

For: Brighton & Hove City Council Community Infrastructure Levy (CIL) Viability Study Addendum

February 2018

DSP17472A



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Notes and Limitations

1. This has been a desk-top exercise based on information provided by Brighton & Hove City Council (B&H CC) supplemented with information gathered by and assumptions made by DSP appropriate to the current stage of review and to inform the Council's preparation of a Community Infrastructure Levy (CIL) Charging Schedule for the city.
2. The original Viability Study¹ and this Addendum have been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including whole plan viability, affordable housing and CIL economic viability as well as providing site-specific viability reviews and advice. In order to carry out this type of assessment a large number of assumptions are required alongside the consideration of a range of a large quantity of information which rarely fits all eventualities.
3. Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated – the indicative surpluses (or other outcomes) generated by the development appraisals for this review will not necessarily reflect site specific circumstances. Therefore, this assessment (as with similar studies of its type) is not intended to prescribe land values or other assumptions or otherwise substitute for the usual considerations and discussions that will continue to be needed as particular developments with varying characteristics come forward. Nevertheless, the assumptions used within this study reflect the policy requirements and strategy of the Council as known at the time of carrying out this review and therefore take into account the cumulative cost effects of policies where those are relevant in developing a CIL Charging Schedule.
4. It should be noted that every scheme is different and no review of this nature can reflect the variances seen in site specific cases. Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and further informing the Council's policy development.
5. This Addendum report sets out supplementary information to inform the Council's consideration of potential CIL charging rates from a viability perspective whilst taking into account adopted local and national policies that may impact on development viability.

¹ Brighton & Hove City Council – Community Infrastructure Levy (CIL) Viability Study (August 2017)

6. The review of development viability is not an exact science. There can be no definite viability cut off point owing to variation in site specific circumstances. These include the land ownership situation. The National Planning Policy Framework (NPPF) states that *“To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable”*. It is not appropriate to assume that because a development appears to produce some land value (or in some cases even value equivalent to an existing / alternative use), the land will change hands and the development proceed. This principle will in some cases extend to land owners expecting or requiring the land price to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner’s enjoyment / use of the land, and a potential premium relative to existing use value or perhaps to an alternative use that the site may be put to. In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop. Overall, land value expectations will need to be realistic and reflective of the opportunities offered by, and constraints associated with, particular sites and schemes in the given circumstances and at the relevant delivery timing; with planning policies being reflected amongst these factors. The planning requirements including CIL will be necessarily reflected in the land values that are ultimately supportable.
7. This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership Ltd; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.
8. To the extent that the document is based on information supplied by others, Dixon Searle Partnership Ltd accepts no liability for any loss or damage suffered by the client or others who choose to rely on it.
9. In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the Council’s policies continue to be applied practically from case to case.

1 Introduction

- 1.1.1. Brighton & Hove City Council is working towards putting a Community Infrastructure Levy (CIL) charging schedule in place and have prepared a Preliminary Draft Charging Schedule (PDCS) in accordance with the CIL Regulations 2010 (as amended).
- 1.1.2. The Council consulted on the PDCS from September 2017 for eight weeks. Comments were sought on any matters raised by the PDCS and the supporting Viability Study (VS)², and in particular on 3 key issues: the proposed charging levels; the value area zones; and the section 106 areas to be scaled back on introduction of CIL. All responses to the consultation have been reviewed by the Council with responses ultimately feeding into a Draft Charging Schedule which will be subject to a second round of statutory consultation in accordance with CIL Regulations 2010 (as amended).
- 1.1.3. A summary of the consultation responses and the Council's review of those responses has also been produced by the Council with assistance from DSP where appropriate. That review provides the Council's responses to points specifically raised through the consultation process and to avoid repetition, those are not covered again here. However, the Council has asked Dixon Searle Partnership to provide an Addendum that addresses particular issues raised through the Consultation that may require further assessment / viability testing. This Addendum should be read in conjunction with the Council's summary of responses to the PDCS consultation and the original Viability Study.
- 1.1.4. The purpose of this brief Addendum is purely to further inform and support the Council's approach to the local implementation of CIL as it considers responses following the first formal consultation stage and moves from the PDCS to develop its Draft Charging Schedule (DCS).
- 1.1.5. In undertaking further review and carrying out additional appraisals, principally on a sensitivity basis, Dixon Searle Partnership (DSP) has used the same principles, methodology and appraisal tools as those used in preparing the main body of the viability assessment.
- 1.1.6. This brief report should not be read in isolation – the methodological explanations and their context will not be repeated here. Only the points which have been added or adjusted in comparison with those set out in the main Assessment report (August 2017) will be noted here.
- 1.1.7. The emphasis here is to provide additional appraisals (summary output sheets of which are to be found Appended to the rear of this report) to further inform the Council's consideration of

² Brighton & Hove City Council – Community Infrastructure Levy (CIL) Viability Study (August 2017)

potential options for its proposed CIL charging approach to purpose built student accommodation (PBSA) and certain forms of retail development. This is in response to comments made through the consultation process. The Council wishes to consider as closely as possible how to apply principles and the viability findings most appropriately to its local context.

- 1.1.8. In terms of retail development, this context refers to comments made in relation to different forms of retail development and whether the Viability Study appropriately addresses their planned or expected occurrence across the City (i.e. their local relevance) and to the ways in which they might be best described. This intends to add clarity to the operation of the Charging Schedule once that is adopted in its final form in due course.
- 1.1.9. The other area considered in this report for the Council's information, is the treatment of purpose-built student accommodation under the CIL regime in response to points made through the consultation process on the various forms of student accommodation that may come forward through the life of the Council's first Charging Schedule.

2 Additional Results & Conclusions Summary

2.1.1 This viability study Addendum follows the same principles, assumptions (except where stated) and methodology set out in detail in the Council's previous VS. This addendum therefore does not repeat the methodology and assumptions again here. The following section briefly sets out the specific issues raised through the PDCS consultation process addressed by this Addendum followed by details of the supplementary viability testing undertaken and conclusions for the Council's consideration.

Retail

2.1.2 Retail development potentially covers a myriad of different scenarios. Following comments made through the consultation process in reference to the Council's proposed city-wide charging rate for 'other shopping units development' of £50/m², the Council has formed the view that it would be beneficial to add to the overall review scope a layer of high level consideration of shopping centre comparison retail; how the viability of that looks relative to the other formats reviewed.

2.1.3 No information or evidence was supplied as part of the consultation process response to retail charging across the City and as such the following is assumption based, building on further research and discussions and liaison with the Council's planning officers. Without a defined scheme (as is normal at this stage of any strategic view of viability) there is obviously a great deal of assumption making at this stage and as such we have needed to run a relatively wide range of sensitivity testing in terms of potential rental values and investment yields as well as adding additional contingency allowances. The additional appraisals undertaken, representative of comparison retail in Brighton & Hove, reflect the following key parameters:

- A development of 30,000m² (20,000m² net), principally assuming comprehensive shopping centre development and a land-take of approximately 4 ha;
- Sensitivity testing carried out across a range of (averaged) rental values of between £600/m² to £1,200/m² (sensitivity trials for viability exploration);
- Sensitivity testing carried out across a range of potential yields from 5% to 6%;
- Other assumptions as set out in the Viability Assessment plus:
 - BCIS build costs at £1,562/m²; external / site works at 30%; contingency at 10%; BREEAM at 5%; professional and other fees at 12%; development profit at 20% GDV; other fees – legal, marketing/letting/purchaser's costs, etc. – as per Viability Study.

2.1.4 With the assumptions used, all scenarios produce positive results with a range of residual and value results between circa £42m/ha with the most optimistic combination of rents and yield assumptions to circa £7m/ha for the least optimistic assumptions on rents and yields. The following table summarises the results of the sensitivity testing with appraisal summaries appended to the rear of this Addendum along with additional (to the Viability Study) values research.

Table 1: Shopping Centre Retail Sensitivity Testing RLV Results

Sensitivity Test	Residual Land Value (£/ha)
5% Yield / £1,200/m ² Rent	£41,904,700
5% Yield / £900/m ² Rent	£27,230,878
5% Yield / £600/m ² Rent	£12,557,056
5.5% Yield / £1,200/m ² Rent	£36,260,596
5.5% Yield / £900/m ² Rent	£22,997,800
5.5% Yield / £600/m ² Rent	£9,735,004
6% Yield / £1,200/m ² Rent	£31,559,385
6% Yield / £900/m ² Rent	£19,471,892
6% Yield / £600/m ² Rent	£7,384,399

Table 2: Shopping Centre Retail - £50/m² CIL as Percentage of Cost / GDV

Sensitivity Test	Gross Development Cost (£)	CIL as Percentage of Cost (%)	Gross Development Value (£)	CIL as Percentage of GDV (%)
5% Yield / £1,200/m ² Rent	£305,485,714	0.49%	£411,428,571	0.36%
5% Yield / £900/m ² Rent	£229,114,286	0.65%	£308,571,429	0.49%
5% Yield / £600/m ² Rent	£152,742,857	0.98%	£205,714,286	0.73%
5.5% Yield / £1,200/m ² Rent	£276,398,104	0.54%	£372,253,339	0.40%
5.5% Yield / £900/m ² Rent	£207,298,578	0.72%	£279,190,004	0.54%
5.5% Yield / £600/m ² Rent	£138,199,052	1.09%	£186,126,670	0.81%
6% Yield / £1,200/m ² Rent	£252,169,811	0.59%	£339,622,642	0.44%
6% Yield / £900/m ² Rent	£189,127,358	0.79%	£254,716,981	0.59%
6% Yield / £600/m ² Rent	£126,084,906	1.19%	£169,811,321	0.88%

2.1.5 There are clearly a wide range of results with changes to the yield assumptions in particular having a significant affect on the results. However, in all cases the results are very positive suggesting residual land values significantly in excess of the highest potential land value benchmarks utilised in the viability study.

2.1.6 As a secondary measure, we have also indicated the impact of the proposed £50 CIL charge as a percentage of the gross development value and cost in each case. Again, it can be seen that the as a percentage of the overall value or cost, a CIL charge of £50/m² is unlikely to affect development to the degree that a viable scheme becomes unviable through the

implementation of that charge. To put this into context, a change of a fraction of a percent in any number of the input assumptions would see the impact of CIL reduced or removed.

- 2.1.7 Overall therefore, in all scenarios, less and more positive, it is not possible say that a £50/sq. m CIL (or possibly a higher charge) would be likely to render this element of the scheme unviable. If it comes forward, it is likely to be viable and a CIL charge of £50/m² is a minor element in terms of the overall development value and costs associated with what would be a prime shopping location.

Purpose Built Student Accommodation

- 2.1.8 Respondents to the PDCS consultation provided a range of views on the Council's proposed CIL charge of £250/m² for purpose-built student accommodation and in particular some discussion in relation to the level, uniform charging across the City and the range of student accommodation that could be developed across the City.
- 2.1.9 For the purposes of the VS, DSP tested a notional scheme of 150 en-suite rooms arranged as cluster flats assuming shared living/kitchen/dining spaces. The following assumptions were used / tested:

Table 3: Viability Study PBSA Viability Assumptions Summary

100% Cluster Type Accommodation with ensuite (150 rooms)	
Low Value	£150/week
Medium Value	£180/week
High Value	£200/week
Site Size	0.36ha
Room Size (net)	12m ²
Room Size (gross)	20m ²
Non-lettable area	40%
NIA	1800m ²
GIA	3000m ²
Build Period	18 months
Build Cost (incl 5% external works)	£1,853/m ²
Management Costs	25.00%
Occupancy	52 weeks
Yields	4.5 - 6.5%

- 2.1.10 In response to issues highlighted through the consultation, we have tested further variations to the PBSA model by carrying out further sensitivity testing on the impact of the implementation of a range of CIL rates on a larger development of cluster flats (400 units) and

studio student accommodation (150 units). The following base assumptions were used (again, this should be read in conjunction with the original Viability Study):

Table 4: Addendum PBSA Viability Assumptions Summary - Cluster

100% Cluster Type Accommodation with ensuite (400 rooms)	
Low Value	£150/week
Medium Value	£180/week
High Value	£200/week
Site Size	0.75ha
Room Size (net)	12m ²
Room Size (gross)	20m ²
Non-lettable area	35%
NIA	4800m ²
GIA	6480m ²
Build Period	24 months
Build Cost (incl 5% external works)	£1,898/m ²
Management Costs	25.00%
Occupancy	39 weeks with remaining at 60%
Yields	5.5%

Table 5: Addendum PBSA Viability Assumptions Summary - Studios

100% Studio Type Accommodation (150 Flats)	
Low Value	£200/week
Medium Value	£250/week
High Value	£300/week
Site Size	0.25ha
Room Size (net)	25m ²
Room Size (gross)	33.75m ²
Non-lettable area	30%
NIA	3,750m ²
GIA	5,062m ²
Build Period	18 months
Build Cost (incl 5% external works)	£1,898/m ²
Management Costs	25.00%
Occupancy	39 weeks with remaining at 60%
Yields	5.5%

- 2.1.11 Supplementary research and commentary on the assumptions used in this Addendum is provided in Appendix II to this Addendum. A summary of the results of the additional modelling is included in Appendix I along with appraisal summaries.
- 2.1.12 The results shown in Appendix I clearly indicate the overall strength of the PBSA results with high residual land values produced across the scenario testing with, as expected, only the lowest rents and highest CIL levels combination indicating potentially marginal viability (and even then showing results on a £ per hectare basis that meet or exceed Viability Test 3).
- 2.1.13 We are therefore of the opinion that the findings and parameters of the original Viability Study remain valid.
- 2.1.14 Given where the Council placed the PBSA CIL charge for the PDCS, it remains our view that the Council could consider CIL charging rates aligned to its selection of rates within the recommended parameters for residential (C3) development. This would appear to present an appropriate and equitable scenario in our view.

Main addendum FINAL DRAFT report text ends.

February 2018

Appendices follow.

