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# Community Infrastructure Levy Viability Assessment: Final Report

**New Forest District Council & New Forest National Park Authority**

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# Contents



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# Executive Summary

DTZ was appointed by New Forest District Council (NFDC) and New Forest National Park Authority (NFNPA) in August 2011 to undertake a Community Infrastructure Levy (CIL) Viability Study to inform the CIL charging schedule being prepared by NFDC; and to inform decisions by the NFNPA about whether and when to develop a CIL charging schedule. The study covers the entire administrative area of New Forest District Council and the New Forest National Park.

The viability of a CIL levy has been tested for residential (including sheltered housing), employment space, retail, hotel and care home uses, using a series of 'archetypes' or typical schemes. The modelling has sought to take account of systematic variation in sales values, rents, investment yields and development costs across the study area. Residual land value results from the modelling scenarios have been benchmarked against existing land values per hectare to allow an examination (at different levels of CIL) of scheme viability and the likelihood of land owners bringing forward land for development.

The study suggests that the National Park is sufficiently homogeneous (in terms of policy, development characteristics and values) to be treated as a single area for charging purposes. Although there are systematic differences in the viability of residential development within and between the East, South and West policy areas of New Forest District, DTZ recommends establishing a single CIL charge for residential development across the district area. We also recommend a unified charge (where a charge is levied) that would apply across the whole District on non-residential development. NFNPA should consider mirroring NFDC policy on CIL charging for non-residential development so there is consistency across the whole study area.

The key conclusions of this study with respect to the viability of different forms of development can be summarised as follows:

- Residential development can sustain a CIL charge and CIL should be levied on all residential development throughout the District and the National Park.

  - For New Forest District, the analysis suggests a level of £80 per sq m of residential would be viable, and would also be consistent with past s106 policies and provide a modest uplift in revenues to allow some disbursements to town and parish councils.

  - For New Forest National Park, the analysis indicates that a higher CIL charge on residential development could be set – at least £400 per sq m – and development would still yield very high levels of residual land values.

- Development for commercial uses – offices, industrial and warehouse uses – is not viable in the current market and should be subject to a CIL charge of zero.

- Development of new floorspace for the retail uses most likely to come forward as new development, principally supermarkets, generate very high land values and are able to sustain a significant CIL charge. Smaller stores (both comparison and convenience) backed by major chains and likely to occur only in the major town centres are also be able to sustain a CIL charge. Other small retail developments outside these centres (i.e. typically attracting local occupiers) are of marginal viability or not viable and would not support a CIL charge – but it is unlikely that new development will come forward in this format in the next 5 years.

- Development of new hotels or hotel extensions is not viable on the basis of standard assumptions and hence should be subject to a CIL charge of zero.

- Development of care homes is of marginal viability on the basis of standard assumptions and hence should be subject to a CIL charge of zero.

In making recommendations about whether a charge should be levied on certain types of development, DTZ would note that CIL charges do not have a major impact on development viability. The reason why development is not viable is linked to lack of demand, low revenues relative to build costs, the cost of development finance and perceived riskiness of investment.

# Purpose and Scope of this Report

In mid-August 2011, DTZ was appointed by New Forest District Council (NFDC) and New Forest National Park Authority (NFNPA) to undertake a Community Infrastructure Levy (CIL) Viability Study to inform the CIL charging schedule being prepared by NFDC; and to inform decisions by the NFNPA about whether and when to develop a CIL charging schedule.

The objectives of the study, as stated in the Project Brief, are:

- To define appropriate sub-areas within the area covered by the two Core Strategies of New Forest District Council and the New Forest National Park Authority within which to test economic viability under different scenarios

- The task of defining these sub-areas needs to take account of previous studies and new information on the local economy

- Test the impact upon the economics of residential development of a range of levels of CIL within the different agreed sub-areas in the study area

- Identify those non-residential uses where CIL could be applied without deterring development and advise on the contribution they could make to funding infrastructure

- Test the minimum and maximum viable levels of CIL for residential, commercial/ employment and other non-exempt use schemes within the different agreed sub-areas and advise on the implications on delivery of other planning obligations, and in particular the delivery of affordable housing.

This report addresses the following topics:

- the appropriate sub-areas within the study area for CIL charging

- the types of development within the sub-areas where application of CIL is not viable

- where a CIL charge is viable, the optimum level of CIL that can be charged within the sub-areas on residential development;

- where a CIL charge is viable, the optimum level of CIL that can be charged within the sub-areas for non-residential uses

- the balance between maximising revenue and the potential adverse impact upon the viability of development

- the impact of NFDC's and NFNPA's affordable housing policies as set out in the authorities' respective Core Strategies on the potential level of CIL contributions

- how the CIL requirements might affect the application of the affordable housing targets as set out in the authorities' respective Core Strategies

This report sets out the approach that DTZ has adopted to answering these questions, and the conclusions reached. The report is structured as follows:

- Section 2 provides a summary of the planning policy context for New Forest District and the New Forest National Park;
- Section 3 provides an overview of development patterns in New Forest District and the New Forest National Park in recent years, and comments on the current development market;
- Section 4 identifies starts to set out the basis for the viability modelling, by identifying different types of development schemes (archetypes) which have been tested for viability;
- where a CIL charge is viable, the optimum level of CIL that can be charged within the sub-areas for non-residential uses;
- the balance between maximising revenue and the potential adverse impact upon the viability of development;
- the impact of NFDC's and NFNPA's affordable housing policies as set out in the authorities' respective Core Strategies on the potential level of CIL contributions;
- how the CIL requirements might affect the application of the affordable housing targets as set out in the authorities' Core Strategy

# 1. Policy Context

This section provides a brief description of the New Forest area and the policy background relevant to the study. It is important to note that the study covers the entire administrative area of New Forest District Council and the New Forest National Park.

## The Study Area

New Forest is effectively comprised of four different areas (see Figure 1).

- The central area designated as the National Park covers the largest land area, but only 35,237 people live in the National Park in a range of small and dispersed settlements.

- The majority of the population of the District live outside the National Park in three distinct areas to the east, south and west of the National Park.

The three areas outside the National Park have a population of 141,000, though the number of people living in the area is expected to decline over the period to 2016. 25% of the population in the area outside the National Park are aged over 65 and this is expected to rise to 33% by 2026 – in line with the nationwide trend of an ageing population.

New Forest District Council is the planning authority for the settlements outside the National Park, and hence for that part of the District in which the majority of future development will occur. The New Forest National Park Authority is the planning authority for the National Park.

## Residential Policies

According to the NFDC Core Strategy, there is planned minimum provision for 3,920 dwellings outside the National Park in the period 2006 to 2026, which are divided into:

- 1,540 dwellings in Totton and Waterside (the area to the east of the National Park)

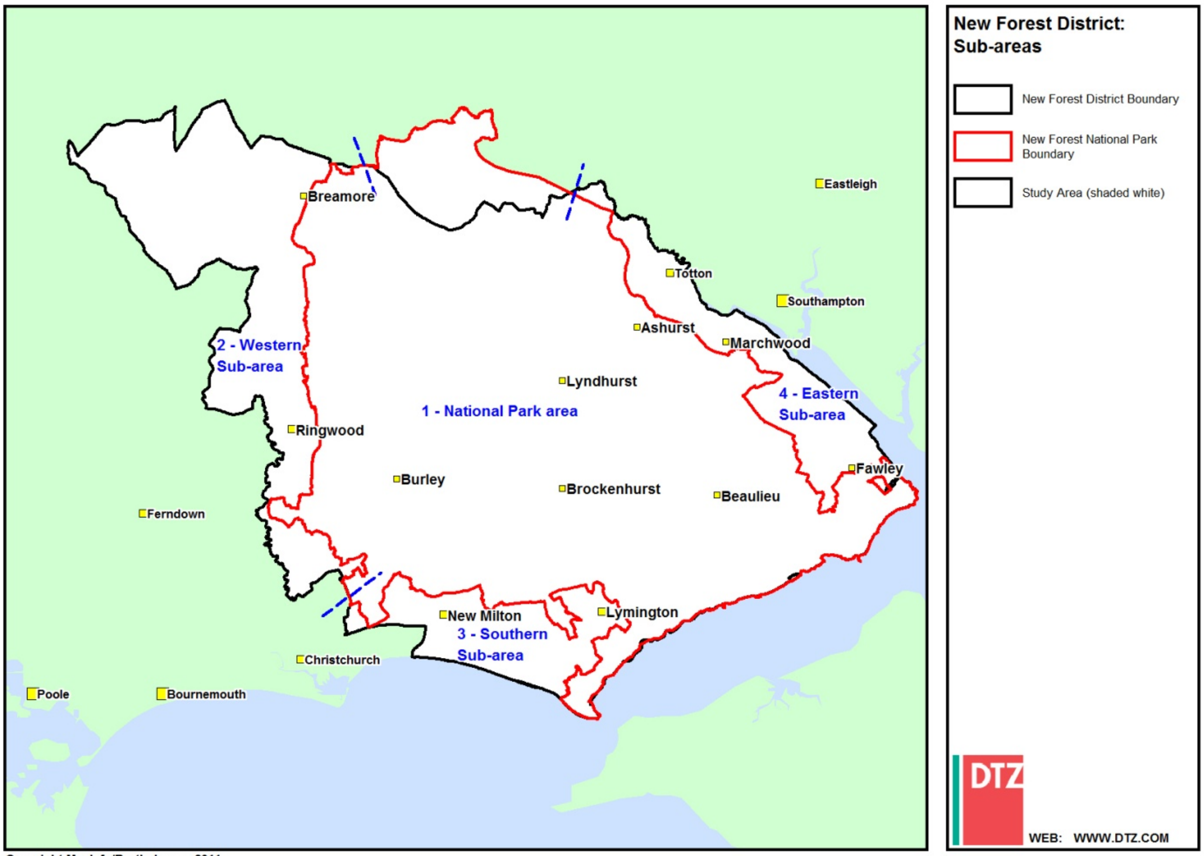
- 2,380 in the rest of the District (outside the National Park)

This is equivalent to 196 dwellings per year, a level of house building which is significantly less than provided for in previous plans for the area.

According to NFDC, new greenfield site allocations are required to provide 250 additional homes to meet the basic plan requirement. The Core Strategy provides for greenfield allocations for 100 dwellings at Totton and 150 dwellings at Ringwood.

In addition to the basic requirement, the Core Strategy makes additional provision to provide up to 810 new dwellings on sites adjoining the main towns and villages, specifically to address the local need for additional affordable housing. In terms of affordable housing, the aim is to build 100 new affordable homes per annum, including 10 in the rural areas.

**Figure 1: New Forest District and National Park Boundaries**






The specific Affordable Housing Policy set out in the NFDC Core Strategy highlights the following:

- On greenfield sites allocated to meet the basic housing requirement (under Policy CS11), the policy requirement is for provision of 50% of new homes to be affordable homes made up of 35% social rented homes and 15% intermediate homes (Core Strategy Policy CS15(a)

- On specific sites allocated under Policy CS12 of the Core Strategy, 70% of new homes are to be affordable homes made up of 40% social rent homes and 30% intermediate homes. There is a balance for low cost market housing: starter homes, self build and extra care (Core Strategy Policy CS15(b)

- In the defined areas of Lymington, Everton, Hordle, Milford on Sea and Bransgore the policy requirement is that 50% of new homes should be affordable homes made up of 35% social rented homes and 15% intermediate homes (Core Strategy Policy CS15(c)

- In all other defined settlements covered by the NFDC Core Strategy the policy requirement is that 40% of new homes should be affordable homes made up of 25% social rented homes and 15% intermediate homes (Core Strategy Policy CS15(d)

- Contributions are sought on development on all gross unit increases, with specific exclusions set out in Policy CS15.

The New Forest National Park Core Strategy & Development Management Policies DPD (December 2010) supports appropriate small-scale employment and housing development to meet the needs of local communities in the Park. Housing and employment land is not allocated for development within the New Forest National Park through the Core Strategy.

Policy CP12 states that an additional 220 dwellings will be required within the National Park between 2006 and 2026. This equates to an average of 11 additional dwellings per annum. To meet this requirement new residential development will be permitted (i) within the four defined villages of Ashurst, Brockenhurst, Lyndhurst and Sway; and (ii) as 100% affordable housing on rural exceptions sites across the rest of the Park to meet local needs.

Within the four defined villages of Ashurst, Brockenhurst, Lyndhurst and Sway, Policy CP11 sets a target of 50% affordable housing on all development sites (i.e. no site threshold). Proposals for single dwellings within the defined villages, where on-site provision is not feasible, are required to make an affordable housing contribution to be used in the local area.

Policy CP9 states that the small-scale development of employment, retail and community facilities will be supported within the defined villages of Ashurst, Brockenhurst, Lyndhurst and Sway. Outside these main villages, Policy CP14 supports small-scale employment development through the re-use and extension of existing buildings, the redevelopment of existing employment sites, farm diversification schemes and home working.

## Employment and Commercial Policies

The aim of the New Forest District Core Strategy employment policies is to maintain the vitality and viability of the District's economy, including the town centres. The emphasis is on supporting the following sectors: tourism, higher value added knowledge based business and maritime. The specific industrial and office development policy set out in the Core Strategy highlights the following:

- more intensive employment use of existing employment sites and undeveloped allocations;
- new allocations of employment land in each of the three sub-areas;
- within town centres and on other suitable sites for offices to meet local requirements (Core Strategy Policy CS18(b)(i));
- specifically, to provide for an additional 16,000 sq. metres of office floorspace in Totton and the Waterside, (Core Strategy Policy CS18(b)(ii));
- specifically to provide for an additional 10,000 sq. metres of warehousing floorspace on existing employment sites through the redevelopment and intensification of sites currently used for open storage and low-density employment uses at Totton and Marchwood, (Core Strategy Policy CS18(b)(iii)).

Taking account of existing supply, other available previously developed sites, and new greenfield allocations around some of the main settlements, up to 49 hectares of employment land will be allocated for new employment development within the Core Strategy area, of which some 34 hectares is from existing supply. Specifically the Core Strategy (under policy CS18) makes the following provision for new employment sites:

(i) adjoining Totton (up to around 5 hectares);

(ii) adjoining New Milton (up to around 5 hectares);

(iii) adjoining Ringwood (up to around 5 hectares).

The Core Strategy identifies Ringwood as a particularly important centre for employment, given its location on a strategic road network. The emerging Sites and Development Management DPD proposes that as well as the intensification of existing sites and the development of existing allocations (as mentioned above), up to around 5ha of new greenfield land is to be released for employment development adjoining existing employment sites on the southern edge of the town, west of Crow Lane, plus the existing unused allocation of around 7ha on Christchurch Road.

According to the NFNP Core Strategy and Development Management Policies DPD, small scale business development is generally supported in the Park as it is crucial to provide the employment and services needed by local communities. Although the priority is to locate such services within the defined villages, a considerable number of current employment sites are already located outside the defined villages.

The 2010 NFNPA Annual Monitoring Report states there are no site specific allocations for the National Park. The analysis of employment land in April 2010 indicated there is a stock of sites with planning permission for business and industrial uses amounting to 5,820m2 – including two large unimplemented planning permissions in Lyndhurst.

Tourism is one of the principal drivers of the economy of the National Park. There are approximately 20,500 bed spaces in self catering accommodation, with a further 4,500 bed spaces in hotels and guest houses. 13 more hotel bedrooms were completed at an existing hotel during 2009-2010 and there is also unimplemented planning permission for a further 40 bedrooms from two sites.

## Retail Policies

According to the NFDC Core Strategy, the main retail activity is found in the towns of Totton and Hythe in the east; Lymington and New Milton in the south; and Ringwood and Fordingbridge in the west; all of which providing a range of services and facilities. Larger regional shopping centres to the east, west and north of the District provide a much greater range of shopping and entertainment facilities resulting in significant retail expenditure flowing out of the area.

The need for additional retail floorspace across the District up to 2018 is modest and concentrated on comparison goods. This is set out in Figure 1 below.

**Figure 2: Proposed Distribution of Additional Retail Floorspace: 2012-2018**

<table>
<tr><th>Centre</th><th>Convenience</th><th>Comparison</th><th>Large Format</th></tr>
<tr><td>Totton</td><td>350sq.m</td><td>1,900sq.m</td><td rowspan="2">900sq.m</td></tr>
<tr><td>Hythe</td><td>350sq.m</td><td>900sq.m</td></tr>
<tr><td>Lymington</td><td>-</td><td>2,000sq.m</td><td rowspan="2">1,300sq.m</td></tr>
<tr><td>New Milton</td><td>-</td><td>1,300sq.m</td></tr>
<tr><td>Ringwood</td><td>-</td><td>1,400sq.m</td><td>700sq.m</td></tr>
<tr><td>Fordingbridge</td><td>-</td><td>600sq.m</td><td>-</td></tr>
</table>

Source: New Forest District Council Local Development Framework - Core Strategy

In terms of retail use in the National Park, the strategic policies in the Core Strategy seek to allow the provision of a range of services for local people, including specific retail uses, in the defined villages. The two main centres in the National Park are Lyndhurst and Brockenhurst. There are outstanding planning permissions for additional A1 retail uses on two existing sites outside the defined villages amounting to 410 sq.m of additional floorspace.

## Infrastructure Policies

The 2012 NFDC Draft Infrastructure Delivery Plan argues there is only modest infrastructure required for delivery of the Development Plan with the total cost of projects in the region of £22-£25m. There are two main areas of infrastructure required for the delivery of the Development Plan, namely Green Infrastructure and Transport. One of the main purposes of the infrastructure demands is to mitigate the impacts of development on nearby nationally and internationally designated sites, including the New Forest National Park. Improvements in the quality and sustainability of transport infrastructure will be promoted by minimising the impact of new development on the existing transport infrastructure (Core Strategy Policy CS24)

Currently New Forest District primarily collect pooled S106 contributions for these purposes, as well as affordable housing. It is proposed that the introduction of CIL will replace the open space and transport contributions. According to the New Forest National Park Authority's Core Strategy, the level of housing development expected does not generate a requirement for any major new community facilities such as village halls or libraries. In general, the plan up to 2026 does not depend on or require the provision of any major new infrastructure. Contributions towards education provision may be sought if major development (a scheme of 10 or more dwellings) exacerbates a particular shortage of school places.

However, there is a programme of green infrastructure development in the National Park with a number of projects currently planned. These include Tiptoe Community Gardens and Warren Corpse in Holbury. The general provision of all infrastructure in the National Park is expected to be enabled through developer contributions and public and private sector funding.

Looking outside of New Forest District and the National Park, the 2009 Hampshire Community Infrastructure Study identifies a considerable deficit in infrastructure provision across the County, linked to concern over the Government's ability to pay for infrastructure investment. An added concern is the ability of the private sector to fund and deliver a range of infrastructure projects. The 2011 Study updates the assessment made in 2009 and highlights the challenge of future funding of infrastructure in a time of constraint on public expenditure.

## Sub-Areas

The study area is divided between New Forest National Park area (defined by the red boundary in Figure 1), and the remaining NFDC area. The NFDC Core Strategy divides the NFDC area into three sub-areas; the Eastern, Southern and Western areas (highlighted in blue in Figure 1). Given the different characteristics of the NFNPA and NFDC areas set out above, this study has examined the impact of CIL on viability separately for the National Park area and the remaining NFDC area. It was also decided to undertake separately analysis and modelling for the three existing policy areas within the NFDC area.

# 2. Development Market Overview

This section considers the past development market across New Forest for residential and commercial uses. It analyses past completion data (where available), as well as information on deals, lettings and recent permissions. This is intended to build up a picture of the likely demand for development over the coming years in terms of its size, type and location. It should be noted that the past pattern of development will not necessarily continue in future, given changes in the property market and a refocusing of NFDC policies away from flats to requiring lower density housing.

## Residential

Over the last 4 years (2007-11) around 354 dwellings per annum have been built on average in the NFDC area outside the National Park. This compares to an annual target over the plan period of 196 dwellings, so development has continued to outpace the long term average for the Plan period, despite the national downturn in the housing market. NFDC anticipate completions on deliverable sites over the next 5 years of 258 dwellings per annum, still above the annual requirement in the Plan period. This indicates a robust housing market.

In terms of the distribution of housing completions where CIL would apply (that is schemes involving a net addition of units), 67% of completions over the last year were in the Eastern sub-area of the District, with 26% in the southern sub-area and 7% in the Western sub-area.

In the National Park, past completions have varied considerably over the last 4 years, from 13 in 2007/08 to 50 in 2008/09, before returning to 23 in 2009/10 and 29 in 2010/11 – an average of 29 dwellings per annum. This compares against a target of 11 dwellings per annum. Housing land is not allocated within the National Park, and therefore completions are made up of windfall sites within the defined villages and rural exceptions sites elsewhere which, by their nature, result in variable annual rates of completion. Again the level of completions relative to target indicates a robust housing market.

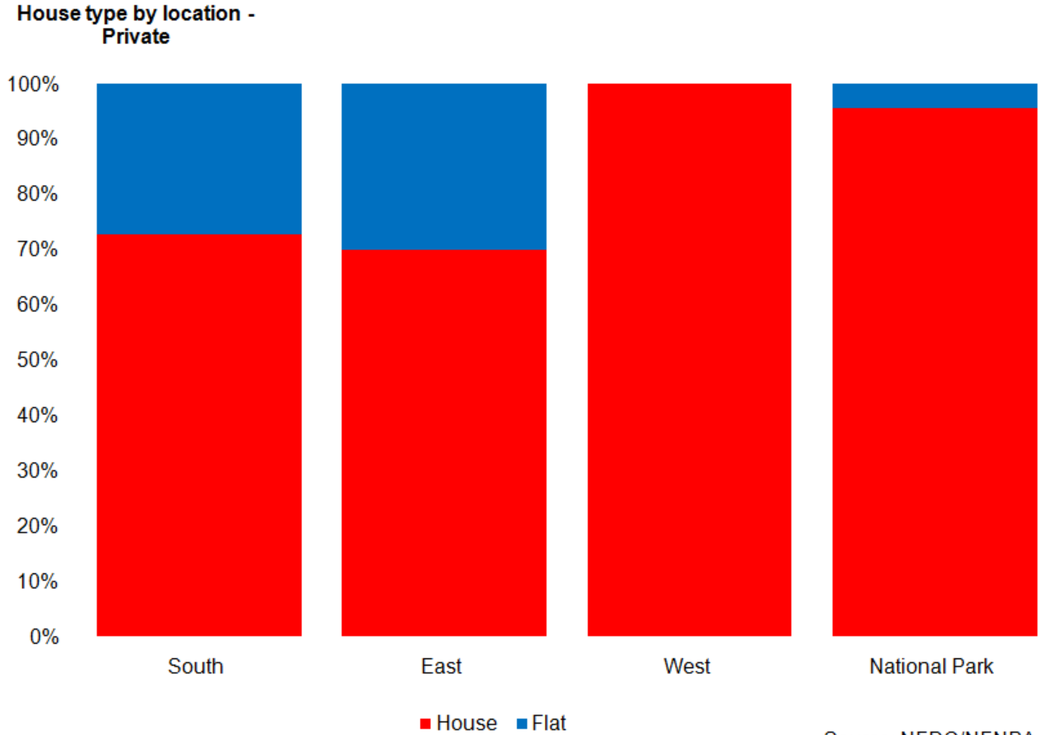
Examining the type of private units constructed across both the NFDC and NFNPA areas over the last year indicates that:

- in the West sub-area and the National Park, virtually all completions have been houses (see Figure 3); however, it is worth noting that in the National Park there have been 2 recently permitted developments that comprise a total of 32 flats, which (when completed) will alter the profile of developments within the National Park.

- in the Southern sub-area, 27% of completions have been flats, and 73% are houses; a number of flats created in the southern sub-area have been created through sub-division and the redevelopment of existing properties,

- flats account for 30% of completions in the Eastern sub-area; a single flatted development in Totton accounted for the majority of the flats completed in the Eastern sub-area.

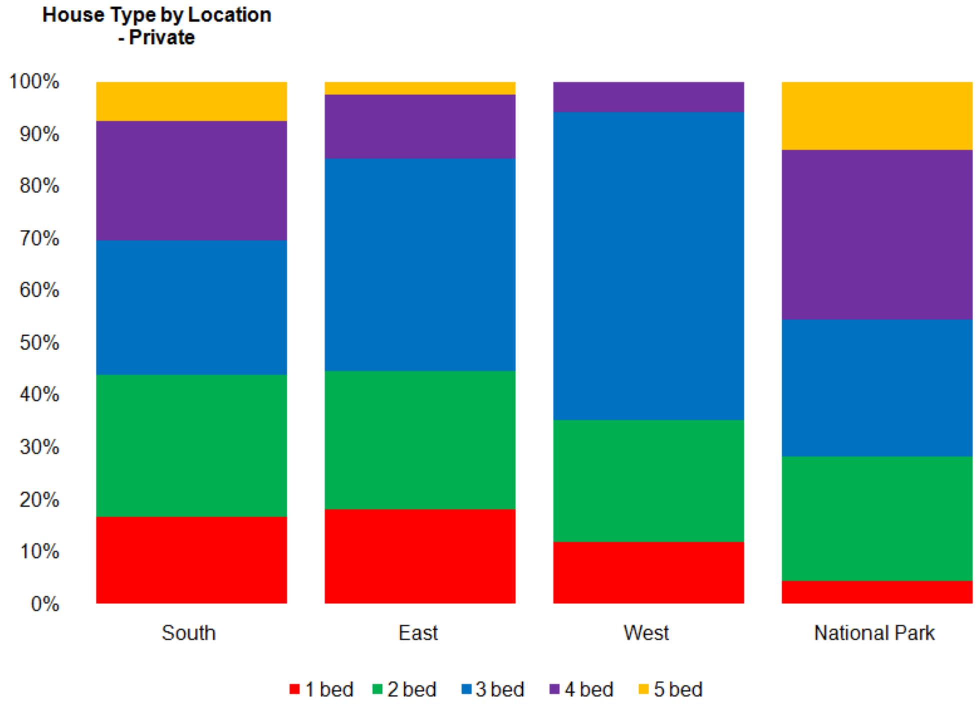
**Figure 3: Past Completions by Location and Type (2010-2011)**




Source: NFDC/NFNPA

Turning to the size of private units completed by location, Figure 4 reveals that houses with three or more bedrooms made up the majority of completions in all sub-areas, but particularly in the Western sub-area and the National Park – where nearly 70% of completions have been for 3 bed or larger properties. The southern and eastern sub-areas have had the highest percentage of 1 and 2 bed properties – consistent with the higher proportion of flats completed in these areas.

**Figure 4: Past Completions by Size and Location (2010-2011)**




Source: NFDC/NFNPA

Further information supplied by NFDC on typical schemes confirms this pattern, with the majority of schemes in the East sub-area being either a mix of a small number of flats and larger number of houses, or a mix of 3 and 4 bed houses. In the South sub-area, the typical mix is similar to that in the East sub-area, but also includes redevelopment of existing premises into a development of flats. In the West sub-area, typical schemes are predominantly 2 and 3 bed houses, with a small proportion of flats as part of redevelopment in Ringwood. These patterns reflect a recent relaxation of government rules on the density requirements of housing development, as well as the District Council's Core Strategy Policy CS13.

There have also been recent developments of sheltered housing, particularly in the southern area of the District, close to established towns and the coast. These have typically entailed development of between 40 and 60 units comprised a mix of 1 and 2 bed flatted units, with some communal facilities.

Discussions with local agents confirmed the above location patterns of new development, with active agents suggesting a shortage of new build stock in the National Park compared to market demand. Sheltered Housing properties, as with most new build stock, were seen as more concentrated in the outer areas – particularly the south and east of the District – due to both easy access to local amenities and the closeness of the coast. Interestingly, several agents reported that they had not dealt with any recently built properties in the entire time they had worked in the area (some for many years). Sales rates for new schemes were generally reported as 2-4 units per week on release to the open market – with current schemes having a very similar sales rate – suggesting a fairly steady market.

## Care Homes

According to the Care Quality Commission there are 90 care homes operating in the study area. These are concentrated in the National Park and the southern parts of the District: 40% in the South sub-area, 30% in the National Park, 21% in the East sub-area and 9% in the West sub-area. Within the National Park, care homes are fairly scattered, but with clusters in Lyndhurst, Brockenhurst and Ashurst. In the South sub-area, homes are clustered around New Milton and Lymington, but with the vast majority located just south of New Milton, close to the coast. In the West, most care homes are close to Ringwood, whereas in the East care homes are more scattered, but often close to the National Park boundary or Totton.

DTZ are aware of very limited care home development in recent years within the study area. Discussions with agents reveal little interest by the sector in the development of care homes in smaller villages or the more rural areas. However there is continued interest in care home development in the towns, where local facilities are more available – particularly in the south sub-area where the coast adds further incentives and within the National Park.

In March 2011, the National Park Authority permitted the planning application to redevelop the currently empty Hill House Care Home in Lyndhurst. This will involve comprehensive renovation and expanding the number of beds from 19 to 50 – in order to make it commercially viable. Agents suggest that, generally, developers and operators of care homes are currently interested in developing schemes of 60+ beds, with predominantly en-suite single rooms. This is a model has been seen across South East England as a whole.

## Commercial

Within the study area, the main employment centres are: Totton, Ringwood, Marchwood, Lymington and New Milton, with many jobs in the tourism, retail and public sectors. Within the NFDC area, the largest employer is the Exxon petro-chemicals plant at Fawley.

Recent completions of employment floorspace in the Eastern sub-area has been predominantly in Totton and Marchwood for industrial premises and a mixed use development (housing and offices). These developments have entailed development of between 1,250 sq m to 2,000 sq m of net additional floorspace.

In the South sub-area, there has been a redevelopment to create 8 B1-B8 units totalling 1,500 sq m net floorspace in Lymington (completed in 2005). In the West sub-area, there have been two recent completions: 10 industrial units in Blashford totalling 4,460 sq m (completed in 2007) and 2,500 sq m of business units in Ringwood. Overall therefore, there have been few completions across the District with over half of all completions involving in part the replacement of existing floorspace through redevelopment.

Discussions with agents as to how markets for different commercial uses vary across the District, have confirmed that the main clusters of commercial activity are in: Ringwood, Totton, Marchwood and New Milton. Agents have stated that commercial property activity in the District almost always relates to second hand stock for local companies, as there is little demand or incentive to develop new speculative stock other than through the redevelopment of existing outdated premises.

Local agents did note that Totton has seen some commercial space marketed at £10-12 per sq ft, as trade counter use. This level of rent was deemed by local agents as too high to attract local occupiers, and the development was remarketed for light industrial occupiers at c.£6.50-£7.50 psf with a typical 12 month rent free period per 5 year lease term, for which there is more local demand. The general feeling among agents was that future demand will be focused on very small units of 750 – 2,500 sq ft, which would attract tenants from existing outdated stock.

Completions data for commercial and employment schemes in the New Forest National Park indicate a low level of annual completions – between 2005/06 and 2008/09 this averaged under 1,000 sq m of office space annually. There have been no B2 completions in recent years, and only a small amount of B8 (i.e. 300 sq m in 2007-08). In the last year 500 sq m was converted from agricultural use to light industrial / craft works, and a further 600 sq m has been converted from agricultural buildings to a mixture of B1a, B1c and B8 uses. Within the National Park therefore, commercial development is likely to be restricted to small scale offices and light industrial / craft facilities serving a local need often arising from conversion of agricultural buildings.

Figure 5 below sets out the largest recent lettings by use class over recent years. This indicates the fairly small scale and localised nature of the commercial sector in the study area. Yields are not available for these lettings. However, discussions with local agents suggests that yields are typically 7.0 – 7.25% for a standard office scheme, and 7.5 – 8.0% for a B2 or B8 or mixed scheme.

**Figure 5: Commercial Leasing Deals in the New Forest (by size)**

| Use | Date | Location | Size | Rent |
|---|---|---|---|---|
| Mixed Industrial (B1/2/8) | January 2010 | Endeavour Park, Ringwood | 16,231 sq ft | £6.77 psf |
| | May 2005 | Ampress Park, Lymington | 14,132 sq ft | £5.75 psf |
| | September 2008 | Wick One Industrial Estate, New Milton | 2,135 sq ft | £6.75 psf |
| B8 Storage & Distribution | February 2007 | Ampress Park, Lymington | 2,562 sq ft | £7.81 psf |
| | May 2006 | Milford Trading Estate, Lymington | 1,313 sq ft | £4.97 psf |
| B1 Offices | June 2011 | Trafalgar Court, Lymington | 6,870 sq ft | £16.50 psf |
| | March 2011 | Headlands Business Park, Ringwood | 6,498 sq ft | £10.00 psf |

## Retail

There has been limited retail development in both the New Forest District and National Park areas over the past few years, with most activity involving the re-letting of existing premises to local occupiers. Within the study area these re-lets have typically ranged from 700 – 1,100 sq ft and let at £16 – 35 per sq ft (according to Focus). The Furlong Centre in Ringwood has achieved higher rents than this recently, with lettings between £35 and £42 per sq ft since 2007.

Planning permission has been granted in 2011 for a 1,100 sq m extension for an Asda store in Totton, as well as a new 1,400 sq m Lidl store in New Milton in 2010, and in 2008 for 2,000 sq m of retail as part of a mixed use retail and housing scheme in Ringwood. The retail need figures (set out in Figure 2) suggest that retail development in future is likely to be spread across the District but with slightly more in the south and related to comparison or large format retail. Given the relatively small floorspace need identified, developments are likely to be very limited in number.

From a market perspective, retail companies are facing tough trading conditions. Indeed, UK quoted retailers have issued more profit warnings in the first nine months of 2011 than in 2009 and 2010 combined (Ernst & Young Analysis of Profit Warning Q3 2011). And according to E&Y, 18% of high street retailers have issued profit warnings since the start of October — up from 14% in 2008.

The severe trading conditions, restricted access to finance and risk-adverse nature of the market means retail development is only likely to occur in the next 5 years where there is a firm guarantee of an occupier. This is likely to be a supermarket building for its own occupation, or a retail scheme which has secured a high number of pre-lets (which are typically national chains with strong low-risk covenants) in well established markets.

Smaller or local occupiers are unlikely to develop additional floorspace in this climate, but instead are likely to refurbish or occupy existing vacant space (which, according to the British Retail Consortium, stood at 11.1% across all UK retail centres as of October 2011).

## Hotels

Across the District and National Park, typical hotel schemes completed or gaining permission over the last few years are small (between 10 and 20 bedrooms) and usually extensions to existing locally run hotels or development/conversions of existing related facilities e.g. pubs. Although the area is a major tourist destination, there has been little activity in the hotel sector (in terms of investment deals, leases, completions or permissions) over the past few years – although there has been slightly more activity inside the National Park than outside. The likely future development market is therefore likely to continue to be extensions or upgrades to existing establishments, though there might be scope for the budget hotel chains (e.g. Travelodge, Premier Inn) to enter the local market with their standard package.

# 3. Scheme Archetypes

In order to test the impact on levying CIL on the viability of development, it is necessary to define a range of different development proposals that can be subject to viability testing. In this study we describe these different development proposals as 'archetypes'. These archetypes are selected to be representative of the type of development that might be expected to come forward within the Development Plan period, given the nature of the area, the local development market, and the objectives of the Development Plan.

The scheme archetypes, defined below, have been tested in terms of viability with and without CIL charges. They have been developed drawing upon the analysis of the previous sections and agreed with NFDC and NFNPA to be typical of the sorts of development that the Planning Authorities would like to see within their areas; and which on past experience might be expected to come forward in the right market conditions. The residential development archetypes also reflect the range of different affordable housing requirements different residential developments may have depending on the nature and location of the site.

## Residential

The residential development archetypes tested in terms of viability modelling are set out in Figure 6. These archetypes encapsulate the types of residential development that are expected to be developed over the development plan period. These reflect past patterns of small scale re-development and building of small infill developments. They also reflect the allocation of larger sites for residential development outside the National Park.

**Figure 6: Proposed Archetypes**

| Archetype | Site Type | Density (dph) | Site Area | Description |
|---|---|---|---|---|
| A | Greenfield Site | 25 | 4 ha | Erection of 35 x 2 bed houses (35%), 35 x 3 bed houses (35%) and 30 x 4 bed houses (30%) |
| B | Greenfield Site | 25 | 0.5 ha | Erection of 4 x 2 bed houses (35%), 4 x 3 bed houses (35%) and 4 x 4 bed houses (30%) |
| C | Greenfield Site for local need | 25 | 4 ha | Erection of 35 x 2 bed houses (35%), 35 x 3 bed houses (35%) and 30 x 4 bed houses (30%) |
| D | Greenfield Site for local need | 25 | 0.5 ha | Erection of 4 x 2 bed houses (35%), 4 x 3 bed houses (35%) and 4 x 4 bed houses (30%) |
| E | Small site | 35 | 0.18 ha | Demolition of 2 x 4 bed houses and erection of 3 x 2 bed houses (40%), 3 x 3 bed houses (40%) and 1 x 4-bed house (10%) (5 unit net gain) |
| F | Small site | 75 | 0.13 ha | Demolition of 2 x 4 bed houses and erection of 12 x 2-bed flats (10 unit net gain) |
| G | Infill Site | 25 | 0.04 ha | Infill of 1 x 3 bed house |

Archetypes A and B related to development on greenfield sites. There are no allocations for such development in the National Park, so these archetypes were tested only in relation to the East, South and West sub-areas. NFDC has a requirement for 50% affordable housing on these sites.

Archetypes C and D also related to greenfield sites, but relate to the identification of sites in the NFDC Core Strategy to meet local need. Sites identified for such development are largely in Green Belt and their release for housing is restricted to schemes that will provide 70% affordable housing, in accordance with Core Strategy Policy CS12.

Archetypes E and F consider smaller sites and the replacement of existing units with denser development, and Archetype G examines infill development. These schemes will be expected to provide either 40% or 50% affordable housing depending on their location (see below for further discussion)

Proposed net unit sizes for residential development are set out below in Figure 7. These have been sourced from details obtained from local agents of current schemes on the market – as set out in Appendix A. The unit sizes below have been adopted for both private and affordable units.

**Figure 7: Proposed Net Unit Sizes**

| Unit Type | Net Unit Size (sq m) |
|---|---|
| 2 bed flat | 70 |
| 2 bed house | 90 |
| 3 bed house | 110 |
| 4 bed house | 140 |

In terms of sheltered housing, recent schemes in the area have been used to formulate appropriate archetypes. We have been provided with details on the viability of the Mount Pleasant and Parsonage Barn Lane schemes in Ringwood, and have compared this to information on other schemes. Mount Pleasant comprises 39 units (27 x 1 bed and 12 x 2 bed). This compares to other schemes in Lymington, Ferndown and Highcliffe where schemes of 42, 46 and 65 units were developed respectively. Two schemes archetypes have been modelled: a scheme of 40 units and a scheme of 60 units (see Figure 8 below).

Typical unit sizes in the Mount Pleasant scheme (totalling 0.31 ha) were 55 sq m for 1 bed units and 80 sq m for 2 bed units. Farringford Court in Lymington (currently being marketed) has average unit sizes for 1 bed of 56 sq m and 2 bed of 75 sq m – similar to the Mount Pleasant scheme. Unit sizes of 55 sq m for 1 bed units and 80 sq m for 2 bed units have been used for the archetypes. In order to take account of the communal space provided in such schemes, these net figures have been increased by 40% to establish net internal area for the overall development including communal areas. This 40% enhancement reflects the ratio between the net sellable and gross floorspace areas in Mount Pleasant. It has been assumed that the same affordable housing and Section 106 requirements apply to these schemes.

**Figure 8 – Sheltered Housing Archetypes**

| Archetype | Site Type | Site Area | Description |
|---|---|---|---|
| H | Small Sheltered Housing | 0.3 ha | Erection of 35 x 1 bed and 5 x 2 bed units |
| J | Large Sheltered Housing | 0.5 ha | Erection of 50 x 1 bed and 10 x 2 bed units |

## Affordable Housing Assumptions

NFDC Core Strategy Policy CS15 states that the affordable housing requirement varies from 40-50% of gross dwellings numbers (with the three sub-areas including individual areas with differing requirements). For the National Park area, NFNPA Core Strategy Policy CP11 states that within the four defined villages of the National Park, there is a requirement for 50% of homes to be affordable. We therefore tested the following, as set out in Figure 9.

**Figure 9: Affordable Housing Assumptions**

| Archetype | Site Type | East | South | West | National Park |
|---|---|---|---|---|---|
| A | Greenfield Site | 50% | 50% | 50% | na |
| B | Greenfield Site | 50% | 50% | 50% | na |
| C | Greenfield Site for local need | 70% | 70% | 70% | na |
| D | Greenfield Site for local need | 70% | 70% | 70% | na |
| E | Small site | 40% | 40%-50% | 40%-50% | 50% |
| F | Small site | 40% | 40%-50% | 40%-50% | 50% |
| G | Infill Site | 40% | 40%-50% | 40%-50% | 50% |
| H | Sheltered | 40% | 40%-50% | 40%-50% | 50% |
| J | Sheltered | 40% | 40%-50% | 40%-50% | 50% |

In the South sub-area 50% affordable housing is required in Lymington, Everton, Hordle and Milford-on-Sea; in the West sub-area 50% affordable housing is required in Bransgrove. In all other areas of the South and West sub-areas, 40% affordable housing is required. It should be noted that NFDC apply affordable housing policy to gross unit numbers, whereas NFNPA apply policy to net unit numbers. Thus the level of affordable housing requirement in relation to archetypes E and F is lower in the National Park than in the other parts of New Forest District.

It has been assumed that where there is a requirement for 50% affordable housing, this will take the form of 35% affordable rent / 15% shared ownership; where there is a requirement for 40% affordable housing it has been assumed this will take the form of 25% affordable rent / 15% shared ownership. With respect to archetype C and D there is a requirement for 70% affordable housing. It is assumed that this will take the form of 40% affordable rent and 30% shared ownership.

Affordable housing provision has been modelled on the same basis that the unit type mix and unit size is the same as private provision in each archetype.

## Employment Space

The analysis contained in Section 3 indicates there has been little office, industrial or warehouse development in the District over recent years, with activity concentrated in the East sub-area specifically for industrial and warehousing activity and in the centres of Ringwood and Lymington for offices and light industrial activity.

All recent developments, deals and lettings have been of a small scale (with very few exceeding 10,000 sq ft / 1,000 sq m) – which is likely to be indicative of the size of any future development. Local agents have noted that new development is likely to be of a small scale and based on the redevelopment of existing premises (which would not give rise to a CIL liability); and also the development of the new allocations and of the existing unused allocations/sites. Completions data confirm that the majority of recent schemes have involved redeveloping existing sites and therefore the loss of existing commercial floorspace.

In considering the form of development appropriate to test in terms of commercial development (i.e. B1, B2 and B8), the focus has been on identifying potential developments that would create additional net floorspace in the New Forest District. There was no point modelling schemes that involve redevelopment since they are unlikely to generate net additional floorspace and hence will not result in CIL being charged. Schemes modelled were therefore those that are anticipated to occur over the next few years based on existing or new allocations, and on redevelopments where enhanced densities (i.e. a net gain in floorspace) are likely.

The absence of recent development means that identifying suitable archetypes is difficult. However the Core Strategy allocates land in all of the sub-areas for office and industrial uses. Reflecting this plan allocation, past completions in New Forest District and surrounding areas, and current market conditions, three different office and mixed office / industrial archetypes have been modelled:

- A B1 office style development of 2,000 sq m (most likely location in the Waterside and Ringwood)
- A mixed B1/B2 development of 2,500 sq m (most likely in Ringwood and the Waterside)
- A mixed general use (B1/2/8) employment development of 1,000 sq m (most likely in New Milton)

A number of the employment allocations across the study area have constraints (e.g. contamination, ground issues) or infrastructure requirements and are therefore considered as ‘difficult’. In order to test whether a CIL charge would be viable for these commercial allocations, we have therefore assumed a higher level of infrastructure costs for these archetypes (at 15%).

**Figure 10: Commercial Archetypes**

| Archetype | Site Type | Floorspace |
|---|---|---|
| K | Medium B1 Office Development | 2,000 sq m |
| L | Medium Mixed B1 and B2 Development | 2,500 sq m |
| M | Small General Use Employment Development | 1,000 sq m |

## Retail

As the property market review for retail suggests, there is relatively modest need for further retail development across New Forest District. However, there is circumstantial evidence that large food retailers are looking for sites in the area, which suggest a potential market for development of at least one more superstore. Therefore the viability of a variety of different types of retail development has been subject to viability testing.

The archetypes include a larger national-chain superstore of 4,000 sq m (designed to be at the upper limit of the retail need), a small superstore of 1,500 sq m (similar to the Lidl in New Milton), a small high-street style comparison store of 500 sq m, and a small national-chain convenience store (e.g. Tesco Express) of 300 sq m. The small comparison and convenience stores have been tested for the difference between a national chain occupied scheme (more likely in the larger town centres) and a local independent occupied scheme (more likely outside the larger town centres), as this will have a major impact on covenant strength and yield.

It is worth bearing in mind, that archetypes R & S might be delivered through redevelopment or conversion of an existing retail unit, which would not generate a liability for CIL; the larger retail formats (N and O) are more likely to require new development, but might be achieved in part or in whole in some cases through redevelopment, which might mean no CIL liability would arise.

**Figure 11: Retail Archetypes**

| Archetype | Site Type | Floorspace |
|---|---|---|
| N | Large Superstore – National Supermarket Chain | 4,000 sq m |
| O | Small Superstore – National Supermarket Chain | 1,500 sq m |
| P | Small Comparison Store – National Occupier | 500 sq m |
| Q | Small Comparison Store – Local Occupier | 500 sq m |
| R | Small Convenience Store – National Occupier | 300 sq m |
| S | Small Convenience Store – Local Occupier | 300 sq m |

## Hotels

Section 3 showed that in general any hotel developments in the District have been of limited size. But there could be scope for development of a budget hotel in the study area, since these operators are continuing to expand their operations at the national level. Two hotel archetypes have been modelled; an extension of 10 bedrooms on 0.2 ha and a new development of 60 bedrooms on 1.5 ha. Given the likely future development market and current hotel development activity across the South East, these have both be been modelled on a budget hotel model (i.e. Travelodge / Premier Inn), based on room sizes of 21.4 sq m.

**Figure 12: Hotel Archetypes**

| Archetype | Site Type | Site Area | Description |
|---|---|---|---|
| T | Small Hotel Extension | 0.2 ha | Extension of 10 bedrooms to small local, budget style hotel |
| U | Medium-sized new budget hotel | 1.2 ha | Erection of 60 bedroom budget chain hotel |

## Care Homes

The market analysis presented in Section 3 identified that the majority of care homes in the New Forest are concentrated in the South sub-area and the National Park, with continued interest in these locations by developers. However, given care home activity throughout the District, it would be prudent to test viability across the whole study area. Due to viability, current developer interest is concentrated on developing schemes of high quality accommodation with 60 beds or more. However, the recent planning permission at Hill House, Lyndhurst indicates that there is also interest in expanding existing care homes to increase their operational viability. DTZ has therefore tested the following archetypes.

**Figure 13: Care Home Archetypes**

| Archetype | Site Type | Site Area | Description |
|---|---|---|---|
| V | Extension to Small Care Home | 0.4 ha | Extension of 30 single beds to existing 20 bed care home |
| W | Erection of Medium Care Home | 0.9 ha | Erection of 60 bed care home (56 x 1 bed and 4 x 2 bed rooms) |

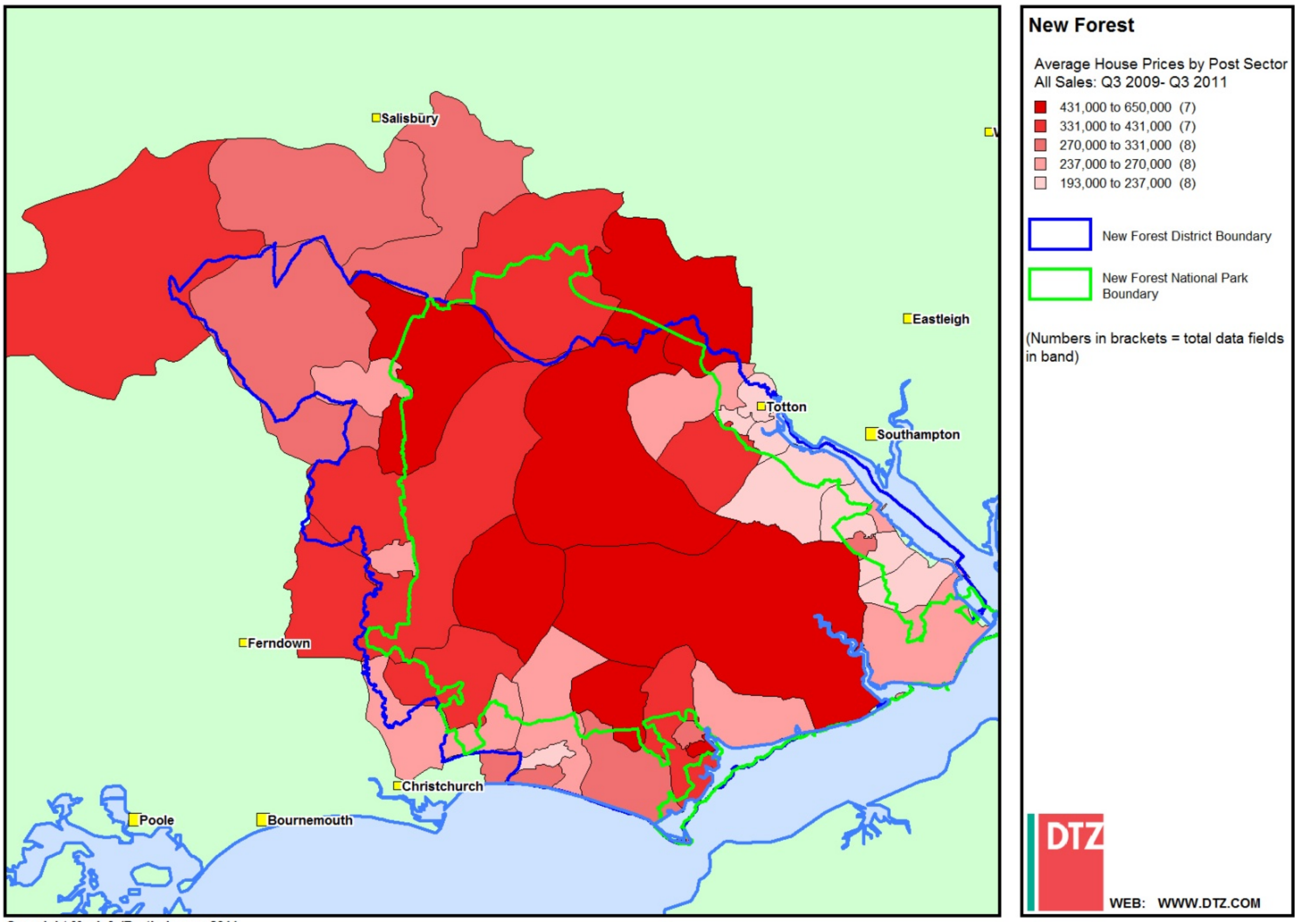
# 4. Value and Value Area Assumptions

In modelling viability it is necessary also to take account of any systematic variation in sales values, rents, investment yields and development costs across the study area. This is of particular relevance in the testing of the viability of residential development since house prices and sales values of new homes do vary across the area; and these variations have been taken into account in the NFDC Core Strategy in setting affordable housing policies. Consideration also needs to be given to any significant differences in market conditions for non-residential development.

## Private Residential

Examining Land Registry house prices by Postcode sector over the last 2 years (see Figure 14) reveals that the National Park area generally has higher prices than the three other sub-areas. The South and West sub-areas have a variety of prices centred at the mid-level of the range. However, the areas covering Ringwood and New Milton have slightly lower values. The East sub-area generally has the lowest values across the District.

**Figure 14: Average House Prices across New Forest District**



Appendix 1 sets out the values found from an analysis of sales values of properties being marketed across the District. These have been cross-checked with information from re-sales (where this has been available). As can be seen these sales values vary quite considerably within areas; this confirms the analysis of postcode house prices which indicate a mix of values across the District, with no obvious or easy geographical groupings outside of the National Park.

In view of this it was agreed that viability testing would be based on the existing policy sub-areas. However, it is worth bearing in mind that future development is likely to be focused on particular parts of each sub-area. In summary the weight of new development in each sub-area is likely to be as follows:

- Most of the new development in the West sub-area is likely to occur in Ringwood and Fordingbridge; both of which are characterised by lower value than the surrounding rural areas

- In the South sub-area there seems likely to be greater development in New Milton than in the higher value Lymington area, which has lower values than Lymington.

In part these price differentials will be due to the greater proportion of smaller properties in these areas, while the rural areas both have higher £ psm values and a higher proportion of larger properties. It is worth bearing in mind that in those parts of the South and West sub-area, the higher value areas (Lymington, Everton and Bransgore) have a higher requirement for affordable housing (50%) than the lower value areas (40%).

On the basis of the evidence of sales values derived from local market analysis and analysis of Land Registry data the viability of residential development has been tested by sub-area against two sets of residential value, a higher level and a lower level. The sales values used in the viability testing are set out below:

**West sub-area:**
Bransgore: £ 4,310 per sq m (£400 per sq ft)
(this value is likely to be at the upper end of the range for this sub-area)

Ringwood: £ 2,650 per sq m (£250 per sq ft)
(this value is likely to be near the lower end of the range for the sub-area)

<u>Values adopted: £2,650 and £4,310 per sq m (£250 and 400 per sq ft)</u>

**South sub-area:**
Milford-on-sea: £5,570 per sq m (£500 - £550 per sq ft)
(the developments these are based on are likely to be at the upper end of the value range for the sub-area)

Barton-on-sea: £3,410 per sq m (£320 per sq ft)
(there are likely to be values greater than this in Barton-on-Sea)

<u>Values adopted: £3,410 and £5,570 per sq m (320 and 520 per sq ft)</u>

**East sub-area:**
Hythe: £2,480 and £3,000 per sq m (£230 - £280 per sq ft)

Totton: £2,260 and £2,800 per sq m (£210 - £260 per sq ft)

<u>Values adopted: £2,260 and £3,000 per sq m (£210 and 280 per sq ft)</u>

**National Park sub-area:**
There are currently no new build schemes on the market at present, so comparables have not been obtainable. The ranges below have been extrapolated from postcode sector analysis of the latest Land Registry data, and sense-checked against current re-sale properties. It is not anticipated that there will be any significant variation in values between the four defined villages within the National Park.

Values adopted: £3,900 - £5,800 per sq m (£360 and 540 per sq ft)

## Sheltered Housing

In terms of Sheltered Housing, there are only limited schemes on the market in the New Forest at present. A sheltered housing scheme in Farringford Court, Lymington has seen the following values achieved:

- 1 bed flat (66 sq m / 706 sq ft) - £309,950 (£4,725 per sq m / £439 per sq ft)
- 1 bed flat (50 sq m / 542 sq ft) - £284,950 (£5,660 per sq m / £526 per sq ft)
- 1 bed flat (53 sq m / 574 sq ft) - £280,950 (£5,260 per sq m / £489 per sq ft)
- 2 bed flat (75 sq m / 805 sq ft) - £403,950 (£5,400 per sq m / £502 per sq ft)

Given this and the opinions of care home providers (gained through our values research), the following sales values have been adopted to test across the District:

- 1 bed sheltered flat - £5,220 per sq m / £485 per sq ft
- 2 bed sheltered flat - £5,400 per sq m / £502 per sq ft

## Affordable Residential

The affordable components of the residential archetypes comprise intermediate and affordable rental properties. Values of affordable rents have been obtained from the Valuation Office Agency's list of rents. For each property type, the 30th percentile rent has been taken (in line with the Local Housing Allowance calculation) and multiplied by 0.8 to calculate a likely affordable rent. The results for this for the three Broad Rental Market Areas that cover the New Forest study area are shown in Figure 15.

**Figure 15: Affordable Weekly Rents (at 80% of Market Rents) for New Forest**

| | Southampton sub-area | Salisbury sub-area | Bournemouth sub-area | New Forest Average |
|---|---|---|---|---|
| 1-bed | £92.30 | £92.30 | £96.92 | £93.84 |
| 2-bed | £120.00 | £115.38 | £120.00 | £118.46 |
| 3-bed | £143.08 | £138.46 | £147.70 | £143.08 |
| 4-bed | £202.15 | £178.15 | £203.08 | £194.46 |

Source: VOA

N.B. The Southampton sub-area covers Lyndhurst, Lymington, Milton-on-Sea and everything east of these towns. The Salisbury sub-area covers the north west of the study area to the north of Ringwood (but not including Ringwood itself). Finally, the Bournemouth sub-area covers the west of the area – including New Milton, Barton-on-Sea, Bransgore and Ringwood.

There is little difference in the Southampton and Bournemouth sub-area rents, with slightly lower rents seen in the Salisbury sub-area for larger property sizes. However, the Salisbury sub-area covers the rural north west of the District, where analysis shows there has been little residential development in recent years. Consequently, there is little justification for adopting different values for different areas of the District. Instead, an average figure for the New Forest area as a whole has been taken for each property type. These average values have then been compared to those supplied by locally active Registered Providers, to ensure they reflect emerging market reality. A comparison of these averages and the proposed figures to be used in the modelling are set out in Figure 16.

**Figure 16: Affordable Weekly Rent Modelling Assumptions**

| | Average - VOA | Average - RSLs | Average Figure for Modelling |
|---|---|---|---|
| 1-bed | £93.84 | £92.54 | £92.50 |
| 2-bed | £118.46 | £125.87 | £120.00 |
| 3-bed | £143.08 | £156.96 | £150.00 |
| 4-bed | £194.46 | £184.62 | £190.00 |

Source: VOA, Registered Providers

For intermediate / shared ownership properties, the assumption has been made that 40% of the equity is sold at market value, with the remainder rented out as affordable rent (in line with the above).

## Commercial

Commercial development across the study area has been very limited over the past few years. Consequently, to establish realistic values for new commercial development, an analysis has been undertaken of recent completions across the District, as well as in southern Test Valley and northern Southampton, and discussed the current and future market with various local agents.

This research has revealed that for a B1 office development, a rent of £108 - 118 per sq m (£10 - £11 per sq ft) is achievable in most locations across the study area (although only the more accessible locations e.g. Waterside and Ringwood are likely to be at the upper end of this range). Given the local nature of the office market, anything above this range is unlikely to be let. A yield of 7.0 - 7.25% is seen as realistic for offices in the New Forest. A rental figure of £113 per sq m (in the middle of the range) at a yield of £7.25% has been used in assessing the viability of the office archetype.

For mixed development, involving office, industrial and warehousing uses, a rent of £65 - £70 per sq m (£6.00 - £6.50 per sq ft) can be expected. A yield of 7.5 – 8.0% is seen as typical. Again, these rents and yields for industrial and mixed employment uses are what agents have stated they would expect to see in the New Forest area. They have been sense-checked against data for surrounding areas, most notably the northern area of Southampton and the M27 corridor. The viability modelling has been based on the assumption of a rent of £67.50 per sq m at a yield of 8% for mixed employment use archetypes.

## Retail

There have been very few retail deals recently in the District. Those that have occurred have typically been smaller retail units, and these have been analysed (using Focus CoStar and EGi deals data) to establish rental and yield values for archetypes P to S. To establish values for archetypes N and O, analysis has been undertaken of recent supermarket deals across the South East. Given that supermarket development and transactions typically act on a standard model, rents and yields are often very similar across the region (outside London). For the supermarket archetypes, a larger more upmarket supermarket (e.g. Sainsbury's), modelled as Archetype N, would attract a rent of around £240 per sq m (£22.50 per sq ft), with a yield of 4.75% that reflects the strong covenant for this type of occupier. For a small budget supermarket (such as Lidl), modelled as Archetype O, rents are predominantly around £190 per sq m (£18 per sq ft), reflecting the basic style of fit-out. Yields are likely to be similar but slightly higher, typically at 5.0%.

Data from Focus and EGi indicate that high-street comparison stores typically attract rents of an average across the district of £200 per sq m. For units with national occupiers (modelled as Archetype P), current standard yields are typically around 7.5%, and this is confirmed through data on local deals over the past few years. Conversely, data indicates that comparison stores with local occupiers (Archetype Q) are more likely to have a much higher typical yield of 10.25% - reflecting the weaker covenants associated with independent traders. These archetypes are likely to be limited to town centres (and the national occupiers more to the larger town centres).

Small convenience food stores are likely to be found across the neighbourhood centres of the district. Typical rents range from £180 to £215 per sq m (£17 to £20 per sq ft). Viability testing has been undertaken on the basis of an assumed rent of £200 per sq m (£18.50 per sq ft). Again, yields will be stronger for stores with a national chain occupier, such as a Tesco Express – who are also likely to occupy the better located stores. A typical yield for a small convenience food store backed by a national supermarket chain (e.g. Tesco Express – modelled as Archetype R) would be around 4.75%. For a small convenience food store with a local independent occupier (Archetype S), current yields are around 10.25%. The viability modelling for retail development has incorporated these rental and yield assumptions.

## Hotels

Due to restricted hotel development in the New Forest in recent years, there is little information on hotel capital values. Consequently values from deals and transactions of budget hotels in areas surrounding the New Forest have been used to provide a basis for assumptions relating to hotel development in New Forest District. These have a standard business model involving an institutional lease. A capital value can therefore be determined through applying a yield to a rental value, determined by the size of the hotel and rental level per room. For the New Forest, hotel agents expect a typical yield on a budget hotel to be around 6.5%

Rents achieved in budget style hotels in the areas surrounding the New Forest include £3,900 per room for a Travelodge in Poole, £3,850 per room for a Premier Inn in Bournemouth and £4,090 for a Travelodge in Bournemouth. Local agents anticipate a likely rent per room figure to be close to £3,500 within the study area. Occupancy rates are incorporated into the rental value, and this slightly lower figure is reflective of the more seasonal nature of the New Forest hotel market, which is more leisure focused and cannot as easily rely on the business market during the low season. Therefore, the capital value of hotel developments has been calculated on the basis of a rent per room of £3,500 and application of a yield of 6.5% for hotels.

## Care Homes

There is little market information on care home development or investment values within the New Forest. However, the capital values for care homes are based on a standard model, built around capitalising the anticipated revenue stream that can be established through the development. This is determined by the average weekly fees per resident and the occupancy rate. In the absence of local data, industry sources specify an average occupancy rate of 88.5% across England for 2010/11 and a weekly fee of £595 per resident (blended for residential and care homes). This weekly fee has been used to calculate a predicted revenue stream in the modelling, which has then be converted into a capital value.

# 5. Cost and Modelling Assumptions

This section sets out the build costs and standard modelling assumptions that have been used in the viability modelling.

## Build Costs

Proposed base build costs for modelling are set out in Figure 17 below. These are the BCIS Quarter 3 2011 new build tender price index figures, adjusted to the New Forest. They are based on a price per sq m of net internal area (NIA).

**Figure 17: Base Build Costs for Modelling**

| Development Type | Base Build Costs |
|---|---|
| General Estate Housing | £802 |
| Care Homes | £1,106 |
| Warehouse (B8) | £597 |
| General Industrial (B2) | £700 |
| General offices (B1) | £1,225 |
| Mixed Industrial (B1/2 mix) | £799 |
| Retail | £773 |
| Budget Hotels | £1,050 |

Source: BCIS, 2011 & Spons Price Book, 2011 (for budget hotels only)

In terms of meeting design and sustainability standards, the report "Cost Analysis of The Code for Sustainable Homes" by Communities and Local Government (CLG) suggests an uplift of 8% on base build cost should be applied as the medium case to achieve Eco Homes Level 4. This is based on a market town scenario with medium ecological value and low flood risk. Although the situation in the New Forest is not identical, it is similar. This percentage can increase to 15% for Eco Homes Level 5 and 27% for Level 6.

To meet the District's policy objective of achieving Code for Sustainable Homes Level 4 from 2012, DTZ have therefore applied an 8% increase on build costs in the residential modelling. Both the District Council and the National Park Authority have a policy to achieve this standard over the period.

While there is less evidence on build cost uplifts to achieve BREEAM Excellent Rating for commercial units, 8% is seen as a worst case scenario, with BREEAM examples indicating a 2-3% uplift is realistic to achieve a 'very good' rating. However, as these ratings are not just dependent on on-site sustainability measures (but also distance to services etc), associated costs are likely to vary considerably between different use types and locations. DTZ have therefore modelled a conservative 6% uplift on build costs for all commercial uses.

BCIS studies indicate efficiency savings can be applied to developments, based on contract value. This typically equates to developments of 20 residential dwellings or more. Due to the small scale nature of the vast majority of the archetypes for both residential and commercial development within the study area, it is not considered appropriate to include this within the modelling. The only archetypes where an efficiency saving is likely to apply are Archetypes A and C; however, these archetypes are likely to have slightly higher costs relating to provision of on-site infrastructure than the other archetypes. This is taken into account by not applying the efficiency saving which could otherwise be applied to these sites.

While costs for infrastructure work outside of the development parcels are not included, there is a need to make an allowance for external works within the development parcels themselves (e.g. roads, sewers and utilities). The typical range for external works is 10-15% of base build costs. Given the small scale and infill nature of the majority of anticipated residential development, a figure of 10% has been adopted.

For the hotel, retail and care home archetypes, both authorities have advised that there are unlikely to be any large infrastructure requirements. It has therefore been assumed that there needs to be an allowance of 10% to cover external works. For the employment archetypes which are mainly based on anticipated development on existing allocations, an additional 15% uplift on build cost has been incorporated to cover infrastructure costs.

## Other Modelling Assumptions

Figure 18 sets out the standard modelling assumptions that have been adopted in the viability modelling. This includes three scenarios for developer return (of 15%, 17.5% and 20%), though recommendations have been based largely on the assumption that in the current market environment developers will look for a 20% return. For residential schemes profit is calculated as a percentage of Gross Development Value (GDV), but reflects normal convention, on commercial schemes the % profit requirement is based on profit on cost.

A range of standard assumptions have been adopted for a number of other items of costs as set out in Figure 18. It is normal to allow 10% of build costs to cover professional fees in connection with sites without planning permission. DTZ routinely apply an allowance of 3% of sales value for marketing costs, 0.5% of land value for legal fees and 5.75% for site acquisition costs in development appraisals across the South East. A development finance rate of 7% is also considered appropriate at the current time.

**Figure 18: Other Modelling Assumptions**

| | | |
|---|---|---|
| Developer return | Residential (% GDV) | 15%, 17.5% and 20% |
| | Commercial (% on cost) | 15%, 17.5% and 20% |
| Fees (including statutory and professional fees) % build costs) | | 10% |
| Marketing costs | Residential (% of sales value) | 3% |
| | Commercial – sales costs | 1.5% of capital value |
| | Commercial – letting costs | 10% of annual rent |
| Legal fees (% of land value) | | 0.5% |
| Site acquisition costs (% of land value) | | 5.8% |
| Development finance (applies to build and land costs) | | 7.5% |
| Section 106 Costs | Residential | £0 per unit |
| | All Commercial uses | £0 per sq m |
| Demolition Costs - Residential | | £220,000 per ha / £22 per sq m |

Section 106 costs for both authorities have been focused on the following elements over the past few years for residential developments. These have covered

- Open space on-site
- Open play space off-site
- Site related transport requirements.
- Offsite transport requirements

Typically around £6,500 per dwelling has been generated in recent years through s106 contributions.

In terms of the viability modelling allowance has been made for on-site open space requirements in the density assumptions for archetypes A, B, C and D. The off-site open space and the majority of the transport requirements are associated with S106 pooled contributions, leaving only a small residual site-specific S106 requirement, once CIL comes into effect. Some sites will incur some costs in relation to residual s106, but others will not. Modelling has been based on there being no additional s106 for residential sites once CIL is established.

Affordable Housing has been applied to all residential archetypes (including sheltered housing) in line with NFDC and NFNPA current policy – For small infill development in the National Park, this has been applied on a 'pro rata' basis – in effect modelling a financial contribution where the affordable requirement is less than 1 unit.

For commercial uses, site specific residual S106 requirements are likely to be heavily dependent on the exact nature of the site. Indeed, the viability appraisals supplied by the authorities indicate widely varying charges. Commercial S106 rates can be modelled on the same basis as CIL, that is on the basis of £ per sq m. Therefore s106 have been excluded from the modelling for non-residential uses, **but this means that the results indicate the value that is available to fund combined s106 and CIL charges associated with non-residential development.** When interpreting the results from the modelling, the need for S106 requirements for each use type can be taken into account by ensuring there is room within the recommended CIL figure to incorporate this requirement (by netting off the likely £ per sq m S106 figure from the recommended £ per sq m CIL figure).

The final assumptions relate to the difference between net sellable floorspace and gross floorspace that needs to be built. Assumptions on this net to gross ratio for each use class are set out in Figure 19.

**Figure 19: Net to Gross Assumptions**

| Use | Net to Gross Ratio / Multiplier |
|---|---|
| Residential – Flats | 125% |
| Residential – Houses | 105% |
| Care Homes | 140% |
| Hotels | 150% |
| Retail | 100% |

# 6. Existing Use Values

For a scheme to be viable, there must be a positive land value, otherwise a landowner will not release land for development. Conventional viability assessment states there must additionally be a sufficient return to the landowner to make it worthwhile releasing land for development. The value of land sold for development must therefore be higher than the value of land in its existing use. Landowners will generally expect a premium above the value of land in its existing use in order to make land available for development.

It is relevant to the debate on viability to understand the prevailing pattern of land values in the study area. This section presents available data on agricultural, residential, industrial and warehousing land values in New Forest District. Data is mostly drawn from Valuation Office Agency data. However the market for development land is depressed at the current time, because of the subdued nature of the development market. Therefore there are relatively limited transactional data on which to benchmark data.

## Agricultural Land Values

Where residential development occurs on greenfield land, then it can be relevant to assess viability by reference to agricultural land values, though if doing so, then the full costs of providing site infrastructure should be included on the cost side of the equation. These are difficult to assess on a generic basis, since site servicing and infrastructure costs can vary significantly between sites.

The VOA Property Market Report 2011 provides agricultural land values for unequipped and equipped land for a number of selected counties. Values per hectare for Wiltshire, Oxfordshire and Kent are fairly consistent and indicate that agricultural land values generally do not exceed around £20,000 per hectare. This is a relevant benchmark when considering release of agricultural land for development, but landowner expectations will be much higher – and will reflect the prevailing value of residential development land.

However the agricultural land value benchmark is particularly useful in considering the allocation of land in the New Forest District Core Strategy of residential development for local needs. Two of the three sites identified for local housing needs development are in Green Belt, and the other is in minerals use. None of these sites would have been identified for ordinary residential development. A significant uplift in value over existing use value – be that agricultural or worked out minerals land in need of restoration – should provide sufficient incentive for a landowner to bring these sites forward.

## Residential Land Values

The latest VOA Property Market Report provides residential land values for Southampton based on a 0.5ha site of £1,700,000 per ha. No details are available in the latest Property Market report on what values are in New Forest District, nor in Bournemouth to the west of the District. It is to be expected however that residential land values will be higher in New Forest District generally than in Southampton as a whole, reflecting the higher average sale prices in the District compared with Southampton.

In older VOA Property Market reports data on residential land values on sites for less than 5 houses are presented for both Southampton and Bournemouth. Figure 20 shows the significant decline in residential land values following the downturn in the economy and housing market; and the scale of differential between values in Southampton and Bournemouth, though land values fell much further in Southampton between January 2008 and January 2009 than they did in Bournemouth.

**Figure 20: Residential Land Values in Southampton and Bournemouth**

| | £'000 per ha | |
|---|---|---|
| | **Southampton** | **Bournemouth** |
| 1 January 2011 | 1,700 | Na |
| 1 January 2010 | 1,700 | Na |
| 1 January 2009 | 2,100 | 2,700 |
| 1 January 2008 | 4,050 | 3,750 |

Source: VOA Property Market Reports

Overall the index of residential land prices across England and Wales fell from 150 to 100 over the period January 2008 to January 2011, which represents a 33% fall. In Southampton, however, values have fallen by 58%; that is residential land values have fallen by more than half. Given the bulk of land price falls occurred between January 2008 and January 2009 it is expected that land values in Bournemouth are now around £2,500,000 per ha. This represents a 33% fall in values.

DTZ would expect land values in New Forest District to lie between those of Southampton and Bournemouth with the more attractive parts of the District having values similar to Bournemouth and the less attractive areas having residential land values more akin to Southampton. This leads us to the view that benchmark land values for each of the sub-areas in the District are:

- Eastern Sub-Area: £2,000,000 per ha, above the average for Southampton but below the estimated average value for Bournemouth (£2,500,000)

- Southern Sub-Area: £2,250,000 per ha, above the average for Southampton but below the average value for Bournemouth (£2,500,000)

- Western Sub-Area: £2,250,000 per ha, above the average for Southampton but below the average value for Bournemouth (£2,500,000)

- National Park: £2,500,000 per ha equivalent to values in Bournemouth. In practice given the lack of land for development in the National Park effective land values may be much higher.

## Industrial and Warehousing Land

There is limited data on the value of industrial and warehousing land in New Forest District. However the Valuation Office Agency report gives land values in Southampton and Bournemouth/Poole. At January 1st 2011 the VOA reports that cleared industrial development sites in Southampton of 0.5 ha – 1.0 ha have a value of £1,145,000 per ha. The value of industrial land in Southampton has fallen from a reported average of £1,660,000 per ha in July 2009.

Industrial values in Bournemouth/Poole are historically significantly below those in Southampton. The VOA Property Market reports for July 2009 reports industrial land value for Bournemouth/Poole at £800,000 per ha, compared to a value of £1,400,000 per ha in Southampton. Thus the evidence is that industrial land values are around 57% of those in Southampton.

**Figure 21: Industrial and Warehousing Land Values**

| | £'000 per ha | |
|---|---|---|
| | **Southampton** | **Bournemouth** |
| 1 January 2011 | 1,145 | 600* |
| 1 January 2010 | 1,400 | 800 |
| 1 January 2009 | 1,660 | 1,100 |

Valuation Office Agency Property Market Reports 2011, January 2010, July 2009
* DTZ Estimate

This differential between industrial and warehousing land values in Southampton and Bournemouth/Poole will reflect a number of factors, but principally the fact that the majority of sites in Southampton will have good access to the motorway network. The Port of Southampton is also a significant generator of demand for industrial and warehouse space.

In terms of accessibility to the national motorway network, Bournemouth/Poole carry a 30 minute time penalty compared to industrial sites in Southampton close to the junction of the M3 and M27. This is reflected in land values. In interpreting this data to establish benchmark land values for New Forest District, it is important to reflect the different accessibility of different parts of the District.

Thus Ringwood, which has allocations of industrial land, is only 20 minutes from the junction of the M3 and M27, and businesses located in Ringwood have direct access via the dual carriageway A27 to the national motorway network. However demand will only arise from smaller businesses given the size of employment land allocations, and not major space users.

In contrast New Milton is 30 minutes drive time from the junction of the M3 and M27, and has much less direct and reliable access to the national motorway network than some sites in Bournemouth. Different again, the Waterside has good access to the national motorway network with a 17 minute drive time to the junction of the M3 and M27, provided there is no congestion on the A326.

All these considerations are likely to affect the value of land allocated for industrial and warehousing use in New Forest District. DTZ estimate current industrial land values in the three sub-areas to be as follows:

- East Sub-Area: £1,000,000 per ha, representing a discount against the recorded VOA value for Southampton of £1,145,000 per ha
- South Sub-Area: £600,000 per ha, equivalent to DTZ's estimate of land value in Bournemouth Poole at the start of 2011

- Western Sub-Area: £800,000 per ha, reflecting a value between Southampton and Bournemouth Poole values, and taking into account the relatively small sites available.

## The Impact of Planning Obligations on Land Value and Viability

Development land values are ultimately set in the market by the value of the development that can be undertaken on the land. Land values should therefore have a relationship with the results of residual land value appraisals undertaken when appraising development schemes. This process assesses the revenues associated with completed developments and deducts all relevant costs to arrive at the residual value of the land. This represents the maximum a developer can pay for land and secure its target rate of return.

Planning obligations are one of the costs that need to be factored into development appraisals and residual land valuation calculations. Thus likely Section 106 obligations, including requirements for affordable housing, should be taken into account in development appraisals currently undertaken in New Forest District, and therefore a factor in determining the value of development land. CIL in the New Forest study area is likely to be largely associated with funding the same requirements as currently funded through s106 obligations. If CIL charges are set at a level equivalent to existing s106 obligations there should be little impact on land values.

CIL charges are only likely to have a major impact on viability if existing development is at the margins of viability; that is, development would deliver no substantial increase in land value over existing use values. More likely CIL might have some impact on the timing of development. If the CIL charge reduces the value of land that a landowner expected to receive, this may cause some landowners to hold land in the hope that land values will rise in future. However, this may not be an attractive option for all landowners.

This highlights two important features in the discussion of viability. Unless there is an absolute viability problem where development does not deliver any value to the landowner (or no more than existing use value), the impact of CIL in the short term will depend on landowner psychology and objectives. In the longer term, planning obligations such as CIL should be reflected in the value of development land, and be one of the factors that determine the market value of development land.

# 7. Residential Viability Results

This section summarises the findings of the impact of CIL charges on the viability of residential development in the New Forest area. All modelling has been undertaken using the Homes and Communities Agency's Area Wide Viability Model which has been designed to test residential development viability with different levels of s106 and CIL obligations

Results are presented for each of the residential development archetypes and the impact on CIL by sub-area on viability is discussed in relation to each development archetype. The results presented here are based on the following key assumptions:

- **Developer Profit at 20% of GDV**: the impact of CIL on development viability has also been tested on the basis of 15% and 17.5% developer profit. The results presented are the most pessimistic in terms of impact on development viability in terms of the assumption about the level of profit required by developers. To the extent that developers would be willing to undertaken development at lower levels of profit, the figures presented in this section understate residual land value.

- **Policy Compliant Levels of Affordable Housing**: all viability tests have been run on the basis that the schemes being tested comply fully with the local authorities' affordable housing policies (see Figure 9). All viability tests are based on the assumption of adoption of the new affordable rent tenure instead of social housing tenure, and no public sector grant aid to support affordable housing development secured through s106 sites (see Figure 16 for rental assumptions applying to affordable housing development). For small schemes where the affordable housing requirement equates to less than 1 unit, a pro rata contribution has been assumed in the modelling (effectively a financial contribution towards affordable provision).

- **Value Areas and Sales Values**: all the results presented in this section reflect the different levels of viability associated with the sales values applicable to each of the four sub-areas within the District (East, South, West, and National Park). In each area viability is tested at both the lower and higher sales value assumption used in the modelling (see Section 5 for details).

- **Community Infrastructure Levy and Residual s106**: The results of the viability test with zero CIL, and CIL set at £60, £80 and £100 per sq. metre are presented. It has been assumed that residual s106 obligations (other than affordable housing) are zero. Technically the test of viability at each level of CIL is for the CIL charge and any residual element of s106 obligation to deal with site specific issues.

- **Residual Land Value**: All results are presented in terms of Residual Land Values per hectare expressed in £000. These results can then be compared to the 'benchmark' per hectare land values discussed in Chapter 6 for each sub-area (which range from £2m per ha to £2.5m per ha). Where the RLV results exceed these benchmarks, this indicates that there is likely to be uplift in land value compared to current value expectations, and hence that the scheme is broadly viable at that level of CIL. This is true for undeveloped land, and the archetypes involving existing houses, where the £2m per ha figure is likely to cover the cost of such acquisitions.

## Archetypes A and B: Greenfield Sites for Market Development

| Archetype | Site Type | Density (dph) | Site Area | Description |
|---|---|---|---|---|
| A | Greenfield Site | 25 | 4 ha | Erection of 35 x 2 bed houses (35%), 35 x 3 bed houses (35%) and 30 x 4 bed houses (30%) |
| B | Greenfield Site | 25 | 0.5 ha | Erection of 4 x 2 bed houses (35%), 4 x 3 bed houses (35%) and 4 x 4 bed houses (30%) |

The results of the viability testing for the two archetypes involving greenfield sites for market development at different levels of CIL are set out in Figure 22.

**Figure 22: Residual Land Value, Archetypes A and B, Greenfield Development**

**CIL at Zero:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 50% AH, Zero CIL* | | | | |
| | **Archetype A** | | **Archetype B** | |
| | *High* | *Low* | *High* | *Low* |
| East | 1,877 | 1,110 | 2,115 | 1,248 |
| South | 4,539 | 2,301 | 5,127 | 2,596 |
| West | 3,234 | 1,514 | 3,650 | 1,705 |

**CIL at £60:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 50% AH, £60 CIL* | | | | |
| | **Archetype A** | | **Archetype B** | |
| | *High* | *Low* | *High* | *Low* |
| East | 1,811 | 1,044 | 2,041 | 1,174 |
| South | 4,473 | 2,236 | 5,053 | 2,521 |
| West | 3,168 | 1,448 | 3,576 | 1,631 |

**CIL at £80:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 50% AH, £80 CIL* | | | | |
| | **Archetype A** | | **Archetype B** | |
| | *High* | *Low* | *High* | *Low* |
| East | 1,789 | 1,021 | 2,016 | 1,149 |
| South | 4,451 | 2,214 | 5,028 | 2,497 |
| West | 3,146 | 1,426 | 3,551 | 1,606 |

**CIL at £100:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 50% AH, £100 CIL* | | | | |
| | **Archetype A** | | **Archetype B** | |
| | *High* | *Low* | *High* | *Low* |
| East | 1,767 | 999 | 1,992 | 1,124 |
| South | 4,429 | 2,192 | 5,003 | 2,472 |
| West | 3,124 | 1,404 | 3,527 | 1,581 |

The results for these two developments indicate that for all developments residual land value is positive, but fall below £2 million in a number of scenarios where lower sales values apply. In every case CIL is not the major factor that is likely to determine whether a scheme proceeds or not, since it is a small proportion of Gross Development Value. Sales revenues, build costs and developer profit are the major drivers of overall residual land value.

**East Sub-Area**

This is the sub-area which is most challenged in terms of viability in current market conditions. The viability of development depends critically on what landowner expectations of value are, and their desire to realise value in the near future. With zero CIL these development archetypes in the lower value areas of the sub-area (Totton), deliver a RLV of £1.1 m/ha (Archetype A), and £1.2 m/ha (Archetype B). This is a substantial uplift on agricultural land value, but falls considerable short of expectation of £2 m/ha for residential development land.

In the higher value parts of the sub-area development might proceed, with Archetype B delivering a land value of over £2 m/ha with no CIL and still delivering almost £2 m/ha with £100 sqm CIL charge. Archetype A is probably marginal in the current market even with zero CIL (RLV of £1.9 m/ha) in the parts of the sub-area with higher values if landowner expectations are of a land receipt of c£2 m/ha. If the landowner is more focused on securing the uplift over agricultural land value and wants to realise value now the scheme might proceed.

The likely conclusion of the analysis is that the land allocation made in Totton will not proceed until the market improves. The level of CIL charged (within the ranges being considered) is not likely to be the determinant of whether development proceeds or not.

**South Sub-Area**

The analysis indicates that the South sub-area is more robust in terms of viability than the east or the west. Under all the scenarios modelled residual land value exceeds £2 m/ha. It does so by a substantial margin in the higher sales value parts of the area; and does so by a reasonable margin even when applying CIL at up to £100 per sqm.

**The West Sub Area**

The major greenfield site allocation in the West area is in Ringwood, and hence the low value sales figures are more relevant to considering viability than the upper range of the sales values. Using the lower sales value figures for the area, RLVs for archetype A and B fall in the range £1.4 m/ha and £1.7 m/ha, below the generally perceived current value of residential development land.

If the landowners have expectations to achieve a land value of £2 m/ha or more development will not come forward in the near future. On the other hand if the landowners seek to capitalise on the opportunity to release an uplift on value over current agricultural land value and realise a still significant capital receipt then development could proceed. However it is more likely that the landowner will wait for an improvement in the market before proceeding with development.

Charging CIL is not likely to affect this decision of whether to develop out now or not, given that its impact on land value is modest.

## Archetypes C and D: Greenfield Sites for Local Needs Development

| Archetype | Site Type | Density (dph) | Site Area | Description |
|---|---|---|---|---|
| C | Greenfield Site for local need | 25 | 4 ha | Erection of 35 x 2 bed houses (35%), 35 x 3 bed houses (35%) and 30 x 4 bed houses (30%) |
| D | Greenfield Site for local need | 25 | 0.5 ha | Erection of 4 x 2 bed houses (35%), 4 x 3 bed houses (35%) and 4 x 4 bed houses (30%) |

The results of the viability testing for the two archetypes involving greenfield sites for local needs development at different levels of CIL are set out in Figure 23.

**Figure 23: Residual Land Value, Archetypes C and D, Local Needs Development**

**CIL at Zero:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 70% AH, Zero CIL* | | | | |
| | **Archetype C** | | **Archetype D** | |
| | *High* | *Low* | *High* | *Low* |
| East | 1,567 | 893 | 1,770 | 1,007 |
| South | 3,906 | 1,940 | 4,412 | 2,192 |
| West | 2,759 | 1,249 | 3,117 | 1,410 |

**CIL at £60:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 70% AH, £60 CIL* | | | | |
| | **Archetype C** | | **Archetype D** | |
| | *High* | *Low* | *High* | *Low* |
| East | 1,528 | 854 | 1,727 | 963 |
| South | 3,867 | 1,901 | 4,368 | 2,148 |
| West | 2,720 | 1,209 | 3,073 | 1,365 |

**CIL at £80:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 70% AH, £80 CIL* | | | | |
| | **Archetype C** | | **Archetype D** | |
| | *High* | *Low* | *High* | *Low* |
| East | 1,515 | 841 | 1,712 | 948 |
| South | 3,854 | 1,888 | 4,354 | 2,134 |
| West | 2,707 | 1,196 | 3,059 | 1,351 |

**CIL at £100:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 70% AH, £100 CIL* | | | | |
| | **Archetype C** | | **Archetype D** | |
| | *High* | *Low* | *High* | *Low* |
| East | 1,502 | 828 | 1,697 | 933 |
| South | 3,841 | 1,875 | 4,339 | 2,119 |
| West | 2,694 | 1,183 | 3,044 | 1,336 |

The results for these development archetypes indicate that for all developments residual land value is positive. Except in the low value areas of the East sub-area, the land value is more than £1 m per ha, and in some case substantially higher.

It is hard to judge what the pricing profile of new homes on these sites will be and what the threshold land value might be. Most of the sites identified in the Development Plan for Local Needs are in the higher value parts of each sub-area, and therefore it might be expected that market homes for sale will command higher than average values for the sub-area.

However, the value of market homes for sale may be suppressed compared to prices in the immediate environs because there will be a high proportion of affordable housing in the development and this may deter some private purchasers. However the scope to buy a house in an edge of settlement location adjacent to open countryside may provide a boost to average sales values.

The pattern of results for these archetypes is similar to archetypes A and B, once allowance is made for the impact that the higher levels of affordable housing have on residual land values. Thus development viability is weakest in the East sub-region, followed by the West sub-region and generally strongest in the South sub-region.

The key issue with respect to this form of development relates to landowner behaviour and expectation of development. The sites identified for this form of development would deliver a significant uplift in land values over existing use values. The local authority is expecting that this will give landowners sufficient incentive to proceed, given these sites would not be released in the current development plan period, and there are major impediments to their long term release given that most are within the Green Belt.

CIL charges at the level tested do not have a fundamental affect on development viability. Indeed since affordable housing is exempt from CIL charges the impact on viability of CIL at any particular charging level is less for Archetypes C and D than it is for Archetypes A and B. CIL at the levels tested would be unlikely to be a key factor in determining whether this form of development proceeds.

## Archetypes E, F and G: Redevelopment and Infill Sites

| Archetype | Site Type | Density (dph) | Site Area | Description |
|---|---|---|---|---|
| E | Small site | 35 | 0.18 ha | Demolition of 2 x 4 bed houses and erection of 3 x 2 bed houses (40%), 3 x 3 bed houses (40%) and 1 x 4-bed house (10%) (5 unit net gain) |
| F | Small site | 75 | 0.13 ha | Demolition of 2 x 4 bed houses and erection of 12 x 2-bed flats (10 unit net gain) |
| G | Infill Site | 25 | 0.04 ha | Infill of 1 x 3 bed house |

The results of the viability testing for the two archetypes involving redevelopment and the infill archetype at different levels of CIL are set out in Figures 24 and 25.

- Figure 24 shows the results of the viability testing for these archetypes with 40% affordable housing requirement. 40% affordable housing is the requirement that applies in the East sub-area on all such developments and depending on the location of the development, can apply in the South and West sub-areas.

- Figure 25 shows the results of the viability testing for these archetypes with 50% affordable housing requirement. 50% affordable housing is the requirement that applies throughout the National Park and depending on the location of the development, can apply in the South and West sub-areas.

**Figure 24: Residual Land Value, Archetypes E, F and G, Redevelopment and Infill, 40% AH Requirement**

**CIL at Zero:**

| *Residual Land Value in £000/ha* | | | | | | |
|---|---|---|---|---|---|---|
| 20% Profit, 40% AH, Zero CIL | | | | | | |
| | **Archetype E** | | **Archetype F** | | **Archetype G** | |
| | *High* | *Low* | *High* | *Low* | *High* | *Low* |
| East | 3,594 | 2,101 | 4,087 | 1,763 | 2,470 | 1,454 |
| South | 8,777 | 4,420 | 12,082 | 5,362 | 5,998 | 3,033 |
| West | 6,236 | 2,888 | 8,162 | 2,988 | 4,268 | 1,990 |

**CIL at £60:**

| *Residual Land Value in £000/ha* | | | | | | |
|---|---|---|---|---|---|---|
| 20% Profit, 40% AH, £60 CIL | | | | | | |
| | **Archetype E** | | **Archetype F** | | **Archetype G** | |
| | *High* | *Low* | *High* | *Low* | *High* | *Low* |
| East | 3,457 | 1,964 | 3,873 | 1,548 | 2,379 | 1,363 |
| South | 8,640 | 4,284 | 11,871 | 5,151 | 5,906 | 2,941 |
| West | 6,099 | 2,751 | 7,951 | 2,774 | 4,177 | 1,898 |

**CIL at £80:**

| *Residual Land Value in £000/ha* | | | | | | |
|---|---|---|---|---|---|---|
| 20% Profit, 40% AH, £80 CIL | | | | | | |
| | **Archetype E** | | **Archetype F** | | **Archetype G** | |
| | *High* | *Low* | *High* | *Low* | *High* | *Low* |
| East | 3,411 | 1,919 | 3,802 | 1,477 | 2,348 | 1,332 |
| South | 8,595 | 4,238 | 11,801 | 5,081 | 5,875 | 2,911 |
| West | 6,054 | 2,705 | 7,881 | 2,702 | 4,146 | 1,868 |

**CIL at £100:**

| *Residual Land Value in £000/ha* | | | | | | |
|---|---|---|---|---|---|---|
| 20% Profit, 40% AH, £80 CIL | | | | | | |
| | **Archetype E** | | **Archetype F** | | **Archetype G** | |
| | *High* | *Low* | *High* | *Low* | *High* | *Low* |
| East | 3,366 | 1,873 | 3,730 | 1,405 | 2,317 | 1,302 |
| South | 8,549 | 4,193 | 11,731 | 5,011 | 5,845 | 2,880 |
| West | 6,008 | 2,660 | 7,811 | 2,630 | 4,115 | 1,837 |

**Figure 25: Residual Land Value, Archetypes E, F and G, Redevelopment and Infill, 50% AH Requirement**

**CIL at Zero:**

| *Residual Land Value in £000/ha* | | | | | | |
|---|---|---|---|---|---|---|
| 20% Profit, 50% AH, Zero CIL | | | | | | |
| | **Archetype E** | | **Archetype F** | | **Archetype G** | |
| | *High* | *Low* | *High* | *Low* | *High* | *Low* |
| South | 7,866 | 3,975 | 10,641 | 4,642 | 5,368 | 2,723 |
| West | 5,596 | 2,606 | 7,141 | 2,524 | 3,825 | 1,792 |
| NF NP | 9,625 | 5,629 | 12,494 | 6,710 | 5,650 | 3,323 |

**CIL at £60:**

| *Residual Land Value in £000/ha* | | | | | | |
|---|---|---|---|---|---|---|
| 20% Profit, 50% AH, £60 CIL | | | | | | |
| | **Archetype E** | | **Archetype F** | | **Archetype G** | |
| | *High* | *Low* | *High* | *Low* | *High* | *Low* |
| South | 7,752 | 3,861 | 10,465 | 4,466 | 5,292 | 2,646 |
| West | 5,482 | 2,492 | 6,966 | 2,345 | 3,749 | 1,716 |
| NF NP | 9,479 | 5,483 | 12,290 | 6,506 | 5,573 | 3,246 |

**CIL at £80:**

| *Residual Land Value in £000/ha* | | | | | | |
|---|---|---|---|---|---|---|
| 20% Profit, 50% AH, £80 CIL | | | | | | |
| | **Archetype E** | | **Archetype F** | | **Archetype G** | |
| | *High* | *Low* | *High* | *Low* | *High* | *Low* |
| South | 7,714 | 3,823 | 10,407 | 4,407 | 5,266 | 2,621 |
| West | 5,444 | 2,454 | 6,907 | 2,285 | 3,723 | 1,690 |
| NF NP | 9,431 | 5,435 | 12,222 | 6,438 | 5,548 | 3,221 |

**CIL at £100:**

| *Residual Land Value in £000/ha* | | | | | | |
|---|---|---|---|---|---|---|
| 20% Profit, 50% AH, £100 CIL | | | | | | |
| | **Archetype E** | | **Archetype F** | | **Archetype G** | |
| | *High* | *Low* | *High* | *Low* | *High* | *Low* |
| South | 7,676 | 3,785 | 10,348 | 4,349 | 5,241 | 2,595 |
| West | 5,406 | 2,416 | 6,848 | 2,226 | 3,698 | 1,665 |
| NF NP | 9,382 | 5,386 | 12,154 | 6,370 | 5,522 | 3,196 |

A high proportion of all residential development in recent years in the New Forest has been delivered by small scale redevelopment of residential sites, and this form of development has continued despite the downturn in the housing market. It may be that there are fewer schemes involving redevelopment for flats in the immediate future given changes in the market and planning policy. However trends suggest that the development economics of this form of development are very different to that of major housing sites.

The viability study shows this form of development delivers very high land values per hectare in most areas. They do so by achieving high density of development on small sites. In most cases it would be sensible to disregard the high value figures in the tables above, since dense development is likely to be sold at the lower end of the sale range. Even allowing for this all the archetypes deliver about £2 m/ha equivalent land value in all areas.

There are two exceptions to this general assessment of strong viability. The first exception relates to infill development in the East sub-area. In practice NFDC indicate that infill development is less prevalent in the East sub-region because much of the area has been developed in the past 30 years with relatively high densities and little scope for infill. The second exception highlighted in Figure 25 is development at lower values in the South sub-area with 50% affordable housing. This latter circumstance should not arise since the 50% affordable housing requirement is only sought in higher value areas of the south sub-area.

Consideration does need to be given to the cost of land assembly and acquisition for this form of residential development. Archetypes E and F are based on the presumption of acquisition of 2 four bed homes on good sized plots which are to be demolished. Allowance has therefore to be made for the purchase of existing properties. However a £2 m/ha benchmark land value is expected to cover the likely cost of such acquisitions and in many areas the benchmark land value comfortably exceeds £2 m/ha

CIL charges of £60-£100 do not affect the viability of these schemes and indeed, based on the viability analysis, these sorts of development could bear a higher level of CIL. Given that this form of development is likely to involve a large number of participants in terms of willing vendors of houses and site; and large number of small developers, it is unlikely that the supply of new homes by this route would dry up if higher rates were charged.

It should in particular be noted that the implied land values associated with small scale redevelopment in the National Park are very high indeed. If the development archetypes examined would indeed be compliant with the National Park's planning policy, then CIL charges could be substantially increased. Alternatively the National Park might wish to explore ensuring that the form of housing developed is targeted at lower income groups, even if it remains for sale development.

## Archetypes H and J: Sheltered Housing

The results of the viability testing for the two archetypes involving sheltered housing at different levels of CIL are set out in Figures 26 and 27.

**Figure 26: Residual Land Value, Archetypes H and J, Sheltered Housing, 40% Affordable Housing**

**CIL at Zero:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 40% AH, Zero CIL* | | | | |
| | **Archetype H** | | **Archetype J** | |
| | *High* | *Low* | *High* | *Low* |
| East | 3,782 | 1,027 | 3,299 | 829 |
| South | 13,187 | 5,301 | 11,682 | 4,653 |
| West | 8,588 | 2,485 | 7,598 | 2,137 |

**CIL at £60:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 40% AH, 60 CIL* | | | | |
| | **Archetype H** | | **Archetype J** | |
| | *High* | *Low* | *High* | *Low* |
| East | 3,530 | 770 | 3,071 | 594 |
| South | 12,944 | 5,049 | 11,466 | 4,426 |
| West | 8,344 | 2,233 | 7,374 | 1,906 |

**CIL at £80:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 40% AH, 80 CIL* | | | | |
| | **Archetype H** | | **Archetype J** | |
| | *High* | *Low* | *High* | *Low* |
| East | 3,446 | 685 | 2,996 | 515 |
| South | 12,862 | 4,965 | 11,394 | 4,350 |
| West | 8,263 | 2,149 | 7,300 | 1,829 |

**CIL at £100:**

| *Residual Land Value in £000/ha* | | | | |
|---|---|---|---|---|
| *20% Profit, 40% AH, 100 CIL* | | | | |
| | **Archetype H** | | **Archetype J** | |
| | *High* | *Low* | *High* | *Low* |
| East | 3,361 | 599 | 2,920 | 437 |
| South | 12,781 | 4,881 | 11,322 | 4,274 |
| West | 8,182 | 2,064 | 7,225 | 1,752 |

The Sheltered Housing archetypes deliver very similar figures and pattern of results to the other residential archetypes. Residual land values are consistently in excess of the benchmark £2-2.5m per ha land value across all sub-areas when using the upper end sales values. This is especially true in the South, where values reach five times this figure, and which could therefore sustain a much higher CIL figure. In line with other residential schemes, viability is strongest in the South, followed by the West, and weakest in the East sub-area, where areas of lowest sales values deliver RLVs consistently below £2m per ha.

The results indicate that a CIL charge is not a key determinant in viability for the sheltered housing archetypes, with increasing charges having only a small impact on residual land values. Consequently, a CIL charge in line with other residential archetypes as discussed above, is unlikely to affect whether sheltered housing development on more marginal sites in the lower value areas in the East sub-area is brought forward now, or whether land owners hold onto such land in anticipation of enhanced future land values.

## CIL Charges per Unit

As an aid to decision making it is useful to convert CIL charges per sqm applied to new homes, into an indicative charge per dwelling. Figure 27 shows the chargeable floor areas of each of the archetypes examined in this study; and an indicative distribution of housing starts by size of dwelling Assuming that this is an accurate reflection of the likely future output of new homes in New Forest District it is possible to calculate the average charge per dwelling type, and an average CIL charge per unit. This average charge per unit is shown at the bottom of Figure 27.

**Figure 27: Indicative Average CIL Charge per Dwelling at different levels of CIL in £ psm**

| Unit Type | Net Unit Size (sq m) | Assumed mix of completed homes | Revenues generated at CIL charge per sq m | | | | |
|---|---|---|---|---|---|---|---|
| | | | £20 | £40 | £60 | £80 | £100 |
| 2 bed flat | 70 | 10% | £1,400 | £2,800 | £4,200 | £5,600 | £7,000 |
| 2 bed house | 90 | 25% | £1,800 | £3,600 | £5,400 | £7,200 | £9,000 |
| 3 bed house | 110 | 30% | £2,200 | £4,400 | £6,600 | £8,800 | £11,000 |
| 4 bed house | 140 | 25% | £2,800 | £5,600 | £8,400 | £11,200 | £14,000 |
| 1 bed flat – sheltered | 55 | 5% | £1,100 | £2,200 | £3,300 | £4,400 | £5,500 |
| 2 bed flat – sheltered | 80 | 5% | £1,600 | £3,200 | £4,800 | £6,400 | £8,000 |
| Average CIL Revenue per Dwelling | | 100% | £2,085 | £4,170 | £6,255 | £8,340 | £10,425 |

# 8. Non-Residential Viability Results

This section summarises the findings of the impact of CIL charges on the viability of non-residential development in New Forest District. All modelling has been undertaken using DTZ's bespoke CIL viability model for non-residential development. The assumptions that underpin the viability testing of non-residential development in the District are set out in Sections 4, 5 and 6.

As with the residential viability analysis, the results are presented in the form of Residual Land Values. However given the nature of the base results, it has not been necessary to run multiple variants of the viability model to reach conclusions about the level of CIL that it is possible to charge.

## Commercial Development

The viability of commercial development has been modelled across the whole of New Forest District. It is worth noting that it has been assumed that s106 costs are nil, since this cannot sensibly be assessed on a generic basis. This does mean that both CIL and residual s106 values have to be funded out of any positive residual land value.

Figure 28 summarises residual land values per hectare for each of the commercial development archetypes which have been modelled. The figure shows that each of the development archetypes would deliver a negative land value, even before any s106 requirement or CIL levy. In the current market, commercial development in New Forest District is not viable even before allowing for s106 requirements or for CIL.

**Figure 28: Residual Land Value, Commercial Development**

| Archetype | Site Type | Floorspace | Residual Land Value in £000/ha |
|---|---|---|---|
| K | Medium B1 Office Development | 2,000 sq m | -£2,062 |
| L | Medium Mixed B1 and B2 Development | 2,500 sq m | -£1,812 |
| M | Small General Use Employment Development | 1,000 sq m | -£377 |

There is no case therefore for charging CIL on B1, B2 and B8 developments; though it is also the case that were CIL to be levied, it would not be expected to generate any revenue, since it is not anticipated given these findings that any new B class development will be brought forward in the District until the market improves. The exception to this might be modest extensions to the premises of existing local employers, where the need for additional space is driven by specific business requirements.

The findings that none of the B class archetypes examined are viable is indicative of current market conditions. There is weak demand, and considerable vacant space, so rents have stagnated or fallen. Speculative development of new space is therefore deemed to be high risk, and would be very difficult and expensive to finance. Outside of London the only development occurring is linked to pre-lets, providing space for identified requirements of particular occupiers.

Rental values do not vary sufficiently across the District to make any difference to overall assessment of viability, except to say that development will be less viable than assumed in the South sub-area where rental values are below those in East sub-area and the West sub-area (at Ringwood).

## Retail Development

The viability of retail development has been modelled across the whole of New Forest District. It has been assumed that s106 costs are nil, since this cannot be sensibly be assessed on a generic basis. This does mean that both CIL and residual s106 values have to be funded out of any positive residual land value.

Figure 29 summarises residual land values per hectare for each of the retail development archetypes which have been modelled. The figure shows that the supermarket archetypes (Archetypes N and O) would deliver a very significant positive land value before any s106 requirement or CIL levy. A CIL levy of £200 per sq m makes very little difference to the overall residual land value, and equates to an average of only 4.8% of gross development values.

The comparison store archetypes (Archetypes P and Q) both deliver positive residual land values per ha without a CIL levy, but with the local occupier based archetype delivering a much lower land value. This suggests that while a scheme in a stronger location that would attract national occupiers would be able to deliver a CIL of at least £200 per sq m, an identical scheme in a weaker location in the district that attracts mainly independent local occupiers would only be viable up to a maximum CIL of around £80. This is mainly due to the difference in investment risk of schemes with predominantly national retailers and local independent tenants, which impacts on covenant strength and yields.

Archetypes R and S (both small convenience stores) deliver very different results. The scheme tested with a supermarket based tenant provides very strong residual land values and could support a CIL charge of at least £200 per sq m. The scheme tested with an independent local grocer-based tenant, produces a negative land value – indicating this would not be viable and could not support a CIL charge (for the same reasons as discussed above).

**Figure 29: Residual Land Value, Retail Development**

| Archetype | Site Type | Floorspace | Residual Land Value in £m/ha with CIL@ zero | Residual Land Value in £m/ha with CIL@£200 psm |
|---|---|---|---|---|
| N | Large Superstore – National Supermarket Chain | 4,000 sq m | £9.1 | £8.3 |
| O | Small Superstore – National Supermarket Chain | 1,500 sq m | £3.9 | £3.4 |
| P | Small Comparison Store – National Occupier | 500 sq m | £1.6 | £1.2 |
| Q | Small Comparison Store – Local Occupier | 500 sq m | £0.3 | -£0.2 |
| R | Small Convenience Store – National Occupier | 300 sq m | £5.2 | £4.7 |
| S | Small Convenience Store – Local Occupier | 300 sq m | -£0.1 | -£0.8 |

The analysis would indicate that supermarket developments and smaller convenience stores backed by major chains would sustain a very high CIL charge – due to their covenant strength lowering development risk and increasing capital values. Smaller comparison developments backed by national retail chains (typically only found in the main town centres) would also be able to sustain a smaller CIL charge for similar reasons. Schemes relying on local independent tenants (typically found in neighbourhood centres) are unlikely to be able to absorb a CIL charge. However it must be borne in mind that, while each of these retail formats could be developed in the New Forest area, they are likely to only emerge slowly over the development plan period, and only in very selective locations.

This form of development is therefore unlikely to be major generators of revenue given the modest amount of additional floorspace anticipated in the Development Plan, and the likelihood is that many new retail occupiers will take up space within the existing stock of retail properties or redevelop existing retail property generating a limited amount of additional floorspace that would be chargeable for CIL.

## Hotel Development

Analysis of the viability of the two archetypes for hotel development indicates that neither could sustain a CIL levy. The modelling indicates that neither archetype are viable, regardless of land value, since both generate negative Residual Land Values. A major issue for budget hotel operators in the New Forest is the fact that the centres in the District are small and therefore there is little scope to capture business customers which are important to maintaining year round occupancy.

**Figure 30: Residual Land Value, Hotel Development**

| Archetype | Site Type | Site Area | Description | RLV in £000/ha |
|---|---|---|---|---|
| T | Small Hotel Extension | 0.2 ha | Extension of 10 bedrooms to small local, budget style hotel | -651 |
| U | Medium-sized new budget hotel | 1.2 ha | Erection of 60 bedroom budget chain hotel | -639 |

It needs to be acknowledged that while standard assumptions suitable for appraisal of hotel investments indicate a lack of viability, it is possible that local operators may pursue expansion which makes sense for their business. This is likely to take the form of hotel extension, where land value is not an issue because it is already in the ownership of the business; and a larger number of bedrooms help to cover fixed costs and generate additional margins. Some hotel development may take place, but it is likely to be quite finely balanced in terms of profitability. It is not likely to be on a scale to generate significant revenue from CIL charges.

## Care Homes

The modelling results for Care Homes suggest that a new medium sized care home could not sustain a CIL charge regardless of land value, as this archetype generates a negligible land value at a CIL rate of £0 per sq m, and a negative land value at all levels of CIL above this. The care home extension archetype does generate a small positive land value with a CIL rate of £0, but once account has been taken of potential residual S106 contributions there is little scope for charging a CIL. As with hotels, this is the case even if the cost of the land is not an issue (as may be the case with extensions),

**Figure 32: Residual Land Value, Care Home Development**

| Archetype | Site Type | Site Area | Description | RLV in £000/ha (with CIL at £ per sq m) | | |
|---|---|---|---|---|---|---|
| | | | | **£0** | **£20** | **£40** |
| V | Extension to Small Care Home | 0.4 ha | Extension of 30 single beds to existing 20 bed care home | 83 | 24 | -33 |
| W | Erection of Medium Care Home | 0.9 ha | Erection of 60 bed care home (56 x 1 bed and 4 x 2 bed rooms) | 0 | -£57 | -£111 |

# 10. Policy Conclusions

This final section draws together the findings of the study, and discusses the implications for policy. Where appropriate the section sets out policy options for consideration by New Forest District Council and New Forest National Park Authority. The decision to charge CIL and the level at which to charge CIL is not a purely technical exercise. It requires a judgement on the relative balance to be struck between sometimes competing objectives, and between short term and longer term considerations. It is therefore a matter for considered discussion of options, informed by the evidence base that has been assembled.

The section is structured around the topics identified in the study brief, which this report is intended to address. These topics are as follows:

- what is the correct balance between maximising revenue and the potential adverse impact upon the viability of development?
- what are the appropriate sub-areas within the study area for CIL charging?
- are there particular types of development where it is not viable to charge CIL, either across the study area, or within particular sub-areas?
- where a CIL charge is viable, what is the optimum level of CIL that can be charged on residential development, by sub-area if appropriate?
- where a CIL charge is viable, what is the optimum level of CIL that can be charged on non-residential development, by sub-area if appropriate?
- what is the impact of NFDC's and NFNPA's affordable housing policies as set out in the authorities' respective Core Strategies on the potential level of CIL contributions?
- how might CIL charging rates affect the application of the affordable housing targets as set out in the authorities' respective Core Strategies

## The Balance between Raising Revenue and Viability

NFDC has identified from its Infrastructure Plan the need to generate about £19 million over the Development Plan Period 2006-2026. A large component of the investment required is for Green Infrastructure and transport projects to mitigate the impacts of development on nearby nationally and internationally designated sites as well as existing infrastructure. Existing s106 payments levied on residential development are deployed primarily for these purposes.

How the overall requirement for infrastructure funding will be met is unknown, since sources of long term financing for infrastructure are uncertain. CIL is an important source of funding for these requirements, both in the near term and in the longer term. It is therefore important to the achievement of the development plan objectives that the principle of CIL charging is established, so that it can become an accepted mechanism of funding for the longer term.

The need to establish the principle of CIL suggests to DTZ that NFDC and NFNPA should at this early stage adopt a relatively cautious attitude in setting CIL charges, so that the development industry can adapt over time to the new mechanism and incorporate CIL into the way they appraise projects and the price they pay for land. With respect to charges on residential development if CIL is set at a similar level to current s106 obligations, the impact of CIL on viability would be neutral.

Decision makers need to be aware that CIL is being launched at a time when the development market is weak across much of the country. In New Forest District, the industrial and commercial development market, in common with virtually all areas outside of London is particularly weak; and decision makers will want to be very cautious about anything that might deter business investment and the creation of much needed new jobs.

In much of the country the residential development market is also weak. However, the residential development market in New Forest District remains relatively buoyant, and the Development Plan does not rely on large scale development. New Forest District is precisely the sort of place housebuilders want to continue to build – a place which appeals to equity rich buyers, with opportunities for building of houses, rather than flats, on relatively small plots.

The relative buoyant nature of the New Forest residential development market is reflected in the fact that housing completions have been running ahead of annualised targets even since the downturn in the housing market. There remains throughout the District, in both the area where NFDC is planning authority and where NFNPA is planning authority, significant numbers of unimplemented planning permissions. If these are built out before expiry of the permission they will not attract CIL.

These facts suggest that the Development Plan objectives will not be undermined if CIL on residential development is set at a level similar to or somewhat higher than the implicit per square metre charge represented by current s106 obligations – which is around £6,500 per dwelling. It is worth noting that the Development Plan will not be thrown off target, if the larger residential development sites identified are not built out until later in the plan period.

In considering what level of CIL charges to set, NFDC and NFNPA need to reflect on the fact that if CIL is set at too high a level, and it deters development, then there will be a reduced level of income. However, this study has highlighted that **CIL, if set at any reasonable level, does not have a major impact on development viability**. It is a small item of cost, and generally where schemes will not proceed, this is because of much more fundamental market dynamics represented in absent demand, high costs of development finance, and perceived risk.

The biggest risk for NFDC with the introduction of CIL is the loss of a significant revenue stream associated with s106 pooled contributions for open space and transport projects. After April 2014 it will no longer be legal to take pooled s106 contributions from more than 5 schemes. At minimum NFDC needs to protect itself against a fall in its revenue available for infrastructure funding required to deliver the development plan. It can do so by introducing, at minimum, a CIL charge on residential development.

Ideally, if viability is not threatened, DTZ would recommend that NFDC seek to use CIL to somewhat enhance the overall revenue it raises from CIL compared to existing s106 policies for residential development. This will help ensure that the overall level of funding for infrastructure required to deliver the development plan is maintained; because the government is proposing that a ‘meaningful amount’ of CIL charges levied in a particular area will be allocated to Town and Parish Councils for their use.

## Sub Areas for CIL Charging

The geography of New Forest District is unusual. Most rural Districts are characterised by a principal town (or towns) surrounded by a rural hinterland. New Forest District has a large central rural area, the National Park, with the larger settlements around the periphery of the District. The NFDC Core Strategy identifies three policy areas, the East covering what is known as the Waterside; the South covering the coastal towns; and the West, being the Avon Valley and its main settlements.

Clearly the National Park and the New Forest District need to be distinguished in terms of charging areas. The National Park Authority is the Charging Authority for the National Park. In terms of policy, development characteristics and values the National Park is sufficiently homogeneous to be treated as a single area for charging purposes.

The options with respect to the area of New Forest District in terms of charging zones are as follows:

1. Set CIL charges for the whole of the area for which NFDC is Charging Authority differentiated only by use classes

2. Set CIL charges for each of the three policy sub-areas, East, West, and South. This might be done for all uses or only some.

3. Set CIL charges for different zones identified by development values and hence viability characteristics. This might be done for all uses or only some.

The challenge for decision makers is that there are systematic differences in the viability of residential development between the East, South and West policy areas, but there are also significant differences in values within these areas in terms of residential development. For example there a significant value differences between Lymington and New Milton in the South sub-area; and between Bransgore and Ringwood in the West sub-area.

Guidance on charge setting is clear that sub-areas can only be identified by reference to differentials in terms of viability. DTZ's interpretation of the guidance is that it would be difficult to justify varying CIL on the basis of option 2 above. Option 1 has the merit of simplicity but CIL charges would have to be set and justified by what is appropriate to lower value areas (particularly the East sub-area which overall has the lowest values). This would mean forgoing revenue that could be raised by charging higher CIL levels on residential development in high value areas.

On balance DTZ would recommend Option 1 of establishing a single CIL charge for residential development across the district, given its simplicity and the need to establish the principle and operation of a charge with developers. DTZ does recognise the potential for Option 3 of identifying one CIL level for development in the lower value parts of the District (regardless of which sub-area they are in) and another CIL level for the higher value areas (regardless of which sub-area they are in). This would create only two charging levels for residential development in that part of the District where NFDC is charging authority.

For reasons set out below, DTZ recommend a unified charge (where a charge is levied) that would apply across the whole District on non-residential development. Our inclination would be to recommend that NFNPA mirrors NFDC policy on CIL charging for non-residential development so there is consistency across the whole study area as regards non-residential development.

## The Viability of Different Types of Development

The key conclusions of this study with respect to the viability of different forms of development can be summarised as follows:

- Residential development can sustain a CIL charge and CIL should be levied on all residential development throughout the District including within the National Park
- Development for commercial uses – offices, industrial and warehouse uses – is not viable in the current market and should be subject to a CIL charge of zero.
- Development of new floorspace for the retail uses most likely to come forward as new development, principally supermarkets, generate very high land values and are able to sustain a significant CIL charge. Smaller stores (both comparison and convenience) backed by major chains and likely to occur only in the major town centres are also be able to sustain a CIL charge. Other small retail developments outside these centres (i.e. typically attracting local occupiers) are of marginal viability or not viable and would not support a CIL charge – but it is unlikely that new development will come forward in this format in the next 5 years.
- Development of new hotels or hotel extensions is not viable on the basis of standard assumptions and hence should be subject to a CIL charge of zero.
- Development of care homes are of marginal viability on the basis of standard assumptions and hence should be subject to a CIL charge of zero.

In making recommendations about whether a charge should be levied on certain types of development, DTZ would note that CIL charges do not have a major impact on development viability. The reason why development is not viable is linked to lack of demand, low revenues relative to build costs, the cost of development finance and perceived riskiness of investment.

With respect to the conclusions DTZ would make the following points in relation to residential development. Residential development is most challenging in the East sub-area, where sales values are generally lower than in the rest of the District. However the smaller development archetypes can still be delivered with CIL charges of up to and exceeding £100 psm with an equivalent land value in excess of £2m per hectare.

The larger market development archetypes are less viable, but still generate a strongly positive residual land value, though not necessarily the £2 million/hectare that might be regarded as the current value of residential development land in the area. However land values move with market conditions and necessarily should reflect planning obligations. On the market development sites and the sites for Local Needs Housing, owners of agricultural land stand to gain a very large absolute uplift in land value; and residential use is the highest value use for the land.

It may be that the owners of these sites in the East sub-area; and in the other sub-areas, decide not to bring these sites forward for development in current market conditions and wait for a recovery in the housing market. However the delivery of the Development Plan does not require these sites to be brought forward in the short term. In DTZ's view whether CIL is charged or not, will not have a major impact on landowner decisions about the timing of development of these sites.

In terms of commercial and hotel development the viability testing indicates that these developments would generate a negative land value in current market conditions. In this sense there is no point imposing a CIL charge, since no new development is likely to come forward in the form that has been modelled. In practice, neither would it make any difference if a CIL charge was set for these developments. It is not CIL that makes these schemes viable or non-viable.

This does raise an issue of whether a CIL charge could be set for commercial development and hotels. It is possible to envisage that some local businesses may proceed with extensions to their premises; or that a business might build new premises for their own occupation. These might occur even in the current market if driven by a particular business need. Likewise a particular hotel might undertake extension work because this is justified by their particular business requirements or opportunity.

A CIL charge would generate some modest income from these probably small scale investment; and protect the Council against losing revenue associated with an unexpected event, such as an application to build new space at Fawley Refinery or a major business linked to the Port of Southampton deciding to invest in a new building for its own use in the East sub-area. Likewise it might be that a hotel operator decides to buy up an existing failing hotel in the National Park and rebrand and reposition it, and as part of this, build additional space.

With respect to retail, the most likely form of retail development to come forward are supermarkets and convenience food stores backed by major supermarket chains (since they are often ‘owner occupiers’ or offer strong covenants and low risk to developers). Such convenience store developments where additional floorspace would be generated are likely to be found in the major town centres – where there is guaranteed demand.

While supermarkets could support a very high level of CIL charge of between £200-£400 psm, only a very small number of such developments would come forward in the Development Plan period. Convenience store developments in the major town centres could also support a CIL of £200 psm – though again, it is unlikely there would be many such developments producing additional floorspace (especially given existing vacancies and the current retail market).

Developments outside the major town centres i.e. those most likely to involve local and independent retailers, are of marginal viability or unviable, and would not be able to support any charge. They are also unlikely to come forward in the near future.

The issue to be addressed would be whether setting high levels of CIL to capture the high values generated by supermarkets and convenience stores in the main centres would deter other more marginal developments that would contribute to the vitality and viability of the District’s town centres (and provide additional business rates); or whether such developments could be achieved by selective redevelopment within the established retail areas. This would give rise to little net increase in floorspace and very limited additional floorspace that would be subject to the CIL charge.

## CIL Charging Rates for Residential Development

The level of CIL charged is very much a judgement based on the considerations set out at the start of this section. However, if the basis principle that NFDC uses to guide its charging policy is to ensure that it continues to raise broadly the same level of funds as it does under existing s106 arrangements, DTZ would recommend the following guidelines.

If a single charge level is established for East, South and West areas, DTZ believes that a charge of £80 psm would be consistent with past s106 policies and provide a modest uplift in revenues, to allow some disbursements to town and parish councils. DTZ estimate that that this level of charges would produce average revenue of around £8,000 per new private dwelling. This level of charging would also allow enough viability to be left in schemes to comfortably accommodate residual S106 contributions.

However these figures can be presented as reducing the burden of planning obligations in low value areas when compared to current s106 policies and increasing the burden by only a relatively modest amount in higher value areas. To produce value equivalence between different areas would require a hugely differentiated CIL charge, which would be opposed by those who enjoy the benefits of high land values in high value areas.

In New Forest National Park, residential sales values are consistently higher than in the rest of New Forest District; and the Development Plan requires the development of very small numbers of new homes each year. In principle the analysis indicates that NFNPA could set a high CIL charge on residential development – the viability analysis suggests at least £400 psm – and development would still yield very high levels of residual land values.

Setting a high charge would compensate for the very low volume of new development that is expected to occur in the National Park, and contribute to generating revenue for investment in the Park or outside the Park. A by product of such policy might be to encourage the significant number of people with existing planning permissions to progress development under the existing s106 regime, rather than seeking to renew planning permissions, which would then become subject to the new CIL arrangements.

The NFNPA would need to justify high levels of CIL charges on residential development by demonstrating its need to raise funds for its own infrastructure plan. DTZ envisage that it would be easy to demonstrate the need for investment in activities related to the National Park's core objectives, be that provision of open space to take pressure off protected habitats or other environmental measures.

The government is also consulting on whether CIL revenues should be able to be used to fund affordable housing development. If the government allows CIL revenues to be used in this way, then the NFNPA might well be interested in deploying CIL revenues to help achieve its affordable housing objectives.

## CIL Charging Rates for Non-Residential Development

DTZ anticipate that initially CIL rates on net additional floorspace for large format food store / supermarket development could be set at £200 psm. This value would still leave the development archetypes tested delivering very high residual land values.

For smaller food store development in the main town centres, a CIL of £200 psm could be supported while still delivering high residual land values, if developed by a national retailer with strong covenant. Indeed it is very probable that such developments would only come forward, whether CIL is charged or not, if there is a national retailer involved.

Other retail schemes outside these town centres that would provide additional retail floorspace are unlikely to come forward, and if they did, would not be able to sustain any CIL charge.

Therefore DTZ would see that there are two policy options for NFDC to consider

- Option 1: A single charge of £200 psm could be set for large format foodstores / supermarkets (of over 1,000 sq m); and a zero charge for all other retail developments on the basis that while small developments involving a national retailer could bear a CIL charge, this would deter any new development coming forward that would cater for local retail businesses unable to provide the covenant strength of a national retailer:

- Option 2: Alternatively a charge of £200 psm could be set for large format foodstores / supermarkets (of over 1,000 sq m); a charge of £100 psm for retail developments of less than 1,000 sqm in the defined town centres in the District; and a zero charge for developments elsewhere in the District – that is neighbourhood centres.

A cut-off figure of 1,000 sq m could be used as smaller convenience stores are typically around 500 sq m, and smaller supermarkets usually a minimum of 1,500 sq m. Therefore a figure of 1,000 sq m would ensure flexibility for both slightly larger convenience stores and smaller supermarkets to be developed (depending on local circumstances) without crossing the CIL charging thresholds.

In deciding which of these two approaches to adopt the key considerations are as follows:

- Whether there is any realistic prospect in the next 5 years of any retail development proposals that add to net floorspace in the town centres coming forward, aimed at essentially local businesses. If there is deemed to be no likelihood of this, then the only format in which development is likely to come forward, a food store with a national retail occupier, is able to stand a charge.

- Consideration should also be given to whether, given the likely scale of revenue that might be generated in the next 5 years, it is worth seeking to levy a charge. In DTZ's view if the prospect of generating any significant revenue from applying a charge is low because of a generally unfavourable development environment, NFDC would be justified in setting a zero charge.

- Lastly consideration should be given to whether CIL charges would affect the investment plans of the sorts of retailers who might develop these types of stores that would be subject to CIL, encouraging them to bypass New Forest District in favour of other locations with lower or no CIL charges. Here consideration should be given to whether this behaviour would damage the achievement of Development Plan objectives.

On balance DTZ would favour Option 1 outlined above, but the judgement is finely balanced and probably will not make a very material difference to the CIL revenues received by NFDC.

In view of the findings of the viability assessment with respect to commercial development and hotel development, DTZ put forward two options:

- Setting a zero charge with respect to commercial and hotel development reflecting the findings of this study that on standard assumptions, development is not likely to come forward because it is not viable, and does not even generate a positive residual land value. This really applies to any form of speculative development, and the general absence of opportunities to develop with pre-lets of space.

- Recognise that speculative development will not come forward whether CIL is charged on not under current market conditions. But that there is the possibility of modest new development by local businesses which require additional space for their own use; and that the opportunity should be taken to generate revenue from such development if this occurs.

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## The Relationship of Affordable Housing Policies and CIL Charging Levels

The modelling undertaken for this report has tested the viability of residential development on the basis that all developments comply fully with NFDC's and NFNPA's affordable housing policies as set out in the Core Strategies of each authority.

If CIL charges on residential development are set at a level that essentially implies continuance of past non affordable housing s106 charges, the impact on affordable housing output should not be significantly affected. Higher levels of CIL might reduce the pace at which new housing development comes forward, even if overall housing targets are still achieved in the Development Plan period. This would mean slower delivery of affordable homes.

The study brief also seeks advice on whether NFDC's and NFNPA's affordable housing policies affect the level of CIL than can be charged. The differential between the Residual Land Value of schemes with and without affordable housing is very substantial. It is more significant in areas with high sales values (and hence implicitly high residual land values), because in these areas the differential between the revenues generated by affordable and market housing is larger than in lower value areas.

Implicitly this means that significantly higher levels of CIL could be charged on residential development if policy required lower levels of affordable housing provision.

# Appendix A: Schedule of New Build Residential Sales

| AREA | POSTCODE | NEW BUILD SCHEMES / LOCAL AGENT CONTACT / RETIREMENT PROPERTIES IN RED | RECENTLY ACHIEVING |
|---|---|---|---|
| **Ashurst** | SO40 7 | Nothing found – Local Agent - 02380 862243 | Forest View, Woodlands Road: Pair of new builds, with one property sold: Small 3 bed house sitting in over 10 acres of land. Asking price of £750,000; recently achieved price: £650,000 (no floor area available). |
| **Bransgore** | BH23 8 | Foxgloves, West Road – 01202 708 888 | Only 1 completion to date: 4 bed house (1,410 sq ft) - £565,000 (**£401 per sq ft**), May 2011<br>Location is in an attractive setting on the edge of Bransgore, and is therefore likely to reflect prices at the upper end of the range for the sub-area |
| **Brockenhurst** | SO42 7 | Nothing found - Local Agents - 01590 624300 | Most recent modern local properties sold (no floor areas available):<br>3 bed detached house - £565,000 (2009)<br>3 bed detached house - £460,000 (2010) |
| **Everton** | SO41 0J | Nothing found - Local Agent - 01590 644191 | No new build or modern properties here however it is felt that a purchaser would get more for their money in Everton as opposed to the neighbouring locations. |
| **Fawley** | SO45 1D | Nothing found - Local Agent - 02380 243866 | No new build or modern properties sold |
| **Fordingbridge** | SP6 1 | Nothing found - Local Agent - 01425 652121 | No new build or modern properties sold |
| **Hardley and Holbury** | SO45 2 | Nothing found - Local Agent - 023 8022 8822 | No new build or modern properties sold |
| **Hythe and Dibden** | SO45 5 | Nothing found - Local Agent - 02380 844131 | None achieved however the following are asking prices and can be assumed as achievable at asking prices or within £4-5k of asking prices:<br>Hythe: 2 bed bungalow (1,050 sq ft) - £289,950 (**£276 per sq ft**)<br>Hythe: 5 bed detached house (1,800 sq ft) - £439,950 (**£244 per sq ft**)<br>Hythe: 4 bed detached house (1,650 sq ft) - £385,000 (**£233 per sq ft**)<br><br>In nearby Blackfield, the following has recently been achieved:<br>3 bed detached house (£930 sq ft) - £295,000 (**£317 per sq ft**) |
| **Lymington and Pennington** | SO41 9 | Pound Road, Pennington - 0843 314 7495 | 2 bed houses selling at £215,000 - £230,0000 (3 out of 6 properties have been sold to date) |
| | | Blakes Yard, New Street, Lymington - 0843 313 6117 | No sales as yet |

| AREA | POSTCODE | NEW BUILD SCHEMES / LOCAL AGENT CONTACT / RETIREMENT PROPERTIES IN RED | RECENTLY ACHIEVING |
|---|---|---|---|
| | | Lyric Place, Avenue Road, Lymington - 0843 314 1614 | 2 reservations to date out of 14 units in total (confidential). |
| | | Tithe Barn, Lymington - 0843 313 6117 | 1 sale to date: 2 bed semi-detached house (no floor area) - £224,900 (August 2011) |
| | | Farringford Court, Avenue Road, Lymington – 01590 672 879 | All flats come with 1hr per week assistance and include: all gardening and cleaning costs, a 24 hour on-site manager in a secure block with communal areas including a (subsidised) restaurant. Recently achieved sales are as follows:<br>1 bed flat (706 sq ft) - £309,950 (**£439 per sq ft**) – August 2011<br>1 bed flat (542 sq ft) - £284,950 (**£526 per sq ft**) – July 2011<br>1 bed flat (574 sq ft) - £280,950 (**£489 per sq ft**) – July 2011<br>2 bed flat (805 sq ft) - £403,950 (**£502 per sq ft**) – June 2011 |
| **Lyndhurst** | SO43 7 | Nothing found - Local Agent - 02380 284697 | No new build or modern properties sold |
| **Marchwood** | SO40 4 | Nothing found - Local Agent - 02380 860 555 | No new build or modern properties sold |
| **Milford-on-Sea** | SO41 0Q | Infinity, Cliff Road - Infinity, Cliff Road - 0843 103 1646 | Recently achieved sales are as follows:<br>3 bed flat (1,138 sq ft) - £585,000 (**£514 per sq ft**)<br>3 bed flat (1,145 sq ft) - £625,000 (**£546 per sq ft**)<br>This location has sea views and is therefore likely to be at the upper end of the price range for the area. |
| **New Milton and Barton-on-Sea** | BH25 | Shore Heights, Marine Drive West - 0843 313 8997 | 3 bed flat (Ground floor – no area) - £420,000 – May 2011 |
| | | Kingfisher Cottages, Southern Lane - 0843 313 8997 | 3 bed terraced cottage (no area) - £275,000 – Jul 2011 |
| | | Barton Court Avenue - 0843 315 2600 | 3 bed detached bungalow (1,451 sqft)- £460,000 u/offer (**£317 per sq ft**) – July 2011 |
| | | Local Retirement Homes Agent (McCarthy & Stone) - 01425 638 855 | No retirement stock recently sold locally |
| **Ringwood** | BH24 1 | St Ann's Gate, Broadshard Lane - 0843 315 1371 | Recently achieved sales are as follows:<br>3 bed semi-detached house (1,509 sq ft) - £385,000 (**£255 per sq ft**) – September 2011<br>3 bed semi-detached house (1,509 sq ft) - £370,500 (**£246 per sq ft**) – August 2011<br>3 bed semi-detached house (1,509 sq ft) - £390,000 (**£258 per sq ft**) – July 2011<br>This location is near the centre of Ringwood, in a built up area. There are therefore likely to be higher prices in more attractive locations in the locality. |
| | | Cedar Gate, Cloughs Road - 0843 313 1127 | 2 bed mid terrace £188,000 (no floor area available) – September 2011 |

| AREA | POSTCODE | NEW BUILD SCHEMES / LOCAL AGENT CONTACT / RETIREMENT PROPERTIES IN RED | RECENTLY ACHIEVING |
|---|---|---|---|
| **Sway** | SO41 6 | Peppercorn, Durnstown – 01590 681 642 (Maureen) / 01590 674 411 / 01590 681656 | Colten Developments scheme of 5 three and four bed houses. Recently achieved sales are as follows:<br>4 detached cottage (no areas available) - £445,000 – July 2011 |
| **Totton** | SO40 | Brunswick Park, Southern Gardens - 0843 315 6875 | Linden Homes development. Achieved prices confidential, but achieving very close (if not, at) asking prices. The following are average areas and asking prices since marketing commence here in April 2011 (all 1 and 2 bed flats have now been sold):<br>1 bed flats (478 sq ft) - £119,000 to £125,000 (**c.£255 per sq ft**)<br>2 bed flats (706 sq ft) - £150,000 to £155,000 (**c.£215 per sq ft**)<br>3 bed houses (913 sq ft) - £205,000 - £210,000 (**c.£225 per sq ft**)<br>3 bed t/houses (1,161 sq ft) - £240,000 to £245,000 (**c.£210 per sq ft**) |
| | | The Mallards, Testwood Place – 02380 665 100 | Linden Homes development – New development soon to be released, no information available at present. |