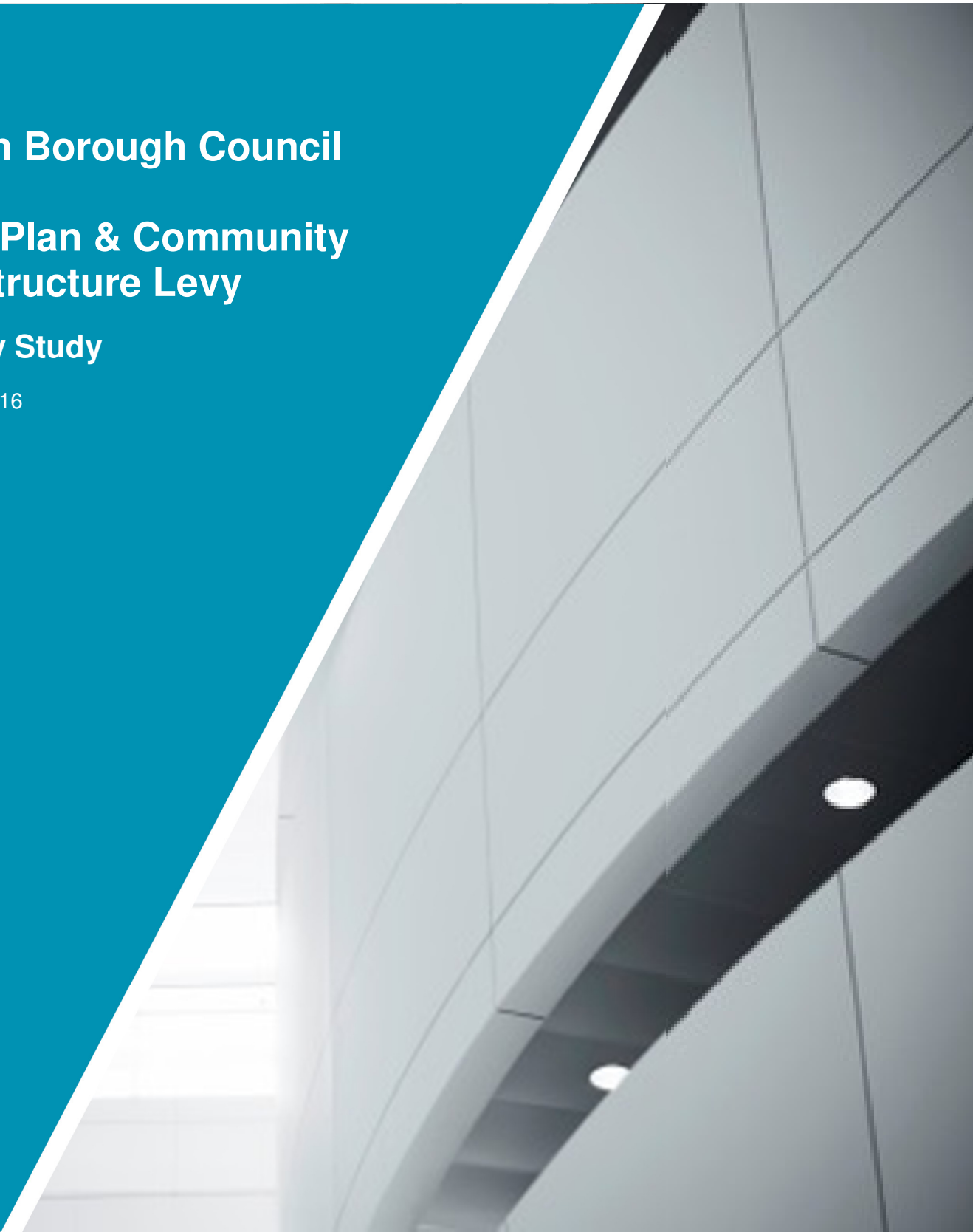


# **Melton Borough Council**

## **Local Plan & Community Infrastructure Levy**

### **Viability Study**

October 2016



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### Report Disclaimer

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In light of the recent Referendum concerning the UK's membership of the EU, we are now in a period of uncertainty in relation to many factors that impact the property investment and letting markets. At this time organisations involved in the industry are reflecting on the potential implications of the UK leaving the EU. Since the Referendum date it has not been possible to gauge the effect of the impact on rental and capital values, along with other elements affecting property appraisal. Cushman & Wakefield continues to closely monitor market developments and trends in order that we can provide clients with the most up to date advice. The views contained in this document are provided in the context of this market uncertainty and as such our estimates and opinions are susceptible to change. Development appraisal results are particularly sensitive to changes in key variables such as cost and values. Accordingly we advise that clients have regard to this risk and may need to commission further advice before acting on the opinions expressed

# 1. Introduction

## 1.1 Purpose

Cushman & Wakefield has been commissioned by Melton Borough Council to produce viability evidence to inform the Council's emerging Local Plan and Community Infrastructure Levy (CIL). The study assesses sites included within the Council's Strategic Housing Land Availability Assessment (SHLAA), draft policies of the emerging Local Plan and identifies the viability headroom available for a Community Infrastructure Levy.

In parallel with this work Arup is assessing the critical infrastructure required to deliver the growth across the District and to prepare a draft Infrastructure Delivery Plan.

## 1.2 Method of approach

The approach to the study has involved the following tasks:

- A. A market assessment, to profile the types of development likely to come forward and the economics of development within the Borough (i.e. costs, rents/capital values and other relevant development appraisal assumptions)
- B. Analysis of sites in the SHLAA, to identify the sites and scheme typologies to be tested through the viability assessment. Preferred sites from the SHLAA have been assimilated into a series of hypothetical schemes that have been tested in different locations across the Borough
- C. Review of draft and policies, to 'screen' those policies that are likely to have a direct impact on development costs/viability that require testing
- D. Consultation with developers, to test and refine the appraisal assumptions base
- E. Viability modelling, assessment of the selected schemes, scenarios and sensitivities
- F. Further testing of a number of the strategic urban extension sites within the SHLAA. This includes residential development sites and mixed use development sites.
- G. Interpretation/development of policy implications for the Local Plan and CIL.

This document makes recommendations on the standards that could viably be applied to development in Melton Borough, in respect of Local Plan policies, Strategic Housing Land Availability and CIL.

A separate report has been produced by Arup which provides an Infrastructure Delivery Plan which the Council will be able to use as a working document to inform the production of a Regulation 123 list.

## 1.3 Structure of report

This report is structured in nine sections. Section 2 sets the Local Plan Policy context and analysis of the Strategic Housing Land Availability. Section 3 sets out the background to CIL,

the regulations governing CIL and recent changes to the regulations. The methodology is explained in Section 4 followed by the assumptions in Section 5 and results in Section 6. Section 7 provides a commentary on the implications for the Local Plan and CIL. Section 8 then models the viability of a finer grain sampling of strategic urban extension sites included in the Local Plan to retest the conclusions of the area wide work. The final conclusions and recommendations are summarised in Section 9.

## 2. Local Plan Context

### 2.1. Local Plan viability context

The need for viability testing of Local Plans has arisen as a result of the requirements of the National Planning Policy Framework (NPPF) published in March 2012. The NPPF has strengthened the importance of viability in the planning process and particularly in respect of development plan preparation. In order to ensure viability and deliverability of Local Plans, the NPPF states:

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

The NPPF has reinforced the requirements for the provision of a deliverable supply of housing land, stipulating the need for a rolling five year supply of deliverable sites with a buffer of 20% for authorities where there has been ‘persistent under delivery’. It also requires local authorities to identify sites for years 6-10 and 11-15 which should be realistically deliverable over the development plan period. In respect of the five year supply, it clarifies the definition of ‘deliverable’ stating:

“To be considered deliverable, sites should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years and in particular that development of the site is viable. Sites with planning permission should be considered deliverable until permission expires, unless there is clear evidence that schemes will not be implemented within five years, for example they will not be viable, there is no longer a demand for the type of units or sites have long term phasing plans.” Footnote 11.

The online National Planning Policy Guidance provides the following guidance regarding the production of viability assessments in support of plan making:

- Local authorities should ensure that the Local Plan vision and policies are realistic and provide high level assurance that plan policies are viable.
- Development of plan policies should be iterative – with draft policies tested against evidence of the likely ability of the market to deliver the plan’s policies, and revised as part of a dynamic process.
- Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable; site typologies may be used to determine viability at policy level.
- The cumulative cost of planning standards and obligations should be tested to ensure viability

- Plan makers should not plan to the margin of viability but should allow for a buffer to respond to changing markets and to avoid the need for frequent plan updating.
- Policies should be deliverable and should not be based on an expectation of future rises in values at least for the first five years of the plan period.
- Local Plan policies should reflect the desirability of re-using brownfield land, and the fact that brownfield land is often more expensive to develop.

The publication of Viability Testing Local Plans by the Local Housing Delivery Group, May 2012, offers guidance for local authorities in assessing local plan viability in accordance with the NPPF. It suggests the need for a distinct Local Plan Viability Assessment to demonstrate that the policies put forward in a Local Plan are viable and accord with the requirements of the NPPF, and therefore the plan meets the tests of soundness.

The guidance underlines the importance of assessing the cumulative impact of policies on development viability and suggests a structured and transparent means of assessing viability. It recommends an economic viability testing model that can be applied area-wide and over the short (0 to 5 years), medium (6-10 years) and long (11-15 years) term. It also suggests close collaboration with the development industry throughout the process.

## 2.2. Melton Local Plan

Melton Borough Council is developing a new Local Plan to shape future development of the Borough up to 2036. Work to prepare the Local Plan builds on previous work undertaken on the Core Strategy which has now been withdrawn.

Cushman & Wakefield has carried out an assessment of the Draft Local Plan policies to determine those that have the potential to impinge on development viability and therefore necessitate testing through this study.

Table 2.1 lists the policies by reference number, together with the categorisation of whether or not they could affect development viability, a description of the impact and details of the assessment required to determine their viability. Where policies explicitly state a requirement for a specific standard it is judged to have the potential to affect development viability.

**Table 2.1 Local Plan Policy Screening**

Affordable housing	% of all units	Transfer Values as % of Open Market Value
To include a mix of: <ul style="list-style-type: none"> <li>○ 20% starter homes</li> <li>○ 5% Shared ownership</li> <li>○ 15% Social/affordable rented</li> </ul>	Target of 40% affordable housing across the Borough	<ul style="list-style-type: none"> <li>○ Starter Homes 80% (of market value).</li> <li>○ Shared Ownership 65%</li> <li>○ Social Rented 37%</li> <li>○ Affordable Rented 47%</li> </ul>



# Melton Borough Council

Affordable housing	% of all units	Transfer Values as % of Open Market Value
<b>Section 106 Contributions</b>	£1,000 per unit included in viability modelling	
<b>Policy C3 National Space Standard and smaller dwellings</b>	National Space Standards have been used to inform dwelling sizes in the viability appraisal	
<p><b>Policy C8 Self and Custom Build Housing</b></p> <p>To support prospective self-builders and custom builders on sites of 100 dwellings or more, developers will supply at least 5% of serviced dwelling plots, for sale, at an appropriate price, to self-builders or custom builders, which will be controlled by the following means:</p> <ul style="list-style-type: none"> <li>A) the Council may seek developments of 5 self-build or custom build dwellings in a single site location to be developed in accordance with an agreed design code;</li> <li>B) where plots have been made available and marketed appropriately for at least 12 months and have not sold, the plot(s) may either remain on the open market or be built out by the developer.</li> <li>C) marketed plots should be of a size at least equal to that of those for detached dwellings of 2-3 bedrooms on the main development site.</li> </ul> <p>In locations within or adjacent to the built form of settlements and those in keeping with the surrounding area, self-build proposals for community schemes will be particularly supported.</p>	No direct effect on development assumptions, though there may be an effect on marketability of wider site and hence likelihood of coming forward for development	
<p><b>Policy EN7 Open Space, Sport and Recreation</b></p> <p>Where there are identified local deficiencies in the quantity, accessibility and/or quality of open space, sports and recreational facilities, new residential development of 10 dwellings or more will be required to contribute towards their provision and/or enhancement in accordance with the open space standards paper, subject to viability considerations. Quantity standards and playing pitch requirements are set out below:</p>	Included within Section 106 contribution	

Affordable housing		% of all units	Transfer Values as % of Open Market Value																
<table border="1"> <thead> <tr> <th>Open space typology</th> <th>Standard (ha/1000 population)</th> </tr> </thead> <tbody> <tr> <td>Parks and gardens</td> <td>1.92</td> </tr> <tr> <td>Natural and semi-natural greenspace</td> <td>1.38</td> </tr> <tr> <td>Amenity greenspace</td> <td>0.77</td> </tr> <tr> <td>Provision for children and young people</td> <td>0.13</td> </tr> <tr> <td>Allotments</td> <td>0.38</td> </tr> <tr> <th>Playing pitches</th> <th>Requirement (ha/1000 population)</th> </tr> <tr> <td>Football pitches</td> <td>0.41</td> </tr> </tbody> </table>		Open space typology	Standard (ha/1000 population)	Parks and gardens	1.92	Natural and semi-natural greenspace	1.38	Amenity greenspace	0.77	Provision for children and young people	0.13	Allotments	0.38	Playing pitches	Requirement (ha/1000 population)	Football pitches	0.41		
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<p>New development proposals will be supported where they protect sports facilities and strategically important sites and key centres and identified in the Playing Pitch Strategy. The strategic open space, sport and recreation needs of the borough up to 2036 will be met by working in partnership with Parishes through the development of Neighbourhood Plans, and other partners, to deliver:</p> <ul style="list-style-type: none"> <li>a) Provision of new allotment space as part of new development in Melton Mowbray, Bottesford and Waltham on the Wolds.</li> <li>b) Enhancement of the following natural greenspaces: Stathern Road Local Nature Reserve; Wymondham Rough SSSI; Cribbs Meadow SSSI and National Nature Reserve; and River Meadow (Lake Terrace) and Dieppe Way/Nottingham Road.</li> <li>c) 7.5ha of amenity greenspace in central Melton and 0.25ha of space in west Melton.</li> <li>d) 2.59ha of parks/gardens in central Melton in accordance with policy EN5.</li> <li>e) 0.44ha of facilities for children and young people in central Melton, 0.1ha of provision in north Melton and 0.38ha of provision in west Melton.</li> <li>f) New teenage facilities to a minimum of 0.04ha in Buckminster and 0.04ha in Burton &amp; Dalby.</li> <li>g) Redevelopment of King Edward VII community sports centre to a multi-sports</li> </ul>																			

Affordable housing	% of all units	Transfer Values as % of Open Market Value
<p>hub as set out in the Melton Indoor Facilities Assessment.</p>		
<p><b>Policy EN9 – Ensuring Efficient and Low Carbon Development</b></p> <p>Development proposals, including refurbishment, will be supported where they demonstrate the following, subject to viability:</p> <ol style="list-style-type: none"> <li>1. How effective use has been made of materials that have been reused, recycled, are renewable, locally sourced, have been transported in the most suitable manner, and have low embodied energy;</li> <li>2. A site waste management plan which emphasizes waste minimization, re-use and recycling during demolition and construction;</li> <li>3. How the design optimizes natural sunlight and solar gain, and prevents overheating including providing non-mechanical means of ventilation and opportunities for cooling from tree planting and landscaping.</li> <li>4. How heat loss from all elements of the building envelope will be prevented;</li> <li>5. Water efficient measures to reduce demand on water resources, including through the use of efficient appliances, rainwater recycling, water butts and underground storage tanks, where technically feasible;</li> <li>6. Development should be phased to ensure sufficient waste water treatment capacity is available before development is complete;</li> <li>7. How developments (dwellings and non-dwellings) have considered on-site renewable, low carbon or de-centralised energy provision, including connection to existing networks where feasible in accordance with policy EN10. Where it is not possible to connect to or install a low carbon heat network, a statement must provide evidence that this has been fully explored and is unfeasible;</li> <li>8. Space for a home office in new homes has been considered;</li> <li>9. Space for cycle storage in new homes and employment sites has been considered</li> </ol>	<p>Included within build cost allowances</p>	

Affordable housing	% of all units	Transfer Values as % of Open Market Value
<p>and, where appropriate showers and changing facilities.</p> <p>10. Charging points for electric cars has been considered;</p> <p>11. A design and access statement for major development which demonstrates the need to reduce carbon emissions has influenced the design, layout and energy source used.</p> <p>The retro-fitting of existing buildings so as to maximise opportunities to prevent heat loss from all elements of the building envelope will be supported where it:</p> <ul style="list-style-type: none"> <li>i. Does not harm heritage assets or their significance; and</li> <li>ii. Protects the character of conservation areas.</li> </ul>		

This ‘screening exercise’ has identified there are a number of policies which impose specific standards that require viability testing. These standards have been tested in the area wide viability model and site specific viability appraisals as outlined in the following sections of this report.

The remaining policies are those which indicate that standards will be required in certain circumstances but not universally; and it is not possible to pinpoint specific cost impacts in an area wide analysis of this type. The cost impact of these policies, which are referenced in the table above as having the ‘potential’ to affect viability, is considered to be allowed for within the general appraisal assumptions used in the viability assessments detailed later in this report.

### 2.3. Melton Borough Strategic Housing Land Availability Assessment

Details of the sites identified through the SHLAA process were provided by the Council and used as the basis for selecting hypothetical development sites for the viability assessment. This enabled us to effectively determine the viability for the emerging local plan policies on residential development and the level of CIL that could be supported. It also enabled the results to be used to reinforce the tests of viability and delivery in accordance with the NPPF.

## 3. Community Infrastructure Levy Context

### 3.1 Background

Community Infrastructure Levy (CIL) is a discretionary tariff introduced by the 2008 Planning Act which local authorities in England and Wales can charge on each net additional sq. m of new floor space (above a minimum scheme of 100 sq. m gross internal area). CIL is the mechanism for securing funding for local infrastructure projects. It is discretionary for local authorities however from April 2015 it will replace that part of the existing S106 agreements that are used for pooled developer contributions.

CIL was brought into effect by the 2010 CIL regulations which have been subsequently updated in 2011, 2012, 2013 and finally on 12 June 2014. The updates have been the response to criticism that the levy is too inflexible and have generally sought to make it more practical to implement. The following paragraphs summarise the key elements of CIL.

### 3.2 Liability for CIL

Landowners are ultimately liable to pay the Levy although anyone can take responsibility for paying the levy such as a developer or planning applicant. 'Charging authorities' are district and metropolitan district councils who are responsible for determining the charging levels and collecting the levy.

Liability for payment is generally triggered by the grant of planning permission (although some forms of development not requiring planning permission such as Permitted Development or Local Development Orders are also required to pay the levy). Payment is due at the point of commencement of development although charging authorities are able to establish policies for payment by instalments and also where planning applications are phased each phase can be treated as a separate chargeable development.

Affordable housing is exempt from CIL.

### 3.3 Rate setting

The proposed CIL charging rates must be set out in a Charging Schedule and expressed as pounds per sq. m, applied to the gross internal floor space of the net additional development liable for the levy.

Charging Authorities have autonomy to set their own charging rates however they are required to do so with regard to viability. The regulations state that they should set rates at a level which do not threaten the ability to develop viably the sites and scale of development identified in their Local Plan and should strike an appropriate 'balance' between the desirability of funding infrastructure from the levy and the potential impact on viability.

CIL should be set based on a 'Relevant Plan' and with regard to the infrastructure requirements of the growth proposed within that Plan. Further, Charging Authorities are required to demonstrate that there is a funding gap (between the total anticipated costs of infrastructure and funding sources available) that necessitates CIL.

Differential rates may be set in relation to:

- Geographical zones within the charging authority's boundaries
- Types of development; and / or
- Scales of development.

However, any such differentials must be justified according to viability evidence (and not, for instance, based on assisting planning policy objectives).

### 3.4 The process for rate setting

The process for adopting a CIL Charging Schedule is as follows:

- the charging authority prepares its evidence base in order to determine its draft levy rates and collaborates with neighbouring/overlapping authorities (and other stakeholders)
- the charging authority prepares a preliminary draft charging schedule and publishes this for consultation
- consultation process takes place
- the charging authority prepares and publishes a draft charging schedule
- period of further representations based on the published draft
- an independent person (the "examiner") examines the charging schedule in public
- the examiner's recommendations are published
- the charging authority considers the examiner's recommendations
- the charging authority approves the charging schedule

## 3.5 Collecting the levy

The charging authority calculates the CIL payment that is due and is responsible for ensuring that payment is made. The process is as follows:

- Planning applicants are required to complete 'Additional CIL Information Form' with their application documents
- Where development is permitted other than through grant of planning permission, the Charging Authority issues a 'Notice of Chargeable Development'
- Applicant submits 'Assumption of Liability Form' confirming identify of land or developer assuming liability for payment
- Collecting Authority submits a 'Liability Notice' to the applicant which sets out the charge due and payment procedure
- Applicant submits a 'Commencement Notice' confirming when it is expected development will commence
- Collecting Authority then issues a 'Demand Notice' setting out the payment due dates
- Collecting Authority must issue receipt to acknowledge payments

The CIL charges will become due for payment from the point at which the chargeable development commences.

A Charging Authority may allow payment instalments but to do so must produce and publish a payment instalments policy. Where planning permissions are phased, each phase can be treated as a separate chargeable development and therefore payment timescales be reflected by the commencement of each phase (as well as instalments within each phase).

## 3.6 Spending the levy

CIL can be used to fund a wide range of infrastructure including transport, schools, flood defences, health facilities, play areas, parks, recreation and other community facilities. It should be used on new infrastructure and not to remedy pre-existing deficiencies unless those deficiencies will be made more severe by the development.

Charging Authorities are required to allocate at least 15% of the levy to spend on priorities agreed with the local community in areas where the development is taking place. This percentage increases to 25% in instances where communities have produced a Neighbourhood Plan.

Charging Authorities may also pass money to bodies outside their area to deliver infrastructure that will benefit the development of the area.

### 3.7 CIL and other planning obligations

CIL replaces that part of S106 agreements that have historically been used for pooling contributions from several developments (e.g. school places). However S106 remains in place for non-pooled contributions that are considered necessary to make development acceptable in planning terms. In addition, Section 278 agreements will remain in place and will allow local authorities to continue to pool contributions for highway projects.

Charging Authorities must avoid 'double dipping' where multiple contributions are secured from a single development for the same infrastructure item through both CIL and S106/278. They are required to publish a Regulation 123 list to accompany the Charging Schedule making clear what items will be funded by CIL to ensure that no such duplication takes place.

### 3.8 Relief

As stated above social housing is exempt from paying the levy including charitable developments. In addition, the Government Regulations allow for exceptional circumstances under which a development that is liable to pay CIL could be exempt from paying the charge. The exceptional circumstances are:

- A section 106 agreement must exist on the planning permission permitting the chargeable development and
- The charging authority must consider that paying the full levy would have an unacceptable impact on the development's economic viability and
- The relief must not constitute a notifiable state aid

The third requirement is the most restricting of the three and in practice is likely to significantly limit the quantity of cases in which exceptional circumstances can be deployed. The local authority is also required to publicise the fact that it is proposing to offer exceptional circumstances relief.



## 4. Viability Testing Methodology

### 4.1. Guidance on Viability Testing of CIL

#### 4.1.1 National Planning Policy Framework

The NPPF makes it clear that viability considerations should be at the heart of plan making:

“To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.” (Para 173 NPPF)

In relation to CIL it states:

“Community Infrastructure Levy charges should be worked up and tested alongside the Local Plan. The Community Infrastructure Levy should support and incentivise new development, particularly by placing control over a meaningful proportion of the funds raised with the neighbourhoods where development takes place.” (Para 175 NPPF).

#### 4.1.2 National Planning Practice Guidance requirements for CIL viability evidence

To underpin the charging levels and demonstrate that the right ‘balance’ has been struck, NPPG recommends the following principles for viability evidence in support of CIL:

- Area based approach involving a broad test of viability across their area
- Must use ‘appropriate available evidence’
- No specific requirement to use any particular valuation model or methodology
- Draw on existing evidence where available including values of land and property prices
- Directly sample an appropriate range of sites across its area, focusing on strategic sites on which the Local Plan relies
- The rates proposed should be consistent with the viability evidence but need not exactly mirror the evidence
- Rates should not be set to the limit of viability and allow a viability buffer
- Full account of development costs should be included in the viability evidence

National Guidance is clear that assessing the viability of local plans does not require the individual testing of every development site. Site typologies may be used to determine area wide viability at a

policy level. Viability assessments should therefore reflect the range of different development typologies (both residential and commercial) which are likely to come forward.

At the heart of assessing viability is land or site value. There are various approaches to determining land value which will be outlined in more detail below; however NPPF guidance states that in all cases, land value should reflect emerging policy requirements and planning obligations, provide a competitive return to willing developers and landowners, be informed by comparable, market based evidence.

Paragraph 015 reference ID 10-015-220140306 of the NPPF states that viability should consider “competitive returns to a willing landowner and willing developer to enable development to be deliverable”. A competitive return is defined as “the price at which a reasonable landowner would be willing to sell their land for development.” Those options may include the current use value of the land or its value for a realistic alternative use that is in line with the local planning policy.

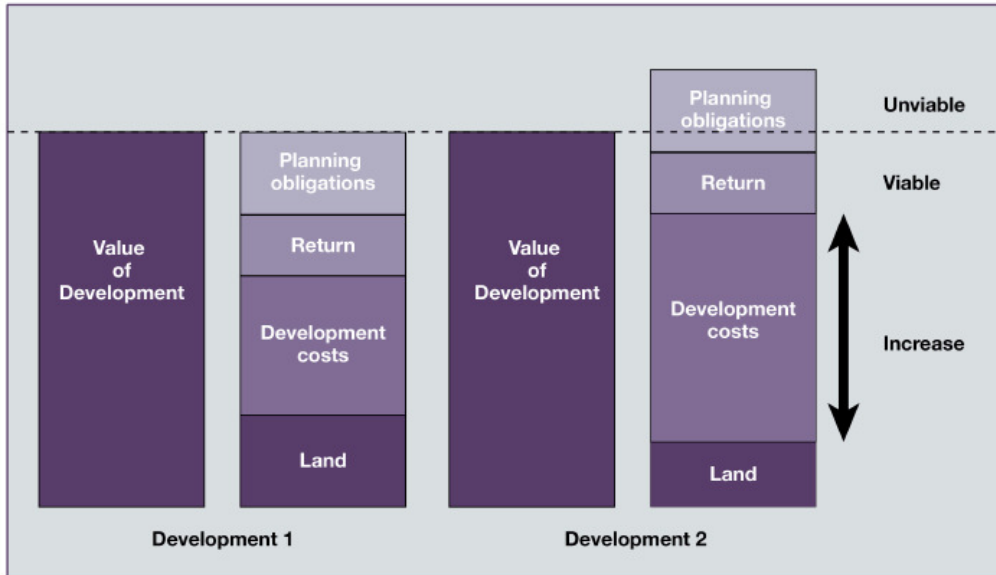
### 4.1.3 RICS Financial Viability in Planning 2012

The RICS Practice guidance, *Financial Viability in Planning* (2012), is the viability methodology for chartered surveyors practicing in this area. This document provides the following definition:

*“An objective financial viability test is the ability of a development project to meet its costs including the costs of planning obligations, while ensuring an appropriate site value for the land owner and market risk adjusted return to the developer in delivering the project”* (para 2.1)

This is illustrated in Figure 4.1 which compares two developments. Development 1 demonstrates a viable development whereby the land value, development costs, planning obligations and developers return are equal to the value of development. Development 2 has increased development costs which put downward pressure on the land value capable of being achieved and renders the development unviable as the developer’s return and planning obligations remain constant. That all development costs (including land, profit and planning gain) must not exceed the value of development is the guiding principle of all viability assessments and has been applied to our analysis of CIL viability across Melton Borough.

**Figure 4.1: Comparative development viability**



**Source: RICS Financial Viability in Planning Guidance Note (1st Edition, 2012)**

#### 4.2. Cushman & Wakefield Viability testing methodology

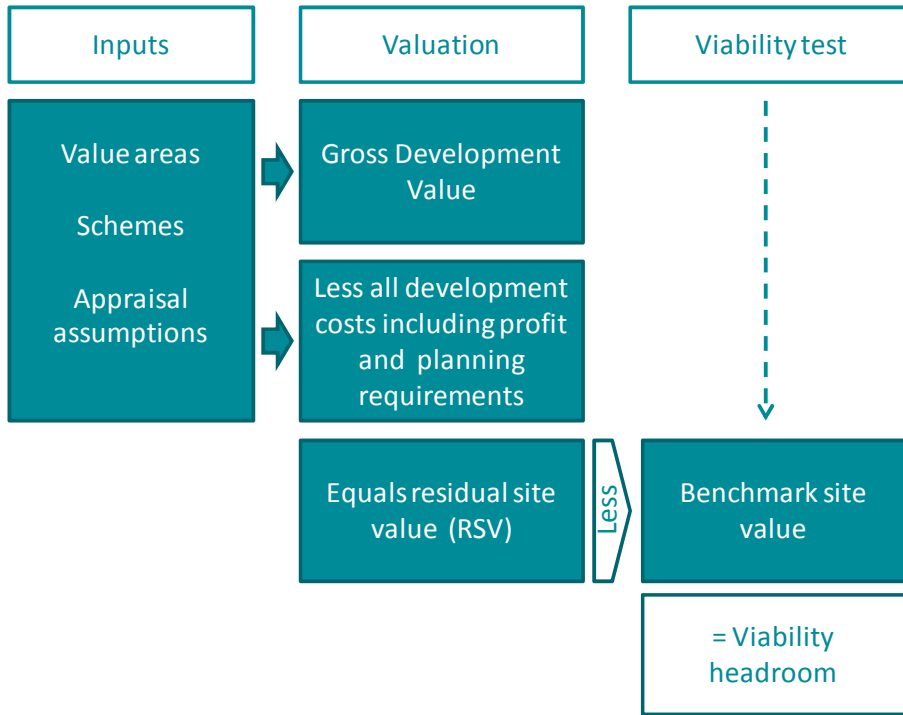
Cushman & Wakefield has developed a viability model which involves the analysis of a selection of hypothetical development schemes which reflect the wide range of circumstances in which development is anticipated to come forward across the Borough of Melton.

The assessment involves a residual appraisal methodology in accordance with the above guidance. Cushman & Wakefield has developed an Excel spreadsheet based economic viability model that allows a number of development sites to be assessed and sensitivity testing of key variables.

This approach involves the following key steps:

- Determination of residential value areas, development schemes and viability assumptions.
- A residual appraisal is then carried out subtracting all anticipated development costs from the scheme's Gross/Net Development Value to arrive at a residual site value for each development scheme. The appraisal includes provision for affordable housing, planning standards and S106 obligations as inputs.
- The residual site value for each development scheme is then benchmarked against a site value threshold to determine the 'headroom' available for CIL/other planning requirements.

Figure 4.2: Viability testing methodology



4.3. Site Specific Viability Testing

Within this report we have supplemented the area wide viability modelling of hypothetical schemes with the testing of “strategic real world sites”, in this case the two proposed Sustainable Neighbourhoods, North and South of Melton Mowbray. The sites have been sampled from the Draft Local Plan allocations. In accordance with the National Planning Policy Guidance, the sites that have been selected are large / strategic sites. The viability of these sites has been tested using Argus Developer software which is an industry standard software model for appraisal and valuation of single sites.

4.4. Ensuring a suitable balance – the viability buffer

As highlighted above, Government guidance underlines the importance of pragmatism and that CIL rates should be reasonable. At Paragraph 019 Reference ID: 25-019-20140612 of NPPG it specifies that “It would be appropriate to ensure that a ‘buffer’ or margin is included, so that the levy rate is able to support development when economic circumstances adjust”.

Case Law indicates that a 25-30% discount from the CIL headroom is a suitable viability buffer. However, each local area may justify its own approach based on the evidence.

Therefore, we have applied an appropriate viability buffer to reflect these recommendations which puts in place safeguards to ensure that the Melton Borough CIL strategy is “viability proofed” and not realistically likely to put development delivery at risk.

## 4.5. Developer consultation

Cushman & Wakefield consulted on the assumptions used to inform the area wide viability testing in September 2016 through a survey of developers, house-builders, registered housing providers, and property and planning agents. The consultation was used to test and refine the approach and assumptions behind the viability modelling.

A summary of responses to our questionnaire survey is available at Appendix 1.

A full list of those invited to participate in the consultation is provided at Appendix 2.

## 5. Viability Assumptions

This section outlines the assumptions that have been used in the viability analysis. The assumptions take into consideration the views of landowners and developers who engaged in the stakeholder consultation in September 2016.

### 5.1. Residential Development

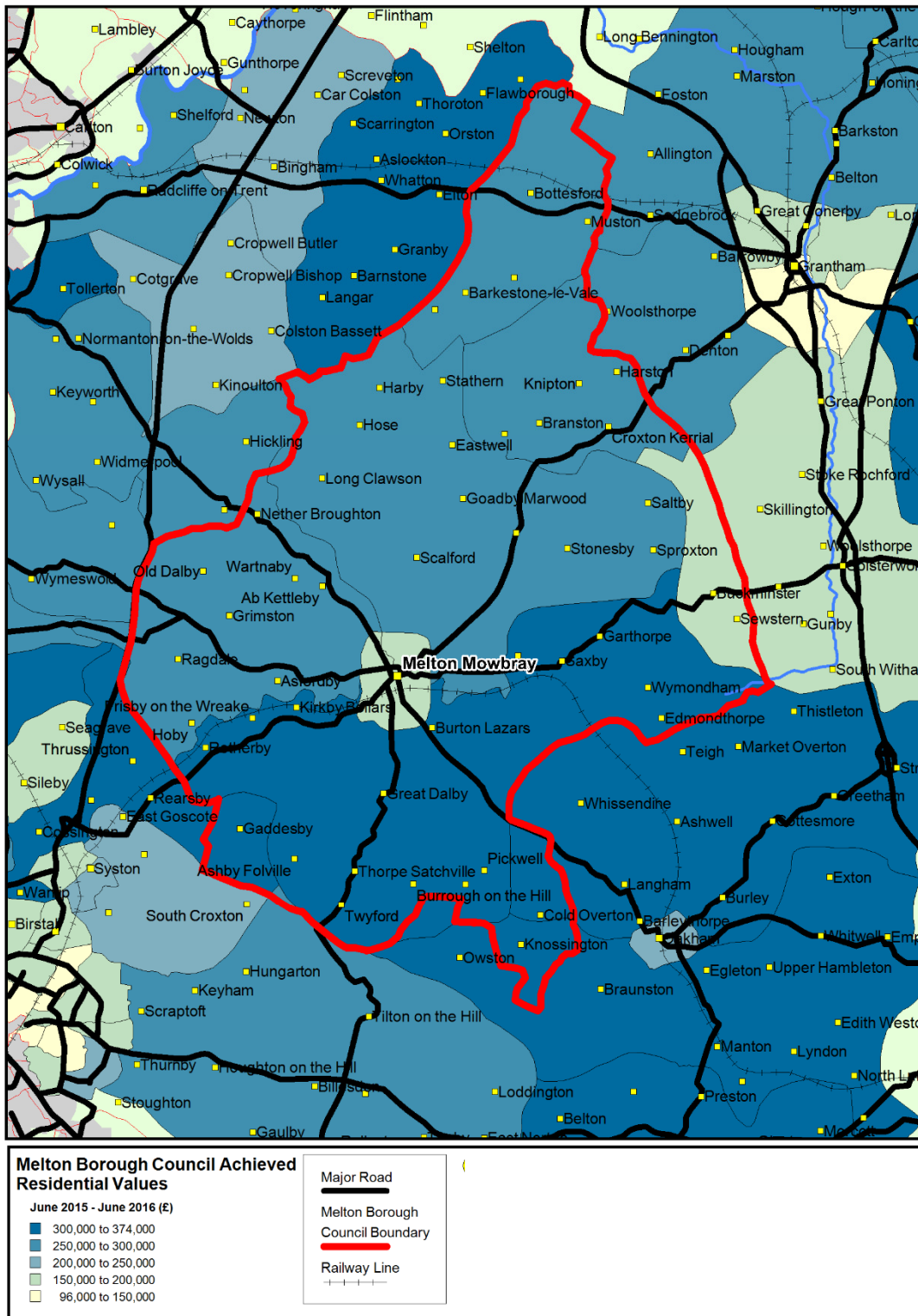
#### 5.1.1 Value areas

Three value areas were selected as geographical zones for viability testing housing development as shown in Figure 5.1:

- Value Area 1 £300,000 to £404,000 average house price
- Value Area 2 £200,000 to £300,000 average house price
- Value Area 3 £150,000 to £200,000 average house price

These zones are based on the average achieved house prices for all postcode sectors in Melton Borough as recorded by HM Land Registry over the 12 month period to June 2016.

Figure 5.1 Melton Borough achieved residential land values. Source: HM Land Registry



5.1.2 Residential development scheme selection

Ten residential schemes have been tested on the range of site sizes, mix and densities set out in Table 5.1. The schemes are based on an analysis of site sizes and typologies which are most likely to come forward for development and SHLAA data. The housing mix is based on that prescribed by emerging Local Plan Policy, which puts the emphasis on small units of one, two and three bed houses. The percentages are illustrated in the table below although it is noted that the actual appraisals involve some minor differences to the percentages as a result of rounding of units up or down according to the mix requirements.

A density of 35 dwellings per hectare has been tested. Arguably the density might have been higher, as the dwelling mix prescribed by emerging policy is at the smaller end of the spectrum, which results in a low site cover of 13,782 sq ft per acre. Based on our experience, house builders generally seek to deliver a minimum of 14,000 sq ft per acre. Therefore, reflecting the small size of the units, a larger number of units could be accommodated on any given development parcel.

The residential schemes have been tested across the three value areas illustrated above.

**Table 5.1a Residential development site selection**

	Developable area		Development density (DPH)	No of units	Housing mix %					Built floor area			
	Net developable area (Ha)	(acres)			1 bed house	2 bed house	3 bed house	4 bed house	5 bed house	Sq m	Sq ft	Sq m per ha	Sq ft per acre
Scheme 1	0.3	0.74	35	11	5%	30%	45%	10.0%	10.0%	949	10,217	3,164	13,782
Scheme 2	0.50	1.24	35	18	5%	30%	45%	10.0%	10.0%	1,582	17,029	3,164	13,782
Scheme 3	1.00	2.47	35	35	5%	30%	45%	10.0%	10.0%	3,164	34,057	3,164	13,782
Scheme 4	1.50	3.71	35	53	5%	30%	45%	10.0%	10.0%	4,746	51,086	3,164	13,782
Scheme 5	2.00	4.94	35	70	5%	30%	45%	10.0%	10.0%	6,328	68,114	3,164	13,782
Scheme 6	3.00	7.41	35	105	5%	30%	45%	10.0%	10.0%	9,492	102,171	3,164	13,782
Scheme 7	4.00	9.88	35	140	5%	30%	45%	10.0%	10.0%	12,656	136,228	3,164	13,782
Scheme 8	5.00	12.36	35	175	5%	30%	45%	10.0%	10.0%	15,820	170,285	3,164	13,782
Scheme 9	10.00	24.71	35	350	5%	30%	45%	10.0%	10.0%	31,640	340,570	3,164	13,782
Scheme 10	14.00	34.60	35	500	5%	30%	45%	10.0%	10.0%	52,625	566,450	3,759	16,374

It should be noted that affordable units are subject to a different housing mix in accordance with emerging policy as follows:

**Table 5.1b Emerging Local Plan policy affordable housing mix**

	% 1 bed	% 2 bed	% 3 bed	% 4 bed	% 5 bed
Affordable / Social rented	30	40	20	5	5
Shared ownership	20	50	25	5	0
Starter homes	10	40	50	0	0



## 5.1.3 Unit sizes

The residential unit sizes listed in Table 5.2 are based on the consultation process with developers.

**Table 5.2 Residential unit sizes (net sales areas)**

House type	Size (sq m)	Size (Sq ft)
1 bed house	58	624
2 bed house	75	807
3 bed house	90	969
4 bed house	115	1,238
5 bed house	130	1,399

## 5.1.4 Sales values

Capital revenues are used in the viability model on the basis of £ per sq m. The sales revenue assumptions are based on market evidence gathered from Cushman & Wakefield's research of new build developments in Melton and also from feedback received from developers when consulted on the viability assumptions proposed for this work.

The market evidence set out in Appendix 3, indicates a tone of new build evidence in the range of £2,368 per sq m to £2,692 per sq m (£175 to £250 per sq ft). New build evidence is not evenly distributed across the Borough, and therefore we have had to make a judgement in respect of the likely levels achievable based on a combination of average house prices derived from the Land Registry (as detailed above under paragraph 5.1.1) and through the consultation process.

The net capital sales value assumptions are therefore as follows:

**Table 5.3 Residential sales values**

	Current net sales values assumptions	
	£ per sq m	£ per sq ft
Rural Value Area 1	2,691	250
Rural Value Area 2	2,368	220
Rural Value Area 3	2,099	195
Melton Mowbray Value Area 4	1,884	175

### 5.1.5 Build costs

The development appraisals include the build costs for houses as shown in Table 5.4a and Table 5.4b.

BCIS build costs have been used (rebased for Leicestershire) with an uplift of 10% for external works. We have made a distinction between the build costs of developments of less than 80 units and more than 80 units to reflect the higher build costs associated with smaller developments. We have also allowed for higher build costs in rural areas of Melton to account for an uplift for the use of stone in keeping with the landscape setting.

**Table 5.4a Residential build costs – Urban area of Melton Mowbray**

	Urban Area of Melton Mowbray Build cost (£)		Plus 10% uplift for external works (£)		Plus 10% uplift for abnormals (£)	
	£ per sq m	£ per sq ft	£ per sq m	£ per sq ft	£ per sq m	£ per sq ft
<80 dwellings	917	85	1,009	94	1,109.57	103.08
>80 dwellings	861	80	947	88	1,041.81	96.79

We have applied a 10% uplift to the build cost (inclusive of external works) to account for abnormal development costs. In the urban area of Melton Mowbray, this results in a development cost of £1,109.57 per sq m for developments of less than 80 dwellings and a cost of £1,041.81 for developments of more than 80 dwellings.

**Table 5.4b Residential build costs – Rural Areas**

	Rural Value Areas Build cost (£)		Plus 10% uplift for external works (£)		Plus 10% uplift for abnormals (£)	
	£ per sq m	£ per sq ft	£ per sq m	£ per sq ft	£ per sq m	£ per sq ft
<80 dwellings	940	87	1,034	96	1,137.31	105.66
>80 dwellings	883	82	971	90	1,067.86	99.21

In the rural parts of the Borough the development cost is £1,137.31 per sq m for developments of less than 80 dwellings and a cost of £1,067.86 for developments of more than 80 dwellings.

### 5.1.6 Other costs / appraisal assumptions

Table 5.5 identifies the other development assumptions that have been applied in the appraisal model. Blended rates of developer profit have been applied reflecting a level of 20% on GDV for market units, 20% on GDV for starter homes and 6% for affordable. The lower rate on the affordable housing reflects the different risk profile for affordable units which are transferred on a pre-sale basis and therefore effectively justifying a contractor's profit level as opposed to a developer's profit. The blended rate therefore varies according to the affordable housing scenario that is applied.

**Table 5.5 Residential development costs**

<b>Other development costs</b>	
Sensitivity for abnormals	10% uplift on build costs
Professional fees (inc planning)	6% on construction costs
Contingencies	5% on construction costs
Marketing, sales agent and legal fees	3.5% of sales revenue
Purchaser's costs	5.8% on purchase price
Finance	6.5% on negative balance
Developer's profit	Blended rate (20% of GDV on market units & 6% of GDV on affordable units)  40% affordable housing – 18.44% 30% affordable housing – 19.35% 20% affordable housing – 20%

### 5.1.7 Timing assumptions

The following delivery rate assumptions have been assumed. These are based on Cushman & Wakefield's understanding of the market and consultation with agents and developers. Site sizes yielding 350 units or more are assumed to have at least two delivery outlets and therefore a higher rate of sale than those of a smaller size which are assumed to have just a single outlet.

**Table 5.6 Residential delivery assumptions**

<b>Delivery assumptions</b>	
Lead in	3 months
Construction / sales	Sales staggered six months after construction start
Sales rates	Three sales per month in rural areas Four sales per month in Melton Mowbray Urban Area  All sites assume a single house builder except sites of 10 ha where two house builders are assumed delivering on two outlets

Payments for land are assumed at the outset of the development programme. Whilst some of the larger sites tested (e.g. those over 5 ha and more) could in practice result in a series of payment instalments which would create finance savings and enhance viability, the model assumes a single payment for land at the outset. This provides a further area of conservatism in the analysis.

**5.1.8 Policy standards**

Table 5.7 details the assumptions have been applied relating to the proposed draft policy standards in development of the emerging Melton Local Plan as summarised in the screening exercise in Section 2:

**Table 5.7 Policy standards**

<b>Policy reference</b>	<b>Standards</b>	<b>Application in appraisals</b>
Affordable Housing	A minimum of 40% affordable housing to include a mix of 20% Starter Homes, 5% Shared Ownership & 15% Affordable / Social Rented	Policy applied to all schemes. Transfer values 80% of market value for starter homes, 65% of market value for shared ownership and 42% of market value for Affordable / Social Rent.
Housing Mix and Housing Type	Housing mix prescription with emphasis on smaller sized units.	Housing mix based on policy position as set out in Tables 5.1a and 5.1b.

The allowance of £1,000 per unit for Section 106 contributions, when CIL modelling, for each residential development scheme is based on the Council’s estimate of Section 106 contributions that would still be required if CIL was implemented across Melton Borough. Where site specific S106 requirements exceed such an allowance it is reasonable to expect that they would result in a reduction in the site values thus allowed for within the appraisals.

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## 5.1.9 Residential land values

### Guidance on Site Value Benchmarks

The Local Housing Delivery Group: Viability Testing Local Plans advice for planning practitioners (July 2012), states that viability studies should incorporate a threshold land value based on ‘a premium over current use values and credible alternative use values’. It also highlights the limitations of using market values for policy-making viability evidence recognising that historic market values do not take into account the impact of future policy on land prices.

The RICS guidance note Financial Viability in Planning 2012 defines site value as follows:

“Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.”

It also states that when undertaking Local Plan or CIL (area-wide) viability testing, a second assumption needs to be applied to the above:

“Site Value (as defined above) may need to be further adjusted to reflect the emerging policy / CIL charging level. The level of the adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted. These include, as a minimum, comments on the state of the market and delivery targets as at the date of assessment.”

Whilst there appears to be an inconsistency in the recommendations of the two guidance documents, both effectively recommend that site value thresholds for area wide viability studies should be set somewhere between existing use/credible alternative use and market values assuming planning permission without planning obligations.

### Melton Borough Land Value Evidence

Recent transactional evidence is limited in Melton and as a result the evidence is somewhat anecdotal.

The evidence gathered from consultation was limited, however we would suggest that minimum land values are typically in the order of £200,000 - £250,000 per acre, and higher land values are evident up to £400,000 per acre.

### National research

The Department for Communities and Local Government published a paper on Land value estimates for policy appraisal in December 2015. The paper includes residential land value estimates using a “truncated residual valuation model” for local authority areas in England. The purpose of the paper is to appraise land projects from a social perspective and as such nil affordable housing provision is assumed.

A number of assumptions are outlined in the paper including:

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- 100% private housing
- No CIL liability is included
- Full planning permission is secured
- No grants in place and no major allowances are needed for s106/s278
- Assumes sites are 1 ha in size, of regular shape and fully serviced, no contamination or abnormalities
- Net developable area of 80%
- Outside London – A density of 35 dwellings per hectare is assumed. Two storey, 2, 3, and 4 bed dwellings with a total floor area of 3,150 sq m

The residential land value identified for Melton is £975,000 per hectare (£394,561 per acre).

### Proposed benchmarks

As demonstrated by the above, evidence relating to market values of specific land transactions is limited and to provide a complete picture of relevant up to date site values across the Borough would necessitate the use of anecdotal evidence that we consider does not provide a reliable guide.

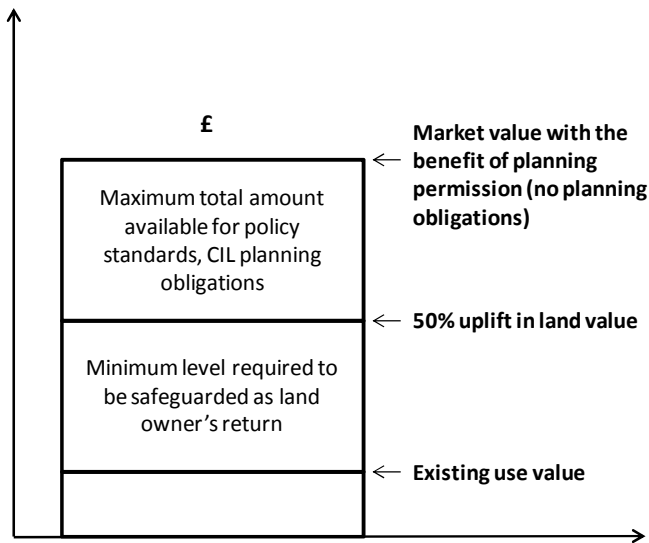
We have adopted the following approach to the land value benchmarks in our viability modelling. The site value threshold is set at half of the gross land value (excluding all planning obligations) plus existing use value:

Benchmark site value = (Gross Land Value / 2) + Existing Use Value

Where:

- Gross Land Value is the land value without any planning obligations or site abnormalities.
- Existing use value based on either agricultural or employment land values

This approach is based on the precedent that was established in the 'Shinfield' case regarding the appeal by Reading University against Wokingham Borough Council relating to Land at The Manor, Shinfield, Reading (Inspector's Report dated 8 January 2013). The following diagram illustrates this approach:



To arrive at a suitable site value threshold using this methodology, three land typologies have then been applied to reflect the principal different existing use values which prevail:

- Greenfield agricultural land use – £18,500 per ha (£7,500 per acre)
- Brownfield (Melton Mowbray Urban Area only) – £494,000 per ha (£200,000 per acre)

Site value thresholds are then calculated for each development scheme that is appraised based on the 50% uplift formula. A key benefit of this approach is that the site value threshold is linked (and adjusts) to the dynamics of the individual development scheme and costs and value assumptions that are appraised in the model.

## 5.2. Retail Development Assumptions

### 5.3.1 Retail scheme selection

Seven hypothetical schemes have been selected for retail viability testing. Table 5.8 presents the details of the schemes, floor area and site coverage.

In considering the floor area, the following definitions are applied:

**Gross Floorspace** is defined as “*The area of a building measured to the internal face of the perimeter walls at each floor level*”.

**Net Floorspace** is defined as “*The internal floor area of the shop unit used for selling and displaying goods and services. It comprises the floor area to which customers have access, counter*”

*space, checkout space, window and other display space, fitting rooms and space immediately behind counters.*

*Lobbies, staircases, cloakrooms and other amenity rooms are excluded. It is measured from the internal faces of walls and partition<sup>2</sup>.*

**Table 5.8 Retail development schemes**

Retail schemes		Gross Internal Areas		Net Internal Areas		Site area	
		Sq m	Sq ft	Sq m	Sq ft	Ha	Acres
Scheme 1	Shopping Centre	15,000	161,459	9,000	96,875	2.00	4.94
Scheme 2	Retail warehousing	3,000	32,292	n/a	n/a	0.75	1.85
Scheme 3	Superstore	5,000	53,820	n/a	n/a	2.00	4.94
Scheme 4	Supermarket (Discount)	1,500	16,146	n/a	n/a	0.60	1.48
Scheme 5	Convenience store	400	4,304	n/a	n/a	0.16	0.4
Scheme 6	Takeaways	45	484	n/a	n/a	0.01	0.02
Scheme 7	Restaurants	400	4,304	n/a	n/a	0.06	0.15

### 5.3.2 Retail sales values

The following table details the base values which have been used in the development appraisals based on market research of comparable schemes locally and regionally and consultation with retail agents:

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<sup>2</sup> The Unit for Retail Planning Information Ltd Information Brief 85/7. Note, this is different from net sales floorspace



**Table 5.9 Retail rental values**

Retail Schemes		Rental value (£)			
		Sq m	Sq ft	Yield	Rent free (months)
Scheme 1	Shopping Centre	194	18.00	7.5	18
Scheme 2	Retail warehousing	118	11	8%	6
Scheme 3	Superstore	161	15	5.5%	6
Scheme 4	Supermarket (Discount)	108	10	6.5%	6
Scheme 5	Convenience store	135	12.50	6.5%	6
Scheme 6	Takeaways	194	16.50	6%	6
Scheme 7	Restaurants	194	16.50	6%	6
Scheme 8	High street store	430	40	8%	3

### 5.3.3 Retail build costs

Table 5.10 outlines the build costs which have been used which are sourced from BCIS rebased for Leicestershire. An uplift of 10% has been allowed for external works.

**Table 5.10 Retail build costs**

		Build cost (£)		Build cost inc. 10% uplift for external works	
		Sq m	Sq ft	Sq m	Sq ft
Scheme 1	Shopping centre	1055	98	1160.5	108
Scheme 2	Retail warehousing	651	60	716	66.5
Scheme 3	Superstore	1060	98	1166	108
Scheme 4	Supermarket (Discount)	1060	98	1166	108
Scheme 5	Convenience store	788	73	867	83
Scheme 6	Takeaways	788	73	867	83
Scheme 7	Restaurants	1925	179	2117.50	197

### 5.3.4 Development cost and phasing assumptions

The following development cost and phasing assumptions have been used in our appraisals:

**Table 5.11 Retail development costs**

<b>Other development costs</b>	
Sensitivity for abnormals (% uplift in build costs)	10.0%
Site specific S106 costs	£50 per sq m
Professional fees as % of construction costs	12.5%
Contingencies on construction costs	5%
Letting costs (% of rental value)	10%
Letting legal costs (% of rental value)	5%
Investment sale (% of Net Development Value)	1%
Investment sale legal costs (% of NDV)	0.25%
Purchaser's costs (% on purchase price)	5.80%
Finance on negative balance	6.5%
Developer profit (% on cost)	20%

**Table 5.12 Retail phasing assumptions**

<b>Phasing assumptions</b>	
Lead in	6 months
Construction period (retail warehousing and supermarket)	12 months
Construction period (others)	18 months
Sale	On practical completion

### 5.3.5 Retail land values

Land values for retail developments have been changing as a result of the retrenchment of the 'big four' acquisition programme.

In recent years land values for large food stores ranged from £1million to £3million per acre, although prices were driven according to the level of operator appetite and the level of competition between operators.

Although there is still demand for new stores, there are a lower volume of requirements which means there is less competition bidding up prices and they have generally been at the smaller end of the spectrum.

A land value benchmark of £370,650 per ha / £150,000 per acre is adopted for retail development schemes.

## 5.3. Office Development Assumptions

### 5.4.1 Scheme selection

Two hypothetical schemes have been selected for viability testing of CIL. Table 5.13 details the schemes, floor area and site coverage used in the appraisals.

**Table 5.13 Office development schemes**

		Floor area (GIA)		Floor area (NIA)		Site area	
		Sq m	Sq ft	Sq m	Sq ft	Ha	Acres
Scheme 1	Town centre, over two floors	500	5,382	425	4,575	0.06	0.15
Scheme 2	Out of town, over two floors	2,000	21,528	1,700	18,299	0.25	0.62

### 5.4.2 Office rental values

Table 5.14 details the rental values, development yield and incentives which have been used in our development appraisals:

**Table 5.14 Office rental values**

		Rental value (£)		Yield	Rent free
		Sq m	Sq ft	%	(months)
Scheme 1	Town centre, over two floors	107.60	10.00	9%	3
Scheme 2	Out of town, over two floors	86.10	8.00	9%	3

5.4.3 Office build costs

We have used the following build costs which are based on BCIS rebased for Leicestershire. We have included a 10% uplift for external works.

**Table 5.15 Office build costs**

		Build cost (£)		Build cost inc. 10% uplift for external works	
		Sq m	Sq ft	Sq m	Sq ft
Scheme 1	Town centre, over two floors	1128	104.80	1240.80	115
Scheme 2	Out of town, over two floors	1128	104.80	1240.80	115

5.4.4 Development cost and phasing assumptions

The following development cost and phasing assumptions have been used which typically reflect local market conditions:

**Table 5.16 Office development costs**

<b>Other development costs</b>	
Sensitivity for abnormals (% uplift on build costs)	10%
Site specific S106 costs	£0
Professional fees as % of construction costs	12.5%
Contingencies on construction costs	3%
Letting costs (% of rental value)	10%
Letting legal costs (% of rental value)	5%
Investment sale (% of Net Development Value)	1%
Investment sale legal costs (% of NDV)	0.25%
Purchaser's costs (% on purchase price)	5.80%
Finance on negative balance	6.5%
Developer profit (% on cost)	20%

**Table 5.17 Office phasing assumptions**

<b>Phasing assumptions</b>	
Lead in	6 months
Construction period	12 months
Sale	On practical completion

#### 5.4.5 Office land values

A land value benchmark of £247,100 per ha / £100,000 per acre is adopted for office development schemes.

### 5.4. Industrial Development Assumptions

#### 5.5.1 Industrial scheme selection

Three hypothetical schemes have been selected for viability testing. Illustrated in Table 5.18 are the schemes, unit sizes and site coverage.

**Table 5.18 Industrial development typologies**

	Floor area (GIA)		Floor area (NIA)		Site area	
	Sq m	Sq ft	Sq m	Sq ft	Ha	Acres
Small industrial /warehouse	465	5,000	465	5,000	0.12	0.3
Medium industrial / warehouse	1,859	20,000	1,859	20,000	0.46	1.14
Large industrial /warehouse	4,647	50,000	4,647	50,000	1.16	2.87

### 5.5.2 Industrial rental values

Table 5.19 details the rental values and incentives which have been used in the development appraisals:

**Table 5.19 Industrial rental values**

	Rental value (£)		Yield	Rent free
	Sq m	Sq ft	%	(months)
Small industrial / warehouse	64.58	6	6	3
Medium industrial / warehouse	59.20	5.5	6	6
Large industrial / warehouse	56.51	5.25	6	6

### 5.5.3 Industrial build costs

The following build costs have been applied which are based on BCIS rebased for Leicestershire. A 10% uplift for external works has also been added to the build cost consistent with the approach to all commercial schemes.

**Table 5.20 Industrial build costs**

	Build cost (£)		Build cost inc. 10% uplift for external works	
	Sq m	Sq ft	Sq m	Sq ft
Small industrial /warehouse	541.00	50.26	595.10	55.29
Medium industrial / warehouse	468.23	43.50	515.05	47.85
Large industrial /warehouse	427.00	39.67	469.70	43.64

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## 5.5.4 Industrial development cost and phasing assumptions

The following development cost and phasing assumptions have been applied:

**Table 5.21 Industrial development costs**

<b>Other development costs</b>	
Sensitivity for abnormals (% uplift on build costs)	10%
Site specific S106 costs	£0
Professional fees as % of construction costs	10%
Contingencies on construction costs	2.5%
Letting costs (% of rental value)	15%
Letting legal costs (% of rental value)	5%
Investment sale (% of Net Development Value)	1%
Investment sale legal costs (% of NDV)	0.25%
Purchaser's costs (% on purchase price)	5.80%
Finance on negative balance	6.5%
Developer profit (% on cost)	15%

**Table 5.22 Industrial phasing assumptions**

<b>Phasing assumptions</b>	
Lead in	6 months
Construction period	12 months
Sale	On practical completion

## 5.5.5 Industrial land values

A land value benchmark of £864,885per ha / £350,000 per acre is adopted for industrial development schemes.

## 5.5. Other Commercial Development Schemes

We have also tested a number of additional commercial sectors to determine whether they are able to support any level of CIL. Table 5.23 details the commercial schemes, floor areas and site coverage.

**Table 5.23 Other commercial development typologies**

	Floor area (GIA)		Floor area (NIA)		Site area	
	Sq m	Sq ft	Sq m	Sq ft	Ha	Acres
Hotel	3,305	35,575	2,314	24,902	0.83	1.11
Care home	2,586	27,835	2,198	23,660	0.65	1.60
Cinema	2,500	26,910	2,500	26,910	0.63	3.71

### 5.6.1 Commercial rental values

Table 5.24 provides details of the rental values, development yields and incentives assumed in our development appraisals:

**Table 5.24 Other commercial development rental values**

	Rental values (£)		Yield	Incentives
	Sq m	Sq ft	%	Months
Hotel	£141.00	£13.10	6.5%	6
Care home	£139.00	£12.91	7.5%	6
Cinema	£107.00	£9.94	7.50%	6

### 5.6.2 Commercial build costs

The following build costs have been applied based on BCIS rebased for Leicestershire. A 10% uplift for external works has been allowed for.



**Table 5.25 Other commercial development build costs**

	Build cost (£)		Build cost inc. 10% uplift for external works	
	Sq m	Sq ft	Sq m	Sq ft
Hotel	1,492	138.60	1641.20	152.50
Care home	1,454	135	1599.40	148.60
Cinema	1,188	110.40	1306.80	121.40

The following development cost and phasing assumptions have been applied:

**Table 5.26 Commercial development costs**

<b>Other development costs</b>	
Sensitivity for abnormals (% uplift on build costs)	10%
Site specific S106 costs	£0
Professional fees as % of construction costs	10%
Contingencies on construction costs	3%
Letting costs (% of rental value)	10%
Letting legal costs (% of rental value)	5%
Investment sale (% of Net Development Value)	1%
Investment sale legal costs (% of NDV)	0.25%
Purchaser's costs (% on purchase price)	5.80%
Finance on negative balance	6.5%
Developer profit (% on cost)	20%

**Table 5.27 Other commercial development phasing**

<b>Phasing assumptions</b>		
Scheme 1	Hotel	6 months lead in, 12 months build, sell on practical completion
Scheme 2	Restaurant	6 months lead in, 12 months build, sell on practical completion
Scheme 3	Care home (60 bed)	6 months lead in, 18 months build, sell on practical completion

### 5.6.3 Land values

The following land value benchmarks are adopted for care home development schemes which are in line with the residential development benchmarks for each value area:

Care home development land value benchmarks are based on the residential land values

- Greenfield agricultural land use – £18,500 per ha (£7,500 per acre)
- Brownfield (Melton Mowbray Urban Area only) – £494,000 per ha (£200,000 per acre)

Hotel and restaurant development scheme land value benchmarks are based on retail site value benchmarks of £1,235,500 per ha / £500,000 per acre.

## 6. Viability Results

This section sets out the results of the area wide viability testing. A summary of the ‘headroom’ that is available for CIL is provided for each of the hypothetical schemes that have been tested, and in the case of the residential sector, the level of affordable housing.

### 6.1. Residential viability results

The results of the residential viability modelling are presented in Tables 6.1 – 6.4 which provide the maximum headroom for CIL for each value area across Melton.

We have assessed a range of affordable housing scenarios to inform the development and refinement of policies.

**Table 6.1: CIL headroom baseline/policy off**

Policy Off													
Value Area	Scheme	No of units	Site Size (Hectares)	Density	Floor coverage (sq m)	Floor coverage (less AH requirement (sq m)	Benchmark Land Value per hectare (£)	Actual Benchmark Land Value (£)	Residual Land Value (£)	Shinfield Benchmark Land Value (£)	Residual Land Value per hectare minus shinfield benchmark Land Value (£)	Maximum Available for CIL (£)	Average CIL
Value Area 1	1	11	0.3	35	949	n/a	18,500	5,550	664,226	334,888	329,338	347	
	2	18	0.5	35	1,566	n/a	18,500	9,250	1,092,874	551,062	541,812	346	
	3	35	1.0	35	3,164	n/a	18,500	18,500	2,204,090	1,111,295	1,092,795	345	
	4	53	1.5	35	4,746	n/a	18,500	27,750	3,273,305	1,650,527	1,622,777	342	
	5	70	2.0	35	6,328	n/a	18,500	37,000	4,329,884	2,183,442	2,146,442	339	
	6	105	3.0	35	9,492	n/a	18,500	55,500	7,012,097	3,533,798	3,478,298	366	366
Value Area 2	1	11	0.3	35	949	n/a	18,500	5,550	452,768	229,159	223,609	236	
	2	18	0.5	35	1,566	n/a	18,500	9,250	746,132	377,691	368,441	235	
	3	35	1.0	35	3,164	n/a	18,500	18,500	1,505,165	761,832	743,332	235	
	4	53	1.5	35	4,746	n/a	18,500	27,750	2,256,604	1,142,177	1,114,427	235	
	5	70	2.0	35	6,328	n/a	18,500	37,000	2,976,593	1,506,796	1,469,796	232	
	6	105	3.0	35	9,492	n/a	18,500	55,500	5,019,493	2,537,496	2,481,996	261	
	7	140	4	35	12,655	n/a	18,500	74,000	6,319,306	3,196,653	3,122,653	247	
	8	175	5	35	15,819	n/a	18,500	92,500	7,776,922	3,934,711	3,842,211	243	
	9	350	10	35	31,638	n/a	18,500	185,000	15,631,470	7,908,235	7,723,235	244	
	10	500	14	35	45,197	n/a	18,500	264,273	21,612,288	10,938,280	10,674,008	236	236
Value Area 3	1	11	0.3	35	949	n/a	18,500	5,550	276,662	141,106	135,556	143	
	2	18	0.5	35	1,582	n/a	18,500	9,250	462,179	235,715	226,465	143	
	3	35	1.0	35	3,164	n/a	18,500	18,500	929,222	473,861	455,361	144	
	4	53	1.5	35	4,746	n/a	18,500	27,750	1,392,430	710,090	682,340	144	
	5	70	2.0	35	6,328	n/a	18,500	37,000	1,853,531	945,265	908,265	144	
	6	105	3.0	35	9,492	n/a	18,500	55,500	3,355,444	1,705,472	1,649,972	174	
	7	140	4	35	12,655	n/a	18,500	74,000	4,224,636	2,149,318	2,075,318	164	
	8	175	5	35	15,819	n/a	18,500	92,500	5,212,795	2,652,648	2,560,148	162	
	9	350	10	35	31,638	n/a	18,500	185,000	10,464,197	5,324,599	5,139,599	162	
	10	500	14	35	45,197	n/a	18,500	264,273	14,540,545	7,402,409	7,138,136	158	158
Melton Mowbray Urban Area	1	11	0.3	35	949	n/a	494,000	148,200	162,677	155,439	7,239	8	
	2	18	0.5	35	1,566	n/a	494,000	247,000	268,301	257,651	10,651	7	
	3	35	1.0	35	3,164	n/a	494,000	494,000	550,447	522,223	28,223	9	
	4	53	1.5	35	4,746	n/a	494,000	741,000	836,554	788,777	47,777	10	
	5	70	2.0	35	6,328	n/a	494,000	988,000	1,119,805	1,053,903	65,903	10	
	6	105	3.0	35	9,492	n/a	494,000	1,482,000	2,305,457	1,893,729	411,729	43	43

Table 6.1 provides the baseline or “policy off” position where no provision is made for affordable housing or S106. It illustrates that in a policy off scenario, there would be headroom for CIL in all the Value Areas tested ranging from £43 per sq m in the urban area of Melton Mowbray to £366 per sq m in Rural Value Area 1.

Table 6.2: CIL headroom 40% affordable housing

40% Affordable Housing													
Value Area	Scheme	No of units	Site Size (Hectares)	Density	Floor coverage (sq m)	Floor coverage (less AH requirement (sq m)	Existing Use Value per hectare (£)	Actual Benchmark Land Value (£)	Residual Land Value (£)	Shinfield Benchmark Land Value (£)	Residual Land Value per hectare minus Shinfield benchmark Land Value (£)	Maximum Available for CIL (£)	Average CIL
Value Area 1	1	11	0.3	35	887	532	28,462	8,538	475,580	336,382	139,198	262	
	2	18	0.5	35	1,582	949	28,462	14,231	775,299	553,552	221,747	234	
	3	35	1.0	35	3,164	1,898	28,462	28,462	1,407,780	1,116,276	291,504	154	
	4	53	1.5	35	4,746	2,848	28,462	42,692	2,268,186	1,657,999	610,187	214	
	5	70	2.0	35	6,328	3,797	28,462	56,923	3,038,935	2,193,404	845,531	223	
	6	105	3.0	35	9,492	5,695	28,462	85,385	4,882,531	3,548,741	1,333,790	234	234
Value Area 2	1	11	0.3	35	887	532	28,462	8,538	294,275	230,653	63,622	120	
	2	18	0.5	35	1,582	949	28,462	14,231	460,834	380,181	80,653	85	
	3	35	1.0	35	3,164	1,898	28,462	28,462	811,193	766,813	44,380	23	
	4	53	1.5	35	4,746	2,848	28,462	42,692	1,353,938	1,149,648	204,290	72	
	5	70	2.0	35	6,328	3,797	28,462	56,923	1,834,299	1,516,758	317,541	84	
	6	105	3.0	35	9,492	5,695	28,462	85,385	3,139,343	2,552,439	586,904	103	
	7	140	4	35	12,026	7,215	28,462	113,846	3,878,484	3,216,576	661,908	92	
	8	175	5	35	15,032	9,019	28,462	142,308	4,780,021	3,959,615	820,406	91	
	9	350	10	35	30,064	18,039	28,462	284,615	9,598,465	7,958,043	1,640,422	91	
	10	500	14	35	42,949	25,769	28,462	406,573	13,305,592	11,009,431	2,296,161	89	89
Value Area 3	1	11	0.3	35	887	532	28,462	8,538	143,282	142,600	682	1	
	2	18	0.5	35	1,582	949	28,462	14,231	200,441	238,205	- 37,764	-40	
	3	35	1.0	35	3,164	1,898	28,462	28,462	304,745	478,842	- 174,096	-92	
	4	53	1.5	35	4,746	2,848	28,462	42,692	589,360	717,561	- 128,202	-45	
	5	70	2.0	35	6,328	3,797	28,462	56,923	832,375	955,227	- 122,852	-32	
	6	105	3.0	35	9,492	5,695	28,462	85,385	1,677,723	1,720,414	- 42,692	-7	
	7	140	4	35	12,026	7,215	28,462	113,846	2,118,822	2,169,241	- 50,419	-7	
	8	175	5	35	15,032	9,019	28,462	142,308	2,624,604	2,677,551	- 52,947	-6	
	9	350	10	35	30,064	18,039	28,462	284,615	5,256,030	5,374,406	- 118,376	-7	
	10	500	14	35	42,949	25,769	28,462	406,573	7,353,769	7,473,559	- 119,790	-5	-5
Melton Mowbray Urban Area	1	11	0.3	35	887	532	494,000	148,200	47,600	155,439	- 107,839	-203	
	2	18	0.5	35	1,582	949	494,000	247,000	33,658	257,651	- 223,992	-236	
	3	35	1.0	35	3,164	1,898	494,000	494,000	13,106	522,223	- 535,329	-282	
	4	53	1.5	35	4,746	2,848	494,000	741,000	101,901	788,777	- 686,877	-241	
	5	70	2.0	35	6,328	3,797	494,000	988,000	184,208	1,053,903	- 869,694	-229	
	6	105	3.0	35	9,492	5,695	494,000	1,482,000	754,753	1,893,729	- 1,138,976	-200	-200

Incorporating a full policy on scenario, at 40% affordable housing there is only headroom for CIL in Rural Value Areas 1 and 2. This is a maximum of £234 per sq m and £89 per sq m respectively.

**Table 6.3: CIL headroom 30% affordable housing**

30% Affordable Housing													
Value Area	Scheme	No of units	Site Size (Hectares)	Density	Floor coverage (sq m)	Floor coverage (less AH requirement (sq m)	Existing Use Value per hectare (£)	Actual Benchmark Land Value (£)	Residual Land Value (£)	Shinfield Benchmark Land Value (£)	Residual Land Value per hectare minus shinfield benchmark Land Value (£)	Maximum Available for CIL (£)	Average CIL
Value Area 1	1	11	0.3	35	906	634	28,462	8,538	514,989	336,382	178,607	282	
	2	18	0.5	35	1,551	1,085	28,462	14,231	875,405	553,552	321,852	297	
	3	35	1.0	35	3,004	2,103	28,462	28,462	1,620,690	1,116,276	504,414	240	
	4	53	1.5	35	4,555	3,189	28,462	42,692	2,593,117	1,657,999	935,118	293	
	5	70	2.0	35	6,130	4,291	28,462	56,923	3,355,444	2,193,404	1,162,040	271	
	6	105	3.0	35	9,177	6,424	28,462	85,385	5,461,682	3,548,741	1,912,942	298	298
Value Area 2	1	11	0.3	35	906	634	28,462	8,538	326,318	230,653	95,664	151	
	2	18	0.5	35	1,551	1,085	28,462	14,231	554,845	380,181	174,664	161	
	3	35	1.0	35	3,004	2,103	28,462	28,462	1,015,741	766,813	248,928	118	
	4	53	1.5	35	4,555	3,189	28,462	42,692	1,667,968	1,149,648	518,320	163	
	5	70	2.0	35	6,130	4,291	28,462	56,923	2,153,869	1,516,758	637,111	148	
	6	105	3.0	35	9,177	6,424	28,462	85,385	3,698,365	2,552,439	1,145,926	178	
	7	140	4	35	12,195	8,536	28,462	113,846	4,500,574	3,216,576	1,283,998	150	
	8	175	5	35	15,238	10,667	28,462	142,308	5,522,844	3,959,615	1,563,229	147	
	9	350	10	35	30,487	21,341	28,462	284,615	11,136,682	7,958,043	3,178,639	149	
	10	500	14	35	43,553	30,487	28,462	406,573	15,425,905	11,009,431	4,416,474	145	145
Value Area 3	1	11	0.3	35	906	634	28,462	8,538	169,189	142,600	26,588	42	
	2	18	0.5	35	1,551	1,085	28,462	14,231	287,878	238,205	49,673	46	
	3	35	1.0	35	3,004	2,103	28,462	28,462	510,512	478,842	31,670	15	
	4	53	1.5	35	4,555	3,189	28,462	42,692	896,901	717,561	179,340	56	
	5	70	2.0	35	6,130	4,291	28,462	56,923	1,131,469	955,227	176,242	41	
	6	105	3.0	35	9,177	6,424	28,462	85,385	2,222,405	1,720,414	501,990	78	
	7	140	4	35	12,195	8,536	28,462	113,846	2,665,531	2,169,241	496,290	58	
	8	175	5	35	15,238	10,667	28,462	142,308	3,278,295	2,677,551	600,744	56	
	9	350	10	35	30,487	21,341	28,462	284,615	6,608,130	5,374,406	1,233,724	58	
	10	500	14	35	43,553	30,487	28,462	406,573	9,220,302	7,473,559	1,746,743	57	57
Melton Mowbray Urban Area	1	11	0.3	35	906	634	494,000	148,200	69,139	155,439	- 86,300	-136	
	2	18	0.5	35	1,551	1,085	494,000	247,000	115,299	257,651	- 142,352	-131	
	3	35	1.0	35	3,004	2,103	494,000	494,000	185,656	522,223	- 336,568	-160	
	4	53	1.5	35	4,555	3,189	494,000	741,000	398,628	788,777	- 390,149	-122	
	5	70	2.0	35	6,130	4,291	494,000	988,000	474,826	1,053,903	- 579,077	-135	
	6	105	3.0	35	9,177	6,424	494,000	1,482,000	1,260,997	1,893,729	- 632,731	-98	-98

Table 6.3 illustrates that at 30% affordable housing, the maximum headroom for CIL is £298 per sq m in Rural Value Area 1, £145 per sq m in Rural Value Area 2 and £57 per sq m in Rural Value Area 3. There is no headroom for CIL in the urban area of Melton Mowbray.

Reducing the affordable housing requirement to 20% (which allows for market units and starter home units); increases the headroom for CIL across the Rural Value Areas, however there is still no headroom for CIL in Melton Mowbray.

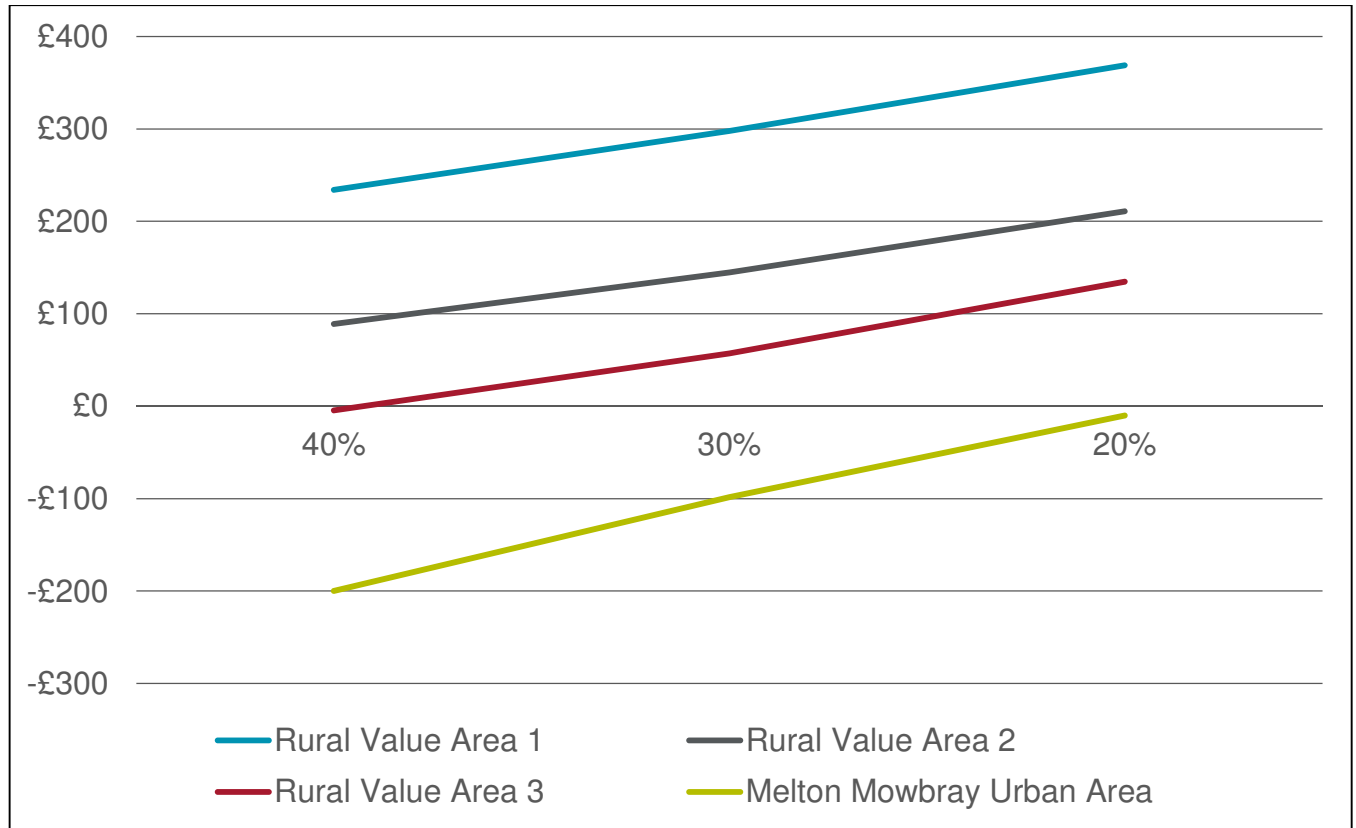
**Table 6.4: CIL headroom 20% affordable housing**

20% Affordable Housing													
Value Area	Scheme	No of units	Site Size (Hectares)	Density	Floor coverage (sq m)	Floor coverage (less AH requirement (sq m)	Existing Use Value per hectare (£)	Actual Benchmark Land Value (£)	Residual Land Value (£)	Shinfield Benchmark Land Value (£)	Residual Land Value per hectare minus shinfield benchmark Land Value (£)	Maximum Available for CIL (£)	Average CIL
Value Area 1	1	11	0.3	35	921	736	28,462	8,538	564,739	336,382	228,356	310	
	2	18	0.5	35	1,503	1,202	28,462	14,231	943,240	553,552	389,687	324	
	3	35	1.0	35	3,148	2,518	28,462	28,462	1,998,832	1,116,276	882,556	350	
	4	53	1.5	35	4,587	3,670	28,462	42,692	2,892,409	1,657,999	1,234,411	336	
	5	70	2.0	35	6,217	4,974	28,462	56,923	3,892,796	2,193,404	1,699,393	342	
	6	105	3.0	35	9,268	7,414	28,462	85,385	6,283,896	3,548,741	2,735,155	369	369
Value Area 2	1	11	0.3	35	921	736	28,462	8,538	368,014	230,653	137,361	187	
	2	18	0.5	35	1,503	1,202	28,462	14,231	621,079	380,181	240,897	200	
	3	35	1.0	35	3,148	2,518	28,462	28,462	1,330,971	766,813	564,158	224	
	4	53	1.5	35	4,587	3,670	28,462	42,692	1,930,186	1,149,648	780,538	213	
	5	70	2.0	35	6,217	4,974	28,462	56,923	2,588,603	1,516,758	1,071,845	216	
	6	105	3.0	35	9,268	7,414	28,462	85,385	4,402,940	2,552,439	1,850,501	250	
	7	140	4	35	12,387	9,910	28,462	113,846	5,399,728	3,216,576	2,183,152	220	
	8	175	5	35	15,484	12,387	28,462	142,308	6,647,343	3,959,615	2,687,728	217	
	9	350	10	35	30,968	24,775	28,462	284,615	13,357,783	7,958,043	5,399,740	218	
	10	500	14	35	44,240	35,392	28,462	406,573	18,478,706	11,009,431	7,469,275	211	211
Value Area 3	1	11	0.3	35	921	736	28,462	8,538	204,178	142,600	61,578	84	
	2	18	0.5	35	1,503	1,202	28,462	14,231	352,777	238,205	114,572	95	
	3	35	1.0	35	3,148	2,518	28,462	28,462	769,874	478,842	291,033	116	
	4	53	1.5	35	4,587	3,670	28,462	42,692	1,125,733	717,516	408,172	111	
	5	70	2.0	35	6,217	4,974	28,462	56,923	1,510,632	955,227	555,405	112	
	6	105	3.0	35	9,268	7,414	28,462	85,385	2,833,017	1,720,414	1,112,602	150	
	7	140	4	35	12,387	9,910	28,462	113,846	3,423,580	2,169,241	1,254,339	127	
	8	175	5	35	15,484	12,387	28,462	142,308	4,227,357	2,677,551	1,549,806	125	
	9	350	10	35	30,968	24,775	28,462	284,615	8,481,765	5,374,406	3,107,359	125	
	10	500	14	35	44,240	35,392	28,462	406,573	12,245,984	7,473,559	4,772,425	135	135
Melton Mowbray Urban Area	1	11	0.3	35	921	736	494,000	148,200	99,191	155,439	- 56,248	-76	
	2	18	0.5	35	1,503	1,202	494,000	247,000	178,099	257,651	- 79,552	-66	
	3	35	1.0	35	3,148	2,518	494,000	494,000	404,108	522,223	- 118,115	-47	
	4	53	1.5	35	4,587	3,670	494,000	741,000	600,397	788,777	- 188,380	-51	
	5	70	2.0	35	6,217	4,974	494,000	988,000	819,418	1,053,903	- 234,485	-47	
	6	105	3.0	35	9,268	7,414	494,000	1,482,000	1,818,846	1,893,729	- 74,883	-10	-10

Figure 6.1 illustrates the trade-off between affordable housing and CIL. As illustrated, there is an inverse relationship between the level of CIL headroom and affordable housing that is viable; that is to say, the higher the affordable housing scenario, the lower the rate of CIL that is viable.

The results vary across the value areas with the higher rural value areas capable of absorbing higher levels of affordable housing and CIL. There is also variation across the different site typologies; the larger sites (up to around 105 dwellings) are capable of carrying more planning gain per sq m than the smaller sites which is due to the higher build costs that have been applied in the rural value areas of Melton. The potential planning gain carried begins to reduce above 105 dwellings, as the higher finance costs of larger schemes, developed over a longer period of time begin to take a notable effect.

Figure 6.1: CIL headroom and affordable housing scenarios



6.2. Commercial viability results

6.2.1 Retail development

As illustrated in Table 6.5, the analysis identifies that in current market conditions there is only headroom to charge CIL for shopping centres, superstores, convenience stores and takeaways.

**Table 6.5 Commercial viability results**

Scheme	Site Size (hectares)	GIA Floor coverage (Sq m)	Benchmark Land Value per hectare (£)	Actual Benchmark Land Value (scaled to site area - £)	Residual Land Value (£)	Residual Land Value minus actual benchmark Land Value (£)	Maximum Available for CIL (£)
<b>Retail</b>							
<b>Town Centre</b>							
Shopping Centre	2.00	15000	£370,650	£741,300	£2,298,437	£1,557,137	£104
Retail Warehousing	0.75	3000	£370,650	£277,988	£1	-£277,987	-£93
Superstore	2.00	53820	£370,650	£741,300	£2,261,497	£1,520,197	£28
Discount Supermarket	0.60	1500	£370,650	£222,390	-£494,804	-£717,194	-£478
Convenience Store	0.16	400	£370,650	£59,304	£149,000	£89,696	£224
Takeaways	0.01	45	£370,650	£3,707	£50,770	£47,063	£1,046
Restaurants	0.06	400	£370,650	£22,239	-£84,006	-£106,245	-£266
<b>Office</b>							
Town centre	0.06	500	£247,100	£14,826	-£335,044	-£349,870	-£700
Out of town	0.25	2,000	£247,100	£61,775	-£1,611,139	-£1,672,914	-£836
<b>Industrial</b>							
Small industrial / warehouse	0.12	5,000	£864,885	£103,786	£9,141	-£94,645	-£19
Medium industrial / warehouse	0.46	20,000	£864,885	£397,847	£90,631	-£307,216	-£15
Large industrial / warehouse	1.16	50,000	£864,885	£1,003,267	£318,716	-£684,550	-£14
<b>Other commercial</b>							
Hotel	0.83	3,305	£1,235,500	£1,025,465	-£946,330	-£1,971,795	-£597
Cinema	0.63	2,500	£1,235,500	£778,365	-£1,085,056	-£1,863,421	-£745
Carehome Rural Areas	0.65	2,586	£18,500	£12,025	-£1,226,519	-£1,238,544	-£479
Carehome Melton Urban area	0.65	2,586	£494,000	£321,100	-£1,226,519	-£1,547,619	-£598

Table 6.6 illustrates that allowing a sensitivity for an additional 10% uplift on build costs for abnormal development costs results in reducing the headroom for CIL. Superstores, convenience stores and takeaways have headroom for CIL.



**Table 6.6 Commercial viability results – with 10% uplift for abnormal costs**

Scheme	Site Size (hectares)	GIA Floor coverage (Sq m)	Benchmark Land Value per hectare (£)	Actual Benchmark Land Value (scaled to site area - £)	Residual Land Value (£)	Residual Land Value minus actual benchmark Land Value (£)	Maximum Available for CIL (£)
<b>Retail</b>							
<b>Town Centre</b>							
Shopping Centre	2.00	15000	£370,650	£741,300	£468,754	-£272,546	-£18
Retail Warehousing	0.75	3000	£370,650	£277,988	-£229,268	-£507,256	-£169
Superstore	2.00	53820	£370,650	£741,300	£1,645,027	£903,727	£17
Discount Supermarket	0.60	1500	£370,650	£222,390	-£687,137	-£909,527	-£606
Convenience Store	0.16	400	£370,650	£59,304	£111,958	£52,654	£132
Takeaways	0.01	45	£370,650	£3,707	£46,608	£42,901	£953
Restaurants	0.06	400	£370,650	£22,239	-£175,958	-£198,197	-£495
<b>Office</b>							
Town centre	0.06	500	£247,100	£14,826	-£402,095	-£416,921	-£834
Out of town	0.25	2,000	£247,100	£61,775	-£1,880,803	-£1,942,578	-£971
<b>Industrial</b>							
Small industrial / warehouse	0.12	5,000	£864,885	£103,786	-£19,509	-£123,295	-£25
Medium industrial / warehouse	0.46	20,000	£864,885	£397,847	-£5,838	-£403,685	-£20
Large industrial / warehouse	1.16	50,000	£864,885	£1,003,267	£98,090	-£905,177	-£18
<b>Other commercial</b>							
Hotel	0.83	3,305	£1,235,500	£1,025,465	-£1,510,083	-£2,535,548	-£767
Cinema	0.63	2,500	£1,235,500	£778,365	-£1,427,248	-£2,205,613	-£882
Carehome Rural Areas	0.65	2,586	£18,500	£12,025	-£1,654,343	-£1,666,368	-£644
Carehome Melton Urban area	0.65	2,586	£494,000	£321,100	-£1,654,343	-£1,975,443	-£764

### 6.2.2 Office development

The viability analysis indicates that there is no headroom for CIL on office development, reflecting the weak strength of the office sector in Melton at the current time.

### 6.2.3 Industrial development

The viability analysis demonstrates that there is no headroom for CIL on industrial development. Rental values are not strong enough to support speculative development on a general basis at the current time. However, as market conditions improve and land opportunities are brought forward (especially for sites with good strategic road access), we would expect to see some improvement in rents which could enhance viability.

### 6.2.4 Other commercial development sectors

Table 6.6 illustrates that there is no headroom for CIL on the development of hotels, restaurants and care homes in Melton at the current time.

## 7. Strategic Urban Extension Site Modelling

### 7.1. Context

National Planning Practice Guidance recommends that viability evidence prepared in support of CIL should involve sampling of sites from its area:

*“A charging authority should directly sample an appropriate range of types of sites across its area, in order to supplement existing data. This will require support from local developers. The exercise should focus on strategic sites on which the relevant Plan (the Local Plan in England, Local Development Plan in Wales, and the London Plan in London) relies, and those sites where the impact of the levy on economic viability is likely to be most significant (such as brownfield sites)”*

Paragraph: 019 Reference ID: 25-019-20140612.

Whilst the area wide viability model presented earlier in this report is based on area wide schemes, those schemes are nonetheless based on typologies of sites and developments either already underway or anticipated to come forward through the Local Plan in Melton. Moreover the appraisal assumptions selected have been devised with in-built contingency to cater for a range of circumstances. They therefore provide a robust basis from which to draw conclusions on viability.

However, there is merit in assessing viability on an individual site basis to test and reinforce the evidence, particularly in relation to the various large scale site allocations proposed as part of the emerging Local Plan. Large scale sites can experience a higher level of cost due to the need to open up a site for development, on site planning obligations and longer lead-in and delivery times. As a result the economics of development can vary when compared with smaller sites. These matters are examined in this section of the report.

The Melton South and North Sustainable Neighbourhoods (SN's) have been assessed on this basis.

### 7.2. The Sites

This section specifically considers the viability and deliverability of the two proposed Sustainable Neighbourhoods, north and south of the town, and their ability to contribute towards CIL, specifically:

- Policy SS4 – South Melton Mowbray Sustainable Neighbourhood, including up to 2,000 homes (1,700 in the plan period) and 20 hectares of employment space, and including a package of transport measures including a strategic link road between the A606 and A607
- Policy SSS5 – North Melton Mowbray Sustainable Neighbourhood, including up to x homes (1,500 in the Plan Period), a new primary school, community facl....

The viability and delivery of the two Sustainable Neighbourhoods has been considered separately from the archetype modelling due to their very large scale, and uniqueness within the Borough, making them unsuitable for typology modelling. Whilst, at this stage, the appraisals behind the

modelling remain reasonably high level, especially on infrastructure costs additional to those items identified in the Infrastructure Delivery Plan, we have been able to model the magnitude and mix of development as suggested by local plan policy and the indicative masterplans provided by the main site promoters, with who there has been some communication.

### 7.3. Scope of the Modelling

This section specifically considers the viability and deliverability of the two proposed Sustainable Neighbourhoods. In order to do so it considers the schemes in their entirety (beyond for example the magnitude of development anticipated within the Plan Period), as the costs and values of the whole scheme level will have the fundamental bearing on their viability and delivery.

Notwithstanding this, the modelling has deducted development within the SN's that has already been consented and S106 agreements in place, or nearly in place, as a scheme's capacity to support CIL cannot be calculated including such development.

### 7.4. Scheme Details

Scheme	South Sustainable Neighbourhood	North Sustainable Neighbourhood
Whole Scheme	The Gross Area as defined by the current Masterplan, is 129.3 hectares / 319.5 acres.	The Gross Area as defined in the Local Plan is 100 hectares / 247 acres.
Consented	Consistent with the modelling approach outlined above, we have adjusted this to take into account the Gladman scheme. This has consent for 520 dwellings over a gross area of 23.05 hectares	Consistent with the modelling approach outlined above, we have adjusted this to take into account the two Persimmon schemes, which are either on site (13/00497/FUL – 91 dwellings over 3.02 ha), or already have planning consent (15/00178/FUL – 77 dwellings over 5.49 ha)
Adjusted Figures	On this basis of the above, the revised figures, for the purposes of the CIL viability modelling, are as follows: <ul style="list-style-type: none"> <li>- Gross Area: 106.25 hectares / 262.54 acres</li> <li>- Dwellings: 1,480 (2,000 less Gladman 520)</li> </ul>	On this basis of the above, the revised figures, for the purposes of the CIL viability modelling, are as follows: <ul style="list-style-type: none"> <li>- Gross Area: 91.49 hectares / 226 acres</li> <li>- Dwellings: 1,532 (1,700 less consented 168)</li> </ul>
Other landuses	The scheme modelling also includes <ul style="list-style-type: none"> <li>- 20 ha Employment</li> </ul>	The scheme also includes <ul style="list-style-type: none"> <li>- 1*local centre (retail uses up to 200sqm, and also including</li> </ul>

Scheme	South Neighbourhood Sustainable	North Neighbourhood Sustainable
	<ul style="list-style-type: none"> <li>- 1* Primary School (2.5ha)</li> <li>- 1*Local Centre (0.9ha)</li> <li>- A new secondary school, with the balance of the landuse budget being open space</li> </ul>	<ul style="list-style-type: none"> <li>- small scale employment</li> <li>- 1*Primary School (2.5 ha)</li> </ul>

### 7.5. Site Specific Infrastructure Costs

Infrastructure costs have the potential to present significant development costs to Sustainable Urban Extensions, both by way of the direct cost impact of the infrastructure itself, but also due to the effect of timing; in many cases significant infrastructure investment is required before significant progress has been made in developing the residential phases, which can increase the development finance costs significantly.

Site Specific Infrastructure can include both on site and off site infrastructure costs

#### On Site Infrastructure

On Site infrastructure costs can include:

- Primary and Secondary Distributor Roads (the cost of estate roads are included in standard house build costs)
- Archaeology & Ecology
- Earthworks
- Surface Water Attenuation
- Foul Water Drainage
- Green Infrastructure (hard and soft landscaping)
- Utilities Services (including diversions, supply of water, electricity, and gas, telecommunications)
- Site Wide management and preliminaries
- Site Investigations

In terms of a cost allowance for this infrastructure, for each SN, we were not received any such information from the site promoters, so have made applied a standard benchmark of £20,000 / dwelling, drawn from our experience elsewhere with regard to large strategic sites.

In addition to this, we have made an additional infrastructure allowance in relation to the employment allocation at the Southern SN. Again, for this we have adopted a high level benchmark of £50,000 / net acre, for serviced employment land

#### Off Site Infrastructure

Off Site infrastructure costs can include:

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- Off Site Highway improvements
- Improvements to utility infrastructure (such as a new electricity substation).

The Infrastructure Delivery Plan, has identified the requirement for off-site electricity reinforcements relating to the employment allocation as part of the Southern SN. The IDP references a potential sum of £10 million for this work, though the contribution that may be sought from the developer of the Southern SN is not clear. Precedent elsewhere in Leicestershire suggests it may be prudent to assume that the developer would be required to contribute to half of the costs.

### Infrastructure Summary

	South Sustainable Neighbourhood	North Sustainable Neighbourhood	Assumed Timing	Source of Information
On Site	£32.1million  (1,480dw @ £20,000 / dw; & 20ha employment land @ £123,500 / ha (£50,000 / acre)	£30.64 million (1,532 dwellings @ £20,000 / dwelling)	Throughout the scheme, though front loaded (70% invested by half way point), reflecting the enabling role of such infrastructure, with x% invested by y.	C&W high level cost benchmark for large scale strategic sites
Off Site Electricity	£5 million		By 2026	IDP / Melton Borough Council
Off Site Highways	See below			

### 7.6. Other infrastructure that the SNs will be required to fund

In addition to the site specific infrastructure costs, there is additional site related infrastructure costs that the SNs will be required to contribute to, on the basis of making them acceptable in planning terms, and which are excluded, we understand from the proposed Regulation 123 list. On this basis, the viability modelling requires to include these costs when testing for CIL headroom:-

	South Sustainable Neighbourhood	North Sustainable Neighbourhood	Assumed Timing	Source of Information
Primary Schools	1*Primary School @ £4.5 million	1*Primary School @ £4.5million	2026	IDP

	South Sustainable Neighbourhood	North Sustainable Neighbourhood	Assumed Timing	Source of Information
Secondary School	£5 million	-	2026	MBC (£17 million is the estimated cost of the school, which will serve the wider towns and villages in its catchment. In the plan period it is expected that the SN will see 1,700 completions of 4,250 in the wider catchment, and this proportion serves as a proxy for the contribution from the SSN.
Community Hall	£2.84 million	-	2026	MBC / IDP
North Distributor		£26.1 million	Phased contributions	Jacobs (Cost) / MBC (Suggested phasing)
South Distributor	£24.8 million (adjusted to exclude £4.5 million contribution already secured from Gladman scheme)		Phased contributions	Jacobs (Cost) / MBC (Suggested phasing)

### 7.7. General Development Assumptions

The site specific infrastructure costs aside, the assumptions used in the viability modelling for the two Sustainable Neighbourhoods are as those used in the archetype modelling, except for the following adjustments:

#### Residential Development: Average dwelling sizes and density

An average size of 1,100sqft is assumed for the market dwellings, compared to the policy led 973sqft assumed for the archetype modelling. Assuming development densities of around 31dph (appropriate for a strategic site of this scale and location, which will have a range of densities across the scheme, to suit different markets), this is the equivalent of around 13,780 sqft / acre development coverage, which is the base assumption in the archetype modelling.

**Costs**

	Assumption	Commentary
Residential Build	£88/sqft	This is the standard cost used in the archetype modelling, though the 10% sensitivity for abnormals has not been applied on the basis that the SN appraisals make an allowance for site specific infrastructure costs
Contingency	2.5%	Adjusted from the 5% used in the archetype modelling on the basis of the known greenfield status of the SNs
Profit	20% on Value applied to all tenures	This is a variation from the “blended” approach used for the archetype modelling. This is reflective of the increased risk in developing SUEs generally due to the high upfront costs, and longer, infrastructure related, development lead in periods, which tend to reduce the Internal Rate of Return of SUEs

**Values (Residential)**

We have assumed average sales values of around £200/sqft, based on achieved values at Persimmon’s Scholar’s Grange development, which forms part of the Northern Sustainable Neighbourhood.

**Values (Employment)**

We have assumed the serviced employment land will have a value in the region of £300,000 / acre.

**Development Trajectory**

After a one year infrastructure lead in period, it is assumed that an average of two to three (two in the North Sustainable Neighbourhood, and up to three in the South Sustainable Neighbourhood) are on site, completing in the region of 100 (up to 150dw in the South Sustainable Neighbourhood) dwellings per year.

**1.1. Viability Modelling**

Taking into account the above, the viability summary for the two Sustainable Neighbourhoods is as follows.

Scheme	Gross Acres (A)	Affordable Housing	Existing Use Value @ £7,500 / acre (B)	Market Value with no obligations©	Benchmark Land Value (Shinfield Method ie. $B+0.5(C-B)$ )	Residual Land Value	Residual Land Value £ / Gross Acre
North SN	91.49	40%	£0.68m	£48.7m	£24.7m	£2m	£22,000
		30%				£10.5m	£115,000
		20%				£20.7m	£227,000
South SN	262.54	40%	£1.97m	£58.2m	£30.1m	-	-
		30%				£8.2m	£31,500
		20%				£11.1m	£42,000

The modelling suggests that CIL would not be viable. The analysis shows the projected residual land values falling below the calculated Benchmark Land Values the landowners might expect in order to bring the land forward for development as “willing landowners” (Using the Shinfield method adopted for the archetype modelling)

Notwithstanding this, the approach to considering Benchmark Land Values for SUEs is somewhat more nuanced than for smaller developments, given the substantial infrastructure requirements inherent in such developments, and also their long timescales.

A critical consideration is the allowable size of the premium over the existing/alternative use value, in this case agricultural land which is around £7,500 / acre in Leicestershire. Anecdotal evidence suggests that land owners are asking for significant premiums with regard to residential development land, with rates in region of £100,000 / acre being suggested.

Whilst there is some evidence suggesting that £100,000 is a suitable minimum price threshold, we have experience that land owners being prepared to sell land to developers at lower rates than this, subject to overage agreements with the landowner. This acceptance may relate to the realisation amongst land owners associated with large, “strategic” greenfield sites, such as SUEs, that the prospects of securing a beneficial permission at some point in the future is much less than those facing the owners of smaller sites, who have the opportunity to defer bringing forward such land until they perceive market conditions have improved and/or the planning system is more conducive to an improved return. Also, SUEs can incur significant upfront infrastructure costs relating to development enabling infrastructure, such as utilities and transport infrastructure, which can legitimately serve to reduce the price paid for land in such a situation.

In particular one has to bear in mind at the Local Plan assessment stage that the modelling has been carried out at high level with cautious allowances made for on-site infrastructure costs, and the pace of these costs in advance of the residential development it enables. The scale of the schemes also mean relatively small adjustments in the magnitude and profiling of such costs and timing (such as infrastructure and S106 payment timing) can have a notable effect, as can adjustments to other, less apparent, assumptions. For example, the modelled development coverage in the SN’s, of 13,780sqft/acre is on the low side (consistent with that of the area wide archetype modelling), coverage



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of greater than 14,000sqft/acre is more typical and for schemes of this scale can make a notable difference.

It is on this basis that the modelled landowner returns can be considered:

- the modelling for the Northern SN suggests a landowner return of over £110,000 / acre, (when modelled at 30% affordable housing (20% Starter Homes; 10% Rented)), which is consistent with the returns sought by the promoters of many other Sustainable Urban Extensions.
- the modelling for the Southern SN suggests a landowner return of c £40,000 - £55,000 / acre (depending on the timing of the on-site contributions to the schools and community centre) allowing for 20% affordable housing (all starter homes), which is on the low side, but not inconsistent in our experience with other SUEs with similarly high off site road infrastructure costs. With respect to the S106 agreement for the Gladman scheme within the Southern SN, a comparison between the two this shows there may be a balance to be struck in terms of financial contributions to different elements.
  - o The £4.5 million contribution to the Southern Distributor is the equivalent of £8,650 per dwelling (compared to the equivalent of around £16,750/dwelling at the Southern SN)
  - o with other Section 106 contributions of around £1.4 million being the equivalent of £2,690/dwelling (compared to the modelled equivalent for the Southern SN of £9,550 /dwelling), and proposed affordable housing of 15%

## 8. Implications of Viability Results for Local Plan and CIL

### 8.1. Local Plan policies

#### **Affordable Housing**

The Council's emerging Local Plan sets a target of 40% affordable housing on new development across the Borough.

The results of our viability analysis demonstrate that in allowing for 40% affordable housing on residential development sites, only the highest value areas in the Borough can support CIL.

The Council will need to consider the level of affordable housing that should be applied in the Local Plan and determine whether this is varied across the District to enable a greater headroom of CIL to be realised.

#### **Housing Mix and Housing Type**

The Council's housing mix and type policy allows for starter homes, affordable and social rented provision and shared ownership units. We have included provision for these housing types at the required mix within our viability analysis. It should be noted that at 20% affordable housing, only starter homes are assessed alongside market units.

### 8.2. CIL

The evidence presented in this report demonstrates the diversity of development viability across Melton. Residential and retail are the development typologies considered to be generally capable of bearing CIL at the current time.

The viability of CIL on residential development is limited to the high and mid value rural areas of the Borough when a policy of 40% affordable housing contributions is applied. However, at 30% affordable housing, there is considered to be potential for CIL within all rural areas of the Borough.

Conversely, in the urban area of Melton Mowbray, there is no headroom for CIL, even at the reduced rate of 20% affordable housing, and likewise at the Sustainable Neighbourhoods.

Reducing the affordable housing requirements to 20% would dramatically increase the level of CIL viability (with the exception of Melton Mowbray and the Sustainable Neighbourhoods), however there is an important balance to be struck between affordable housing provision and securing funding for infrastructure which is necessary to deliver economic growth.

The viability to charge CIL on commercial development is limited. Some types of retail development are able to bear a CIL, with certain formats of supermarket indicated to have headroom. All other commercial development typologies have no headroom for CIL in current market conditions.

#### **Viability Proofing – Accounting for the “Buffer”**

Caution is required to ensure that the rates that are set for CIL are not at a level that would undermine the delivery of development. CIL is not easy to vary on a case by case basis once set and therefore there is a risk that if not set at an appropriate level that the effect could be either to reduce other

planning obligation requirements or in a worst case scenario prevent land from coming forward for development.

The analysis contained in this report is predicated on high level and indicative schemes and assumptions. It should be noted that in reality, the development market is not homogenous and there is potential for wide variation in many of the inputs to a viability appraisal including the price of land, the developer's return and site development costs.

There is also potential for variation in both market conditions and construction costs arising from changes to building regulations which will influence changes in viability headroom for CIL. Although the market is generally on an upswing, local and sector based changes could cause viability to be destabilised on certain types of sites and uses.

Government guidance makes it clear that CIL rates should not be set right at the margins of viability. At Paragraph 019 Reference ID: 25-019-20140612), the guidance specifies that "there is room for some pragmatism. It would be appropriate to ensure that a 'buffer' or margin is included, so that the levy rate is able to support development when economic circumstances adjust". Evidence from recent CIL examinations indicates that a minimum discount of 25-30% from the maximum CIL viability is considered reasonable to demonstrate that the 'balance' has been struck.

### CIL charging scenarios

Tables 7.1 and 7.2 outline the maximum CIL charging scenarios based on the above viability analysis. The maximum headroom figures are based on averages from the range of schemes tested, which have then been discounted by 30% to allow for the 'viability buffer'.

**Table 7.1 Residential CIL Charging scenarios per sq m**

Value Area	40% Affordable housing		30% Affordable housing		20% Affordable housing	
	Maximum Average CIL headrom	Maximum Average CIL headroom with 30% buffer	Maximum Average CIL headrom	Maximum Average CIL headroom with 30% buffer	Maximum Average CIL headrom	Maximum Average CIL headroom with 30% buffer
Value Area 1	234	164	298	208	369	258
Value Area 2	89	62	145	101	211	148
Value Area 3	-5	-3	57	40	135	94
Melton Mowbray Urban Area	-200	-140	-98	-69	-10	-7

In respect of retail rates, only the large superstore, convenience store and takeaways indicate CIL headroom. An approximate 30% discount has been applied to these property types consistent with the approach taken to the residential CIL levels.

Table 7.1 Commercial CIL Charging scenarios per sq m								
Scheme	Site Size (hectares)	GIA Floor coverage (Sq m)	Benchmark Land Value per hectare (£)	Actual Benchmark Land Value (scaled to site area - £)	Residual Land Value (£)	Residual Land Value minus actual benchmark Land Value (£)	Maximum Available for CIL (£)	Maximum Available for CIL Less 30% Viability Buffer (£)
<b>Retail</b>								
<b>Town Centre</b>								
Shopping Centre	2.00	15000	£370,650	£741,300	£468,754	£-272,546	£18	£-12.72
Retail Warehousing	0.75	3000	£370,650	£277,988	£-229,268	£-507,256	£-169	£-118.36
Superstore	2.00	53820	£370,650	£741,300	£1,645,027	£903,727	£17	£11.75
Discount Supermarket	0.60	1500	£370,650	£222,390	£-687,137	£-909,527	£-606	£-424.45
Convenience Store	0.16	400	£370,650	£59,304	£111,958	£52,654	£132	£92.14
Takeaways	0.01	45	£370,650	£3,707	£46,608	£42,901	£953	£667.35
Restaurants	0.06	400	£370,650	£22,239	£-175,958	£-198,197	£-495	£-346.84
<b>Office</b>								
Town centre	0.06	500	£247,100	£14,826	£-402,095	£-416,921	£-834	£-583.69
Out of town	0.25	2,000	£247,100	£61,775	£-1,880,803	£-1,942,578	£-971	£-679.90
<b>Industrial</b>								
Small industrial / warehouse	0.12	5,000	£864,885	£103,786	£-19,509	£-123,295	£-25	£-17.26
Medium industrial / warehouse	0.46	20,000	£864,885	£397,847	£-5,838	£-403,685	£-20	£-14.13
Large industrial / warehouse	1.16	50,000	£864,885	£1,003,267	£98,090	£-905,177	£-18	£-12.67
<b>Other commercial</b>								
Hotel	0.83	3,305	£1,235,500	£1,025,465	£-1,510,083	£-2,535,548	£-767	£-537.03
Cinema	0.63	2,500	£1,235,500	£778,365	£-1,427,248	£-2,205,613	£-882	£-617.57
Carehome Rural Areas	0.65	2,586	£18,500	£12,025	£-1,654,343	£-1,666,368	£-644	£-451.07
Carehome Melton Urban area	0.65	2,586	£494,000	£321,100	£-1,654,343	£-1,975,443	£-764	£-534.73

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## 9. Conclusions and Recommendations

The viability analysis displays positive results across most residential development typologies and in most locations.

The viability analysis indicates that the draft Local Plan policies are broadly compliant with the viability requirements of the NPPF.

As a single, borough-wide, target, as aspired by the Council, the 40% affordable housing target may be achievable in certain rural settlements in the Borough with the highest residential values, and on this basis represents an “upper maximum”, subject to reduction, through negotiation, relating to viability, on a site specific basis.

This “upper maximum”, expressed in policy, should be reviewed and reduced by the Council subject to the CIL tariffs it may introduce.

In respect of CIL, the level of headroom on residential development depends to a large extent on the affordable housing required and there is a trade-off between the two which needs to be considered by the Council in respect of the relative and competing needs of affordable housing versus community infrastructure. This report provides a number of CIL and affordable housing scenarios which it should be given consideration by officers prior to committing to a Draft Charging Schedule. The proposed rates also include some retail development typologies but no other commercial sectors reflecting the findings of the viability evidence.

It is recommended that this report may be used to shape/refine the emerging Local Plan policies and proposed CIL charging strategy.

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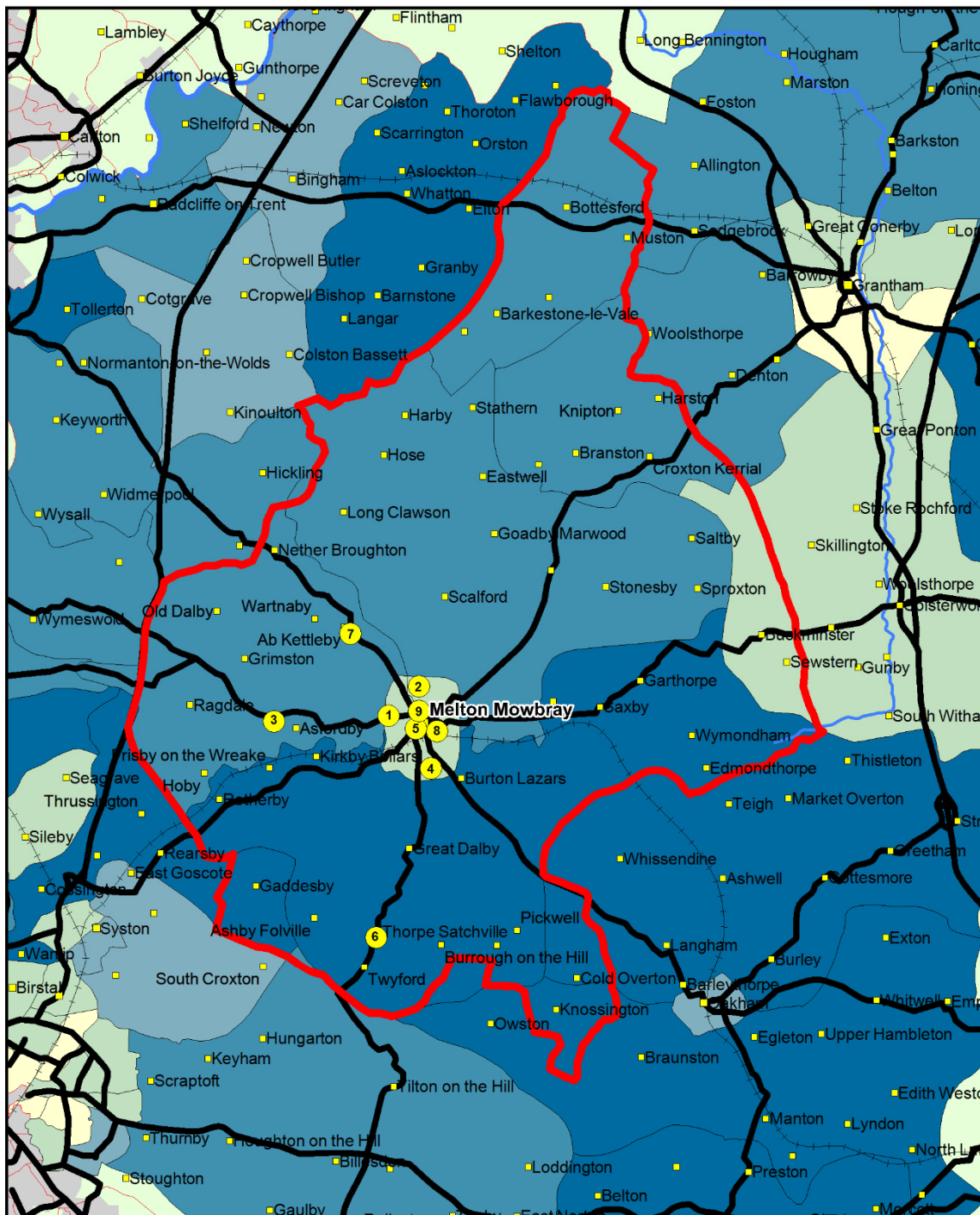
## Appendix 1: Summary analysis of developer questionnaire surveys

Appendix 2: List of those Stakeholders invited to participate in consultation on viability evidence



## Appendix 3: Location of new build developments in Melton Borough and market evidence

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Melton Borough Council Achieved Residential Values		New Developments	
June 2015 - June 2016 (£)		<ul style="list-style-type: none"> <li>Major Road</li> <li>Melton Borough Council Boundary</li> <li>Railway Line</li> </ul>	<ul style="list-style-type: none"> <li>1) Ashfordby Grange - Local Developer</li> <li>2) Scholar's Grange - Persimmon Homes</li> <li>3) Flint Drive - Jelson Homes</li> <li>4) Gartree Drive - Local Developer</li> <li>5) High Street - Queensbridge Homes</li> <li>6) Main Street - Local Developer</li> <li>7) Melton Road, Developer</li> <li>8) Mill Street - Local Developer</li> <li>9) The Courthouse - 1 NA Ltd</li> </ul>
<ul style="list-style-type: none"> <li>300,000 to 374,000</li> <li>250,000 to 300,000</li> <li>200,000 to 250,000</li> <li>150,000 to 200,000</li> <li>96,000 to 150,000</li> </ul>			

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