account of a reasonable viability buffer and the issues set out in paragraph 5.8, the following Commercial CIL rates are recommended.

Commercial CIL Rates	
General Retail A1-A3 (excluding Food Supermarket)	£50sqm
Food Supermarket A1 (less than 3000sqm)	£100sqm
Food Supermarket A1 (3000 sqm plus)	£150sqm
All Non Residential Uses excluding retail	£0sqm

1.17 The proposed residential development in Newport over the plan period that may be CIL liable is set out in the table below. This relates to houses only with apartments which are proposed to be zero CIL rated excluded. The figures include an assumption of 95 windfall houses and 41 houses from small sites being delivered every year over the plan period. The windfall numbers have been spread evenly across the four zones at 34 units per zone per annum with an assumption that 85% will be on brownfield sites in the urban areas but assumes 100% greenfield in the rural area. This adds 510 windfall houses to the allocated housing units in each zone.

Executive Summary

Newport Residential Unit Delivery			
Malpas & Bettws	Greenfield	Brownfield	Total
	76	434	510
Newport East	Greenfield	Brownfield	Total
	76	591	667
Rogerstone/Newport West	Greenfield	Brownfield	Total
	76	1069	1145
Caerleon/Rural	Greenfield	Brownfield	Total
	276	434	710

1.18 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 (appropriate discounts are made for Affordable Housing Exemptions at the relevant % zone rate) as illustrated in the table below.

CIL Revenue Projections					
Charging Zone	Category	CIL Rate	Gross Eligible Floorspace Sqm	Net Floorspace (Inc Aff Hsg Exemption)	CIL Revenue
Malpas & Bettws	Residential	£60	45900	41310	£2,478,600
Newport East	Residential	£45	60030	48024	£2,161,080
Rogerstone/Newport West	Residential	£20	103050	72135	£1,442,700
Caerleon/Rural	Residential	£60	63900	38340	£2,300,400
Boroughwide	Retail	£50-£150			
				Total	£8,382,780

1.19 The Local Development Plan does not make specific provision for comparison or convenience retail floorspace. It is uncertain at this stage how much development might be exempt from CIL due to re-use of existing buildings or lawful use demolition allowances. As such no allowance has been made for potentially chargeable retail floorspace.

2 Introduction

2.1 The purpose of the study is to assess the overall viability of development in Newport by assessing the specific viability of site typologies reflecting the type of development likely to emerge over the plan period.

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 Development Plan policies and determine whether any additional viability margin exists to accommodate a Community Infrastructure Levy.

Relevant Guidance & Best Practice

2.3 A new focus on viability issues has emerged in planning in the last few years to ensure the cumulative impact of planning policies including affordable housing and infrastructure contributions, does not place such a burden on residential and commercial development so as to render its economically unviable and undeliverable.

2.4 In response to these concerns, 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 Development 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 Development 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)

2 Introduction

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 'Viability Testing Local Development 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) Viability Appraisal

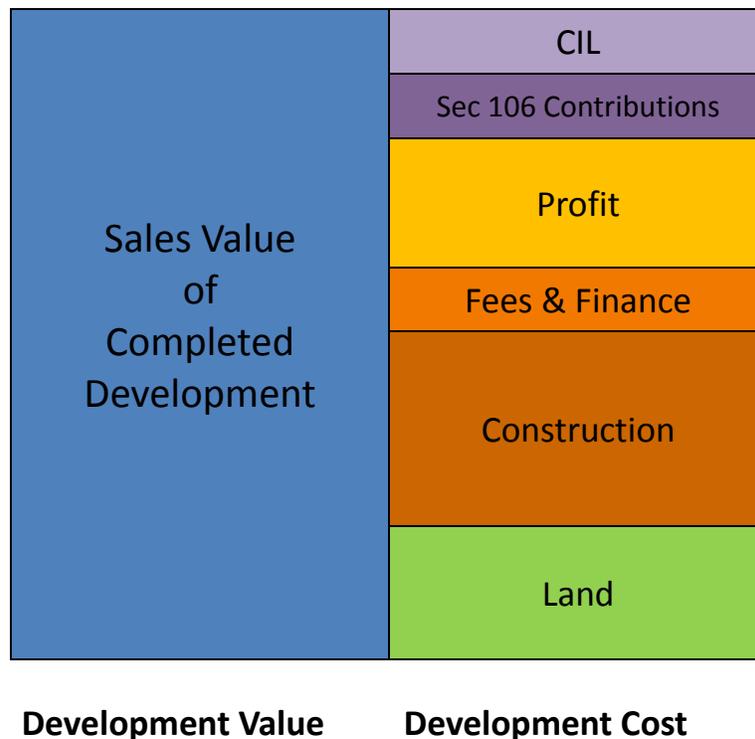
3.5 Appraisal of every category of development in the identified charging zones using a Residual Appraisal Model to determine the margin available for CIL contributions.

5) Maximum CIL Rates

3.6 Tabulation of the Viability Appraisal results to illustrate the maximum rates of CIL that may be levied without threatening the economic viability of development

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.

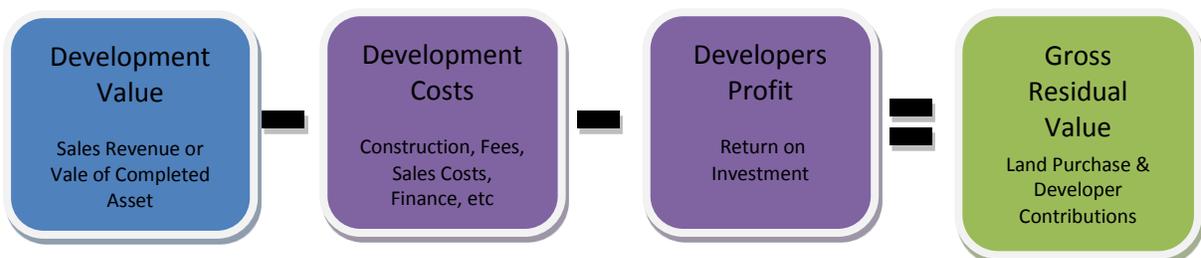
3.9 We assess economic viability using an industry standard Residual Model approach. The model firstly calculates development value and then subtracts the Land Value and the Fixed Development Costs to determine the margin available for Policy Based Contributions (S106, CIL etc). Importantly the methodology 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 Development Plan Viability Assessment a benchmark or Threshold Land Value must be established to ascertain the remaining margin for CIL contributions.

Stage 1 – Residual Valuation



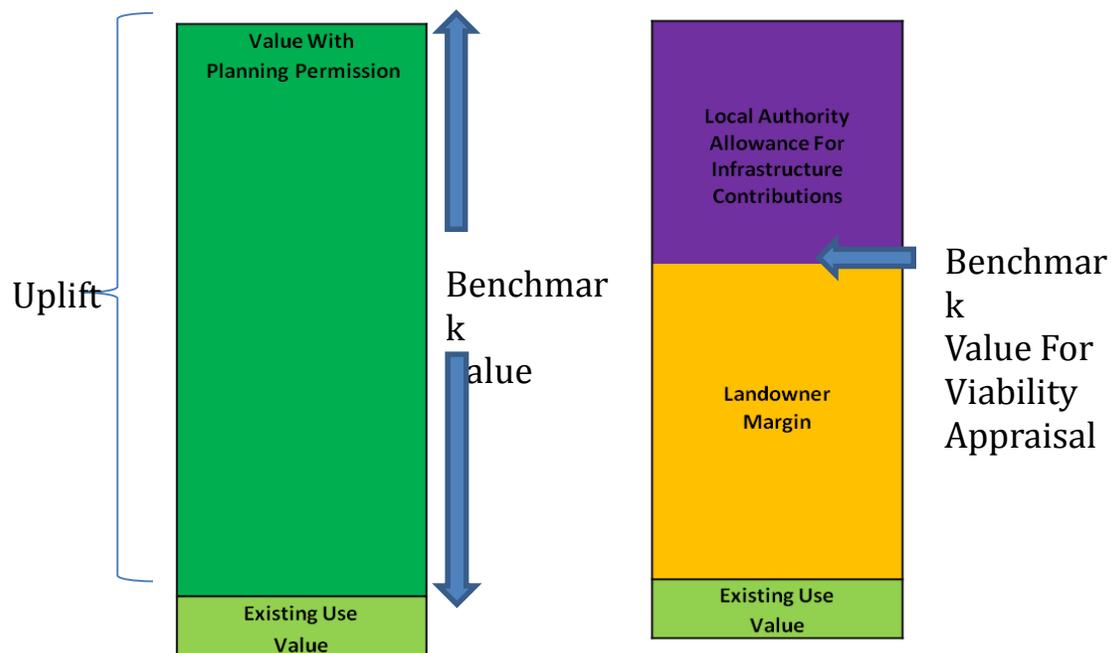
3.11 The approach to assessing the land element of the gross residual value is therefore the key to the robustness of any viability appraisal. There is no single method of establishing threshold land values for the purpose of viability assessment for CIL but Planning Policy Wales and emerging best practice 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 It is generally accepted 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)

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

3.19 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 best practice. Landowners are generally aware of what their land is worth with the benefit of planning permission. Therefore a 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.

3.20 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 Shinfield Appeal Decision (Wokingham DC 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

3.21 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 Development Plan Examinations we have undertaken.

3 Methodology

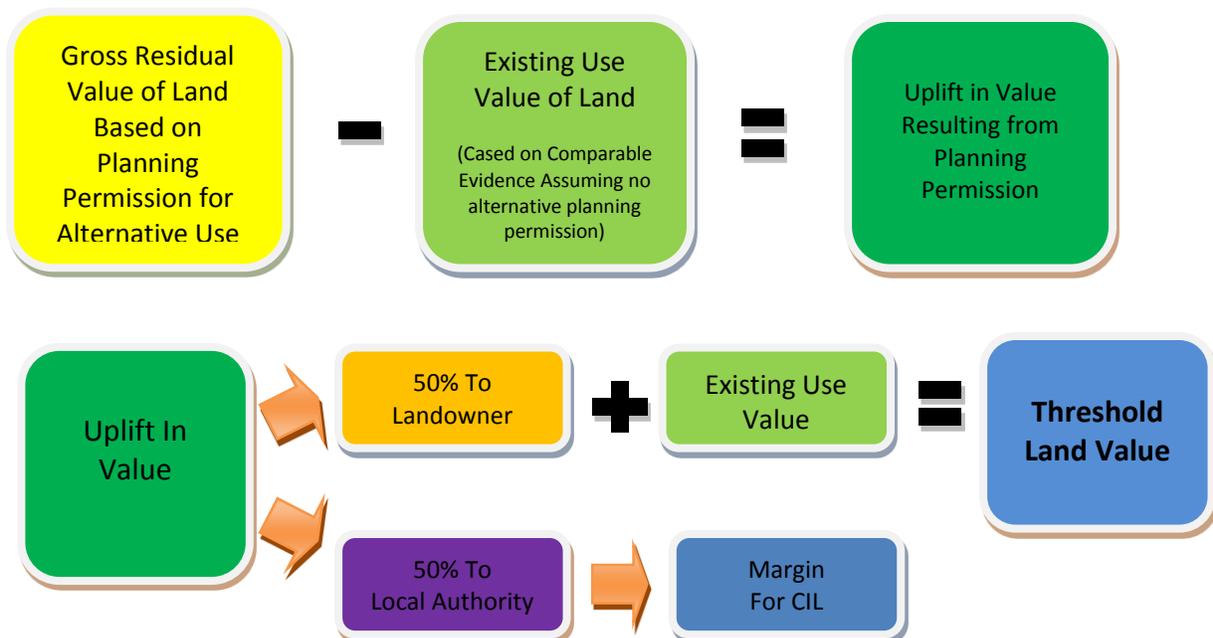
Worked Example Illustrating % over Existing Use vs % Share of Uplift

3.22 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



3 Methodology

Brownfield and Greenfield Land Value Benchmarks

3.23 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.

3.24 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 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.

Residential

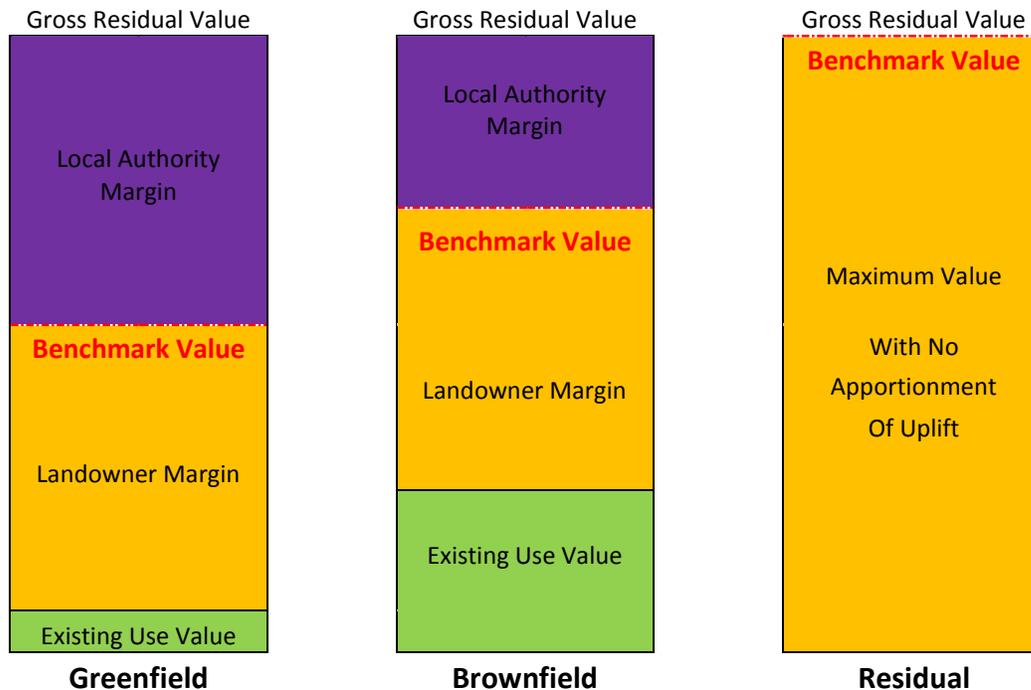
Benchmark 1	Greenfield	Agricultural – Residential
Benchmark 2	Brownfield	Industrial – Residential

Commercial

Benchmark 1	Greenfield	Agricultural – Proposed Use (Maximum CIL Potential)
Benchmark 2	Brownfield	Industrial – Proposed Use

3.26 The viability study normally assumes that affordable housing land has no value because development costs generally exceed affordable housing sales value.

3 Methodology



3.25 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.

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

Residual Valuation & Development Appraisal

3.27 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 Methodology

3.28 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.

3.29 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.

Residual Valuation & Development Appraisal

3.30 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.

Development Value (Based on Floor Area) Eg 2000sqm Unit x £1,100per 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	£90,000
Cost Assumptions	
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)	£25 sqm

3 Methodology

Property Sales Values

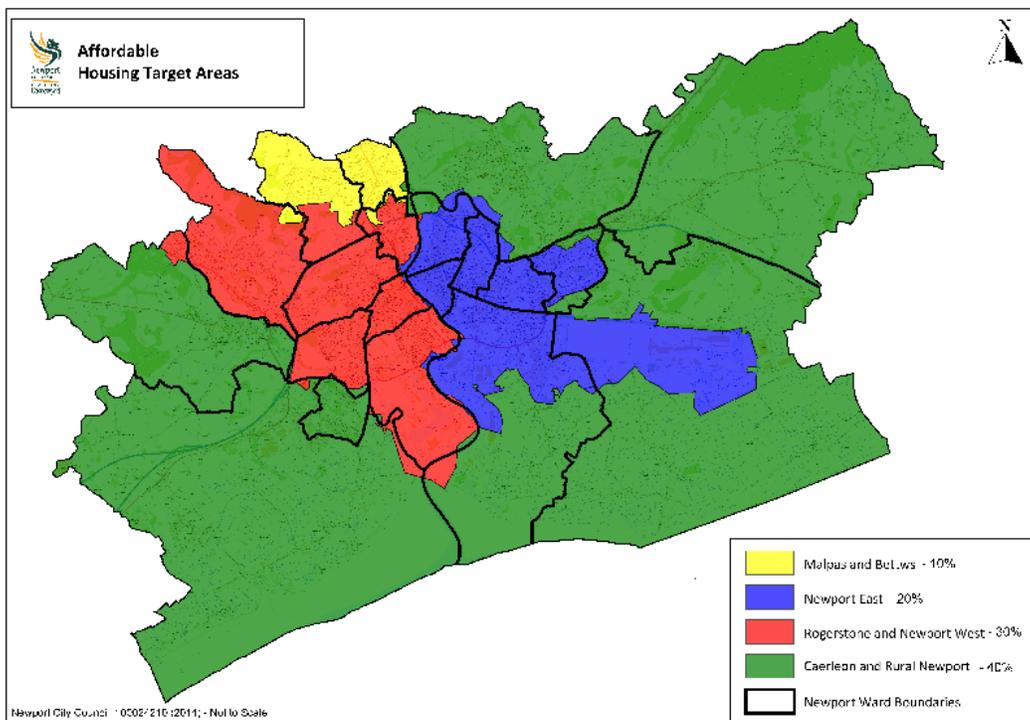
3.31 The sale value of the development category will be determined by the market at any particular time and will be influenced by a variety of locational, supply and demand factors as well as the availability of finance. The study uses appropriate available evidence to give an accurate representation 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					
Sub Market Area/CIL Charging Zone	Sales Value £sqm				
	Apartment	2 Bed	3 Bed	4 Bed	5 Bed
Malpas & Bettws	1950	1950	1950	1950	1950
Newport East	1950	1950	1950	1950	1950
Rogerstone/Newport West	1950	1950	1950	1950	1950
Caerleon/Rural	2050	2050	2050	2050	2050

4 Viability Appraisal Assumptions

Sub Market Areas

4.1 The Heb valuation study concluded that variations in land and property values were significant enough to justify delineation of 2 residential sub-market areas and application of differential value assumptions. The lower sales values of £1950sqm were identified across Malpas and Bettws/Newport East/Rogerstone and Newport West (Yellow/Blue/Red) as illustrated on the plan below. The higher sales value of £2050sqm was identified in the Caerleon/Rural Zone (Green).



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 the 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				2 bed houses	20
DEVELOPMENT LOCATION	Rogerstone & Newport West				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	100%	Neutral Tenure	0%	Social Rent	Affordable Rent	
Development Floorspace	6489 Sqm Market Housing		2,163 Sqm Affordable Housing			
Development Value						
Market Houses						
7	Apartments	61 sqm	1950	£ per sqm	£1,070,550	
14	2 bed houses	75 sqm	1950	£ per sqm	£2,632,500	
28	3 Bed houses	88 sqm	1950	£ per sqm	£5,405,400	
14	4 bed houses	120 sqm	1950	£ per sqm	£5,265,000	
7	5 bed house	150 sqm	1950	£ per sqm	£2,632,500	
Neutral Tenure Houses						
		60%	Market Value			
3	Apartments	65 sqm	921	£ per sqm	£179,595	
5	2 Bed house	83 sqm	891	£ per sqm	£369,765	
2	3 Bed House	94 sqm	1320	£ per sqm	£159,424	
100 Total Units						
Development Value						£17,714,734

4.3 In Newport, as elsewhere in Wales, Affordable Housing values (in terms of the amount paid by Social Housing Providers to Developers) are all based on the Acceptable Cost Guidance set out by the Welsh Government. All affordable housing is based on a 'Neutral Tenure' type

The ACG Costs are set out in 5 value bands relating to different value locations and relate to different housing types. The relevant value assumptions are based on 50% of these ACG costs and the 'transfer' values used in the study are set out in the following table. ACG Value locations in Newport fall within bands 2-5. The appropriate transfer values for the Affordable Housing zones in Newport are set out in the table below.

4 Viability Appraisal Assumptions

Affordable Housing	Apartment	2 Bed	3 Bed
Malpas & Bettws	921	891	848
Newport East	925	898	855
Rogerstone/Newport West	948	932	886
Caerleon/Rural	1027	1057	1001

Affordable House Types	
Apartments 3P2B	65sqm
2 bed houses 4P2B	83sqm
3 Bed houses 5P3B	94sqm

4.4 The level of Affordable Housing delivery will clearly impact on the potential for CIL and vice versa since these contributions are all extracted from the same viability margin. The appraisals all apply the relevant affordable housing target based on the zones identified by the Council.

Development Density

4.5 Density is an important factor in determining gross development value and land value. 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 residential 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

House Types and Mix

4.7 The study uses the following standard market house types as the basis for valuation and viability testing as unit types that are generally reflective of market circumstances in Newport. The affordable House types are set out at 4.4 above.

4 Viability Appraisal Assumptions

2 Bed Apartment	61 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 For CIL Testing

4.9 On advice from Newport and further to consultations with representors it was agreed that Apartment development was unlikely to emerge in mixed residential development in the plan period. All mixed residential assessments therefore exclude apartments. The CIL appraisal considered 9 generic housing mixes to generate potential CIL rates as follows :-

1. Mixed Residential	2, 3, 4, 5 Bed Houses	100 Units
2. Medium Sized Mixed	2, 3, 4,5 Bed Houses	50 Units
3. Intermediate Mixed	2, 3, 4 Bed Houses	25 Units
4. Small Housing Development	3,4 Bed Houses	5 Units
5. Town Centre Apartments	Apartments	20 Units
6. Mixed Residential	2, 3, 4, 5 Bed Houses	200 Units
7. Medium Scale Residential	2, 3, 4, 5 Bed Houses	300 Units
8. Large Scale Residential	2, 3, 4, 5 Bed Houses	500 Units
9. Small Strategic Site	2, 3, 4, 5 Bed Houses	1000 Units

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 density assumptions for commercial development will be specific to the development category. For instance the extent of the building footprint for industrial development is generally around 50% of the site area to take account of external servicing, storage and parking, offices will vary significantly dependent on location, town centre offices may take up 100% of the site area whereas out of town locations where car parking is a primary consideration, the building footprint may be only 25% of the site area. Food retailing generally has high car parking requirements and large site areas compared to building footprints.

4 Viability Appraisal Assumptions

4.12 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.

4.13 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 Sqm	Plot Ratio %	Gross:Net	Sample
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	A1-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

Construction Costs

4.14 The base construction cost reflects Building Regulation equivalent standards (at Code for Sustainable Homes Code 3 equivalent plus £20sqm for an additional credit). 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 commercial construction rates represent BREEAM 'very good' standards.

4 Viability Appraisal Assumptions

Abnormal Construction Costs

4.15 Most development will involve some degree of exceptional or 'abnormal' construction cost. Brownfield development may have a range of issues to deal with to bring a site into a 'developable' state such as demolition, contamination, utilities diversion etc. Viability assessment is a generic test and it would be unrealistic to make assumptions over average abnormal costs to cover such a wide range of scenarios. It is considered better to bear the unknown costs of development in mind when setting CIL rates and not fix rates at the absolute margin of viability.

Planning Policy Cost Impacts

4.16 The study has considered the impacts of policies proposed in the Plan on the economic viability of development. Newport does not consider that there are any proposed policies (that are not already factored into the study) that would add specific additional development costs that would have a direct impact on the viability of development. The only National Policy cost that is considered specifically relevant is the requirement for sprinkler systems in new housing. An additional cost allowance of £3000 per dwelling has been made in the viability appraisals.

Planning Obligation Contributions

4.17 CIL is likely to replace some if not all planning obligation contributions. Nevertheless it is anticipated that some planning obligations will continue to be used to fund site specific mitigation and infrastructure, particularly in connection with residential development.

4.18 An allowance of £1000 per dwelling has been adopted in the residential viability appraisals to reflect the impact of the future use of planning obligation contributions. An allowance of £20sqm has been made for all of the commercial development scenarios to reflect ongoing S106 and site specific mitigation requirements.

Developers Profit

4.19 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 on the market housing development. An industry standard return of 6% is applied to the Affordable Housing element reflecting a contractor's profit only. 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.

5 CIL Viability Appraisal Results

5.1 The results of the Residential CIL Viability Testing are set out in the above table. The residential results are illustrated for the Charging Zones based on 10-40% Affordable Housing delivery for the five residential development scenarios. ACG Bands 2-4 fall within the CIL Low Zone and Band 5 represents the CIL High Zone.

5.2 The residential tables illustrate the maximum potential CIL rates in £ per sqm that could be applied for each rate of affordable housing delivery, without threatening the overall viability of that development. Negative rates illustrate that the relevant combination of CIL and affordable Housing is not currently viable.

5.3 Each category of development produces a greenfield and brownfield result reflecting 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 factor in, and therefore make appropriate allowance for, CIL. The greenfield and brownfield results should guide the actual rates of CIL adopted, dependent on the prevailing development strategy of the Development Plan.

Maximum Residential CIL Rates per sqm					
Affordable Housing Zone & Base Land Value	Mixed Residential Development	Medium Sized Mixed Development	Intermediate Mixed Development	Small Housing Development	Town Centre Apartments
Malpas & Bettws					
Greenfield	£147	£166	£165	£182	-£185
Brownfield	£114	£132	£131	£149	-£201
Newport East					
Greenfield	£109	£126	£123	£145	-£250
Brownfield	£73	£89	£87	£110	-£266
Rog/Newport West					
Greenfield	£66	£80	£76	£104	-£318
Brownfield	£30	£44	£40	£68	-£334
Caerleon/Rural					
Greenfield	£84	£97	£93	£124	-£278
Brownfield	£49	£61	£57	£88	-£295

5 CIL Viability Appraisal Results

Maximum Residential CIL Rates per sqm

Affordable Housing Zone & Base Land Value	Mixed Residential Development 200 Units	Medium Scale Mixed Development 300 Units	Large Scale Mixed Development 500 Units	Small Scale Strategic Site 1000 units
Malpas & Bettws				
Greenfield	£139	£141	£139	£137
Brownfield	£105	£106	£104	£103
Newport East				
Greenfield	£108	£111	£108	£106
Brownfield	£72	£74	£71	£69
Rog/Newport West				
Greenfield	£76	£79	£75	£72
Brownfield	£39	£42	£39	£36
Caerleon/Rural				
Greenfield	£122	£125	£122	£119
Brownfield	£85	£88	£85	£82



Maximum Commercial CIL Rates per sqm

Charging Zone/Base Land Value	Industrial (B1b B1c B2 B8)	Office (B1a)	Hotel (C1)	Residential Institution (C2)	Community (D1)
General Zone					
Greenfield	-£318	-£736	-£593	-£869	-1563
Brownfield	-£339	-£752	-£609	-£882	-1578
Charging Zone/Base Land Value	Leisure (D2)	Agricultural (A1-A5)	Sui Generis		
General Zone					
Greenfield	-206	-£243	Car Sales -£551		
Brownfield	-239	na	Car Repairs – -£853		

5.4 The results of the Commercial CIL Viability Testing are set out in the above table. All of the above commercial use class appraisals indicated negative viability and therefore no margin to introduce CIL charges.

5 CIL Viability Appraisal Results

5.5 In response to consultation over the initial commercial viability study further and more detailed assessment has been undertaken into the viability of retail development. The potential for differential charges for food supermarket and general retail were assessed on the basis of both use and scale. All types of retail use were found to be viable though differential viability margins were identified according to use and scale as set out in the table below.

 Maximum Food Supermarket Retail CIL Rates per sqm					
Scale/Base Land Value	300sqm Convenience Store	1000sqm Small Supermarket	2000sqm Medium Supermarket	3500sqm Large Supermarket	5000sqm Superstore
General Zone					
Greenfield	£423	£413	£408	£764	£764
Brownfield	£393	£377	£377	£734	£734
Maximum Non Food Retail (A1-A3) CIL Rates per sqm					
Scale/Base Land Value	100 sqm Retail Unit	300sqm Roadside Retail Unit	500 sqm Large Roadside Retail Unit		
General Zone					
Greenfield	£113	£113	£113		
Brownfield	£98	£98	£98		

5.6 General Retail uses (A1-A3) of the scale and type envisaged to emerge over the plan period indicated potential rates of £98-£113 per sqm dependent on brownfield or greenfield scenarios.

5.7 Potential Food Supermarket Rates varied significantly dependent on scale. The smaller convenience and supermarket appraisals for units under 3000sqm indicated rates of £377-£423 dependent on greenfield or brownfield scenarios. The larger supermarket and superstore tests demonstrated much higher CIL potential of £734-£764 dependent on greenfield or brownfield scenario.

5.8 We would recommend some caution in respect of large scale 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. As a general rule we would recommend a buffer of around 30-40% for commercial retail rates and because rates cannot be set based on existing use (only on proposed use), brownfield rates should generally be used as the starting point.

6 Conclusions

CIL Study Conclusions - Residential

6.1 The viability study firstly concluded that the variations in the values of residential development were significant enough to warrant differential assumptions being applied to different geographical locations in the study area and that two distinct sub-market areas existed. Similarly the results of the viability testing indicated that a differential rate approach to CIL would be appropriate

6.2 Based on Newport City Council's proposed differential Affordable Housing targets of 10-40% the study illustrated that all forms of residential development are viable and capable of yielding significant levels of CIL. The viability results demonstrated that the higher affordable housing targets of 20-30% constrained CIL potential to some extent in the lower value zones. Potential CIL rates for mainstream housing in the 10% Affordable Housing Zone ranged from £134-£151 sqm for greenfield development and £101-£118 for brownfield development. In the Higher Value 40% Affordable Housing Zone maximum rates ranged from £110-£136 sqm for greenfield development and £75-£101 for brownfield development. Apartment development was shown to be incapable of accommodating CIL charges across the study area.

6.3 Overall the potential CIL viability of development did not vary very significantly despite differences in land and property sale value. This is largely because differences were balanced by the impact of the differential affordable housing targets imposed by the the Council's planning policies.

CIL Study Conclusions - Commercial

6.4 The valuation study concluded that any variations in the value of commercial locations in Newport are not significant enough to warrant a differential charging zone approach to commercial CIL rates. The viability appraisals also illustrated that most categories of developer led commercial development are not viable based on current market circumstances in Newport. The viability results do not mean that commercial and employment development cannot be delivered in Newport. Many forms of commercial development may be undertaken direct by occupiers and where the development return can be reduced from a developers profit to a margin that reflects occupiers operational or opportunity costs then development could then be viable.

6.5 Food supermarket retail and general retail were assessed to be viable and capable of accommodating CIL in both greenfield and brownfield development scenarios. Potential Food Supermarket Rates varied significantly dependent on scale. The smaller convenience and supermarket appraisals for units under 3000sqm indicated rates of £377-£423 dependent on greenfield or brownfield scenarios. The larger supermarket and superstore tests demonstrated much higher CIL potential of £734-£764 dependent on greenfield or brownfield scenario.

6.6 General Retail uses (A1-A3) of the scale and type envisaged to emerge over the plan period indicated potential rates of £98-£113 per sqm dependent on brownfield or greenfield scenarios.

6 Conclusions

CIL Rate Recommendations

6.7 It is important that the Development Strategy of the Authority is considered in setting CIL rates based on an economic viability assessment. The Local Development Plan envisages that a substantial proportion of new development over the plan period will emerge from brownfield sites. It is estimated that all allocated residential development will be on previously developed sites in the Malpas & Bettws/Newport East/Rogerstone & Newport West areas. Conversely all allocated development in the Caerleon/Rural area is anticipated to be on greenfield sites. The site allocation breakdown is illustrated in the table below. Windfall site projections have been spread across the zones evenly. The appropriate greenfield and brownfield viability results therefore guide CIL rates in these differential zones.

Residential Site Allocations	Houses	Apartments
Malpas & Bettws		
Greenfield	0	0
Brownfield	0	0
Newport East		
Greenfield	0	0
Brownfield	104	53
Rog/Newport West		
Greenfield	0	0
Brownfield	485	150
Caerleon/Rural		
Greenfield	200	0
Brownfield	0	0

6.8 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 Newport.

6.9 It is recommended that the variations in residential viability are sufficiently significant to justify a differential charging zone approach to setting residential CIL rates. Based on the differential Affordable Housing delivery zones, and taking account of the brownfield and greenfield delivery envisaged in these areas as well as a reasonable buffer to allow for additional site specific abnormal costs we would recommend the following residential CIL rates :-

6 Conclusions

Residential CIL Rates & Zones	
Apartments	£0
Malpas & Bettws	£60sqm
Newport East	£45sqm
Rogerstone/Newport West	£20sqm
Caerleon/Rural	£60sqm

6.10 It is recommended that a single zone approach is taken to setting commercial CIL rates. The viability assessment results indicate that all non-retail commercial uses should be zero rated.

6.11 The retail viability assessment results indicate that differential rates could be legitimately applied to both types of retail use and, in the case of food supermarket development also to scale of development. Based on the viability assessment results and taking account of a reasonable viability buffer and the issues set out in paragraph 5.8, the following Commercial CIL rates are recommended.

Commercial CIL Rates	
General Retail A1-A3 (excluding Food Supermarket)	£50sqm
Food Supermarket A1 (less than 3000sqm)	£100sqm
Food Supermarket A1 (3000 sqm plus)	£150sqm
All Non Residential Uses excluding retail	£0sqm

CIL Revenue Projections

6.12 The proposed residential development in Newport over the plan period that may be CIL liable is set out in the table below. This relates to houses only with apartments which are proposed to be zero CIL rated excluded. The figures include an assumption of 95 windfall houses and 41 houses from small sites being delivered every year over the plan period. The windfall numbers have been spread evenly across the four zones at 34 units per zone per annum with an assumption that 85% will be on brownfield sites in the urban areas but assumes 100% greenfield in the rural area. This adds 510 windfall houses to the allocated housing units in each zone.

6 Conclusions

Newport Residential Unit Delivery			
Malpas & Bettws	Greenfield	Brownfield	Total
	76	434	510
Newport East	Greenfield	Brownfield	Total
	76	591	667
Rogerstone/Newport West	Greenfield	Brownfield	Total
	76	1069	1145
Caerleon/Rural	Greenfield	Brownfield	Total
	276	434	710

6.13 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 (appropriate discounts are made for Affordable Housing Exemptions at the relevant % zone rate) as illustrated in the table below.

CIL Revenue Projections					
Charging Zone	Category	CIL Rate	Gross Eligible Floorspace Sqm	Net Floorspace (Inc Aff Hsg Exemption)	CIL Revenue
Malpas & Bettws	Residential	£60	45900	41310	£2,478,600
Newport East	Residential	£45	60030	48024	£2,161,080
Rogerstone/Newport West	Residential	£20	103050	72135	£1,442,700
Caerleon/Rural	Residential	£60	63900	38340	£2,300,400
Boroughwide	Retail	£50-£150			
				Total	£8,382,780

6.14 The Local Development Plan does not make specific provision for comparison or convenience retail floorspace. It is uncertain at this stage how much development might be exempt from CIL due to re-use of existing buildings or lawful use demolition allowances. As such no allowance has been made for potentially chargeable retail floorspace.

Valuation Report

Construction Cost Study