Viability Study - Refresh

Report to Central Bedfordshire Council

Three Dragons March 2015

This report is not a formal land valuation or scheme appraisal. It has been prepared using the Three Dragons toolkit and non-residential model and is based on district level data supplied by Central Bedfordshire Council, its retained consultants, consultation and quoted published data sources. The toolkit provides a review of the development economics of a range of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal.

No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

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EXECUTIVE SUMMARY

This Study

This study was commissioned by Central Bedfordshire Council (CBC) in 2014 in order to refresh the viability study undertaken by Three Dragons in 2013, to take account of changes in guidance and the cost of complying with the policies in the draft Development Strategy, as well as changes in other costs and values affecting land use development. In addition, the study assesses the impact on viability of introducing a Community Infrastructure Levy (CIL) and provides information to allow the Council to decide what scale of CIL it wishes to introduce.

As well as assessing the impact of the Development Strategy policies on development across the area, the study also considers the impact of the specific policy and infrastructure requirements for the strategic urban extensions (SUEs) which are planned to deliver much of the Development Strategy's housing numbers.

Research to inform this study has included:

- Analysis of Land Registry data for house sales and land transactions in Central Bedfordshire.
- Consultation with estate agents, house builders and the promoters of the SUEs.
- Review of the CBC and DCLG proposed minimum space standards for residential development.
- Use of updated build cost information from RICS's Building Cost Information Service.
- Specialist cost information inputs from EC Harris on complying with the Development Strategy's policy costs applying to development generally, as well as s106 and infrastructure costs for SUEs.
- Specialist commercial development value inputs from Lambert Smith Hampton, particularly for logistics/warehouse, industrial and office development.
- An analysis of publicly available data to identify other value and cost inputs for the viability assessment.
- Use of the Three Dragons Toolkit, adapted for Central Bedfordshire to analyse scheme viability for residential development and of Three Dragons bespoke model for the analysis of non-residential schemes.

CBC policy seeks that all residential developments are to provide 30% affordable housing and this has been included in our appraisals.

This report assesses residential viability through the use of notional one hectare (ha) tiles and through case studies representative of the types of development planned to come forward under the draft Development Strategy. Non-residential development is assessed though tests of different commercial development planned under the draft Development Strategy.

The Residential Viability Findings

Overall the viability testing indicates that the development planned in the Development Strategy is viable, although there are some specific situations where some types of development are not currently viable, with specific issues with development of the SUEs.

Analysis of Land Registry information shows that there are three house price areas in Central Bedfordshire (described in this report as Area A, Area B and Area C) and it is appropriate to consider setting a different CIL rate for each Area.

In addition to this there is evidence from EC Harris to suggest that the Council's proposed urban extensions (SUEs) are subject to substantial infrastructure requirements and s106 costs. These requirements and related site opening up costs are common to many large scale strategic sites and alter the viability of the development to such an extent that it would be appropriate to consider setting a distinct CIL charge for the urban extensions. The viability testing demonstrates that the SUEs are deliverable but only if development is allowed to proceed at less than policy proportions of affordable housing – although if values change over the long time frames for SUEs it is likely that improved levels of affordable housing may be achieved in the future. Alternatively, CBC may be able to secure additional funding for some of the major infrastructure items required and if so this can be used to leverage additional affordable housing. However, there is little opportunity to support CIL charges on the SUEs at the current time.

The analysis above suggests that it is appropriate to set a CIL for residential development elsewhere in Central Bedfordshire and that this should vary by location and type of site. The guidance clearly suggests that a buffer is required so that the CIL is not set at the limits of viability. Using a 30% 'buffer' the potential CIL rates that the Council may like to consider are:

- Sites of 10 dwellings or fewer in Value Area A — £330/sq m
- Other residential development in Value Area A — £130/sq m
- Sites of 10 dwellings or fewer in Value Area B — £245/sq m
- Other residential development in Value Area B — £75/sq m
- Sites of 10 dwellings or fewer in Value Area C — £135/sq m
- Other residential development in Value Area C — £40/sq m
- Housing for older persons (sheltered and extra care) — £0/sq m
- Residential development on the Development Plan SUEs — £0/sq m

On a 'typical' three bedroom semi-detached market house in a development of over 10 dwellings the proposed charges would be £12,350 in Area A, £7,125 in Area B and £3,800 in Area C. To these would be added the £2,000 base residual s106[1], bringing the total to £14,350 in Area A, £9,125 in Area B and £5800 in Area C. This compares to the typical range of £6,500-£9,000 s106 which is currently being achieved. The CIL charges for dwellings in developments of 10 dwellings or fewer can be much higher as DCLG's Planning Practice Guidance states that these developments should not have to provide s106 or affordable housing.

Sheltered and ExtraCare housing is less viable than mainstream residential development and should pay a zero CIL. Rural exception sites support 80% affordable housing and are also not viable enough to support a CIL charge.

The proposed residential development CIL charges for developments of over 10 dwellings are lower than those set out in the Preliminary Draft Charging Schedule, which were £225/sq m in Area A,

[1] See section 2 of this report

£150/sq m in Area B and £45 for the SUEs (note that the number of value areas and their boundaries have changed). This reflects the changed costs and values since the 2013 work was undertaken as well as more detail about the costs expected to be carried by SUEs.

The Non-residential Viability Findings

Of the non-residential development types considered, only retail uses are currently able to support a CIL.

If CBC elected to set a CIL rate for the viable uses at around half of the viability headroom, then the following CIL rates are suggested:

- Out of centre convenience retail of below 280 sq m trading area £40/sq m.
- Larger convenience retail including supermarkets £85/sq m.
- Out of centre comparison retail/retail warehouse £50/sq m.
- All other uses including town centre retailing £0/sqm.

This study specifically considered the viability of logistics warehouse development on strategic road junctions and used specialist inputs from Lambert Smith Hampton on values and land transactions. Whilst these logistics warehouse developments provide a positive residual value this is insufficient to meet the land value benchmark and so they are not able to support a CIL charge at present.

It should also be noted that non-residential development on the strategic employment locations may also have to bear some of the costs of the transport and other infrastructure associated with bringing these sites forward. It is possible that public sector funding initiatives may assist in meeting some of these costs in the future.

1 INTRODUCTION

1.1 This report was commissioned by Central Bedfordshire Council (CBC) in 2014 in order to:

- Assess the impact on viability of the Council's policy requirements in the draft Development Strategy.
- Assess the impact of the proposed Community Infrastructure Levy (CIL) on development - CBC intends to adopt a CIL to help facilitate development across the Borough over the period of the Development Strategy.

1.2 The work has been undertaken by Three Dragons with specialist inputs from Cambridge Analytics, EC Harris and Lambert Smith Hampton (LSH). Cambridge Analytics provided specialist house price data analysis, including value area boundaries. EC Harris was engaged by CBC in order to ensure the complex cost implications for development on the urban extensions were included within the viability testing. LSH was engaged by CBC to provide specialist inputs into industrial and logistics warehouse values in order to ensure that the specific local characteristics and values were included in the viability assessments.

1.3 This study is explicitly based on the assumptions in the 2013 Three Dragons January 2013 Affordable Housing and Community Infrastructure Levy (CIL) study[2], updated to take into account the policy and guidance changes that have taken place in the interim, along with the additional details emerging from the process of planning for the sustainable urban extensions in Central Bedfordshire, and updated development values and costs. It sets out findings of the viability assessment for residential and non-residential development using a set of policy proposals which take into account the Council's aspiration to set high development standards, continue to secure affordable housing to meet local need and use potential CIL funding to support delivery of necessary infrastructure in the district. It also takes account of the proposed approach to the SUEs planned for Central Bedfordshire, where these important development sites are proposed to deliver many of their own infrastructure requirements.

1.4 The original 2013 viability study included the following research:

- An analysis of publicly available data to identify the range of values and costs needed for the viability assessment;
- Discussions with Council officers from planning, economic development, estates and housing departments;
- Analysis of information held by the authority, including the profile of land supply identified in the Strategic Housing Land Availability Assessment and a review of historic planning permissions;
- A workshop held with developers, land owners, their agents and representatives from a selection of registered providers in the area;
- Subsequent discussions with estate agents and developers who operate in Central Bedfordshire to verify the assumptions used in the analysis;

[2] This included consultation with the development industry and established many of the assumptions used in the viability testing in this new analysis.

- A survey of local Registered Providers to seek their views on aspects of costs and revenue that affect affordable housing;
- Use of the Three Dragons Toolkit, adapted for Central Bedfordshire to analyse scheme viability for residential development and of Three Dragons bespoke model for the analysis of non-residential schemes.

1.5 The additional research used to inform this refresh viability study includes:

- Analysis of Land Registry price paid data for house sales and land titles in Central Bedfordshire.
- Consultation with estate agents active in Central Bedfordshire to refine house price estimates and discuss evidence about land values.
- Consultation with housebuilders active in Central Bedfordshire to refine house price estimates.
- Review of the CBC and DCLG proposed minimum space standards for residential development.
- Use of updated build cost information from RICS's Building Cost Information Service.
- Specialist cost information inputs from EC Harris on complying with the Development Strategy's policy costs applying to development generally.
- Central Bedfordshire Council Consultation with the promoters of the SUEs to collect information on the characteristics and costs of development proposed on these sites.
- Specialist cost information inputs from EC Harris for development on the SUEs in Central Bedfordshire. This includes infrastructure required to enable development on these sites as well as the Development Strategy specific policy requirements for the SUEs. EC Harris inputs also included information on likely land budgets for SUEs.
- Specialist commercial development value inputs from Lambert Smith Hampton, particularly for logistics/warehouse, industrial and office development.
- An analysis of publicly available data to identify other value and cost inputs for the viability assessment.
- Use of the Three Dragons Toolkit, adapted for Central Bedfordshire to analyse scheme viability for residential development and of Three Dragons bespoke model for the analysis of non-residential schemes.

1.6 This report assesses residential viability through the use of notional one hectare (ha) tiles, case studies representative of the types of development planned to come forward and through the larger strategic urban extensions identified in the Development Strategy. Non-residential development is assessed though tests of different commercial development planned under the draft Development Strategy.

2 CONTEXT FOR THE ANALYSIS

National Policy Context

2.1 Since the 2013 study the National Planning Practice Guidance[3] has been published, providing information on the implementation of the National Planning Policy Framework. This guidance states that viability judgements should be evidence based and stem from a collaborative approach between the local authority, business community, developers and landowners. Evidence should be proportionate with more detail where viability may be an issue such as strategic sites.

2.2 The Practice Guidance also states that "*Plan makers should not plan to the margin of viability but should allow for a buffer to respond to changing markets and to avoid the need for frequent plan updating. Current costs and values should be considered when assessing the viability of plan policy"* and that, *"Where any relevant future change to regulation or policy (either national or local) is known, any likely impact on current costs should be considered."*[4]

2.3 DCLG is currently consulting on minimum space standards for dwellings[5]. This has an impact on smaller dwellings in particular, as in the past the market has tended to provide dwellings below these standards. The testing has increased the dwelling sizes to meet the standards.

2.4 DCLG changed Planning Practice Guidance in November 2014 to remove s106 obligations including affordable housing obligations from developments of 10 homes or fewer.

The Community Infrastructure Levy (CIL)

2.5 DCLG has provided Guidance for the Community Infrastructure Levy[6], with a new version of this published in February 2014 (and added to the Planning Practice Guidance website in June 2014 with some further amendments[7]). This guidance re-iterates the importance of balancing the need to provide infrastructure with ensuring that development generally is not made unviable:

"A charging authority should use an area-based approach, involving a broad test of viability across their area, as the evidence base to underpin their charge. The authority will need to be able to show why they consider that the proposed levy rate or rates set an appropriate balance ....between the need to fund infrastructure and the potential implications for the economic viability of development across their area. "(para 23)

2.6 In setting the levy rates, the Guidance explains that charging authorities should not set the rate at the margins of viability. Guidance[8] has formalised the concept of a viability 'buffer' although it is not quantified.

2.7 The CIL Guidance explains that the regulations allow charging authorities to apply differential rates for the Levy by geographic zones, development type and scale of development, provided this is justified by the viability evidence. However, "*Charging authorities that plan to set*

[3] DCLG, August 2013 onwards
[4] From Guidance section titled, "How should changes in values and costs be treated in plan-making?"
[5] Nationally Described Space Standard – technical requirements Consultation Draft September 2014
[6] Department for Communities and Local Government (DCLG) , February 2014, Community Infrastructure Levy Guidance,
[7] Including amended guidance for transitional arrangements, differential rates in respect of alternative social housing provision, instalment policies and s106 pooling.
[8] DCLG, 2014, Planning Practice Guidance

differential levy rates should seek to avoid undue complexity, and limit the permutations of different charges that they set within their area."

2.8 There will still be s106 contributions for developments of over 10 dwellings in order to make the development acceptable in planning terms. These will have to meet the three tests:

- Necessary to make the development acceptable in planning terms
- Directly related to the development
- Fairly and reasonably related in scale and kind to the development

2.9 CBC has advised that where there is no specific s106 or s278 information available (i.e. for non-SUE development) there will typically be a requirement for s106/s278 of £2,000 per dwelling. This is a reduction on the average £6,500-£9,000 which is currently being achieved and assumes that some obligations (such as a contribution to education) which are currently sought through s106 will be funded through CIL. It is also assumed that there will be s106 contributions applying to some commercial developments, and estimates have been made based on discussions with CBC.

Local Plan Policies

2.10 In accordance with the NPPF requirement that viability testing should take into account the costs of any requirements likely to be applied to development (Para 173), this assessment considers the policies in the draft Development Strategy. The information used for these assessments is:

- Development Strategy reviews by Three Dragons and EC Harris
- Provision of cost data by EC Harris

2.11 The individual policies that have a definable cost impact on development across Central Bedfordshire are:

- Requirements for affordable housing in Policies 29a, 34 and 35 will have viability implications as affordable housing values are less than values for market housing.
- Policy 32 which deals with appropriate accommodation for older people. While this policy only applies to some of the dwellings to be built, it is possible to calculate the cost spread across all dwellings. The costs of Lifetime Homes, mobility standards and wheelchair access is estimated by EC Harris to add approximately £1,230 to all dwellings to be built in Central Bedfordshire (see Annex 1).
- Policy 47 deals with mitigating the impacts of climate change and requires that all new residential developments meet higher water efficiency standards of 110 litres of water/person/day and that dwellings provide 10% of their energy consumption from renewable and low carbon sources. The 110 litres per day is not considered to result in additional costs but the 10% of energy is estimated by Cutland Consulting to cost £1,000 per dwelling (see Annex 1).
- Policy 47 also requires non-residential development of more than 1,000 sq m to meet BREEAM excellent standards. It is understood that most of the non-residential development in Central Bedfordshire already reaches BREEAM Very Good and EC Harris

advise that moving to BREEAM excellent requires a build cost premium of 2%. This would be the equivalent of about £15,000 on a 1,000 sq m factory or £13,500 on a 1,000 sq m retail warehouse.

2.12 In addition there are policies that have broader viability impacts:

- Policy 31 supporting text includes use of sheltered and extra care accommodation to provide appropriate housing for older people on larger developments. These types of accommodation have different values and costs from general needs housing and generally the higher costs of provision have a larger impact on viability than the higher prices that this accommodation can fetch.
- Policy 31 requires the provision of bungalows/low density flats on larger developments. These types of accommodation can have an impact on viability of the overall developments and in the case of bungalows, can have an impact on development density (which in turn can have an impact on the cost of the land required).

2.13 The policies dealing with the housing urban extensions have s106 cost implications, which have been estimated by EC Harris. These implications are in addition to the impact of the policies discussed above and these are listed below:

- Policy 60 Houghton Regis North 1 has estimated s106 requirements of approximately £22,600 per dwelling.
- Policy 60 Houghton Regis North 2 has estimated s106 requirements of approximately £22,600 per dwelling.
- Policy 61 North of Luton has estimated s106 requirements of approximately £26,300 per dwelling.
- Policy 62 East of Leighton Linslade has estimated s106 requirements of approximately £20,200 per dwelling.
- Policy 63 Wixams has estimated s106 requirements of approximately £20,000 per dwelling.

2.14 These costs are in addition to the other costs of development on these sites, which include a variety of specific infrastructure requirements as well as standard dwelling construction costs. These are discussed in Section 4 of this report.

2.15 Development Strategy policies 19, 21, 22, 23, 24, 25, 26 and 56 deal with the obligations of development to provide the necessary infrastructure for sustainable development, including green infrastructure. The discussion above considers the costs of meeting these requirements on the urban extensions but development on a smaller scale is also planned in other locations. For this non-urban extension development it has been estimated by Central Bedfordshire Council that a typical s106 requirement will be approximately £2,000 per dwelling[9]. This is less than amounts currently collected and reflects the tighter scope and the restrictions on pooling s106 that will take place post April 2015. Historically, the Council has used an online calculator approach to assessing potential S106 contributions on a ward basis. For developments of up to ten units Unilateral Undertakings are accepted, for larger developments s106 planning

[9] Developments of 10 or fewer dwellings will not pay any s106 in line with Planning Practice Guidance

obligations are negotiated. An analysis of these contributions has been undertaken over the three years since the current Planning Obligations protocols were introduced in February 2009 for Mid-Bedfordshire and October 2009 for South Bedfordshire. This shows that combined S106 Planning Obligations / Unilateral Undertaking contributions for residential development have averaged some £7.9 million per annum in that time, excluding affordable housing requirements. An analysis of some 35 individual planning permissions secured with S106 agreements shows that contributions have averaged £6,500 per dwelling over this period, but are subject to a significant range of values from site to site. This again excludes the value of Affordable Housing requirements. Contributions of £9,000 and over per dwelling have been achieved on a regular basis[10].

2.16 CBC has a design guide[11] that sets out minimum space standards. In the main, these are similar to the draft space standards proposed by DCLG in their current consultation, although there are some minor variations. The testing has increased dwelling sizes to meet the DCLG and CBC minimum space standards. This has an impact on viability as build costs will clearly increase without any evidence that values will increase proportionately. Logic suggests that developers will market the benefits of more spacious dwellings but without the evidence this viability assessment has been unable to take this aspect into account. Therefore the testing is conservative in regard to dwelling values.

2.17 The strategic employment allocations in the Development Strategy also contain policies that may have viability impacts. Some of these allocations are part of the housing allocations and it is assumed that in these cases the residential development will come forward first and bear the cost of the infrastructure required (Houghton Regis, North of Luton and East of Leighton Linslade). However the policy requirements for stand-alone employment allocations at Sundon Rail Freight Interchange, North East of Flitwick and Stratton Farm are also likely to have infrastructure cost implications, although at the time of writing there are no available estimates.

2.18 Annex 2 lists the Development Strategy Policies and their viability implications.

Other Information

2.19 Development industry residential feedback from the 2013 viability study and the CBC CIL Preliminary Draft Charging Schedule included the following points:

- The need to include the extensive planning obligations and infrastructure costs associated with development on strategic sites.
- Concerns raised over the value areas in Central Bedfordshire.
- Concerns over benchmark land values used.
- Issues about garaging and ancillary structures as part of the development costs.
- Build costs are too low.
- Contingency should be included.

[10] Source Council's own estimates
[11] Adopted March 2014

- Developer return should be 25%.
- Further case studies should be used.
- Gross to net developable should be amended on strategic sites.

2.20 In response to these points the following actions have been taken:

- EC Harris has provided specialist inputs for planning obligations and infrastructure costs associated with development on strategic sites.
- The refreshed dwelling price analysis has included further analysis of geographical value differences and in discussion with CBC, the value area boundaries have been amended.
- Further research has been undertaken into land values, including use of Land Registry records of land prices paid.
- Garaging and ancillary structures are covered by the overall build cost.
- Revised BCIS data has been obtained to refresh build costs.
- An explicit viability buffer has been recommended and this covers the concept of contingency.
- The list of case studies has been reviewed and amended.
- Available information on gross to net developable has been reviewed with EC Harris and CBC and specifically applied to the strategic sites.

9.1 A 20% developer return is reasonable and has been accepted as reasonable in a variety of other situations, including the recent examination of the work undertaken in neighbouring Bedford[12].

Summary

2.21 CIL is set out as £s per sq metre for developments of 1 dwelling or more, or over 100sq m additional non-residential floorspace and is not negotiable unlike S106. Justification for the levy rate(s) should include:

- There is a need (i.e. an infrastructure funding deficit)
- The setting of the levy rates is informed by viability assessments
- Charging authorities are not allowed to set rates for policy purposes

2.22 There can be different rates for different uses and different areas, and exemptions include affordable housing and charities.

2.23 Charging authorities will have to have a Regulation 123 list setting out how the money will be spent, and it is permissible to collect the levy in one area and spend in another. The liability for CIL is identified at planning permission and liability for paying starts at commencement

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12 http://www.bedford.gov.uk/environment_and_planning/planning_town_and_country/planning_policy__its_purpose/community_infrastructure_levy/cil_examination.aspx

(although Charging Authorities can stagger payment though adopting an installment policy and by agreeing phases of development).

2.24 The Development Strategy includes policies that have viability implications. The cost of complying with these policies has been estimated in order to include them in the viability assessments. There will still be s106 contributions in order to make development acceptable in planning terms, although this will be subject to tighter regime than has been allowable in the past. Estimates of typical future s106 costs have been prepared, as well as specific s106 costs for the SUEs.

3 DEVELOPMENT IN CENTRAL BEDFORDSHIRE

Introduction

3.1 We have briefly reviewed the housing and commercial development planned in Central Bedfordshire. This review was then used to develop a set of case study sites to be tested later in the document.

Residential Development

3.2 The draft Development Strategy for Central Bedfordshire plans for 31,000 new homes to be delivered between 2011 and 2031. Of the 31,000 new dwellings, 13,500 are committed.

Table 3.1: New Housing Development in Central Bedfordshire – Committed Development and Housing Delivery

Area	"Committed" new homes*
Wixams	3,250
Biggleswade	1,972
Leighton Linslade	1,311
Arlesey	1,364
Dunstable	1,071
Stotfold	382
Ampthill	566
Marston Moretaine	759
Flitwick	570
Cranfield	530
Houghton Regis	74
Other sites (north)	1,504
Other sites (south)	243
Expired permissions	-150
G&T allocation pitches	70
Total commitments	13,516
Housing Delivery	
Net Completions 2011/2014	3,540
Committed* sites	13,516
New sites – North Houghton Regis**	4,796
New sites – North Luton**	3,200
New sites – East Leighton Linslade	2,500
New sites – Wixams extension	500
New sites – Chaul End	325
Market-led sustainable development	1,000
Allocations Plan/Neighbourhood Plans	2,000
Total planned housing delivery 2011-31	31,377

Source draft Central Bedfordshire Development Strategy 2014 * = Committed sites are those either with planning permission, or that have been allocated in previous plans, or that have been identified as likely to come forward during the plan period. ** = The housing delivery for these sites is that which is estimated to be delivered by 2031. Additional capacity is expected to come forward beyond 2031.

3.3 The Development Strategy notes that that there will be particular growth amongst the population over 65 years of age and that the elderly population increasingly have specific care needs which often require well thought-out housing solutions and specialist care. CBC will therefore expect an element of accommodation for older people as part of all larger developments, to include bungalows, lifetime homes, sheltered housing and extra care housing (Policy 31).

3.4 In response to housing affordability issues the Development Strategy sets the target of 30% affordable housing for developments of 4 dwellings or more. Development brought forward under the Market Led Sustainable Development policy will deliver 40% affordable housing.

Non-residential development

3.5 The Development Strategy will support the delivery of 27,000 net new jobs between 2011 and 2031 within Central Bedfordshire. Within Central Bedfordshire it is anticipated that 12,150 (45%) of new jobs will be from B-uses with the remaining 14,850 (55%) being delivered through non B-uses (Chapter 6).

3.6 Employment specialisms in Central Bedfordshire are in the engineering/manufacturing and logistics sectors as well as indicating the importance of the rural economy, particularly through leisure, tourism and veterinary based activities. There is however an under-representation in certain sectors, notably business services, finance and insurance.

3.7 There are two main strategic road corridors running north to south through Central Bedfordshire, mainly the M1, A1 and the A421, which provide businesses with direct access to London and the strategic road network. For some businesses (such as logistics) this access is important.

3.8 Employment in parts of Central Bedfordshire has a strong relationship with neighbouring authorities. The expansion proposals of London-Luton Airport are a key consideration in determining the level of jobs to be provided within Central Bedfordshire. The proposals are expected to create a significant number of jobs related not only to the expansion itself, but also in relation to complementary services once the expansion is completed, such as offices, hotels, restaurants and leisure activities.

3.9 In order to accommodate the proposed growth in employment, the Development Strategy plans for up to 139ha of employment land.

Table 3.2 Employment Land in Central Bedfordshire

Location	Area (hectares)
Houghton Regis North	30
North of Luton	13
East of Leighton Linslade	16
Sundon Rail Freight Interchange	40
North East of Flitwick	Up to 18
Stratton Farm, Biggleswade	22
Total	**Up to 139**

3.10 Information provided by LSH indicates that:

- Demand for logistics warehouses is most apparent in the medium (4,600 sq m to 9,300 sq m) and large units (over 9,300 sq m).
- Build to suit logistics warehouses account for three quarters of grade A stock transactions.

- Geographically, the focus for logistics warehouses is along the M1 corridor, and to a lesser extent the A421 and A1.
- Speculative building of logistics warehouses has recently re-started, albeit with very few examples thus far, and only for larger developments.

Retail

3.11 Additional retail development is proposed for some of the SUEs:

- Houghton Regis North will have additional retail.
- North of Luton and East of Leighton Linslade will have additional convenience retail.
- Wixams is a new settlement and so will have town centre retail.

3.12 In addition there will be town centre developments elsewhere in Central Bedfordshire:

- In Dunstable there is the potential for more comparison retail but the Quadrant Centre redevelopment has been delayed. Instead the Development Strategy suggests expansion of retail parks on the outskirts of town.
- There are two retail sites in Leighton Buzzard:
    - The development brief states that the land south of the High Street is on previously developed land in a mix of private and public sector ownership. Most of the uses have now ceased. The site is proposed to contain new residential uses along with retail, community and supporting uses (such as car parking).
    - The development brief states that land at Bridge Meadow is on currently occupied land subject to a complex pattern of freehold and leasehold interests. The site is proposed to contain retail (in small units), offices, leisure, education and healthcare, as well as supporting uses (such as car parking) and open space.
- Houghton Regis – reuse of derelict and low density industrial / retail as well as some residential uses, with new residential uses, office and retail. Consent for some of the high street frontage has already been obtained.
- Biggleswade – The masterplan states that in the longer term there may be a need for an additional comparison retail floorspace, split between the town centre and out of centre. In addition there is a need for commercial leisure. Town centre office development is also planned. Most of the sites identified are in private ownership.
- Flitwick – CBC has acquired land to assist in the delivery of the town centre masterplan, with other landowners including Tescos and Network Rail.

Implications for Viability Testing

3.13 Based on the residential and non-residential development planned to come forward, the types of development to be tested will be as follows:

- **Housing** - A variety of different housing developments will need to be tested. The strategic urban extensions are clearly a large part of the overall delivery and appropriate scenarios need to be tested, but there is also a need to test different windfall schemes and provision for the elderly.

- **Employment uses** – Industrial and logistics warehouse development will need to be tested. Logistics warehouse development is location sensitive.
- **Retail** – town centre and out of centre comparison will need to be tested. Local and larger convenience retail will need to be tested. Retail sites will be both green field and on previously developed land.

Development Typologies

3.14 Based on the discussion above, the notional developments to be tested are set out below. The case studies are not intended to be actual sites but judged to be representative of the development likely to come forward in Central Bedfordshire.

Residential

3.15 The residential notional developments in the different value zones are:

Case study		Dwellings
1	Single plot within village envelope	1
2	Two plots within village envelope	2
3	Market led sustainable development	10
4	Small development in Market town	10
5	Small development outside village envelope	10
6	Market led sustainable development	50
7	Urban infill	55
8	Development in market town	75
9	Edge of market town	200
10	Extracare scheme	56
11	Sheltered Scheme	56
12	Rural exceptions scheme	10

3.16 In addition, development on the large SUEs is tested, at varying proportions of affordable housing:

Policy	Name	Dwellings
Policy 60	Houghton Regis North 1	4,700
Policy 60	Houghton Regis North 2	1,500
Policy 61	North of Luton	3,200
Policy 62	East of Leighton Linslade	2,500
Policy 63	Wixams	1,500

3.17 The non-residential notional developments are tested are:

1. Office development of 1,500 sq m, out of centre.
2. Office development of 2,000 sq m, town centre.
3. Block of industrial units totalling 1,600 sq m.
4. 25,000 sq m warehouse on a strategic road junction location.
5. 10,000 sq m warehouse on a strategic road junction location.

6. 6,000 sq m warehouse on a strategic road junction location.
7. 3,000 sq m warehouse on a strategic road junction location.
8. 1,500 sq m warehouse on a strategic road junction location.
9. 7000 sq m warehouse on a strategic road junction location.
10. Town centre comparison retail of 800 sq m on a greenfield site.
11. Town centre comparison retail of 800 sq m on site in current use.
12. Out of centre comparison retail multiple units totalling 6,000 sq m.
13. Small Convenience Store of 300 sq m on a greenfield site.
14. Small Convenience Store of 300 sq m on site in current use.
15. Supermarket of 1,100 sq m.
16. 70 bedroom budget hotel out of town.
17. Edge of centre 7 screen leisure development.
18. Care home of 60 bedrooms.

3.18 The viability of these notional developments is tested later in this report. The residential notional development testing is preceded by tests on a notional 1 hectare tile in order to explore development density and house price value zone implications.

3.19 Development density has been part of the process of developing the testing assumptions. For the urban extensions a density of 35 dwellings per hectare (DPH) has been used, while notional case studies have used densities between 25-55dph depending on the type of development, as well as higher densities for sheltered and extracare schemes.

4 RESIDENTIAL DEVELOPMENT: KEY ASSUMPTIONS

Introduction

4.1 The viability analysis in this report uses a residual development land appraisal, which involves the assessment of the value of the completed development (known as the Gross Development Value or GDV) from which is deducted the development costs (such as build costs, professional fees, finance costs and marketing fees etc.) to calculate a residual land value. This is then compared to the benchmark land value (the notional level that willing landowners are theoretically likely to sell land for development at) and if the development value meets or exceeds the benchmark, the development is considered viable. Testing assumptions were discussed in the development industry consultations undertaken as part of the 2013 study and this refresh has focused on those which may have changed since that time:

- Land values
- House prices
- Build costs
- Finance costs

4.2 In addition to changes to these assumptions, the viability testing has used revised dwelling mixes. This particularly affects affordable housing, where data from a wide range of recent consented schemes was used to inform the affordable dwelling mixes. The viability testing has also included an allowance for 10% circulation space for flatted development.

4.3 Since the 2013 viability study further information on the specific infrastructure costs associated with SUEs has become available, through the specialist inputs to this study from EC Harris. These costs have been applied to the viability tests. In addition, further information has been made available on some of the land budgets for the SUEs and this has been used as the basis for revising the ratio of gross to net developable land.

4.4 Details of the range of testing assumptions used are set out in Annex 2.

Benchmark Land Values for Residential Development

4.5 The benchmark values reflect the level of value at which a landowner could be reasonably expected to bring forward their land for development. Benchmark values are not intended to mirror the highest prices for land; instead they are an estimate of the lowest prices that a willing buyer and seller might agree on. Estimates of benchmark values will take into account the impact of policy and will consider current rather than likely future values. This is important as from time to time, land transactions take place on the basis of rising values in the future and purchasers may also take a view on the possibility of negotiating down policy obligations.

4.6 If the residual land value found is higher than the benchmark, development can be reasonably considered as financially viable at the input values used for the assessment (subject to there being enough margin to provide an incentive for development). However, if a resulting residual land value is significantly lower than the established benchmark, then development at the respective input values can be considered to be ‘unviable’ and that type of development to be less likely to be brought forward. Benchmark values discussed here are for the gross site area, not the net developable area.

4.7 This study splits land values between sites for development within and on the edge of urban areas in Central Bedfordshire (including villages and larger settlements such as Dunstable, Sandy and Flitwick), and land for the strategic urban extensions noted in the Development Strategy.

2013 Viability Study Residential Land Benchmarks

4.8 *Residential development land in towns and villages*

4.9 The benchmark land values used in the 2013 viability study ranged between £650,000-£950,000 per ha. £650,000 was the same value that was used in the previous viability appraisals carried out by Fordhams and Savills in 2009 and 2010 respectively. The figure of £650,000 per ha was accepted by the Inspector who appraised the 2009 Mid Bedfordshire Core Strategy (now part of Central Bedfordshire)[13].

4.10 The 2013 study also considered that in some instances there may be higher benchmark land values and drew upon guidance in the Local Housing Delivery Group [14]report, which recommends an uplift on current or alternative use values to estimate threshold land values. A 30% uplift, (allowing for taxation, transaction costs and a modest increase in land value) on the VOA Property Market[15] data for the East of England provided a benchmark of £950,000 per ha.

4.11 These benchmark land values were discussed as part of the development industry workshop in July 2012 and used in the subsequent viability testing.

Residential development on strategic greenfield sites

4.12 The 2013 study used a land value of £330,000 per ha, based on a multiplier of 15 times agricultural value[16]. This figure is based on guidance issued by the HCA in Transparent Assumptions: Guidance for the Area Wide Viability Model[17] which states that *"For greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value".*

4.13 This benchmark strategic greenfield land value was discussed as part of the development industry workshop in July 2012 and used in the subsequent viability testing.

Change in Prices

4.14 The 2013 Viability study was based upon data collected in 2012. Since the development industry workshop in July 2012 house prices in Central Bedfordshire have increased by 11%[18]. This change in house prices may have influenced landowners expectations of greater land values, although this must be placed in the context of an even greater increase in base build costs (BCIS indicates that the five year median build costs for 2 storey estate housing have increased by 14% between July 2012 and September 2014, and flat build costs have increased by at least 20%). This increase in build costs will have limited what is available to pay for land.

[13] PINS/J0215/429/5 (LDF000980)
[14] Local Housing Delivery Group chaired by Sir John Harman, 2012, Viability Testing Local Plans
[15] http://www.voa.gov.uk/dvs/_downloads/pmr_2011.pdf
[16] Based on recent research by Smiths Gore showing that agricultural land values in the Eastern Region average £9,000 per acre or £22,000 per ha.
[17] Annex 1 (Transparent Viability Assumptions) to the Homes and Communities Agency guidance for its Area Wide Viability Model published in August 2010
[18] Land Registry House Price Index June 2012-August 2014

Market commentary on residential land prices[19] has noted a strengthening of the market although this is not universal and prices are considered to remain substantially below the peak values in 2007.

Development Industry Feedback on Land Values

4.15 During autumn 2014 Three Dragons contacted local estate agents to check land values[20]. The agents reported that there had been few recent transactions and therefore it was difficult to come to a definitive view. There had been some transactions involving redevelopments between 1 and 3 dwellings in the built up areas as large houses/ plots are redeveloped at a higher density, but these tend to support higher values because of existing use. The interviews included an example of unconstrained residential development land valued at £1.2m/ha (12ha site), but the eventual value would only be arrived at once the costs of consent, servicing the land and policy obligations (such as the affordable housing and s106) were deducted.

Land Registry

4.16 Data from Land Registry shows that land for development on SUEs in Central Bedfordshire transacts at a variety of prices per hectare. This includes some substantial land holdings being transferred at prices considerably below the benchmarks used in the 2013 study, with examples dating from 2009 including 23ha being bought for £60,000/ha, another 23ha being bought for £100,000/ha and 7ha being bought for £200,000/ha. There are also examples of SUE development land being purchased for agricultural values (i.e. under £10,000 per ha – although these are historic sales) as well as what appears to be a small ransom strip at £3 million per ha. The terms of these sales are unknown and the spread of values is substantial, and so it is prudent not to attempt to base a benchmark around an arithmetic mean. However it is clear that where there are locations where substantial costs are associated with development or large proportions of undevelopable land within a site, the payment for land will reflect this with lower prices to the land owner.

Other Information

4.17 Central Bedfordshire Council has commissioned viability work to inform affordable housing and s106 negotiations. Work undertaken by BPS Chartered Surveyors[21] suggested that the benchmark value for strategic greenfield sites in Central Bedfordshire may well be lower than the £330,000 used in the 2013 viability study to reflect the exceptionally high infrastructure costs associated with developments on the large urban extensions.

4.18 BPS has quoted recent agricultural land transactions from Central Bedfordshire and nearby locations. The average value of agricultural land indicated by these transactions was £18,787/ha and this value was also within the range quoted during the estate agent interviews noted above. This value is slightly lower than the Smiths Gore research underpinning the £330,000/ha used in the 2013 study and BPS suggest that if the same uplift is used on these lower agricultural values then this would suggest £282,000/ha for strategic greenfield sites in Central Bedfordshire.

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[19] E.g. Savills, 2014, UK Residential Development Land

[20] Contact was made with Vantage Land, Satchells, Michael Graham, Taylor Land, Barford & Co, Robinson & Hall, Kirkby & Diamond, Lane & Browns. 50% of these were able to provide useful responses.

[21] Extract from BPS Chartered Surveyors, 2014, Independent Review of Assessment of Economic Viability

4.19 BPS has also quoted recent residential land transactions. These transactions have been predominantly small consented sites (all less than three hectares and most less than one hectare). The average price per ha is £2.8 m. This high value reflects the estate agent comments on land values discussed above and is not a useful figure for the viability work being undertaken here.

4.20 Comments on residential land values were received as part of the representations on the Preliminary Draft Charging Schedule. Optimis Consulting on behalf of various developers and landowners suggested that landowners expect £1.9m to £2.4m per ha for sites with consent, although there was no discussion about size or location of site, whether this took account of the required affordable housing and other planning obligations, nor did it provide any specific examples. Furthermore, sites with consent are likely to be above benchmark values as the level of risk is reduced.

Residential Benchmark Land Value Conclusion

4.21 For the purposes of the current Viability Refresh Study the following is proposed:

- The 'standard' £650,000/ha and £950,000/ha benchmarks will be used for urban sites (including market towns and villages). This is at the same level as the 2013 study as although house prices have increased, build costs have increased more which will limit the ability to pay more for land. The 12ha example discussed above would fit within this range once the likely policy and infrastructure costs are deducted.
- The £330,000/ha benchmark will be used for strategic greenfield sites. Again, this is at the same level as the 2013 study as the increase in house prices will have been mitigated by the increase in build costs.
- An additional strategic greenfield £200,000/ha benchmark will be used as a lower land value for SUEs. This is a generous interpretation of the Land Registry evidence and reflects exceptional costs required to facilitate development on strategic greenfield sites as well as the unfavourable net to gross developable areas.

4.22 The benchmark land values are generally applied per gross ha.

4.23 The benchmarks proposed do not preclude the possibility that land may transact at higher values and where this does happen, it is likely that purchasers either have particularly high value schemes, or are counting on rising future values or, possibly, assuming that affordable housing or other policies obligations can be negotiated down.

4.24 In addition to the land value benchmarks discussed above, one of the case studies is a rural exceptions scheme. Viability assessments for these exceptions sites consider whether there are positive residuals available for land rather than comparison with a standard development land benchmark. Typically, a plot value of £10,000 is sought across all tenures.

House prices and house price areas

4.25 House prices have been assessed using published data and consultation with the development industry. Part of the refresh included a re-assessment of the value zones used in the 2013 study and this influenced the methodology chosen for this part of the work.

- Land registry data on prices paid for houses and flats was analysed by Cambridge Analytics to understand the value areas in Central Bedfordshire. In order to understand the difference in values in some rural areas, this necessitated use of both existing and new build dwelling sales in order to base the analysis on a robust sample of transactions.
- Land registry data was also analysed to understand the difference between new build sales and sales of existing dwellings, in order to develop a coefficient to apply to existing sales values. This was used to develop an initial set of house price estimates in the different value zones.
- These initial house price estimates were then refined using information from:
  - Information on current (October 2014) new build asking prices using Rightmove, discounted by 8% to reflect negotiations on price[22].
  - Face to face interviews with estate agents active in Central Bedfordshire, undertaken in October 2014[23].
  - Email and telephone consultation with a selection of house builders active in Central Bedfordshire, undertaken in October 2014[24].

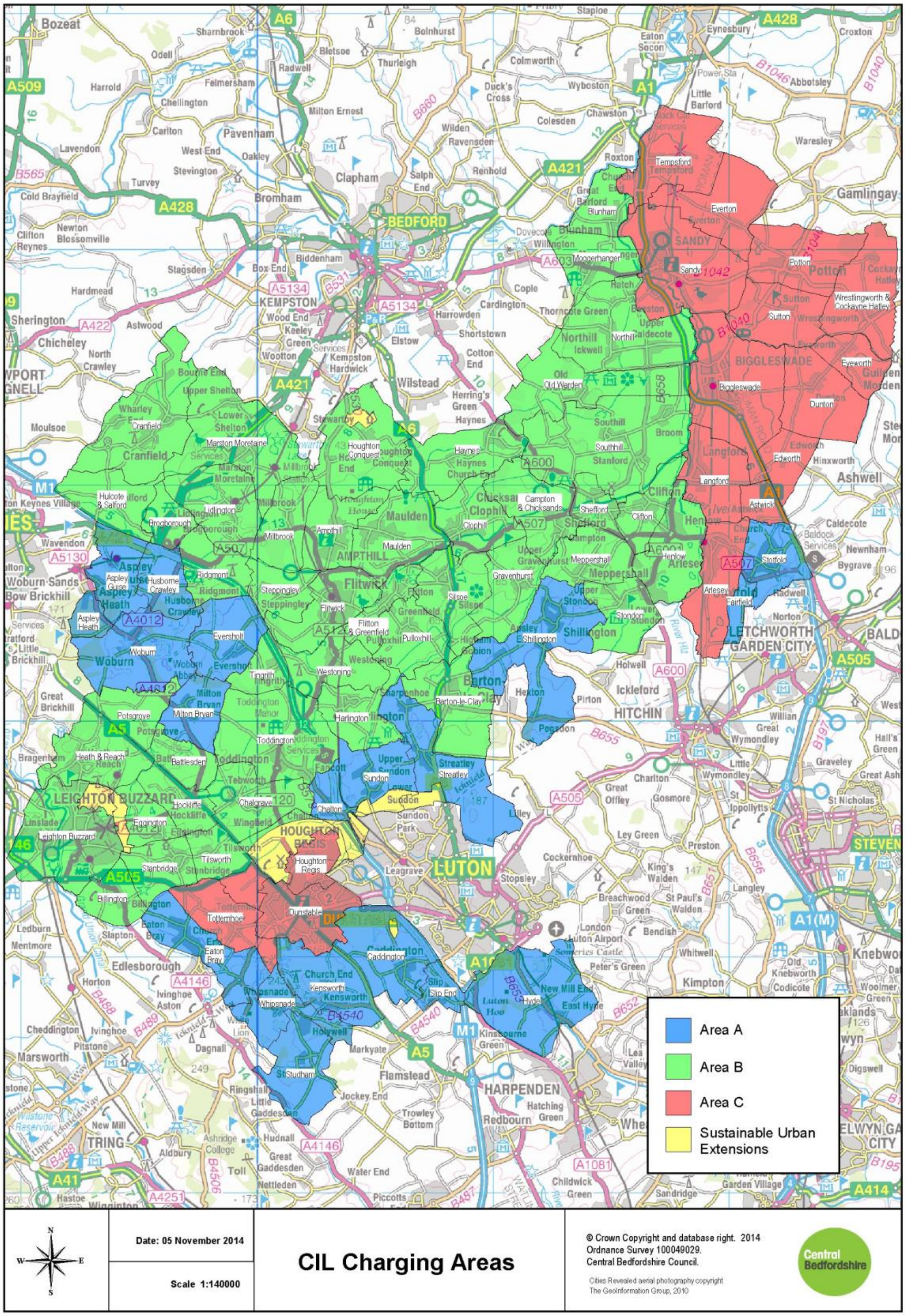
4.26 The house prices used in the viability testing are set out in table 4.1 below. The map in figure 4.1 illustrates the zones. Land Registry House Price Index reports a 11% increase in overall house prices since 2012[25] - although the process of disaggregating the information means that the change by house type varies, and the value areas have also been refined since 2013.

Table 4.1 House prices in Central Bedfordshire

	Area A South Eastern & Central Eastern Villages	**Area B Leighton Buzzard, West and Central**	**Area C Dunstable, Sandy, Biggleswade, Arlesey**
1 bed flat	£153,000	£120,000	£111,000
2 bed flat	£169,000	£145,000	£130,000
2 bed terrace house	£191,000	£170,000	£166,000
3 bed terrace house	£230,000	£205,000	£194,000
3 bed semi-detached house	£253,000	£225,000	£214,000
3 bed detached house	£337,000	£290,000	£263,000
4 bed detached house	£374,000	£343,000	£330,000
5 bed detached house	£412,000	£400,000	£357,000
2 bed bungalow	£225,000	£205,000	£194,000

[22] Note that the viability testing includes further allowances for marketing and incentives
[23] Bradshaws, Taylors, Alexanders, Acorn, Thomas Morris, Wilson Peacock, Inskip & Davie, Lane and Brown
[24] Sent to Bloor, Bovis, Barratt, Bellway, Taylor Wimpey and Persimmon. Responses were received from four of the six housebuilders.
[25] Land Registry House Price Index June 2012-August 2014

Figure 4.1 House price value zones in Central Bedfordshire



Build Costs

4.27 Build costs are based on BCIS median build costs (5 year period) downloaded on 29th September 2014. An uplift of 12%[26] has been applied to the BCIS costs to allow for external works and this is included in the figures below.

- Houses £1,096/sq m
- Flats (1-2 storeys) £1,272/sq m
- Flats (3-5 storeys) £1,411/sq m
- Bungalows £1,331/sq m
- Sheltered Housing £1,453/sq m
- ExtraCare £1,511/sq m

4.28 Compared to 5 year median BCIS build costs from July 2012, house build costs have risen by 14% and build costs for flats have risen by at least 20%.

Finance Costs

4.29 The cost of borrowing has been assumed to be 6%, changed from 7.5% in the 2013 study reflecting the changes in the cost of finance including the Funding for Lending initiative; and the credit rate has changed from 1.5% to 2% reflecting recent evidence from other development workshops[27]. Note that the assumed finance rate is net of inflation.

Infrastructure Costs for SUEs

4.30 CBC's approach is to allow development on SUEs to meet its own infrastructure requirements rather than through CIL, and EC Harris has provided estimated infrastructure costs accordingly. These are detailed in table 4.2 below, along with the SUE specific s106 costs discussed in section 2 of this report.

Table 4.2 SUE Infrastructure and s106 costs

Site	Infrastructure Total	Infrastructure Per Unit	S106 Total	S106 Per Unit	Total	Total per unit
Houghton Regis North - Site 1	£97,650,000	£20,777	£106,074,585	£22,569	£203,950,585	£43,346
Houghton Regis North - Site 2	£31,200,000	£20,800	£33,853,591	£22,569	£65,090,612	£43,369
North of Luton	£39,230,000	£12,259	£84,276,589	£26,336	£123,506,589	£38,596
East Of Leighton - Linsdale	£43,050,000	£17,220	£50,585,893	£20,234	£93,669,893	£37,454
Wixams	£24,150,000	£16,100	£30,000,000	£20,000	£61,650,000	£36,100

[26] Based on advice from EC Harris
[27] e.g. the 2014 GLA SHLAA viability study

4.31 These costs will be incurred over the life of the developments. EC Harris has provided likely programming for the different costs:

- For both Houghton Regis North SUEs, Enabling Works are completed in year 1, with S278 and Offsite Highway works completed in years 3 and 4. On-site Highways, Surface and Foul Water Drainage and Utilities are completed in 3 equal 2-year tranches in years 1 and 2, years 6 and 7 and years 12 and 13. Infrastructure professional fees are split over years 1 to 13.
- The Enabling Works for North of Luton are completed in year 1, and spread over years 1 and 2 for East of Leighton Linslade and Wixams. For these three SUEs, the On-site Highways, Surface and Foul Water Drainage and Utilities are completed in 2 equal 2-year tranches in years 1 and 2, and years 4 and 5. Infrastructure professional fees are spread equally over 8 years.

4.32 For all SUEs, the S106 costs are phased equally through the scheme.

5 RESIDENTIAL VIABILITY FINDINGS – 1HA TILES

Introduction

5.1 This section of the report sets out the viability assessments for the 1 ha notional tiles, which are used to explore the underlying viability trends across the county. The residual value of the notional 1 ha tile is calculated using the Three Dragons Toolkit and then compared with the benchmark land values, to estimate the surplus residual value potentially available for CIL. Note that these comparisons are against the benchmark for the urban sites, with an upper benchmark of £950,000/ha and a lower benchmark of £650,000/ha. We model the 1 ha tile in each of the value areas:

- Area A - South Eastern & Central Eastern Villages
- Area B - Leighton Buzzard, West and Central
- Area C - Dunstable, Sandy, Biggleswade, Arlesey

5.2 The case studies are modelled at different development densities. The dwelling mixes vary between densities, with more smaller dwellings in the higher density mixes. The details of the dwelling mixes can be found in Annex 2. All testing is at 30% affordable housing (i.e. policy compliant) and includes the costs of complying with the other Development Strategy policies and also include the base residual s106 discussed in section 2 of this report.

Results for the notional 1 ha tile

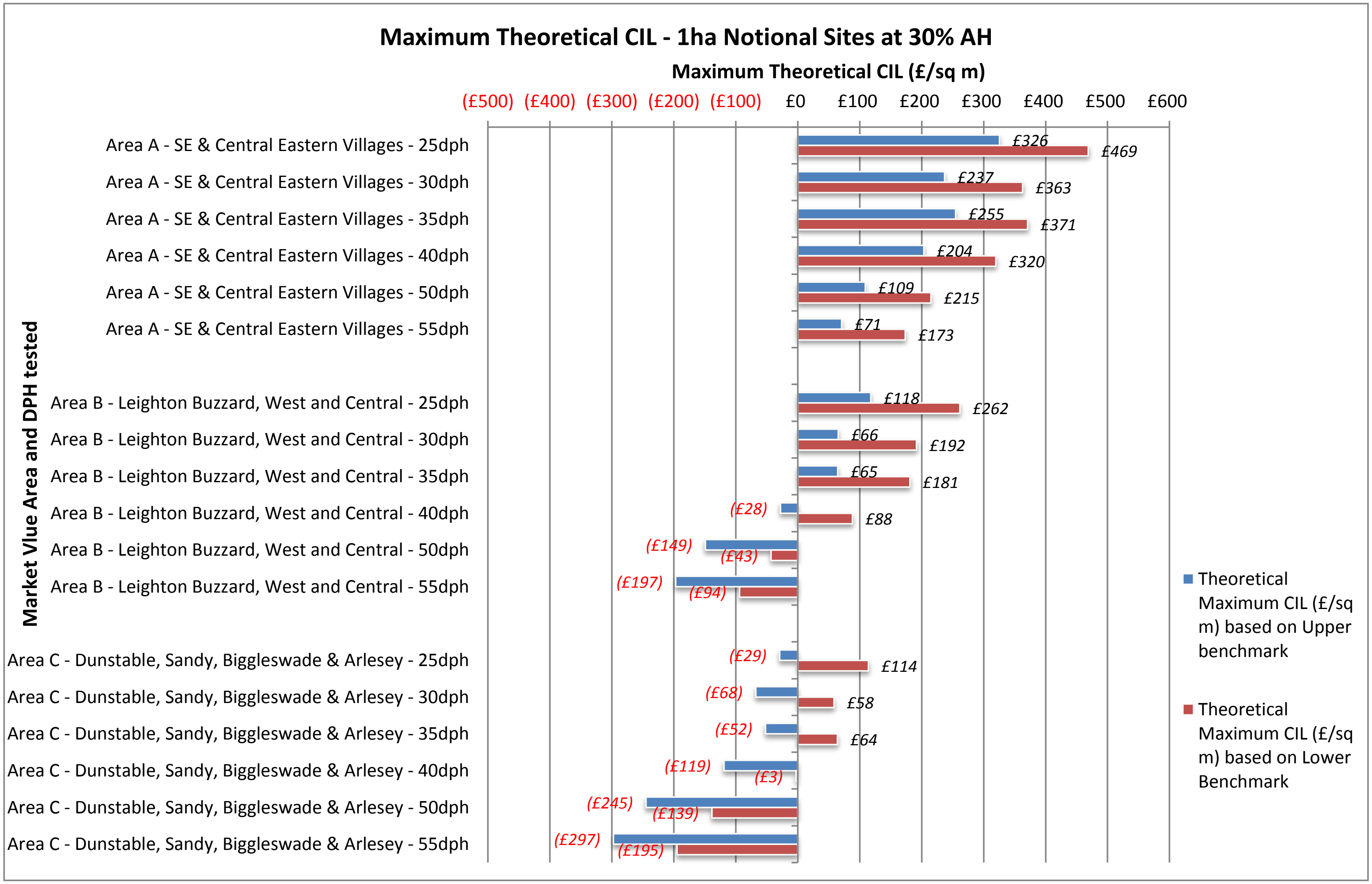
5.3 To arrive at the maximum potential CIL we:

- Identify the residual value of the scheme being tested;
- Deduct the land value benchmark to identify the ‘surplus’ value available for CIL;
- Divide the surplus by the area of the market dwellings (in £s per sq m)

5.4 Note that while the discussion refers to the theoretical maximum potential CIL, this is different from a recommended CIL rate. The guidance is quite clear about not setting CIL at the margins of viability in order not to jeopardise development.

5.5 Results for each value area are shown in chart 5.1 below.

Figure 5.1 Viability of 1 ha tiles and potential for CIL



5.6 Commentary:

- Residual values differ substantially between the different value areas, which is a result of different sale prices for the completed dwellings but similar build costs across Central Bedfordshire. The difference in residual values means that there is considerable variation in the potential for CIL.
- Residual values also differ between different development densities. There is a pattern of better values for lower density development, which results from the combination of different cost to sales values for different sized dwellings.
- The greatest viability 'headroom' is in Area A, which has the highest house prices. Here, development is viable at all densities and the theoretical maximum CIL against the higher land value benchmark (£0.95m/ha) varies between £326/sq m for the lowest density schemes and £71/sq m for the highest density schemes. While Figure 5.1 also presents the headroom against the lower benchmark land value (£0.65m/ha) it is likely that this will be less applicable in this higher value area.
- In Area B, the 25dph, 30dph and 35dph development is viable against the higher benchmark land value, and the 40dph development is also viable against the lower land value benchmark. Against the higher value benchmark the theoretical maximum CIL varies between £118-£65/sq m (for the 25, 30 and 35dph schemes) and against the lower value benchmark the theoretical maximum CIL varies between £262-£88/sq m (for the 25, 30, 35 and 40dph schemes). At 35dph, the theoretical maximum CIL is £181/sq m.
- In Area C, development is only viable at 25dph, 30 dph and 35dph against the lower benchmark land value. The theoretical maximum CIL varies between £114-£58/sq m. Given the lower house prices in this area, the lower land benchmark is an appropriate comparison.

6 RESIDENTIAL VIABILITY FINDINGS – CASE STUDIES

Introduction

6.1 The viability testing has used the case studies discussed in section 3 of this report, which include single and small plots, as well as market led sustainable development, urban infill and housing for older persons. Again, the residual value of each of the case studies is calculated using the Three Dragons Toolkit and then compared with the benchmark land values (£650,000/ha and £950,000/ha), to estimate the surplus residual value potentially available for CIL.

Case study		Dwellings
1	Single plot within village envelope	1
2	Two plots within village envelope	2
3	Market led sustainable development	10
4	Small development in Market town	10
5	Small development outside village envelope	10
6	Market led sustainable development	50
7	Urban infill	55
8	Development in market town	75
9	Edge of market town	200
10	Extracare scheme	56
11	Sheltered scheme	56
12	Rural exceptions scheme	10

6.2 All of these case studies are tested in the three value zones. The dwelling mixes vary between case studies, based on the density (Annex 1). All testing is at 30% affordable housing except for the two market led sustainable development case studies which have 40% (i.e. case studies are all at policy levels of affordable housing), and includes the costs of complying with the other Development Strategy policies and also include the base residual s106 discussed in section 2 of this report). Some case studies include an allowance for "opening up costs", reflecting the additional costs that are often associated with bringing forward larger sites and for urban infill sites (e.g. demolition). Case study 9 (200 dwellings) therefore includes £100,000 per net hectare and case study 7 (55 dwellings) includes £50,000 per net hectare[28].

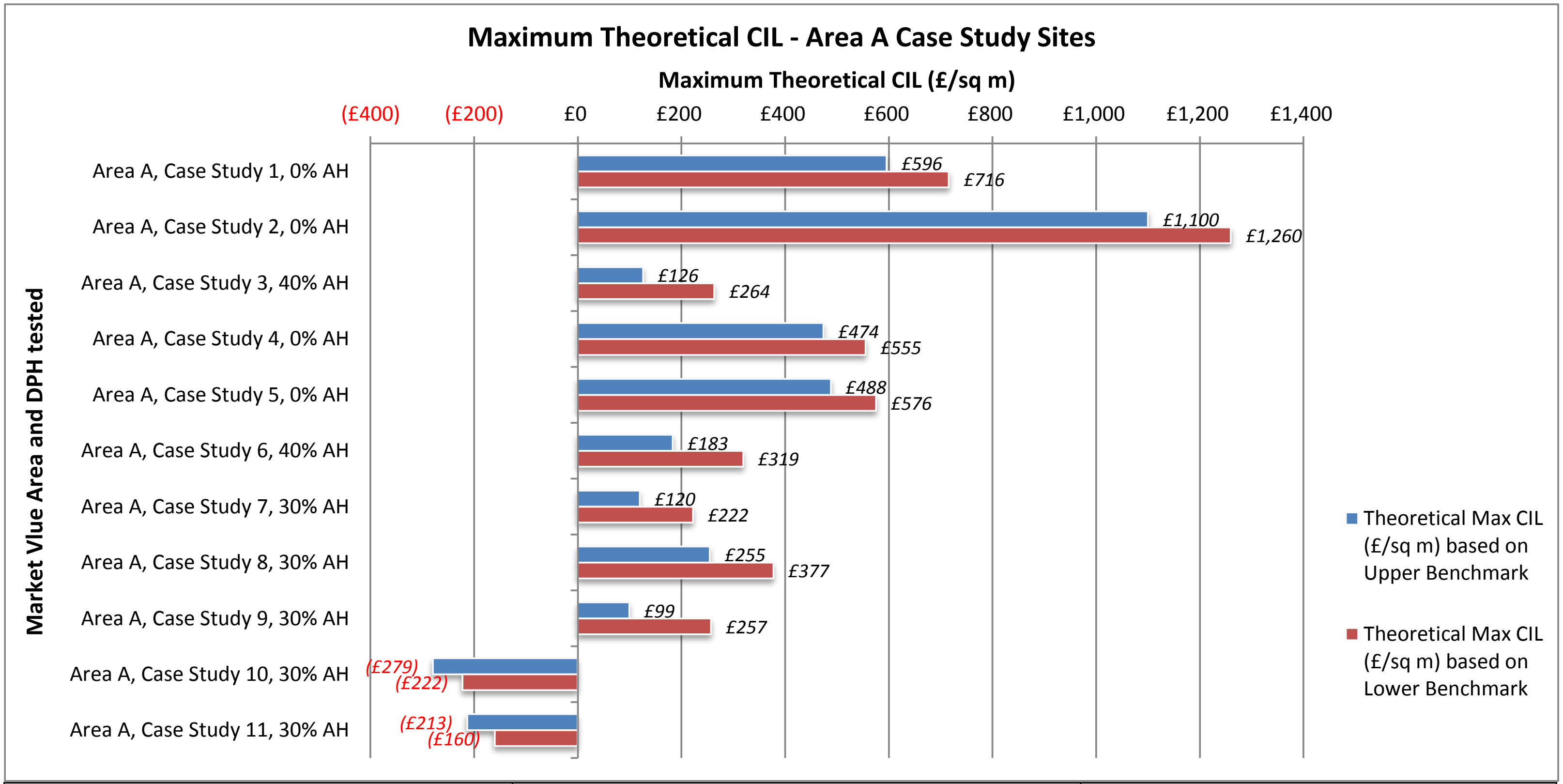
6.3 Building delivery rates have been advised by CBC. The case studies that are estimated to take longer than a year to build out have included discounted cash flows to provide net present values. This includes case studies 6 onwards (except the rural exception schemes).

Results for the Case Studies

6.4 Note that while the discussion refers to the theoretical maximum potential CIL, this is different from a recommended CIL rate. The guidance is quite clear about not setting CIL at the margins of viability in order not to jeopardise development. The case study findings are illustrated in Figures 6.1, 6.2 and 6.3 below.

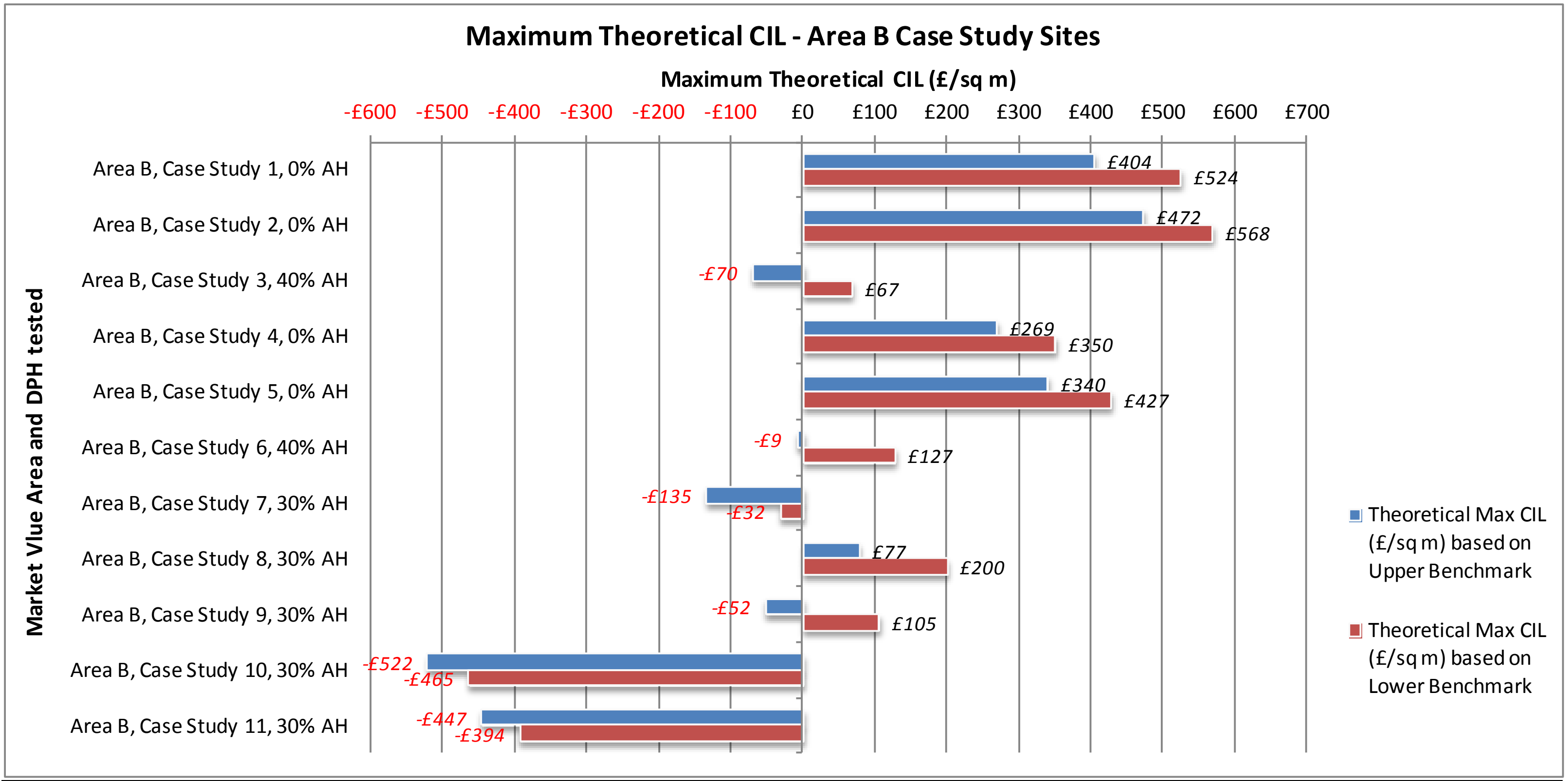
[28] Based on experience.

Figure 6.1 Case study viability findings in Value Area A



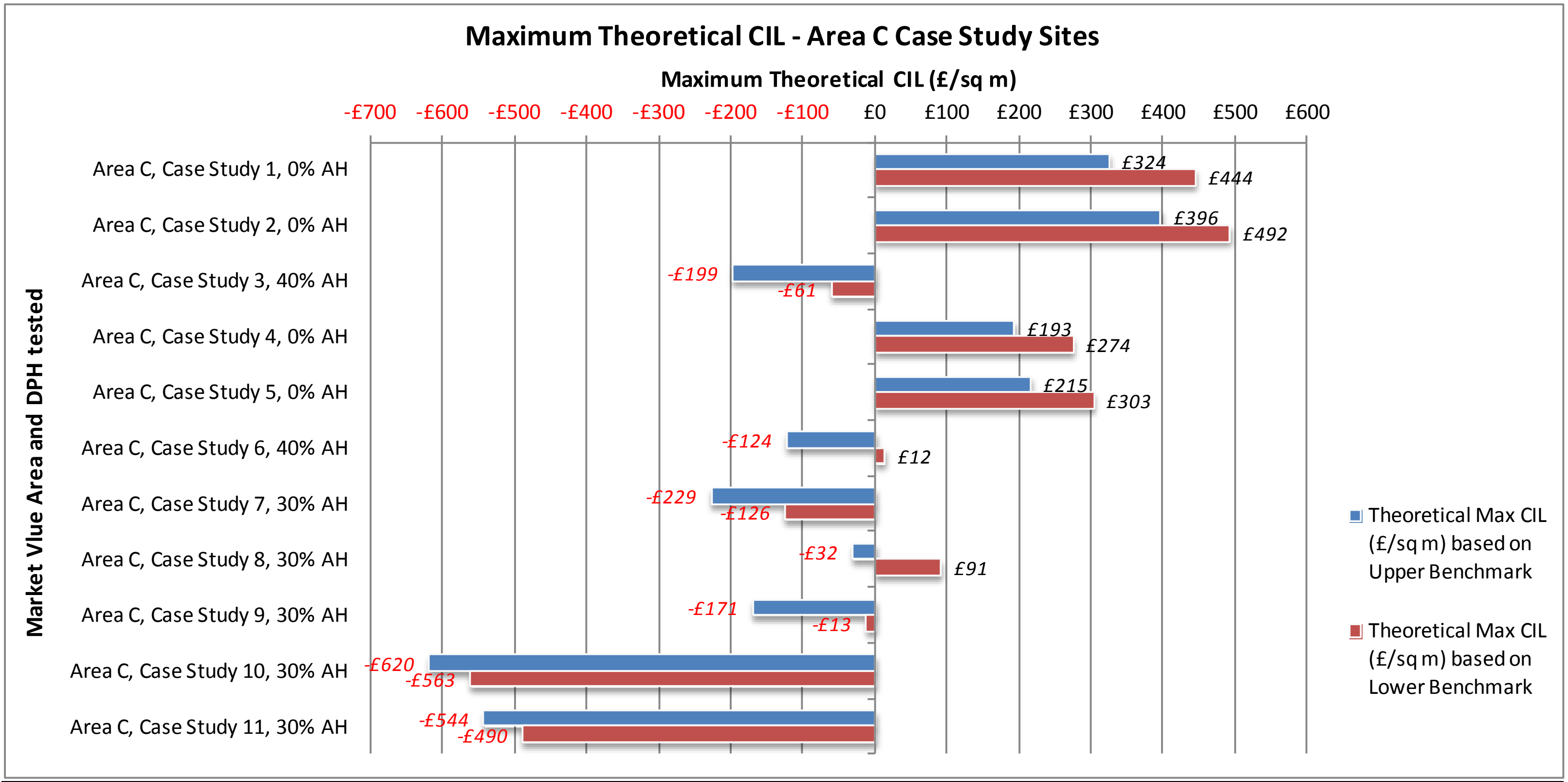
Case study		Dwellings	Case study		Dwellings	Case study		Dwellings
1	Single plot within village envelope	1	**5**	Small development outside village envelope	10	**9**	Edge of market town	200
2	Two plots within village envelope	2	**6**	Market led sustainable development	50	**10**	Extracare scheme	56
3	Market led sustainable development	10	**7**	Urban infill	55	**11**	Sheltered Scheme	56
4	Small development in Market town	10	**8**	Development in market town	75			

Figure 6.2 Case study viability findings in Value Area B



Case study		Dwellings	Case study		Dwellings	Case study		Dwellings
1	Single plot within village envelope	1	**5**	Small development outside village envelope	10	**9**	Edge of market town	200
2	Two plots within village envelope	2	**6**	Market led sustainable development	50	**10**	Extracare scheme	56
3	Market led sustainable development	10	**7**	Urban infill	55	**11**	Sheltered Scheme	56
4	Small development in Market town	10	**8**	Development in market town	75			

Figure 6.3 Case study viability findings in Value Area C



Case study		Dwellings	Case study		Dwellings	Case study		Dwellings
1	Single plot within village envelope	1	**5**	Small development outside village envelope	10	**9**	Edge of market town	200
2	Two plots within village envelope	2	**6**	Market led sustainable development	50	**10**	Extracare scheme	56
3	Market led sustainable development	10	**7**	Urban infill	55	**11**	Sheltered Scheme	56
4	Small development in Market town	10	**8**	Development in market town	75			

6.5 Commentary:

- Again, residual values differ substantially between the different value areas which is a result of different sale prices for the completed dwellings but similar build costs across Central Bedfordshire. The difference in residual values means that there is considerable variation in the potential for CIL.
- The small developments of 10 dwellings or fewer in villages and market towns demonstrate relatively strong viability in all of the value areas, which results from no affordable housing or other s106 obligations. For these small developments the theoretical maximum potential CIL varies between £474-£1,100/sqm in Area A (against the higher benchmark land value) to £274-£396/sq m in area C (against the lower benchmark land value). In Area B the maximum potential CIL is £350-£568/sq m against the lower land benchmark for the small developments of 10 dwellings or fewer.
- Developments of 75 and 200 dwellings in and around market towns are viable in Area A against the higher land value benchmark and in Area B against the lower land value benchmark. Theoretical maximum CIL rates vary between £99/sq m in Area A and £105/sqm in Area B. In Area C the 75 dwelling scheme is viable and the 200 dwelling schemes are marginal against the lower benchmark land value, giving a mixed picture about the opportunity for CIL for this type of development in Area C.
- Market led sustainable development schemes (with 40% affordable housing even for 10 dwellings or less) are viable in Area A (against the higher benchmark land value) and in Area B (against the lower benchmark land value). Theoretical maximum CIL varies between £126/sq m in Area A against the higher benchmark land value and £67/sq m in Area B against the lower benchmark land value. The larger of the two market led sustainable development case studies is marginally viable in Area C, but the smaller one is not viable. However the smaller market led sustainable development case study will produce a positive residual value in Area C of approximately £0.52m/ha (compared to the lower benchmark of £0.65m/ha). Given the nature of this policy (which provides an opportunity for development in areas that would otherwise have no opportunity) it is likely that landowners may take a flexible attitude to land values.
- Higher density urban infill developments are viable in Area A with a theoretical maximum CIL of £120/sq m against the higher benchmark land value. This type of development is not viable in Areas B and C although in both cases the development produces a positive land value (£0.28m-£0.56m/ha). For this type of development to proceed in Areas B and C there will either have to be flexibility about land prices, or negotiations about affordable housing. Alternatively this type of development may only take place in Areas B and C further on in the plan period when values may have risen further. There is no current opportunity for CIL on this type of development in Areas B or C.
- The sheltered and extracare housing developments are not viable in any of the value areas. It may be necessary to negotiate on the proportion of affordable housing provided by these schemes in order to make adequate provision of market housing for

older persons. Based on these results, there is no opportunity for CIL on this type of development.

Further sheltered housing testing

6.1 Housing for older persons is part of the Development Strategy (see the discussion in section 3) and so further testing was undertaken to explore the circumstances in which it may be viable. Using revised assumptions from a recent example sheltered housing scheme in Central Bedfordshire the additional testing suggests that sheltered housing could be developed in Areas A & B but the viability is sensitive to the timing of revenues and costs, and the resulting impact on scheme values. In Area C, there is some doubt as to whether it would proceed and would be dependent on a landowner negotiating on land prices. Overall the variability in the sheltered housing viability suggests that this type of housing is not able to support a CIL charge.

Rural Exceptions

6.2 The 10 dwelling rural exceptions scheme, Case Study 12, (80% affordable housing) was tested in the three value areas using different dwelling mixes and affordable housing tenures.

Figure 6.4 Rural Exception Scheme Values

	Mix 1 80% AH	Mix 2 80% AH	Mix 3 80% AH
Market Affordable rent Shared ownership	2 x 4 bed detached 5 x 2 bed terrace 3 x 2 bed terrace	2 x 4 bed detached 2 x 2 bed terrace 6 x 2 bed terrace	2 x 4 bed detached 8 x 2 bed terrace
Area A	£109,000	£303,000	£409,000
Area B	£23,000	£168,000	£260,000
Area C	-£5,000	£133,000	£225,000

6.3 Overall, it is possible to produce positive residual values from rural exception schemes although these will vary depending on the type and tenure of affordable housing sought:

- Taking a 10 dwelling rural exception scheme with two 4 bed open market detached houses, with eight 2 bed affordable terraced houses, the scheme generates a positive residual with 63% affordable rent/ 37% shared ownership in Areas A and B.
- In Area C, adjusting the split of affordable rent and shared ownership more towards shared ownership enables a positive residual value to be achieved.
- In all three areas, substituting a 2 bed terraced shared ownership house for a 2 bed shared ownership bungalow generates similar residual values.
- In Area B, substituting 5 bed detached houses as the market houses will produce slightly better residuals, whilst the 4 bed detached market house produces better returns than the 5 bed detached houses in Areas A and C.

6.4 It will not be possible to sustain a CIL charge whilst maintaining the desired affordable housing tenure split and £10,000 per plot land value.

7 RESIDENTIAL VIABILITY FINDINGS – SUES

Introduction

7.1 The viability testing has also tested the SUEs, which are anticipated to deliver much of the housing to be brought forward under the draft Development Strategy. It is CBC's intention that the large SUEs will meet their own infrastructure needs and therefore the modelling has used estimates of the likely costs[29]. The SUEs also have a specific set of s106 costs and these have been included within the modelling[30], as well as site specific net to gross land areas[31]. The considerable infrastructure and s106 costs associated with the SUEs has meant that there have already been some discussions about the proportion of affordable housing that CBC expects to see on these SUEs and so these sites have been tested at 30%, 20% and 10% affordable housing.

7.2 The SUEs have been tested against the strategic land benchmark values discussed in section 4 of this report – with an upper benchmark of £330,000/ha and a lower benchmark of £200,000/ha.

7.3 North of Luton is in value Area A and the rest of the SUEs are in value Area B.

Table 7.1 SUEs in Central Bedfordshire

Policy Reference	SUE	Mkt Value Area	No of dwellings	Gross area ha	Net to gross %	Infrastructure & S106 cost/dwelling
Policy 60	Houghton Regis North 1	B	4,700	226.90	64%	£43,346
Policy 60	Houghton Regis North 2	B	1,500	66.86	64%	£43,369
Policy 61	North of Luton	A	3,200	244.42	42%	£38,596
Policy 62	East of Leighton Linslade	B	2,500	188.28	40%	£37,454
Policy 63	Wixams	B	1,500	102.05	42%	£36,100

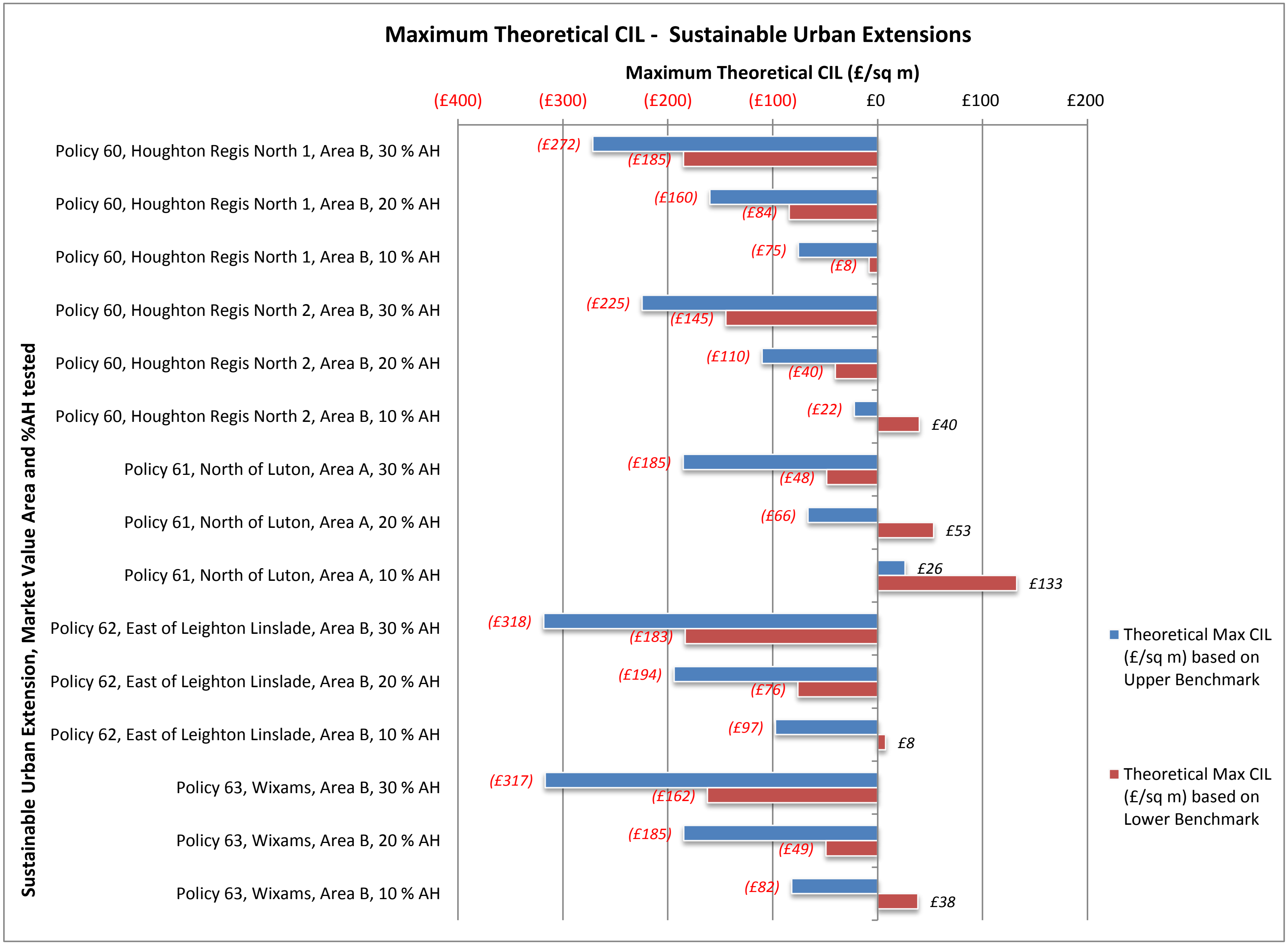
Results for the Urban Extensions

7.4 Note that while the discussion refers to the theoretical maximum potential CIL, this is different from a recommended CIL rate. The guidance is quite clear about not setting CIL at the margins of viability in order not to jeopardise development.

7.5 Results for the SUEs are shown in chart 7.1 below.

[29] Based on analysis of information from scheme promoters and from EC Harris
[30] Based on analysis of information from scheme promoters and from EC Harris
[31] Based on analysis of information from scheme promoters and from EC Harris

Figure 7.1 SUE viability findings



7.6 Commentary:

- The viability of the SUEs is generally weak, reflecting the considerable s106 and infrastructure costs as well as the unfavourable gross to net developable land ratios. None of the tests show viability at the higher of the two green field benchmark land values applicable to SUEs.
- Houghton Regis North 1 is not viable at 30% or 20% affordable housing, but is marginal at 10% affordable housing.
- Houghton Regis North 2 is not viable at 30% affordable housing, is close to marginally viable at 20% affordable housing and viable at 10% affordable housing, by a relatively slim margin.
- North of Luton demonstrates more viability, which will be partly because it is in a higher value area. Against the lower benchmark land value it is not viable at 30% affordable housing but it is viable at 20% affordable housing. Tested against the higher of the two strategic greenfield land value benchmarks it is just viable at 10% affordable housing.
- East of Leighton Linslade is not viable at 30% or 20% affordable housing, but is marginal at 10% affordable housing against the lower of the two green field benchmark land values.
- Wixams is not viable at 30% or 20% affordable housing, but is viable at 10% affordable housing against the lower of the two green field benchmark land values.

7.7 The viability tests above apply the residual value against the costs of the gross site area. Table 7.2 notes the relatively unfavourable ratio of gross to net developable land, which is part of the reason for the generally weak viability across the SUEs.

Table 7.2 Residual values against net developable and gross land areas.

Policy Reference	SUE	No of dwellings	Net to gross %	Affordable Housing %	RV per net ha	RV per gross ha	Upper Benchmark Land Value	Lower Benchmark Land Value
Policy 60	Houghton Regis North 1	4,700	64%	30%	-£122,487	-£78,221	£330,000	£200,000
				20%	£86,619	£55,316		
				10%	£288,470	£184,219		
Policy 60	Houghton Regis North 2	1,500	64%	30%	-£55,463	-£35,552	£330,000	£200,000
				20%	£195,110	£125,065		
				10%	£442,411	£283,585		
Policy 61	North of Luton	3,200	42%	30%	£364,739	£153,957	£330,000	£200,000
				20%	£611,248	£258,008		
				10%	£857,756	£362,060		
Policy 62	East of Leighton Linslade	2,500	40%	30%	£57,944	£23,263	£330,000	£200,000
				20%	£289,791	£116,344		
				10%	£521,661	£209,435		
Policy 63	Wixams	1,500	42%	30%	£64,279	£26,995	£330,000	£200,000
				20%	£333,031	£139,861		
				10%	£601,783	£252,726		

7.8 Overall it can be seen that the SUEs are deliverable but only if development is allowed to proceed at less than policy proportions of affordable housing. Given the length of time most of these sites will take to be developed it is likely that improved levels of affordable housing may be achieved in the future. Alternatively, CBC may be able to secure additional funding for some of the major infrastructure items required and if so this can be used to leverage additional affordable housing.

7.9 There is little opportunity to support CIL charges on the SUEs. Wherever there is some viability 'headroom', it is assumed that this will be used to provide further affordable housing in order to get closer to the policy compliant target.

8 RESIDENTIAL VIABILITY CONCLUSIONS

Introduction

8.1 The process for developing potential CIL rates is a set of structured qualitative judgements which takes account of the type of development being tested and the role of this development type in delivering the draft Development Strategy. The process starts with the 1 ha tiles viability at different densities discussed in Section 5 and uses the analysis to develop an initial view of what CIL might be achieved. This is then tested against the findings from the case studies viability discussed in Section 6 to check whether any amendment is required.

Synthesising the results

8.2 The figure below follows the process through the two stages. The CIL rates noted in the table are the **maximum theoretical rates** rather than recommended rates. We draw attention to the need for the council to set CIL rates that are not at the margin of viability and provide a buffer to allow for individual site circumstances and market change.

Table 8.1 Considering the maximum theoretical CIL

Stage 1 – 1 ha tiles		
Value Area	**Notes**	**Maximum CIL per sq m**
A	For development up to 40 dph the maximum theoretical CIL is £204/sq m at the higher land value benchmark. Above this density, the values fall away to £109/sqm at 50 dph and £71/sq m at 55 dph.	£71/£109-£204
B	For development up to 35 dph the maximum theoretical CIL is £181/sq m at the lower land value benchmark. Above this density, the values fall away to £88/sqm at 40 dph and densities above this are not viable.	£88-£181
C	For development up to 35 dph the maximum theoretical CIL is £58-£64/sq m at the lower land value benchmark. 35dph is more viable than 30 dph. At 40 dph and above, development is not viable.	£58-£64/sq m
Stage 1 conclusions – In **Value Area A** the theoretical maximum CIL can be taken to be £204/sq m. This is on the basis that the Development Strategy is not dependent on higher density development in this area. If higher density development is proposed in Area A, it will either have to rely on purchasing land at the lower benchmark, wait until values or costs change, or there will need to be negotiations about the proportion of affordable housing. In **Value Area B** the theoretical maximum CIL can be taken to be £181/sq m. This will leave development at 40 dph unviable unless there are negotiations about the proportion of affordable housing. In **Value Area C** the theoretical maximum CIL can be taken to be £60/sq m. This sits between the theoretical maximums for 30dph and 35dph and it is assumed that developers will pick the most favourable density within this limited range. While better values can be achieved at 25 dph, this is too low a density to be suitable for most situations.		

<table>
<tr><th colspan="3">Stage 2 – Testing against the case studies</th></tr>
<tr><th>Value Area</th><th>Notes</th><th>Maximum CIL per sq m</th></tr>
<tr><td>A</td><td>Apart from the older persons housing, £183/sq m can be supported by most types of development, although this requires some market led sustainable development, the urban infill and the larger edge of market town development to rely on the lower land value benchmarks. Developments of 10 dwellings or fewer have stronger viability and can support £474/sq m.</td><td>£183/sq m; except £474/sq m for smaller sites (<11 dwgs) and £0 for older persons housing</td></tr>
<tr><td>B</td><td>£105/sq m can be supported by the case studies of over 11 dwellings and the larger of the two market led sustainable development case studies. The smaller market led sustainable development case study, the higher density urban infill case study and older persons housing are not able to support this CIL - although the urban infill and older persons housing are not viable in this Value Area whether or not there is a CIL. Developments of 10 dwellings or fewer have stronger viability and can support £350/sq m.</td><td>£105/sq m; except £350/sq m for smaller sites (<11 dwgs) and £0 for older persons housing</td></tr>
<tr><td>C</td><td>In Area C many of the larger development types are shown not to be viable. £91/sq m can be supported by medium size development in market towns but not the larger size development in market towns. Almost any level of CIL will render the marginal larger of the two market led sustainable development case studies unviable and the smaller market led sustainable development case study is unviable irrespective of CIL. Setting a CIL for this area may jeopardise some development with positive residual values where landowners may have been prepared to take a lower price than the benchmark. However the delivery of the Development Strategy does not rest upon all of this development coming forward. Older persons housing is not viable in Area C as per the other value areas. Developments of 10 dwellings or fewer have stronger viability and can support £193/sq m.</td><td>£58-£64 (from the 1 ha tile) up to £91/sq m; except £193/sq m for smaller sites (<11 dwgs) and
£0 for older persons housing</td></tr>
<tr><td colspan="3">Stage 2 conclusions – In Value Area A, a theoretical maximum CIL of £183/sq m can be supported except for older persons housing which is not able to support any CIL and £474/sq m for smaller sites.
In Value Area B a theoretical maximum CIL of £105/sq m can be supported except for older persons housing which is not able to support any CIL. This means that higher density urban development may not be viable. Smaller sites can support £350/sq m.
In Value Area C smaller sites can support £193/sq m. Some of the other development in market towns can support a CIL of up to £91/sq m but many types of development are marginal or unviable irrespective of any CIL. It would be possible to require a CIL in Area C but this would suggest that the marginal market led sustainable development and larger market town development may not be viable. On balance the £60/sq m from the Area C 1 ha tile is the most appropriate rate.</td></tr>
<tr><td colspan="3">SUEs – The discussion in Section 7 shows that while SUEs are deliverable, they are required to deliver their own infrastructure and therefore are not able to support a CIL charge.</td></tr>
</table>

8.3 The analysis above suggests that it is appropriate to set a CIL for residential development in Central Bedfordshire and that this should vary by location and type of site. The guidance clearly suggests that a buffer is required so that the CIL is not set at the limits of viability. The table below illustrates the potential maximum recommended CIL with a 30% buffer.

Maximum theoretical CIL with a buffer

Location/type	Theoretical maximum CIL/sq m	Theoretical maximum CIL/ sq m with 30% buffer
Sites of 10 dwellings or fewer in Value Area A	£474	£330
Other residential development in Value Area A	£183	£130
Sites of 10 dwellings or fewer in Value Area B	£350	£245
Other residential development in Value Area B	£105	£75
Sites of 10 dwellings or fewer in Value Area C	£193	£135
Other residential development in Value Area C	£60	£40
Housing for older persons (sheltered and extra care)	£0	£0
Residential development on SUEs	£0	£0

Summary

8.4 The potential CIL rates that the Council may like to consider are:

- Sites of 10 dwellings or fewer in Value Area A - £330/sq m
- Other residential development in Value Area A - £130/sq m
- Sites of 10 dwellings or fewer in Value Area B - £245/sq m
- Other residential development in Value Area B - £75/sq m
- Sites of 10 dwellings or fewer in Value Area C - £135/sq m
- Other residential development in Value Area C - £40/sq m
- Housing for older persons (sheltered and extra care) - £0/sq m
- Residential development on SUEs - £0/sq m

8.5 On a 'typical' three bedroom semi-detached market house in a development of over 10 dwellings the proposed charges would be £12,350 in Area A, £7,125 in Area B and £3,800 in Area C. To these would be added the £2,000 base residual s106[32], bringing the total to £14,350 in Area A, £9,125 in Area B and £5800 in Area C. This compares to the typical range £6,500-£9,000 s106 which is currently being achieved. The charges for dwellings in developments of 10 dwellings or fewer will be much higher but these developments will not have to provide s106 or affordable housing.

[32] See section 2 of this report

9 NON-RESIDENTIAL DEVELOPMENT KEY ASSUMPTIONS

Introduction

9.2 The key assumptions for testing non-residential development in Central Bedfordshire are the benchmark land values, the values associated with different types of residential development and development cost (including build costs).

Development Industry Feedback

9.3 Development industry non-residential feedback from the 2013 viability study and the CBC CIL Preliminary Draft Charging Schedule included the following points:

- Suggestion that more retail schemes should be tested, although no retail development types were identified.
- Concern about the 2,500 sq m convenience store threshold.
- Use of an adequate buffer (50% is suggested).
- Inclusion of all development costs including post-CIL residual s106/278 obligations and land assembly costs/pre-construction costs.
- Land value benchmarks for retail schemes are too high and too low (mentioned in separate representations), although no specific alternative benchmarks were suggested. It was noted in the representations that some landowners may not have adjusted their expectations following the market changes since 2008.
- Many developments include equity funding which will affect the cost of finance.
- BREEAM excellent does not increase values.
- Include rent free periods in convenience retail.
- Convenience retail yields of below 5% are too strong.
- 20% developers return is too low.

9.4 In response to these representations the following actions have been taken:

- Additional town centre comparison assessment to take account of development in locations in current use. This reflects the planned changes in some of the towns in Central Bedfordshire as set out in the Development Strategy – see discussion below.
- Simplification of the convenience retail viability testing. This reflects market changes as well as the representations.
- Potential buffers are explicitly identified – see discussion in the non-residential viability findings later in this report.
- Development is assumed to be wholly financed. This is a conservative assumption and reflects a 'hidden buffer' as in reality some proportion of the funding will be equity.
- The assumed rental premium for BREEAM excellent has been removed following further research.
- Rent free periods have been included.

- While it is clear that some retail occupiers are able to support sub-5% yields the testing has been adjusted so yields are above 5%.

9.5 In relation to other costs such as longer periods of land assembly for some sites no specific allowance has been made. The reason is that these factors will vary between sites and these types of issues are dealt with through the suggested viability buffers. Where specific sites have particular land assembly or other cost issues it is assumed that these will be dealt with in the negotiations between the developers and the landowners and the land price adjusted accordingly.

9.6 A 20% developer return is reasonable and has been accepted as reasonable in a variety of other situations, including the recent examination of the work undertaken in neighbouring Bedford[33].

9.7 Some additional land transaction evidence has become available and this has been included within the assessments where relevant. However this relates only to development on strategic road junctions.

Benchmark Land Values for Non-residential Development

9.8 The benchmark values reflect the level of value at which a landowner could reasonably be expected to bring forward their land for development and this is an estimate of the lowest prices that a willing buyer and seller might agree on. If the residual land value found is higher than the benchmark, development can be reasonably considered as being financially viable at the input values used for the assessment (subject to there being enough margin to provide an incentive for development). However, if a resulting residual land value is significantly lower than the established benchmark, then development at the respective input values can be considered to be 'unviable' and that type of development to be less likely to be brought forward.

9.9 The benchmark land value assumptions for non-residential uses assume that the sites will be vacant or underutilised in their existing use.

2013 Viability Study Non-residential Land Benchmarks

9.10 In the 2013 study, the land values used for the viability testing were:

- Between £490,000 to £620,000/hectare for industrial and office uses.
- Around £1,800,000/hectare for town centre retail and large convenience retail.
- Around £1,200,000/hectare for out of centre retail.
- The threshold land value for out of centre leisure, care homes and hotels will be similar to industrial and out of centre office uses – i.e. between £490,000 to £620,000/hectare.

9.11 These benchmarks drew on the Valuation Office Agency benchmarks and were discussed at the development industry workshop.

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33 http://www.bedford.gov.uk/environment_and_planning/planning_town_and_country/planning_policy__its_purpose/community_infrastructure_levy/cil_examination.aspx

LSH Report

9.12 As part of this refresh, Lambert Smith Hampton (LSH) has provided information on recent land transactions in and around Central Bedfordshire. LSH suggest that since the down turn in 2007, few developers, investors or occupiers have been in a position to purchase sites. Land transactions that have taken place have largely been opportunistic with purchasers taking advantage of the buyers' market. However, more recent improving market conditions, economic stability and a diminishing supply of existing buildings has now fuelled an increase in demand for land and build to suit facilities. There has been particular interest in strategic sites along the M1 although the lack of sites has constrained the number of transactions.

9.13 LSH has recorded a set of 15 employment land transactions in Central Bedfordshire, Luton, Bedford, Milton Keynes, Hemel Hempstead and Northampton. These vary in size between 0.39ha and 12.5ha. Most of the sites considered are serviced sites with consent for employment uses, meaning that they would represent an over generous benchmark to apply in this viability assessment. Typically, sites without consent would have a deduction for risk and therefore a broad 30% (based on professional judgment) has been deducted from the value/ha for the sites with consent.

9.14 On a £/ha basis there is considerable variation between the site values, which appears to relate more to site characteristics rather than as evidence of any geographical pattern. Site size has an impact on value, with sites below 2ha having higher values than sites over 2ha.

9.15 The average adjusted values of the serviced sites recorded by LSH were:

- Up to 2ha - £1.17m/ha (but varying between £0.52m and £1.7m/ha)
- Over 2ha - £960,000/ha (but varying between £0.42m and £1.3m/ha)

9.16 The findings of the Examiner's report on the Mayor of London's CIL suggest that over reliance on land sales as evidence of benchmark land values should be avoided[34].

Land Registry

9.17 There is some information on land titles about the price land has transacted at in the employment allocations by strategic road junctions in Central Bedfordshire. There is evidence of 21ha of land at £430,000/ha and 3 ha at £630,000/ha although these are both 2004 transactions. More recent transactions are for very small parcels of land at high values on a per ha basis (up to £3m/ha for sub 1ha plots) which may be ransom strips.

Other information

9.18 Other sources of information on industrial land values are published by property businesses, although with limited contextual information:

- Capita suggests that industrial land values are £988,000/ha in Bedford[35].

[34] Para 32: "Finally the price paid for development land may be reduced. …. but a reduction in development land value is an inherent part of the CIL concept…. in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges."

[35] www.capitasymonds.co.uk/search_property/industrial_property_price_map.aspx

- Colliers suggests that industrial land values are £1.48m/ha in Dunstable and Milton Keynes, and £1.17m/ha in Bedford[36]. These values are stated to apply to sites of over 4ha in prime locations.
- GVA suggests that industrial land values are £1.2m/ha in Northampton[37] for a 2ha plot.

9.19 Other market commentary has highlighted the following issues:

Land for B class uses

- For most B-class uses in Central Bedfordshire there is still no clear move to speculative development. The only exception is in large B8 uses, where Prologis is developing a 29,000 sq m warehouse at Dunstable.
- Locally there is limited availability of sites in the prime locations for logistics development and this may increase land benchmarks.
- Development of other B class uses is only proceeding where occupiers own the building or are pre-letting on long terms. This does not suggest that demand for these sites will be strong.
- Office to residential conversions are restricting the supply of existing offices but there is still enough supply to discourage new development. Again, this does not suggest that demand for sites will be strong.

Land for retail uses

- There has been a shift in convenience retail development since the 2013 study was undertaken. Changing patterns of demand have seen the major supermarkets shelve plans for larger format stores in favour of smaller formats, including top-up shopping formats. This suggests that the demand for large scale convenience sites has fallen and that land benchmarks for this use will have remained static at best.
- Discount food retailers and premium food retailers (which both tend to have smaller store formats) have continued to expand and therefore there will still be demand for sites.

Land for other uses

- There are no significant changes in the demand for other uses such as care homes, hotels and leisure since the 2013 study. In the absence of other information, this suggests that land benchmarks will have remained similar.

9.20 By way of comparison, the benchmark land values used in the residential viability assessments elsewhere in this study are £650,000-£950,000 for urban sites and £200,000-£330,000 for strategic greenfield sites.

Non-residential Benchmark Land Value Conclusion

9.21 There is a diversity of suggestions for the industrial benchmark land values for the non-residential uses, with evidence of recent transactions some way higher than the benchmarks

[36] www.colliers.com/en-gb/uk/insights/industrial-rents-map

[37] GVA, 2014, Industrial Intelligence

used in 2013 as well as more historic information suggesting much lower values. The contextual information suggests that there is increased activity in the logistics warehouse sector and that it would be appropriate to increase the benchmark beyond that used in the 2013 study. However, there is less of a case for amending the benchmarks for other B class uses or for the other non-residential uses.

9.22 For the purposes of the current Viability Refresh Study the following is proposed:

- £950,000 per hectare for logistics warehouse sites and office development on the strategic transport junctions. This is within the range of adjusted land transaction values based on LSH's research and is on a par with the higher benchmark value for housing sites.
- Between £490,000 to £620,000/net developable hectare for industrial and office uses. This remains at the same level as the 2013 study.
- Around £1,800,000/net developable hectare for town centre retail and large convenience retail. This remains at the same level as the 2013 study.
- Around £1,200,000/net developable hectare for out of centre retail. This remains at the same level as the 2013 study.

9.23 The benchmark land values are applied per gross ha.

9.24 The benchmarks proposed do not preclude the possibility that land may transact at higher values and where this does happen, it is likely that purchasers either have particularly high value schemes, or are counting on rising future values or, possibly, assuming that policy obligations can be negotiated down.

Non-residential Values

Offices

9.25 The 2013 viability study used a town centre office rental rate of £151/sq m and investment yield of 9.5%, and Business Park rents of £145 and investment yield of 9% based on analysis of deals as recorded in Focus CoStar. On the same basis, more recent data suggests that rental levels are lower, with Business Park rates at £117/sq m and town centre offices at £93/sq m. Yields for business parks have hardened to 8% while town centre offices have softened to 9.8%.

9.26 There are some indications that town centre office values are better in Dunstable (£105/sq m and 8%) than elsewhere in Central Bedfordshire although the volume of transactions is small.

9.27 This refresh also draws upon specialist inputs from LSH to inform part of the study. LSH has provided rental values for office development adjacent to key points on the strategic road network. These values are higher than the town centre and business park values discussed above.

Table 9.1 Office rents and yields on strategic road network

Rents	M1 J10/11 Luton/ Dunstable	M1 J13 (S. Milton Keynes)	A421 (Bedford)	A1 M (Biggleswade)
Over 900 sqm	£183	£172	£161	£129
500-900 sq m	£183	£172	£161	£226
under 500 sq m	£199	£183	£172	£140
Yields				
Single Unit 930-28,000 sq m	6.75	6.75	7	7
Multi-unit and business park	7.25	7.25	7.5	7.5

Source: Lambert Smith Hampton 2014

9.28 Given that there are different potential values for office development, this viability assessment has tested town centre offices at the standard and the higher value, and offices out of town centre and on strategic road junctions. The approach for offices on strategic road junctions has been to test the highest values and if these are viable, test lower value locations.

Industrial and Warehouses

9.29 The 2013 viability study used an industrial rental of £59/sq m with a yield of 8.5%, and a warehouse rental of £65/sq m with a yield of 7%. This refresh draws upon specialist inputs from LSH to inform this part of the study. LSH suggests that rental values will vary by size and by location within Central Bedfordshire and that development is likely to be focused on the key infrastructure corridors (M1, A421 and A1M).

Table 9.2 Industrial/warehouse rents and yields

Rents	M1 J10/11 Luton/ Dunstable	M1 J13 (S. Milton Keynes)	A421 (Bedford)	A1 M (Biggleswade)
Over 23,000 sq m	£75	£67	£62	£56
9,300-23,000 sq m	£78	£70	£64	£56
4,600-9,300 sq m	£78	£70	£67	£59
2,300-4,600 sq m	£75	£73	£67	£62
900-2,300 sq m	£78	£75	£70	£65
500-900 sq m	£81	£81	£70	£65
Yields	%	%	%	%
Single Unit 9,300 sq m +	6	6	6.25	6.25
Multi-unit estate	6.5	6.5	6.75	6.75

Source: Lambert Smith Hampton 2014

Retail

9.30 The 2013 viability study used a town centre retail rent rate of £188/sq m and an investment yield of 8.7%, based on analysis of deals as recorded in Focus CoStar. On the same basis, more recent data suggests slightly lower rents and harder yields of £184/sq m and 8.2%. The recent data also suggests town centre retail values are lower in some locations such as Dunstable (£130/sq m and 8.7%) and higher in others such as Biggleswade and Leighton Buzzard (£200-£220/sq m and 6.5%), although the volume of transactions for each town is small.

9.31 The 2013 viability study used an out of centre comparison retail rent rate of £151/sq m and an investment yield of 8.0%, based on analysis of deals as recorded in Focus CoStar. On the same basis, more recent data suggests lower rents and the same yield of £145/sq m and 8 %. There are insufficient transactions to form a view about differences within Central Bedfordshire.

9.32 The 2013 viability study used rents ranging from £129/sq m to £215/sq m for convenience retail, depending on size of the store. Investment yields ranged from 6.1% to 4.9%. These estimates were based on a wide cross section of example convenience store transactions. Since that time there has been much more of a focus on smaller format stores, with plans for the largest formats shelved by the major supermarket operators. More recent data (again based on a wide cross section of example convenience store transactions) suggests that smaller format stores (typically below the Sunday Trading threshold) now support higher rents of £180/sq m and a yield of 6.5% and larger format stores £200/sq m and a yield of 5.5%.

9.33 The viability testing includes an assessment of the town centre retail and the small convenience retail case studies against sites that may be in current use. The values of the sites in current use assume a lower current density than the new development proposed and also assume lower rents (£80/sq m) and higher yields (10%).

Hotels

9.34 The 2013 viability study used rents of £129/sq m for budget hotels and an investment yield of 7.3%. More recent data suggests a rent of £109/sq m with a yield of 6%.

Leisure

9.35 The 2013 viability study used rents of £86/sqm for leisure schemes and an investment yield of 7.5% More recent data suggests a rent of £102/sq m with a yield of 8.5%.

Residential Care Homes

9.36 The 2013 viability study used rents of £113/sq m for care homes and an investment yield of 6.3%. More recent data suggests a rent of £140/sq m with a yield of 7.75%.

Build Costs

9.37 Build costs for non-residential development are drawn from BCIS in October 2014, using median values for a 10 year period[38] except where noted. It is assumed that development will still be liable for some s106/278 costs and 'typical' amounts have been estimated in discussion with CBC, although it is recognised that these may vary considerably. Section 278 in particular can vary as in some cases it is a license to work on public highways whereas in other cases it will

[38] Normally the 5 years period would be used but there is insufficient information to reliably cover the different types of development.

take the form of a financial contribution. As such, the amounts modelled are best estimates based on experience, with the broad principle is that higher impact and trip generating uses will generally be expected to contribute more. Where a particular site requires unusually costly works it is assumed that this will feature in the negotiations between the developer and the landowner and the land price adjusted accordingly.

Table 9.3 Non-residential build costs

Development Type	Size sq m	Build costs	S106/278
Office (Out of Centre)	1,500	£1,410	£20,000
Office (Town Centre)	2,000	£1,572	£0
Industrial/warehouse	25,000	£529	£250,000
Industrial/warehouse	10,000	£529	£150,000
Industrial/warehouse	6000	£529	£100,000
Industrial/warehouse	3000	£552	£80,000
Industrial/warehouse	1,500	£552	£20,000
Industrial/warehouse	700	£552	£10,000
Comparison retail town centre[39]	800	£1,017	£0
Comparison retail warehouse[40]	6,000	£660	£300,000
Small convenience retail[41]	300	£1,287	£0
Supermarket[42]	1,100	£1,287	£150,000
Hotel	2,450	£1,089	£10,000
Leisure	3,800	£1,395	£20,000
Carehome	1,800	£1,352	£75,000

Table 9.4 Other costs

Cost	
Up lift to BREEAM Excellent from BREEAM very good	2% of build costs
External works	10% of build costs
Professional fees	12% of construction costs
Sales/letting costs	3% of GDV
Finance	6% of all development costs
Build period	Varies by case study
Voids	Varies by case study
Purchasers' costs	5.8% of GDV

9.38 Compared to the testing reported in the 2013 study there have been considerable changes in some of the build costs. For example, the supermarket build costs have increased by almost 30%.

[39] BCIS default period cost shopping centres
[40] BCIS default period cost retail warehouses generally
[41] BCIS default period cost hypermarkets/supermarkets generally
[42] BCIS default period cost hypermarkets/supermarkets generally

Infrastructure Costs for Employment Allocations

9.39 The policy requirements for stand-alone employment allocations at Sundon Rail Freight Interchange, North East of Flitwick and Stratton Farm are likely to have costs, generally for transport infrastructure. There are no available estimates for these costs and so they have not formed part of the modelling.

10 NON-RESIDENTIAL VIABILITY FINDINGS

Summary Viability Assessments

10.1 The tables below summarise the detailed assessments, and represent the net value per square metre, the net costs per square metre (including an allowance for land cost and S106/278 to deal with site specific issues to make development acceptable) and the balance between the two. We have also presented the threshold land value as a per sqm of development. This takes account of the different site coverage and the number of storeys for the notional developments.

10.2 It is important to note that the analysis considers development that might be built for subsequent sale or rent to a commercial tenant. However there will also be development that is undertaken for specific commercial operators, either as owners or pre-lets. In these circumstances the economics of the development relate to the profitability of the enterprise accommodated within the buildings rather than the market value of the buildings.

10.3 Where developments are viable, the assessments present the theoretical maximum CIL that may be supported. The guidance is clear that a viability buffer should be used to ensure that viability for the majority of development is not threatened, and this issue is discussed later in this section.

B Class Uses – Offices, Industrial and Warehouses

10.4 Central Bedfordshire does not currently have a major office market although there remains a need for premises to accommodate office-based businesses serving the local population and other commercial organisations in the area. The viability assessments suggest that office development is not viable in Central Bedfordshire at the current time and that there is no opportunity to charge CIL on this use. Within this, the out of centre offices at strategic road junctions are relatively close to producing a positive residual, although the market will need to strengthen considerably before the benchmark land value can be met.

Table 10.1 Offices

	Out of centre offices	Out of centre offices - strategic road junctions	Town centre offices
Value/sqm	£1,313	£2,434	£852
Costs/sqm	£2,216	£2,458	£2,372
Residual/sqm	-£902	-£24	-£1,520
Land benchmark/sqm	£61	£119	£21
Viability 'headroom'	-£964	-£143	-£1,541

10.5 Industrial/warehouse units located on the strategic road junctions in Central Bedfordshire are also not able to support a CIL. However, unlike office development, this type of development will produce positive residual values but these are insufficient to meet the benchmark land value for this type of use in these locations. The assessment summarised in Table 10.1 below is for locations around junctions10/11 on the M1, other strategic road junctions have slightly lower values and correspondingly slightly weaker viability.

Table 10.2 Industrial and Warehouse Units

	Industrial/ warehouse M1 J10/11					
	25,000 sq m	**10,000 sq m**	**6,000 sq m**	**3,000 sq m**	**1,500 sq m**	**700 sq m**
Value/sqm	£1,122	£1,167	£1,078	£1,036	£1,078	£1,119
Costs/sqm	£976	£993	£970	£997	£995	£1,008
Residual/sqm	£147	£174	£107	£39	£82	£111
Land benchmark/sqm	£238	£238	£238	£238	£238	£238
Viability 'headroom'	-£91	-£63	-£130	-£199	-£155	-£126

A-class uses

10.6 **Supermarkets and local convenience** – convenience retail[43] continues to be a well-performing sector in the UK, although we are aware that this is going through a process of change. Leases to the main supermarket operators command a premium with investment institutions. Although there are some small regional variations on yields, they remain generally strong with investors focusing primarily on the strength of the operator covenant and security of income. We would therefore suggest the evidence base for predominantly convenience provision retail can be approached on a wider region or even national basis when justifying CIL charging. Current activity has seen a move from the largest formats towards smaller units.

10.7 For the purposes of this assessment we have split convenience retailing into small convenience, which is up to the 280 sq m trading area threshold set out in the Sunday Trading Act 1994, and supermarkets, defined as self-service stores selling mainly food, often with car parking. The small convenience stores are tested for redevelopment in town centres on currently used sites and against a cleared/greenfield site (such as local centre on an urban extension).

10.8 On cleared sites, both supermarkets and small convenience stores have residual values greater than the benchmark land values and are able to support a CIL. However against a site in current use, the small convenience store development does not exceed the current use value.

[43] Defined as the provision of everyday essential items, including food, drinks, newspapers/magazines and confectionery

Table 10.3 Convenience Retail

	Small convenience store	Small convenience store on current use site	Supermarket
Value/sqm	£2,487	£2,487	£3,265
Costs/sqm	£2,254	£2,254	£2,650
Residual/sqm	£232	£232	£616
Land benchmark/sqm	£155	£634	£450
Viability 'headroom'	£77	-£402	£166

10.9 **Town centre comparison retail** –We have tested town centre retail against a cleared site and against a site in current use. Against a cleared site value, comparison retail is viable but in cases where the site is in current use then it is unable to meet the current use value.

10.10 **Out of centre comparison retail** –Comparison shopping in out of centre locations (such as retail warehouses[44]) is viable and able to support a CIL charge.

Table 10.4 Comparison Retail

	Town centre comparison shops	Town centre comparison shops on current use site	Out of centre comparison shops
Value/sqm	£2,015	£2,015	£1,627
Costs/sqm	£1,876	£1,876	£1,378
Residual/sqm	£139	£139	£250
Land benchmark/sqm	£113	£381	£155
Viability 'headroom'	£27	-£241	£95

Leisure development

10.11 We have tested a budget hotel and a cinema scheme. Our high level appraisal of both these types of development shows that in the current market values are not sufficient to justify a CIL charge.

Table 10.5 Hotel and Leisure Development

	Budget hotel	Leisure development
Value/sqm	£1,631	£1,078
Costs/sqm	£1,856	£2,196
Residual/sqm	-£225	-£1,119
Land benchmark/sqm	£41	£39
Viability 'headroom'	-£266	-£1,158

[44] Defined as including large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering mainly for car-borne customers

Care homes

10.12 The high level analysis suggests that care homes are unlikely to be viable enough in Central Bedfordshire to support a CIL.

Table 10.6 Care homes

	Care homes
Value/sqm	£1,622
Costs/sqm	£2,291
Residual/sqm	-£669
Land benchmark/sqm	£78
Viability 'headroom'	-£746

Sensitivity

10.13 It is likely that costs and values will change in the future and a set of sensitivity tests have been run to determine at what point viability changes. This indicates that:

- A 10% increase in values would see the larger warehouses and the offices on strategic road locations become viable and able to meet a CIL charge.
- A 15% increase in values would see more of the warehouses become viable, along with town centre retail on currently used sites.
- A 20% increase in values would see all uses become viable except for general out of centre offices, offices in town centres, leisure and care homes.
- A 10% increase in costs would see all uses become unviable

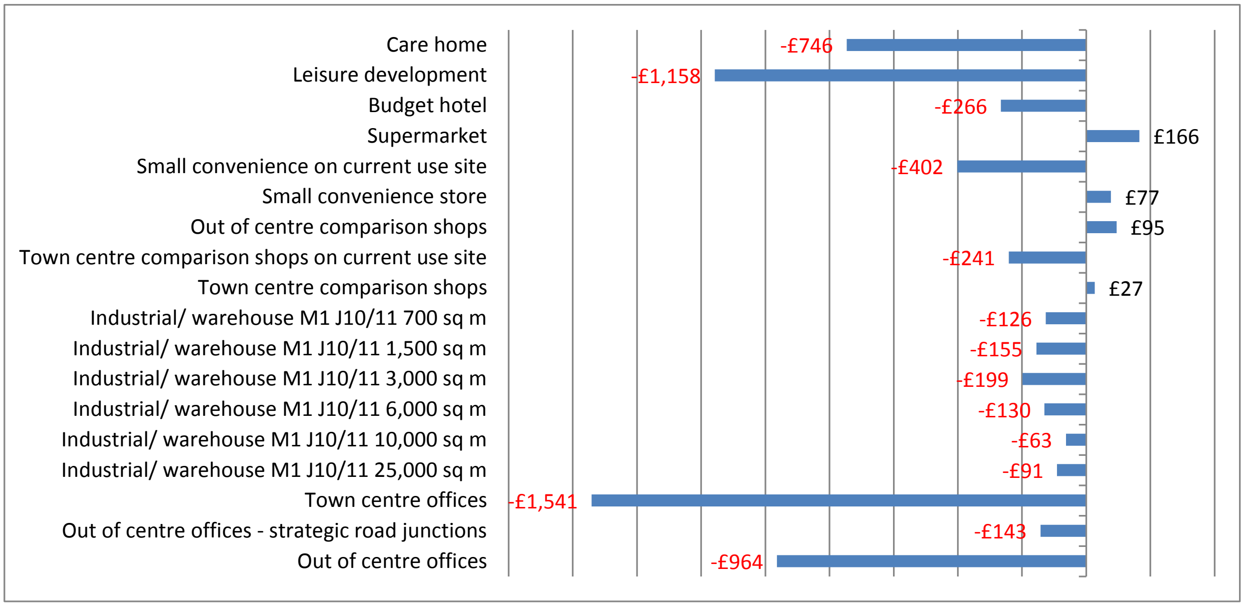
Viability Summary and Ability to Support a CIL Charge

10.14 The graph below summarises the viability ‘headroom’ for each of the non-residential uses tested, and this clearly shows that:

- Convenience retail is viable and is able to bear a CIL charge except in town centre currently used sites.
- Town centre retail on a cleared site is viable but if the site is in current use it is not.
- Retail warehouses are viable and able to bear a CIL charge.
- The other uses are not viable and would require considerable changes in value before they are able to pay CIL.

10.15 When considering this graph please note that while the testing suggests that some types of development are not viable, there may still be some development for specific occupiers’ requirements rather than return on property values.

Figure 10.1: Non-residential viability summary



10.16 It should also be noted that non-residential development on the strategic employment locations may also have to bear some of the costs of the transport and other infrastructure associated with bringing these sites forward. Although costs are not known they may be considerable. The extent of the contribution required from development will depend on whether other funding is available from sources such as one of the Department for Transport initiatives or through the Local Enterprise Partnership.

What level of CIL?

10.17 The decision on the level of CIL needs to be informed by this evidence but ultimately taken by CBC. In theory the amount a scheme can afford to contribute CIL is to a maximum of all of the difference between the residual value and the threshold land value after taking into account all costs. However it is clear from the guidance that it is not appropriate to charge up to the maximum viability headroom in order to allow for margins of error and the likelihood of different costs and values affecting different locations and sites.

10.18 The analysis above has demonstrated that of the non-residential development types considered, only retail uses are currently able to support a CIL. In practical terms many retail developments are part of mixed use schemes with the higher value uses able to support the provision of lower value but nonetheless desirable uses. Therefore if all of the viability 'headroom' is taken up by CIL this may jeopardise a larger set of development. Instead it is recommended that CIL is set well below the theoretical maximum and that this is taken into account along with the scheme specific factors when the S106/278 obligations are negotiated.

10.19 The Council, in deciding on the CIL rates it wishes to set, should take into account the suggested maximum rates set out in the figure and individual appraisal tables above. If CBC elected to set a CIL rate for the viable uses at around half[45] of the viability headroom this would leave a set of charges as set out in table below.

10.20 The weaker viability for retail on currently used sites suggests that if the regeneration schemes summarised in section 3 are important to the delivery of the Development Strategy then the viability of retail on currently used sites should be part of the CIL charging consideration.

Table 10.7 Potential CIL charges for viable uses

Development Type	Potential CIL/sq m	Notes
Out of centre comparison retail/retail warehouse	£50	
Small convenience store	£40	Only on cleared sites and may jeopardise development in town centre regeneration projects set out in Development Strategy
Supermarket	£85	
Town Centre comparison retail	£15	Only on cleared sites and may jeopardise development in town centre regeneration projects set out in Development Strategy

10.21 It is therefore recommended that CBC considers the following non-residential CIL charges:

- Out of centre convenience of below 280 sq m trading area £40/sq m.
- Larger convenience retail including supermarkets £85/sq m.
- Out of centre comparison retail/retail warehouse £50/sq m.
- All other uses including town centre retailing £0/sqm.

Other Uses

10.22 The viability testing has been based on the development expected to come forward. It is acknowledged that there may be other uses that will arise and it is recommended that the following approach is taken. This refers to use class order classifications for ease of application:

- A2 Financial and Professional Services – treat as A1 retail in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- A3 Restaurants and Cafes – again treat as A1 retail in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- A4 Drinking Establishments - again treat as A1 retail in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.

[45] Note that this is an arbitrary amount based on prudence rather than informed by specific guidance. Non-residential development is considered less homogenous than residential development and so a larger buffer is appropriate.

- A5 Hot Food Takeaways - again treat as A1 retail in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- Selling and/or displaying motor vehicles - sales of vehicles are likely to occupy the same sorts of premises and locations as many B2 industrial uses and therefore the viability will be covered by the assessment of the viability of industrial uses.
- Retail warehouse clubs – these retail uses are likely to be in the same type of premises as the out of town A1 retail uses and covering the same purchase or rental costs.
- Nightclubs – these uses are likely to be in the same type of premises as A1 retail city centre retail uses and covering the same purchase or rental costs.
- Scrapyards – there may be new scrapyard/recycling uses in Central Bedfordshire in the future, particularly if the prices of metals and other materials rise. These are likely to occupy the same sorts of premises as many B2 industrial uses and therefore the viability will be covered by the assessment of the viability of industrial uses.
- Taxi businesses – these uses are likely to be in the same type of premises as A1 city centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- Amusement centres – these uses are likely to be in the same type of premises as A1 city centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.

10.23 PAS guidance[46] suggests that in addition to the development considered above there needs to be evidence that community uses are not able to support CIL charges. For community facilities that are ultimately paid for by the public sector such as community centres, health centres, hospitals and schools there is a relatively simple approach. The commercial values for community uses are £0 but there are build costs of around £1,700 to £2,200 per sqm[47] plus the range of other development costs; with a net negative residual value. Therefore we recommend a £0 CIL for these uses.

[46] http://www.pas.gov.uk/pas/core/page.do?pageId=1242969
[47] Based on BCIS November 2014 – Hospitals, Community Centres, Schools and Libraries