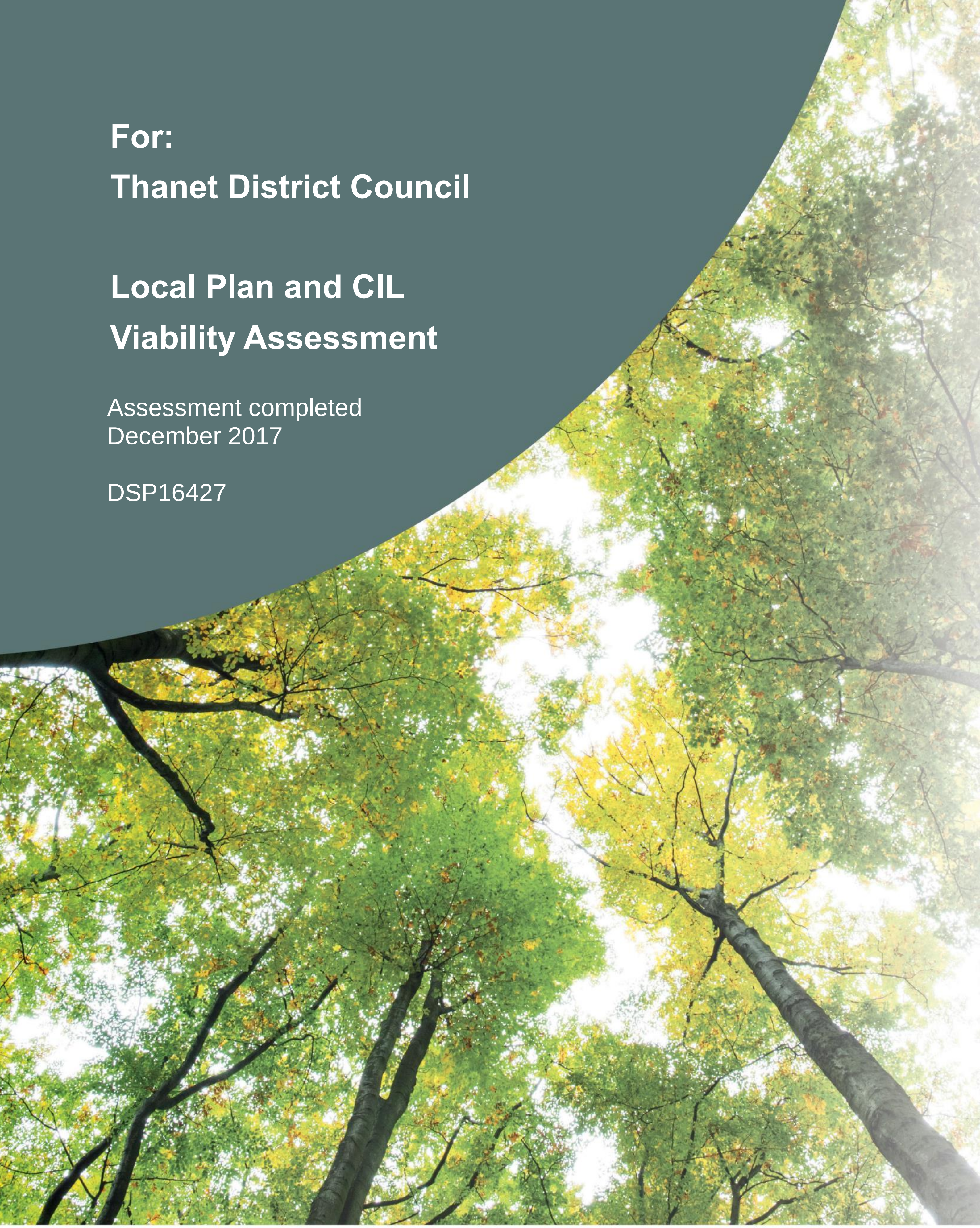
For:

Thanet District Council

Local Plan and CIL Viability Assessment

Assessment completed
December 2017

DSP16427



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(Note: At the point of final confirmation of this report and re-issue to TDC August 2018, an update is also available following TDC's adjusted development strategy for the new Local Plan latest iteration – Viability Update 2018 re: revised strategic sites approach.)

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Executive Summary

Context and assessment approach

1. Thanet District Council (TDC) appointed Dixon Searle Partnership (DSP) to provide a viability assessment to inform its work in progress on the Thanet Local Plan emerging policies. The Local Plan, currently in the preparation draft stages, will provide a framework guiding land use and planning decisions in the district over the period to 2031. TDC is also beginning to consider a Community Infrastructure Levy (CIL), and therefore the viability assessment will also form part of the Council's evidence informing its work towards this.

2. This finalised report follows DSP's provision of emerging findings and discussions with officers earlier in 2017, to consider and present preliminary conclusions. DSP understands that this assessment will be used alongside other evidence base studies to inform the Pre-Submission Draft Local Plan and the pending public consultation on that – anticipated in 2018.

3. DSP is a consultancy highly experienced in the preparation of viability assessments informing and supporting local authority policy development - including whole plan viability, affordable housing and CIL economic viability. DSP's day to day workload also involves the provision of site-specific viability reviews and related advice – on affordable housing, s.106 and related matters. That has included several cases undertaken within Thanet.

4. This viability overview, with viability in this context meaning the financial "health" of development, takes account of the information reviewed and research undertaken on development costs and revenue (values) assumptions considered appropriate for this high-level purpose. The work seeks to reflect or consider, as far as possible, the known and evolving positions both on national and proposed TDC policy developments. We need to acknowledge also, however, that this assessment has been conducted at a time of significant change, with a variety of possible developments and unknowns involved.

5. This draft report sets out our findings from a viability perspective, having tested the emerging proposed TDC policy positions, as far as anticipated at this stage, whilst

also taking into account regular development costs and national policies that are likely to influence development viability in the district. With some aspects of the TDC policy development in early stages in terms of detail at the assessment period outset, however, the review aimed to appropriately provide wide-ranging information to help inform TDC's progress on this.

6. Throughout it has been necessary to acknowledge that some narrowing-down and / or refinement may well be necessary on further consideration by TDC. For this type of assessment and stage, there a great many variables under review. This leads to an extensive range of results. Approached in this way, however, the work in progress and findings of this assessment have informed the TDC emerging policy approach and positions, and particularly in key areas that influence development viability – such as affordable housing ('AH').

7. This viability assessment has been produced in the context of and with regard to the National Planning Policy Framework (NPPF), CIL Regulations, CIL Guidance (now contained within the national Planning Practice Guidance ('PPG')), other good practice and available guidance - all as applicable to studies of this nature. The PPG also contains guidance on 'Viability' and 'Planning Obligations', continuing to provide further relevant context for this viability revisit.

8. The NPPF (para 173-174) provides specific guidance helping to ensure the viability and deliverability of Local Plans. This update assesses the financial capacity of development schemes in the district to deliver proposed local and national policies and support the regular development costs. The NPPF states that the '*cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'.*

9. For development to be viable, it needs to support sufficient returns for the land owner (land value, to secure release of the site for development) and profit (reward for development risk). This reflects the NPPF position and is recognised in available guidance such as the Planning Practice Guidance (PPG), the Sir John Harman chaired Local Housing Delivery Group report (Viability Testing Local Plans - June 2012) and by the RICS within GN 94/2012 (Financial viability in planning - August 2012).

10. The review of development viability is not an exact science. There can be no definite viability cut-off point owing to the great variation in site specific circumstances. These variables include the land ownership situation. The NPPF states that '*To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable'.* [Note added on final issue: The assessment has necessarily been undertaken with reference to known policy and guidance in place at the time].

11. The following report sets out the assessment context, approach and findings in detail; all based on the latest available information at the point of preparing this review of viability for the Council ad reaching full draft reporting stage. This is overviewed very briefly in this Executive Summary.

12. The assessment uses principles and a methodology that are typical and appropriate for such studies, informed by experience over a number of years, and common to DSP's experience of preparing these. The well-recognised principles of residual valuation are used. In basic terms, this means subtracting the costs of creating a development from the revenue (sales value) generated on its sale at scheme completion. This calculation is carried out for each development scenario (assumptions combination) tested, using an appraisal with multiple inputs as explained in detail in the full report. In all, more than 3,000 appraisals were run in support of this assessment.

13. The outcome from each appraisal, as reported in the Appendices accompanying this document report, is a "residual" value produced by this process of looking at development value minus development cost. This outcome (residual) is viewed as a land value which is then compared to a 'benchmark' level of land value (a 'viability test'), allowing the consideration of whether the available level of land residual is likely to represent a sufficient return for a land owner. An assumed developer's profit level is also fixed as an appraisal input for the purposes of this high-level review, again consistent with the NPPF principles as above. This then provides scope to assess the effect on viability of varying other assumptions with these key development ingredients reflected, such as the influence of variable scheme (test

scenario) type, sales values, affordable housing content and other known or potential policy impacts.

14. Given the TDC policies development stage at the point of inception, DSP ran wide sets of base appraisals to test the main variables here (e.g. scheme type / location, associated sales values, affordable housing content and CIL trial (test) rates) together with sensitivity testing then carried out to inform the consideration of potential policy development on other matters too – such as relating to accessibility (Building Regulations Part M (4) base and enhanced (optional) standards) for example.

15. The assessment results enable the consideration of likely viability impacts from various levels of affordable housing (AH) with a focus on the range 20-30% in combination with other potential or likely policy and development costs. The AH policy threshold proposed and reviewed is 11 dwellings, in accordance with national recommended guidance at the time. The tests reflect these positions and other likely viability impacts.

16. This has been an iterative process. Approached in this way, the staged assessment has informed the emerging policy requirements and will continue to do so, although the Council need not follow exactly our findings and suggested positions. Accordingly, where possible at this stage, we look to provide parameters and options for policies and also considering the likely viability scope alongside for a TDC CIL – this approach reflects the process and TDC work in progress.

17. We anticipate that the Council will continue to assess and consider the viability of proposals relating to the Draft Local Plan taking into account as far as practically possible any changes to national policy, including on the CIL Regulations and proposed arrangements for s106 pooling and use with CIL.

18. At this stage, individual infrastructure costs have not yet been accounted for, given that cost estimates are in some cases not yet available however it is expected that the draft infrastructure review and planning work in progress will look at the cost of new infrastructure and any associated funding gaps. This is not unusual. In addition to testing CIL across a range of 'trial rates', an allowance has been made for potential site-specific planning mitigation through a s.106 contingency.

19. In order to carry out this type of assessment, a large number of assumptions are required as well as the consideration of a range of information which rarely fits all eventualities.

Findings - Overview

20. We have found that a mixed picture of viability is seen within the wide range of characteristics and testing undertaken. However, overall the values likely to be available to support much of the housing development relevant to the new Local Plan (LP) support on the whole a reasonable level of development viability, accepting, as acknowledged again here, that there will always be some more challenging scenarios in any area. This leads to reasonable prospects for the delivery of a range of sites and schemes across a range of locations – from typical to lager, strategic scale development proposals.

21. Whilst the results are varied when viewed overall, the purpose of the viability study is to inform and support a Plan approach that is deliverable as a whole – to ensure reasonable prospects of viability. Reflecting the high-level nature of this study, it is considered that a majority of development likely to come forward under the emerging Thanet LP will be supported by relatively strong values typical for large parts of the district; rather than the lower values seen in some areas or (to a lesser extent) the higher values also seen, although with the latter often in areas where relatively little development appears likely to occur. The report sets out the varying values picture observed through our research, necessarily acknowledging that variations occur in all areas.

22. Overall, moving ahead, this is considered to create a mainly positive environment for development viability generally, although of course this is also behind the typically high level of local affordable housing need and the Council needing to respond by seeking the maximum achievable provision of affordable homes.

23. Our assessment scope includes the proposed strategic sites delivery [Note on final issue 2018: A subsequent separate update is available in this respect, as noted elsewhere in this report.] However, we provide observations on this.

24. Necessarily at this stage, however, we note that the exact extent and nature of achievable planning obligations (s.106) packages inevitably will vary in the usual way

with particular site and development characteristics, influenced also by the timing of schemes in relation to varying market cycles. Therefore, we suggest that these may need to be more closely assessed in some way once further infrastructure and site allocation details become more developed. This reflects usual practice and our wider engagement with these matters, as well as the Council's ongoing work.

25. This will mean continuing to consider together the required s106 development mitigation and infrastructure provision costs along with the particular development requirements, and particularly on major sites contributing to accommodating the planned Thanet LP growth. We emphasise that we do not consider that there is anything unusual in these findings, which reflect our wider experience.

26. It must be recognised that a planning-led basis for securing planning obligations relies on market-led processes. As a general point, and so not just referring to TDC's progression of proposals here, we have to place an emphasis on the need for a practical approach to be taken by the Council, having due regard to development viability where justified. By this we mean that, where justified, the Council should be adaptable to market housing scheme needs, being prepared to be flexible in considering varying solutions and be responsive to varying scheme types and circumstances.

27. At a subsequent planning application stage, the various components of a scheme will need to be considered in terms of the level of need for market and affordable homes, their successful integration and tenure mixes. This will involve considering, for example, local needs, scheme location, type, design, management, affordability, dwelling mix, tenure, funding and numbers rounding in formulating the detail - while using the policy approach to guide the basis. The Council will need to continue to consider how the wide range of factors influences scheme viability and deliverability as part of the collective development requirements. The Council may, where justified and appropriate, need to consider with applicants how best to prioritise obligations and optimise provision in the given circumstances.

28. From our review of the Council's provisional policies drafting to date, we consider that these dynamic aspects are being acknowledged and should be worked in to the final Local Plan proposals.

29. Overall, we consider that an affordable housing policy headline target applicable at 11+ dwellings, and seeking not more than 30%, is likely to be workable in striving to secure an optimal level of affordable homes provision in a majority of cases. As noted here and recognised in the Council's proposed policy approach, viability will need to be reviewed in some cases. The approach also acknowledges that in some limited cases, the contributions made towards meeting affordable housing needs may take the form of wider financial enabling (i.e. provision accepted through financial contributions in certain circumstances).

30. Building on our emerging findings stage feedback, we are also continuing to recommend the consideration of a lower AH policy target for town centre development (at say 20%), where a combination of site assembly and complexities, site works and build costs, some higher land values and mixed levels of sales values will tend to be seen in combination more often than in other scenarios. We extend the consideration of this, putting forward also the possibility that if a headline policy at 30% AH is pursued, then any approach to consider a lower proportion (as recommended) could also be set in the context of a wider range of PDL (previously developed land – i.e. brownfield) sites.

31. On other aspects of planning policy detail that could have a financial viability impact, DSP has reviewed and provided information that suggests that the Nationally Described Space Standard and other elements of locally optional policy (from the revised national policy set related to the Government's more recent review housing and technical standards) may be adopted in Thanet. This is again without unduly impacting viability and deliverability; providing the policy expectations are not too high or too rigid. This will be dependent also on local needs and priorities. The report detail provides more information.

32. These other areas of scope include proposed policies on the access to and use of buildings (Building Regulations Part M4), where in our view the Council could include some requirements – tested at this stage across a wide range of potential requirements and combinations for TDC's information, but with a likely emphasis on seeking an element of M4(2) provision. Once even a small proportion of M4(3) compliant housing is sought, this is likely to have an impact on the scope available to support other additional requirements as well. Associating any such final policy with, or possibly looking at that within, the AH element is also suggested for consideration.

Any such requirements should be clearly set out. Again, the report provides more detail.

33. In terms of the potential viability scope for a TDC CIL, if pursued, we have found that after accounting for the key policy costs that influence viability (i.e. primarily the AH policies, as above) alongside the locally available market sale values, the available headroom is not likely to exceed around £100/sq. m but may need alternative consideration in some cases. Further information is provided around this.

34. We have assumed that new housing will be delivered across a combination of PDL and greenfield sites, including key (strategic) development locations and with a significant role overall for greenfield based development.

35. We consider that a similar level of CIL charging scope is likely to be appropriate for any further 'large format' retail development (i.e. retail warehousing and foodstores).

36. Beyond those likely CIL chargeable uses, we have found no clear current viability scope in relation to CIL charging in the Thanet for other development uses – including for example business/employment development (office, industrial and warehouse developments - B Use Classes), hotels (C1), care homes (C2), community uses and so on. Under our current recommendations, again for TDC's consideration, those would attract a nil-rate i.e. £0/sq. CIL charge at this point – once again, should the Council pursue a CIL short-term. As with all other aspects related to viability these positions could change, and should therefore be kept under review. However, at this stage we would anticipate very significant changes being needed to the strength of the value to costs relationships involved in most commercial / non-residential development forms locally, in order to appropriately evidence a notably different route in these respects.

37. Overall, we consider that this viability assessment identifies scope to find the appropriate balance between affordable housing needs, other planning policy objectives and scheme viability.

38. On an overview basis on viability, as is appropriate to the Plan making stage, the emerging policy set relating to the Council's direction of travel that we have been

working with, does not appear too onerous. This is consistent with our wide experience of preparing strategic level viability assessments for CIL, Local Plan and affordable housing related Development Plan Document (DPD) evidence, supporting examination outcomes; and familiarity with the detail of affordable housing and other planning policies and viability factors in operation in practice.

39. In our view, at a "Whole Plan" level, we consider the Thanet emerging LP direction on policies – as likely to be contained within and supporting the new Plan - to have reasonable delivery prospects overall.

40. In carrying out this assessment from the necessary strategic viewpoint, it is assumed that there will be a variety of market conditions experienced during the life of the new Local Plan, including periods in which there may be more and less stable and confident economic and property market conditions. It is assumed that the timescale and review basis for any first CIL Charging Schedule would be much shorter than for the Local Plan. With limited headroom available in addition to our understanding of the likely TDC policy priorities, the subsequently viewed scope for this may also be more significantly affected, amongst other things, by potential changes in Government policy on CIL and the way it operates, or by the general market.

41. The full report text, as follows within this document, sets out more comprehensively our findings and any options that may be available. For a quick overview guide only, Figure 9 / para. 3.15 at the report end may be referred to.

42. Related to our assessment, DSP will be happy to continue to advise TDC further as the Council continues its work on the implementation of the new Local Plan.

Executive Summary ends

Final Report (DSP v4) December 2017

1. Introduction

1.1 Background to the Viability Assessment

1.1.1 The current Local Plan of Thanet District Council (TDC) – Thanet Local Plan - was adopted in June 2006 and the Saved Policies of it form part of the current development plan for the district.

1.1.2 The Thanet Local Plan is out of date and therefore the Council is in the process of producing a new Local Plan. The Plan will set out the council's strategy to support the district's population and economic growth up to 2031. The creation of a Local Plan is designed to give the council greater control over where and what type of developments can take place over the next twenty years. At the same time the Council is considering the introduction of a Community Infrastructure Levy (CIL) to fund part of the infrastructure requirements created by development coming forward through the new Local Plan.

1.1.3 The Thanet Local Plan will be the Council's overarching planning policy document, which will cover the whole of the District, for the period to 2031. The Cliftonville Development Plan Document was adopted in 2010. There are currently 4 Neighbourhood Plans at an early stage of preparation in the district.

1.1.4 The document will include a district wide vision, spatial strategy and strategic objectives. It will identify areas and strategic sites where major change should take place to address development, transport and infrastructure needs. It will include allocations and safeguarding of land to enable delivery of the strategy, identifying sites for housing, employment, open space and other development or uses that may be required to deliver the strategy.

1.1.5 District wide development management policies will also be included in the document, covering the following subject areas; Employment and the Economy, Housing, Environment and Quality of Life, and Transport and Infrastructure. The document will include an Infrastructure Delivery Schedule, which will identify the infrastructure required to deliver the plan.

1.1.6 The Council consulted on the Issues and Options Draft Local Plan in June-August 2013. The Preferred Option consultation took place in January – March 2015 and between 20 January – 17 March 2017, Thanet District Council consulted on the proposed revisions to the Draft Local Plan. The final stage of the Local Plan process prior to submission to the Planning Inspectorate is referred to as 'Publication of the Draft Local Plan' expected to take place early in 2018.

1.1.7 The Local Plan must be prepared in accordance with the requirements set out in National Planning Policy Framework (NPPF) and the accompanying Planning Practice Guidance (PPG). Viability testing is an important part of the plan-making process. The NPPF introduced a clear requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. In addition, further guidance on this requirement is covered by the national Planning Practice Guidance and other publications.

1.1.8 This study provides the viability evidence which, alongside previous work undertaken by others where applicable, contributes to a suite of documents used to inform and support the emerging Local Plan of the Council and a potential CIL Preliminary Draft Charging Schedule (PDCS) in due course.

1.1.9 It is in the interests of the Council, local communities, developers and all other stakeholders to ensure that the proposed policies, sites and the scale of development identified in the plan are viable - to ensure a sound Plan through the examination process. This is equally true of the level of CIL that may be required across the district.

1.1.10 In light of the above, the Council has therefore commissioned this viability assessment. This will help to assess and inform policies in the Local Plan that have cost implications, provide a viability appraisal of the sites typologies likely to come forward through the Local Plan and provide a high-level assurance that the proposed sites and the scale of development identified in the plan would not be subject to such a scale of obligations (including CIL) and policy burdens that their ability to be developed viably is threatened. In summary, the objectives of this study are as follows:

1.2 Background to the CIL

1.2.1 The Council has previously started work on the preparation of a CIL charge. That work indicated that for residential development, CIL would not render the majority of development unviable. For non-residential uses the only types of development which could support CIL and remain viable were, at the time, retail uses. Other development, including warehousing, industrial and other commercial uses throughout the district were not considered able to support CIL on viability grounds. This report further considers the potential for CIL across the district.

1.2.2 The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from developers undertaking new developments in their area. In this case, should CIL be adopted locally, Thanet District Council would be the charging authority.

1.2.3 CIL takes the form of a charge that may be payable on 'development which creates net additional floor space'[1]. The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, the Community Infrastructure (Amendment) Regulations 2014 allows for a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.[2]

1.2.4 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area.

1.2.5 The CIL regulations require charging authorities to allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas. In January 2013, it was announced that in areas where there is a neighbourhood development plan in place, the neighbourhood will be able receive 25% of the revenues from the CIL arising from the development that they have chosen to accept.

[1] https://www.gov.uk/guidance/community-infrastructure-levy (Paragraph: 002 Reference ID: 25-002-20140612 Revision date: 12 06 2014)

[2] Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.

Under the Regulations the money would be paid directly to the neighbourhood planning bodies and could be used for community projects. Planning Practice Guidance provides further information on spending of Levy receipts including distribution to local neighbourhoods[3].

1.2.6 Neighbourhoods without a neighbourhood development plan but where a CIL is still charged will receive a capped share of 15% of the levy revenue arising from development in their area.

1.2.7 Under the Government's regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority.

1.2.8 The CIL Guidance contained within the PPG goes on to state that the levy rate(s) need to be set so that they do not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan (Local Plan in England). '*Charging authorities will need to draw on the infrastructure planning evidence that underpins the development strategy for their area. Charging authorities should use that evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area.*'[4]

1.2.9 The Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the anticipated Local Plan level of growth to be accommodated across the district as a whole through the development of an Infrastructure Delivery Plan (IDP). This ensures that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It sets out key infrastructure and facility requirements for new development, taking account of existing provision and cumulative impact.

1.2.10 Infrastructure is taken to mean any service or facility that supports the Thanet District Council area and its population and includes (but is not limited to) facilities

[3] https://www.gov.uk/guidance/community-infrastructure-levy (Paragraph: 072 Reference ID: 25-072-20140612 Revision date: 12 06 2014)

[4] https://www.gov.uk/guidance/community-infrastructure-levy (Paragraph: 008 Reference ID: 25-008-20140612 Revision date: 12 06 2014)

for transport, education, health, social infrastructure, green infrastructure, public services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements.

1.2.11 Within this study, an allowance has been made for the cost to developers of providing affordable housing and other costs of policy compliance in addition to testing potential CIL charging rates. In this sense, the collective planning obligations (including affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others. It follows that the extent to which s.106 will have an on-going role also needs to be considered in determining whether CIL charging rates need to be varied from the adopted position, bearing in mind that CIL is non-negotiable.

1.2.12 In most cases, where adopted, CIL replaces s.106 as the mechanism for securing developer contributions towards required infrastructure. Indeed, Government guidance on CIL states that it expects LPAs to work proactively with developers to ensure they are clear about infrastructure needs so that there is no actual or perceived "double dipping" – i.e. charging for infrastructure both through CIL and s.106. Therefore s.106 should be scaled back to those matters that are directly related to a specific site and are not set out in a Regulation 123 list (a list of infrastructure projects that the local planning authority intends to fund through the Levy). This could be a significant consideration, for example, in respect of large scale development associated with on-site provision of infrastructure, high site works costs and particularly where these characteristics may coincide with lower value areas.

1.2.13 The CIL rate or rates should be set at a level that ensures development within the authority's area (as a whole, based on the plan provision) is not put at serious risk.

1.2.14 A key requirement of CIL and setting the charging rates is that an appropriate balance should be struck between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development (development viability).

'The levy is expected to have a positive economic effect on development across a local plan area. When deciding the levy rates, an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments.

This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see Regulation 14(1), as amended by the 2014 Regulations), charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area.

As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), 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. The same principle applies in Wales.'[5]

1.2.15 Later amendments to the CIL Regulations (The Community Infrastructure Levy (Amendment) Regulations 2014 came into force on 24th February 2014. These regulations introduced:

- new mandatory exemptions for self-build housing, and for residential annexes and extensions;

- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);

- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;

- a new 'vacancy test' - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months);

[5] https://www.gov.uk/guidance/community-infrastructure-levy (Paragraph: 009 Reference ID: 25-009-20140612 Revision date: 12 06 2014)

- a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to 'aim to strike the appropriate balance';

- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

1.2.16 The CIL Regulations (Amendment) have been taken into account in the preparation of this report and in our opinion the preparation of this study meets the requirements of all appropriate Guidance. However, the Council will be aware that the Government commissioned a review of the Community Infrastructure Levy[6] with the task of assessing the extent to which CIL '*does or can provide an effective mechanism for funding infrastructure, and to recommend changes that would improve its operation in support of the Government's wider housing and growth objectives*'. The CIL Review team's report was published in October 2016 and in summary recommended that the Government should replace the CIL with a hybrid system of a broad and low level Local Infrastructure Tariff (LIT) and s106 for larger developments.

1.2.17 Through its Housing White Paper, the previous Government[7] stated that following the CIL Review Team's report, it would '*examine the options for reforming the system of developer contributions including ensuring direct benefit for communities, and will respond to the independent review and make an announcement at Autumn Budget 2017.*' Obviously at this stage we have not been able to take into account any potential future changes to the CIL other than though high-level commentary within this report. Latest information following the Autumn Statement[8] suggests that the Government may not be taking on board many of the recommendations of the CIL Review Panel and will launch a consultation with detailed proposals on the following measures[9]:

- *'removing restriction of Section 106 pooling towards a single piece of infrastructure where the local authority has adopted CIL, in certain circumstances such as where the authority is in a low viability area or where significant*

[6] A Report by the CIL Review Team – A New Approach to Developer Contributions (submitted October 2016 but published February 2017)
[7] Note that a General Election was held during the process of finalising this report resulting in a hung parliament.
[8] 22nd November 2017
[9] https://www.gov.uk/government/publications/autumn-budget-2017-documents/autumn-budget-2017#housing

development is planned on several large strategic sites.[9] *This will avoid the unnecessary complexity that pooling restrictions can generate*

- *speeding up the process of setting and revising CIL to make it easier to respond to changes to the market. This will include allowing a more proportionate approach than the requirement for two stages of consultation and providing greater clarity on the appropriate evidence base. This will enable areas to implement a CIL more quickly, making it easier to set a higher 'zonal CIL' in areas of high land value uplift, for example around stations*

- *allowing authorities to set rates which better reflect the uplift in land values between a proposed and existing use. Rather than setting a flat rate for all development of the same type (residential, commercial, etc.), local authorities will have the option of a different rate for different changes in land use (agricultural to residential, commercial to residential, industrial to residential). All the protections for viability from CIL, such as the Examination in Public, will be retained*

- *changing indexation of CIL rates to house price inflation, rather than build costs. This will reduce the need for authorities to revise charging schedules. This will ensure CIL rates keep up with general housing price inflation and if prices fall, rates will fall too, avoiding viability issues*

- *giving Combined Authorities and planning joint committees with statutory plan-making functions the option to levy a Strategic Infrastructure Tariff (SIT) in future, in the same way that the London Mayoral CIL is providing funding towards Crossrail. The SIT would be additional to CIL and viability would be examined in public. DCLG will consult on whether it should be used to fund both strategic and local infrastructure'*

1.3 Thanet District Profile

1.3.1. Thanet lies at the eastern end of Kent, in close proximity to continental Europe. It has three main coastal towns of Margate, Ramsgate and Broadstairs. The built-up area is densely populated and forms an almost continuous urban belt around the north east coast. This is separated by areas of countryside between the towns and providing relief in the built area. There are also attractive coastal and rural villages

1.3.2. The district has an area of 103 square kilometres and an estimated resident population of approximately 140,000 as of mid-2016.

1.3.3. The Updated Assessment of Objectively Assessed Housing Need (January 2017) provides the most up-to-date assessment of housing need in Thanet District. It identifies a need for 17,140 additional homes over the 20-year period from 2011 – 2031. The excerpt below, taken from the Proposed Revisions to the Local Plan (Preferred Options) sets out the potential total housing provision likely to be coming forward through the new plan:

Period	2011-2031
Strategic Sites (sites of 500+ dwellings)	
Westwood	1,450
Birchington on Sea	1,000
Westgate on Sea	1,000
Manston Green	700
Land at Manston Court/Haine Road	700
Former Airport Site	2,500
Other Housing Sites/Areas	
Land at Manston Road/Shottendane Road	250
Margate & Cliftonville	816
Ramsgate	793
Broadstairs & St Peters	304
Birchington on Sea	101
Westgate on Sea	36
Rural Settlements	375
Windfall Sites (based on 225 units per year, discounted for years 1-3 to avoid double counting)	2,700
Completed since 2011	1,555
Extant planning permissions	3,017
Empty Properties	540
Total	**17,837**

1.3.4. The Council's emerging Local Plan also sets out policies in relation to employment. It states that:

'A minimum of 5,000 additional jobs is planned for in Thanet to 2031.

The aim is to accommodate inward investment in job creating development, the establishment of new businesses and expansion and diversification of existing firms.

Sufficient sites and premises suited to the needs of business are identified and safeguarded for such uses. Manston Business Park will be the key location for large scale job creating development.

Land is identified and allocated to accommodate at least 65ha of employment space over the period to 2031. Land and premises considered suitable for continued and future employment use will be identified and protected for such purpose.

Thanet's town centres are priority areas for regeneration and employment generating development, including tourism and cultural diversification, will be encouraged.
The growth of the Port of Ramsgate is supported as a source of employment and as an attractor of inward investment.

New tourism development, which would extend or upgrade the range of tourist facilities particularly those that attract the staying visitor, increase the attraction of tourists to the area and extend the season, will be supported.

Development is supported that enhances the rural economy subject to protecting the character, quality and function of Thanet's rural settlements'.

1.3.5. Thanet District Council is also planning for growth in the retail sector. The emerging Local Plan states:

'*The Council wishes to maintain the current retail hierarchy as it has been functioning successfully. Thanet currently retains 84% of retail expenditure within the district and given this healthy retention rate there is no need to increase Thanet's market share within the sub region. However, in order to maintain the current market share the following growth will be required over the plan period:*

- *34,300 square metres of floorspace selling comparison (high street style) goods. The majority of this is needed at Westwood which requires 27,870 square metres.*

- *3,941 square metres of floorspace selling convenience goods is needed. The majority of this is needed in Margate and Westwood which together require 2,277 square metres.*

Convenience retailing is currently skewed towards the large supermarkets clustered around the Westwood area and this trend is likely to continue. However, the Council would like to encourage more convenience provision within the coastal town centres'.

1.4 Purpose of this Report

1.4.1 Viability testing is an important part of the plan-making process. The National Planning Policy Framework (NPPF) introduced a clear requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. In addition, further guidance on this requirement is covered by the national Planning Practice Guidance (PPG) and other publications. In order to meet the requirements of the NPPF, TDC commissioned Dixon Searle Partnership (DSP) to carry out a Viability Assessment with an objective to determine the impact on development viability of including the various relevant policy requirements of the emerging Local Plan including recommendations on affordable housing targets and potential options for the introduction of a Community Infrastructure Levy.

1.4.2 The assessment involves the review of the financial viability of site typologies representing a range of typical site types likely to come forward across the Plan as well as considering the broad viability of key strategic sites. The assessment will provide the evidence base for the viability of the Local Plan policies, informing and supporting the deliverability of the plan overall.

1.4.3 This approach does not require a detailed viability appraisal of every site anticipated to come forward over the plan period but rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward as well as a finer grained look at those sites likely to play a major role in delivery over the plan period.

1.4.4 Neither does it require an appraisal of every likely policy but rather potential policies that are likely to have a close bearing on development costs. In our experience this means a focus on the viability prospects and potential policies associated with housing development, because the scope of this or other Councils' influence – i.e. through local policy positions - over the viability of other forms of development (non-residential/employment/commercial) is much more limited.

1.4.5 To this end, the study requires the policies and proposals in the Local Plan to be brought together to consider their cumulative impact on development viability including the potential implementation of a CIL locally.

1.4.6 The assessment approach applies sensitivity testing to policy costs including a range of affordable housing proportions, tested at different thresholds and combined with allowances for meeting the requirements for other optional housing standards - including relating to the access to and use of buildings, water efficiency and space standards.

1.4.7 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.

1.4.8 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue (sales income) generated by the completed scheme (the gross development value – GDV).

1.4.9 The residual valuation technique has been used to run appraisals on both sample scheme typologies representing development scenarios that are likely to come forward across the district under the emerging development strategy as well as key strategic sites.

1.4.10 The study process produces a large range of results relating to the exploration of a range of potential affordable housing percentage targets as well as other variables. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform the policy setting process.

1.4.11 A key element of the viability overview process is the comparison of the RLV results generated by the development appraisals and the potential level of land value that may need to be reached to ensure that development sites continue to come forward - so that development across the area is not put at risk owing to unrealistic policy burdens in combination with other development cost factors. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. The results sets have been tabulated in summary form and those are included in Appendix IIa (residential) and IIb (non-residential scenario tests).

1.4.12 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons will be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested.

1.4.13 This report then sets out findings and recommendations on the viability of the Plan as a whole whilst also informing the charging rates parameters for the potential local implementation of a CIL.

1.5 Policy & Guidance

1.5.1 This viability assessment has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance applicable to studies of this nature. This study has also had regard to the national Planning Practice Guidance.

1.5.2 The NPPF was published in 2012 superseding previous Planning Policy Statements (PPSs). The NPPF sets out the overall approach to the preparation of Local Plans. It states that planning authorities should seek opportunities to achieve each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. Significant adverse impacts on any of these dimensions should be avoided and, wherever possible, alternative options that reduce or eliminate such impacts should be pursued. The NPPF also states that Local Plans should be aspirational but realistic - that is, to balance aspirational objectives with realistic and deliverable policies.

1.5.3 The NPPF provides specific guidance on ensuring Local Plan viability and deliverability. In particular, paragraphs 173-174 state:

‘*Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. 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 landowner and willing developer to enable the development to be deliverable.*

Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle’.

1.5.4 Having regard to this guidance the Council needs to ensure that the Local Plan, in delivering its overall policy requirements, can address the requirements of the NPPF. Specific changes to the NPPF are currently under consideration. This report cannot pre-judge the outcome of the consultation and any changes that may be made to the NPPF.

1.5.5 Further guidance is set out in the Planning Practice Guidance (PPG) which re-iterates these messages where it says ‘*Plan makers should consider the range of costs on development. This can include costs imposed through national and local standards, local policies and the Community Infrastructure Levy, as well as a realistic understanding of the likely cost of Section 106 planning obligations and Section 278 agreements for highways works. Their cumulative cost should not cause development types or strategic sites to be unviable. Emerging policy requirements may need to be adjusted to ensure that the plan is able to deliver sustainable development*’.

1.5.6 In addition, relevant information is contained in the publication ‘Viability Testing Local Plans – Advice for planning practitioners’ published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the ‘Harman’ report).

That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in the Plan making process.

1.5.7 The Council is conscious that the government's reform of the planning system has placed significant limitations on its ability to set locally-specific standard and policy requirements. Following consultation on the Housing Standards Review (August 2013), on 27th March 2015 in a written Ministerial Statement (WMS) the Government formally announced a new approach to the setting of technical housing standards in England. This has been accompanied by a new set of streamlined standards.

1.5.8 The DCLG statement said: '*From the date the Deregulation Bill 2015 is given Royal Assent, local planning authorities and qualifying bodies preparing neighbourhood plans should not set in their emerging Local Plans, neighbourhood plans, or supplementary planning documents, any additional local technical standards or requirements relating to the construction, internal layout or performance of new dwellings. This includes any policy requiring any level of the Code for Sustainable Homes to be achieved by new development; the government has now withdrawn the code… For the specific issue of energy performance, local planning authorities will continue to be able to set and apply policies in their Local Plans which require compliance with energy performance standards that exceed the energy requirements of Building Regulations until commencement of amendments to the Planning and Energy Act 2008 in the Deregulation Bill 2015. This is expected to happen alongside the introduction of zero carbon homes policy in late 2016. The government has stated that, from then, the energy performance requirements in Building Regulations will be set at a level equivalent to the (outgoing) Code for Sustainable Homes Level 4. Until the amendment is commenced, we would expect local planning authorities to take this statement of the government's intention into account in applying existing policies and not set conditions with requirements above a Code level 4 equivalent*'.

1.5.9 The new approach does however introduce optional Building Regulations requirements for access (volumes 1 and 2) – Part M4 (2) and (3) - and water efficiency which provide a higher standard than the minimum national building regulations. A nationally described space standard has also been introduced which can be implemented through the planning system.

1.5.10 In addition, a new security standard has now been included in the Building Regulations (Part Q).

1.5.11 The review also clarified statutory Building Regulations guidance on waste storage - to ensure that it is properly considered in new housing development.

1.5.12 The effectively optional regulations and space standards may only be applied where there is a local plan policy, based on evidenced local need for them; and where the viability of development is not unduly compromised as a result of their application.

1.5.13 As further background, in November 2014, following a Ministerial Statement, the Government revised national policy on s.106 thresholds as follows:

- '*Contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1000sqm (gross internal area).*

- *In designated rural areas, local planning authorities may choose to apply a lower threshold of 5-units or less. No affordable housing or tariff-style contributions should then be sought from these developments. In addition, in a rural area where the lower 5-unit or less threshold is applied, affordable housing and tariff style contributions should be sought from developments of between 6 and 10-units in the form of cash payments which are commuted until after completion of units within the development. This applies to rural areas described under section 157(1) of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty.*

- *Affordable housing and tariff-style contributions should not be sought from any development consisting only of the construction of a residential annex or extension to an existing home.*

- *Additionally, local planning authorities should not seek section 106 affordable housing contributions, including any tariff-based contributions to general infrastructure plots, from developments of Starter homes. Local planning* *authorities will still be able to seek other section 106 contributions to mitigate the impact of development to make it acceptable in planning terms, including addressing any necessary infrastructure'*.

1.5.14 The national policy changes also included a 'vacant building credit' (VBC). This intended to incentivise the use of brownfield (previously developed) land (PDL), by reducing the affordable housing requirement on a site-specific basis through a credit based on the floor area of any existing vacant buildings.

1.5.15 The introduction of these policies via that WMS and subsequent changes to the PPG were subject to a legal challenge by West Berkshire Council and Reading Borough Council. The legal challenge was successful, and those policies quashed as of August 2015. This led to the re-introduction of lower affordable housing thresholds (where viable to do so) or allowed Councils to continue to adopt lower thresholds through the Local Plan process.

1.5.16 In May 2016, however, the Court of Appeal overturned that decision so that the s106 and affordable housing threshold based on a national minimum development size were re-introduced (as per the earlier WMS). Through discussion with officers, in carrying out this viability assessment we have therefore worked primarily on a basis consistent with this, so that at this stage it appears that affordable housing is not likely to be sought from schemes of 10 or fewer dwellings (subject also to maximum gross floor space requirements – at 1,000 sq. m new development). However, smaller scenario tests were considered as part of providing wider information and context for more general consideration by TDC.

1.5.17 The NPPF at paragraph 50 also states on affordable housing (in respect of local authorities' approaches):

'where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time.'

1.5.18 Within the Glossary of the NPPF, the Government defines affordable housing as follows:

> *'**Affordable housing:** Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.*
>
> ***Social rented** housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.*
>
> ***Affordable rented** housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).*
>
> ***Intermediate housing** is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.*
>
> *Homes that do not meet the above definition of affordable housing, such as "low cost market" housing, may not be considered as affordable housing for planning purposes.'*

1.5.19 The evolving area of housing mix is wide-ranging. Previously and through the introduction of the Housing and Planning Act 2016 (which became law in May 2016), Government announcements including the Housing White Paper have indicated that it is likely that the above may be changed so that low cost market homes may be treated as affordable homes for the purposes of planning. Indeed, Section 159 of the new Housing and Planning Act 2016 states:

'(1) Regulations made by the Secretary of State may impose restrictions or conditions on the enforceability of planning obligations entered into with regard to the provision of—

1. *(a) affordable housing, or*
2. *(b) prescribed descriptions of affordable housing.*

(2) Regulations under this section—

3. *(a) may make consequential, supplementary, incidental, transitional or saving provision;*
4. *(b) may impose different restrictions or conditions (or none) depending on the size, scale or nature of the site or the proposed development to which any planning obligations would relate.*

(3) This section does not apply in relation to a planning obligation if—

(a) planning permission for the development was granted wholly or partly on the basis of a policy for the provision of housing on rural exception sites, or

(b) the obligation relates to development in a National Park or in an area designated under section 82 of the Countryside and Rights of Way Act 2000 as an area of outstanding natural beauty.

(4) In this section "affordable housing" means new dwellings in England that—

(a) are to be made available for people whose needs are not adequately served by the commercial housing market, or

(b) are starter homes within the meaning of Chapter 1 of Part 1 of the Housing and Planning Act 2016 (see section 2 of that Act)'[10].

[10] Housing & Planning Act 2016

1.5.20 As further detail develops, through regulations, other national policy moves to encourage or secure the provision of various forms of housing may need to be considered; including the Housing White Paper's apparent move away from Starter Homes as previously envisaged towards a more inclusive 'affordable home ownership' form of delivery covering a wider range of products.

1.5.21 In addition to the above, the Chancellor announced in his Budget speech in 2015 that affordable housing providers will have to cut social housing rents by 1 per cent each year for four years from April 2016; a reversal of the rental formula which previously allowed the providers to raise rents in line with the consumer prices index (CPI) plus 1 per cent.

1.5.22 As part of this viability assessment, we reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes using unit to a developer) and addressed those through the modelling undertaken for this study. However, since that element of this assessment was carried out, the Government have announced a return to the previous rental formula (CPI +1% from 2020). As we can't take that change into account in this assessment, it does mean that the assumptions on affordable housing revenue included in this study are less positive than may now be the case – i.e. a worst-case scenario has been tested. This means that the development viability assumptions have not been taken to the margins of viability.

1.5.23 We have not, at this stage, taken into account any changes to the definition of affordable housing.

2 Methodology

2.1 Residual valuation principles

2.1.1 Collectively this study investigates the potential viability and, therefore, deliverability of the Local Plan and its policies - including the potential introduction of a CIL and various potential affordable housing options (target percentages - %s) and the thresholds above which affordable housing may be sought.

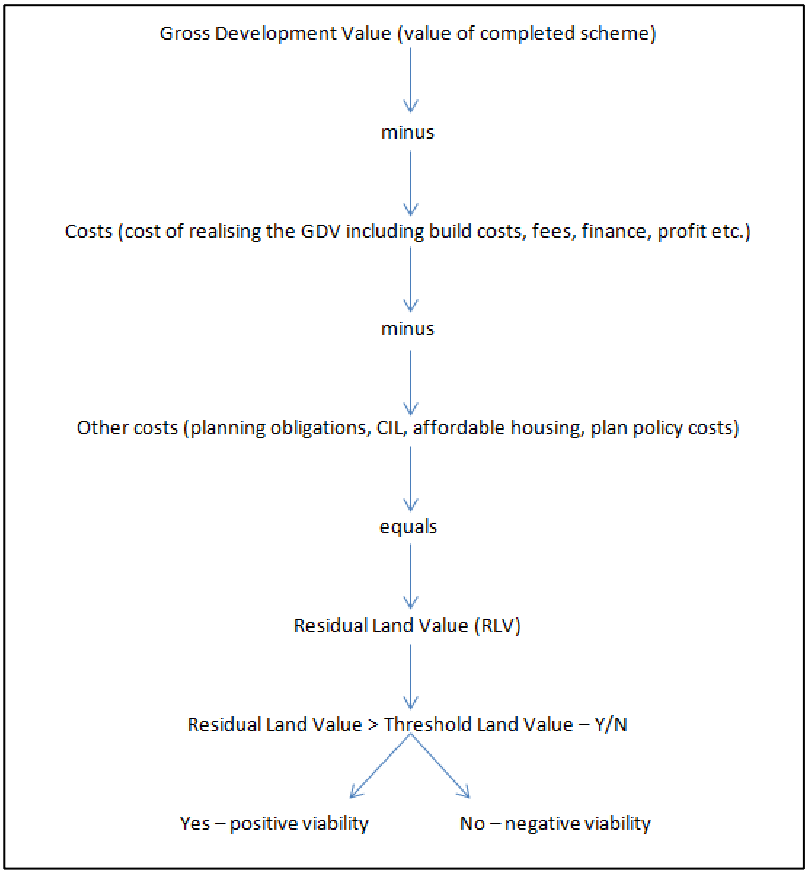
2.1.2 There will be a number of policies that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on discussions with Council officers. This study considers how the costs of these potential obligations interact and therefore estimate the collective impact on viability of a range of policy options. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.

2.1.3 Prior to fixing assumptions, necessarily at a point in time, and running appraisals (as outlined in the following paragraphs) we undertake an extensive information review, property market research and a development industry stakeholders' survey. As a part of this, we undertake a review of the potential policy proposals which enables us to assess which are considered likely to have a particular development cost impact, or additional cost implications over and above typical costs (for example utilising the costs information from established sources such as the Building Cost Information Service of the RICS (BCIS)). Appendix I to this document also provides a quick reference guide to the assumptions used and includes a policy review schedule indicating the view taken with respect to the potential policies so far as those are known at the time of this assessment.

2.1.4 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme types.

2.1.5 Residual valuation, as the term suggests, provides a "residual" value from the gross development value (GDV) – i.e. from the estimated total sale value on completion - of a scheme, after all other costs are taken into account. The diagram below (Figure 1) shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



2.1.6 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

2.1.7 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.

2.1.8 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as from the DCLG, Valuation Office Agency (VOA) reporting, previous and current evidence held by the Council and its immediate neighbours and any available sales, or other evidence on value, are used for this purpose in making our assessment. Typically, as here, there is very little information readily available for use in terms of genuine and reliable comparables on land values and in any event, available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a particular level of land value need to be understood. The RICS recognises this and suggests that '*if market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for site and try to recover some or all of this overpayment via reductions in planning obligations*'[11]. As such a range of information as mentioned above has to be relied upon to inform our assumptions and judgments.

2.1.9 The results show trends indicating deteriorating residual land values (RLVs) and, therefore, reduced viability as scheme value (GDV) decreases and / or development costs rise – e.g. potentially through adding / increasing affordable housing, optional technical housing standards and / or increasing planning obligation levels.

2.1.10 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I and III. They reflect the local markets through research on local values, costs and types of provision, etc. At various project stages we consulted with the Council's officers and sought soundings as far as were available from a range of local development industry stakeholders as we considered our assumptions. This included issuing a questionnaire / pro-forma to key stakeholders (developers, house builders, landowners, agents, Registered Providers etc.) alongside e-mail exchanges and telephone discussions through which DSP sought to get feedback on study assumptions and to provide the opportunity for engagement and for provision of information to help inform the assessment. On the whole, the process is informed as far as practically possible by the review of available information and making an overview from that. This approach reflects the expectations of the guidance.

2.2 Key Policy Areas for Testing - Summary

Energy & Water

2.2.1 As a result of the Housing Standards Review, TDC will need to ensure that any specific policy in regard of water consumption is set at no more than 110 litres/person/day.

[11]RICS Financial Viability Appraisal in Planning Decisions: Theory and Practice. April 2015

For this assessment we have allowed for an assumption that the Council would introduce the minimum level of compliance (i.e. 110 litres per person per day (lpppd)) but for that no additional cost allowance is required[12]. The Council would need to provide the evidence of need to support the introduction of this policy locally.

2.2.2 This study assumes that the Sustainable Design / Construction Standards are based on meeting the requirements of the building regulations in terms of energy use due to the Government's withdrawal of the Code for Sustainable Homes. The Government expects local planning authorities to take the above noted Ministerial Statement of its intentions into account in applying existing policies and not set conditions with requirements above a former Code for Sustainable Homes (CfSH) Level 4 equivalent. Until the Government confirms next steps on the path to 'nearly zero energy', we assume that the Council will continue to apply energy standards equivalent to former Code Level 4.

2.2.3 Appendix I provides the detail but data taken from the DCLG Housing Standards Review Impact Assessment (average £ per unit extra-over (E/O) cost) for meeting the energy requirements for former CfSH Level 4 equivalent has been used as a proxy for building regulations compliance.

2.2.4 No other sensitivity testing has been carried out in relation to higher levels of the CfSH or zero carbon as a result of the Government announcement to delay the introduction of national zero carbon policy and the scrapping of the allowable solutions element of national policy.

Affordable Housing

2.2.5 The Council's adopted affordable housing (AH) policy (H14)[13] states that development of 15 (fifteen) or more units shall include 30% affordable housing on-site. The affordable housing provision should be proportionate to the size and type of dwellings across the entire site. The emerging policy direction suggests a continuation of a requirement for 30% affordable housing. However, as stated above, part of the purpose of this study is to test the potentially viable level of affordable

[12] N.b. extra over costs of attaining water efficiency standards of 110lpppd are in the region of £6-£9 per dwelling according to the DCLG Housing Standards Review Cost Impacts Study (September 2014). In our opinion this would have such a marginal impact on scheme viability that it has not been included in this assessment.
[13] Thanet District Council Adopted Local Plan 2006

housing across the district going forwards, and the threshold above which affordable housing will be sought.

2.2.6 As noted above, the Government's November 2014 introduction of a national affordable housing threshold was quashed by the High Court after a legal challenge by Reading and West Berkshire Councils in July 2015. To recap, however, this was subsequently overturned, via the Court of Appeal, having the effect of re-introducing a national minimum affordable housing threshold of 10 or fewer units. On this basis the Council would not be able to set a policy requiring affordable housing on sites of 10 dwellings or fewer except in the case of any part of the district that falls within rural areas described under section 157(1) of the Housing Act 1985 and which includes National Parks and Areas of Outstanding Natural Beauty (AONBs). In those cases, the Council may request, subject to viability, that on developments of between 6-10 units, affordable housing may be sought as financial contributions. We are not aware that any part of Thanet is covered by a rural designation as described above.

2.2.7 In carrying out this viability assessment, as requested by TDC, we have undertaken a review of affordable housing policy across a range of thresholds to inform the Council's decision-making process from a viability perspective only. The Council would need to consider the evidence required in order to include a sub-11 unit affordable housing threshold, subject to viability constraints. More detail on the affordable housing assumptions is provided below and at Appendix I.

Nationally Described Space Standard

2.2.8 The Government's Technical Housing Standards have introduced national space standards for C3 housing which can be used in a Local Plan policy if there is sufficient evidence of need and viability.

2.2.9 The national space standards have been included in the modelling for this viability assessment as a standard assumption. See Appendix I for detail.

Access to and use of Buildings

2.2.10 The Government's Housing Standards Review has also resulted in changes being made with reference to Lifetime Homes and the Wheelchair Housing Design Standard. Accessibility is now incorporated into Part M of Building Regulations, applied by Local Planning Authorities as conditions and checked for implementation through the Building Control process.

2.2.11 The 2015 edition of Approved Document M – Access to and use of buildings: Volume 1 – Dwellings introduces three categories of dwellings

Category 1	Visitable dwellings	M4(1)	This is mandatory for all new dwellings and is not optional. This means that reasonable provision should be made for people to gain access to and use the dwelling and its facilities. This should include most people, including wheelchair users.
Category 2	Accessible and adaptable dwellings	M4(2)	This optional standard is broadly equivalent to Lifetime Homes standards. This requires that provision is made within new dwellings to meet the needs of occupants with differing needs including some older and disabled people and *allow for the adaptation of the dwelling* to meet changing needs of occupants over time. This means that features are provided to enable common adaptations to be carried out in the future to increase the accessibility and functionality of the building.
Category 3	Wheelchair user dwellings	M4(3)	An optional standard with two sub-categories: M4(3)(2)(a): wheelchair adaptable: a dwelling constructed with the potential to be adapted for occupation by a wheelchair user e.g. providing space for the future installation of a lift; or
			M4(3)(2)(b): wheelchair accessible: a dwelling constructed to be suitable for immediate occupation by a wheelchair user e.g. by installing a lift.

2.2.12 Again, as with the residential space standards, there must be evidence in place for both need and viability. We understand that the Council is considering the implementation of a policy to require proportions of dwellings to meet Category 2 M4(2) and M4(3). As part of the viability testing process, the Council has therefore requested that sensitivity testing be carried out to look at the likely viability impact of including policies on the access to and use of buildings. We set out below the likely additional costs for including policies that meet the optional Category 2 and/or 3 requirements of Part M4 of the Building Regulations and those have been used in our sensitivity testing. It should be noted that enhanced requirements (where implemented) are independent of each other so that a dwelling may be provided to meet either standard.

2.2.13 As part of the Government's Housing Standards Review consultation, cost analysis was produced by EC Harris (and subsequently updated) relating to areas that included Access. Within the 2014 update to that review document, approximate costs of complying with the optional Category 2 requirements of Part M4 were included. This indicates various costs for different types of dwelling and on different forms of development. For the purposes of this report, the average extra over access cost per dwelling is approximately total of £2,447 for houses and £1,646 for flats for meeting Part M4 (2) standards. This is based on an average extra over access cost per dwelling (£682/dwelling) alongside the average access related space cost per dwelling but without allowing for cost recovery (£1,444/ dwelling).

2.2.14 For Part M4 (3) the same report indicates average extra over (E/O) costs to be £15,691 for flats and £26,816 for houses.

2.2.15 Within this viability assessment, sensitivity tests have been carried out on the assumption that 10% - 100% of new dwellings meet Part M4(2) standards and 5% - 20% meet Part M4(3) standards. This has been carried on a scheme of 50 units and noting that Part M4(2) and Part M4(3) would not be required on the same individual unit; in respect of individual dwellings the standards are on an "either or" basis. The results of this sensitivity testing will help inform decisions made by the Council in terms of setting policy requirements within the Local Plan.

Affordable Home Ownership, Custom & Self-Build

2.2.16 The Housing and Planning Act 2016 introduced a requirement for Local Planning Authorities in England to promote the supply of starter homes. The exact proportion is not set out in the Act, but previous consultation suggested that it would be in the region of 20% of new homes on all new developments (with certain exceptions)[14]. The publication of the Housing White Paper seems to indicate a change of position leading to a likely requirement of 10% of new homes to be provided as 'affordable home ownership' products.

2.2.17 Starter homes exception sites are also still referred to within the PPG as a form of starter homes supply but it is not clear what relationship this has with the requirement for all sites to provide a proportion of Starter Homes or affordable home ownership products. Related to the type of previously developed land ('PDL') -

[14] Since the publication of the Government's Housing White Paper in February 2017 it appears more likely that a lower proportion may be set (10%). Further detail yet to be provided at the point of finalising this study.

i.e. brownfield sites - on which the starter homes initiative is envisaged to be primarily focused, DSP's view is that land values should be reflective of the site characteristics, development type and mix - as in all other cases. Developments specifically aimed at this model would not be providing an affordable housing quota, s.106 or CIL funded infrastructure and in our view based on 80% market sale values is, at the very least, likely to be no less viable on such a site than a combination of full market and regular affordable housing in the sense that has been required to date.

2.2.18 Looking at starter homes as set out loosely in the Act (i.e. not exception site starter homes but starter homes as a proportion of normal residential development) further information is needed from the Government before the full impact on viability can be fully tested and indeed it appears that it may no longer be an expectation. For this report no additional testing has been carried out on the impact of starter homes but a requirement for a minimum percentage of affordable home ownership products through shared ownership tenures has been included within the modelling as a sensitivity test.

2.2.19 From DSP's experience of considering custom / self-build to date (albeit limited to early stages exploratory work on viability) we consider that the provision of plots for custom-build has the potential to be a sufficiently profitable activity so as not to prove a significant drag on overall site viability. Broadly, from review work undertaken so far, we would expect it to be at least neutral in viability terms, with the exact outcomes dependent on site-specific details – as with other aspects of the development process.

2.3 Scheme Development Scenarios

2.3.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of development, whilst including testing and sensitivity testing on the policies considered to have an impact on development viability. The scenarios were settled and discussed with the Council following a review of the information it provided. Information included Local Plan document, previous viability work undertaken in relation to both CIL and Local Plan, Strategic Housing Land Availability Assessment (SHLAA), Updated Assessment of Objectively Assessed Housing Need and other information.

Residential Development Scenarios

2.3.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision and other policy cost areas - including optional technical housing standards as discussed above (see Figure 2 below, and Appendix I provides more detail):

Figure 2: Residential Scheme Typologies – Base tests

Scheme / Typology	Overall Scheme Mix
1 House	1 x 4BH
5 Houses	2 x 2BH, 2 x 3BH, 1 x 4BH
5 Flats	2 x 1BF, 3 x 2BF
10 Houses	5 x 2BH, 4 x 3BH, 1 x 4BH
11 Houses	5 x 2BH, 4 x 3BH, 2 x 4BH
15 Houses	7 x 2BH, 5 x 3BH, 3 x 4BH
15 Flats	5 x 1BF, 10 x 2BF
30 Flats (Sheltered)	22 x 1BF, 8 x 2BF
30 Houses	14 x 2BH, 11 x 3BH, 5 x 4BH
50 Mixed	8 x 1BF, 10 x 2BF, 10 x 2BH, 15 x 3BH, 7 x 4BH
85 Houses	38 x 2BH, 30 x 3BH, 17 x 4BH
100 Mixed (10% Low Cost AH)	15 x 1BF, 20 x 2BF, 20 x 2BH, 30 x 3BH, 15 x 4BH
100 Mixed	15 x 1BF, 20 x 2BF, 20 x 2BH, 30 x 3BH, 15 x 4BH
250 Mixed	38 x 1BF, 50 x 2BF, 50 x 2BH, 75 x 3BH, 37 x 4BH

Note: BH = bed house; BF = bed flat; Mixed = mix of houses and flats.

2.3.3 The assumed dwelling mixes are based on the range of information reviewed, including taking into account the recommendations contained within the Council's 2016 Strategic Housing Market Assessment (SHMA) and 2017 update.

2.3.4 The scenarios reflect a range of different types of development that are likely to be brought forward through the planning process across the district to ensure that viability has been tested with reference to the potential housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the area by scheme location / type whilst and allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.

2.3.5 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types in different combinations according to particular site characteristics.

2.3.6 In all cases it should be noted that a "best fit" of affordable housing numbers and tenure assumptions must be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers particularly. The affordable housing numbers (content) assumed within each scheme scenario can be seen at Appendix I – Assumptions overview spreadsheet.

2.3.7 In addition to the above site typologies, as requested by the Council, specific testing was undertaken representative of development at four large scale greenfield sites as key components of the proposed Local Plan delivery. These were Manston Court (SP13), Birchington-on-sea / Westgate (SP14, SP15, SP17), Westwood (SP16) and Manston Airport (SP05). **[August 2018 added note on final report issue: A 2018 Viability Report Update is available and no longer includes SP05, reflecting the Council's revised strategy – latest Local Plan proposals. Other changes have also been made by TDC in regard to the list of strategic sites and those proposals.]**

2.3.8 While the principles behind this important review element were consistent with and informed by the wider assessment and assumptions set out in this report, the approach to this element was different and necessarily included a range of adjusted assumptions; informed to some extent by information provided by TDC to DSP and supplemented by established practice and experience of carrying out such appraisals and assessments. Further details, including on the approach and assumptions used in carrying out the current stage high level appraisals of those sites are considered later in this report.

2.3.9 The dwelling sizes assumed for the purposes of this study are as follows (see figure 3 below):

Figure 3: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
1-bed flat	50	50
2-bed flat	70	70
2-bed house	79	79
3-bed house	93	100
4-bed house	112	130

2.3.10 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. As has been noted above, if dwelling space standards (aligned to the Nationally Described Space Standard) are to be introduced by Thanet District Council within the emerging Local Plan, that can only happen where there is a proven need to do so and also on the basis that viability considerations are taken into account. We have, however, assumed for the purposes of this assessment process that the nationally described space standard may be introduced or at least encouraged.

2.3.11 Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to assess, compare and price schemes. It provides a more relevant context for considering the potential viability scope.

2.3.12 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m 'Value levels' basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

2.4 Commercial / Non-Residential Development Scenarios

2.4.1 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 4 below sets out the various scheme types modelled for this study, covering a range of uses to test the impact on viability of requiring CIL contributions from different types of commercial development considered potentially relevant in the district.

2.4.2 The commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. Figure 4 below summarises the scenarios appraised through a full residual land value approach; again Appendix I provides more information.

Figure 4: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m^2)	Site Coverage	Site Size (Ha)
A1 - Large Retail	Retail warehouse/foodstore	1250	40%	0.31
A1 – A5 -Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	300	70%	0.04
A1 – A5 - Small Retail	Local convenience stores and local shops	300	50%	0.06
B1(a) - Business - Offices -	Town centre office building	500	60%	0.08
B1(a) - Business - Offices	Edge of / out of town office building	1000	40%	0.25
B1/B2/B8 - Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	500	40%	0.13
B1/B2/B8 - Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	2000	40%	0.50
C1 - Hotel (budget)	Hotel - town centre / edge of town (60 Beds)	2100	50%	0.42
C2 - Residential Institution	40-bed Nursing home / care home	1900	60%	0.32

Note: 300 sq. m retail ('small retail') scenarios representative of smaller shop types also permitting Sunday Trading Act related trading hours (see also subsequent information in this report).

2.4.3 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the district and are as subsequently agreed with the Council. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from CoStar Commercial Real Estate Intelligence, the VOA Rating List and other web-based review as well as feedback from consultation. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of "sense check" to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.

2.4.4 In addition to testing the commercial uses of key relevance above, further consideration was given to other development forms that may potentially come forward locally. These include for example non-commercially driven facilities (community halls, medical facilities, schools, etc.) and other commercial uses such as motor sales / garages, depots, workshops, surgeries / similar, health / fitness, leisure uses (e.g. cinemas / bowling) and day nurseries.

2.4.5 Clearly there is potentially a very wide range of such schemes that could be developed over the life of a CIL charging schedule. Alongside their viability, it is also relevant for the Council to consider the likely frequency and distribution of these; and their role in the delivery of the development plan overall. For these scheme types, as a first step it was possible to review (in basic terms) the key relationship between their completed value per square metre and the cost of building. We say more about this in Chapter 3.

2.4.6 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale, etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the usual development sense being reviewed here and related to any CIL contributions scope. We are also able to consider these value / cost relationships alongside the range of main appraisal assumptions and the results that those provide (e.g. related to business development). This is an iterative process in addition to the main appraisals, whereby a further deteriorating relationship between values and costs provides a clear picture of further reducing prospects of viable schemes. This starts to indicate schemes that require other support rather than being able to produce a surplus capable of some level of contribution to CIL.

2.4.7 Through this process we were able to determine whether there were any further scenarios that warranted additional viability appraisals. Having explored the viability trends produced by examination of the cost/value relationships we found that in many other cases, completed scheme values were at levels insufficient to cover development costs and thus unlikely to support any level of CIL.

2.5 Gross Development Value (Scheme Value)

Market housing (sale) values

2.5.1 In order to determine likely values for development across the district, a range of information sources has been considered. As well as reviewing the Council's existing evidence base we also carried out a range of our own research on residential values across the Council's area (see Appendix III). It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we considered existing information contained within previous research documents including previous viability studies; from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.

2.5.2 A framework needs to be established for gathering and reviewing property values data. The residential market review has been based on a mixture of approaches to attempt to properly reflect the variation in residential property values occurring across the district. This included breaking the district down in to settlements areas described in the Council's settlement hierarchy. Appendix III provides a more detailed explanation of the approach.

2.5.3 Our review provides comprehensive research and analysis of both new build sold data, currently available new build property across the district, together with Zoopla current area statistics. This data has been gathered for an overview of the value patterns seen across the district to inform and set the values assumptions prior to the appraisal modelling phase. It was particularly important to collect the residential values data by settlement areas as the strength of values varies by location across the district.

2.5.4 This provided the best and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen linked to the likely provision of development across the district. It was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.

2.5.5 For the residential scheme types modelled in this study, and based on the research undertaken, a range of (sales) value levels (VLs) have been applied to each development scenario. This is tests the sensitivity of scheme viability to geographical values variations and / or with changing values as may be seen with further market variations. In the case of Thanet District, the VLs covered typical residential market values (average prices across a scheme) over the range £2,500/m^2 (approx. £232/sq. ft.) to £4,300/m^2 (approx. £400/sq. ft.) as shown in Figure 5:

Figure 5: New Build Values Assumptions Summary

	TDC lower-end	TDC typical new-build values				TDC upper-end new-build values	
Value Level	**VL1**	**VL2**	**VL3**	**VL4**	**VL5**	**VL6**	**VL7+**
Indicative location (Range)	Ramsgate – low end		Ramsgate, Broadstairs			Ramsgate & Broadstairs high-end	Highest-end and above e.g. likely sea views
	Cliftonville	Margate, Sarre, Minster, Monkton, St Nicholas Manston, Cliffsend					
	Westward Cross, Acol, Westgate-on-sea, St Peters, Birchington			Westbrook			
1 Bed Flat	£137,500	£150,000	£162,500	£175,000	£187,500	£200,000	£225,000
2 Bed Flat	£192,500	£210,000	£227,500	£245,000	£262,500	£280,000	£315,000
2 Bed House	£217,250	£237,000	£256,750	£276,500	£296,250	£316,000	£355,500
3 Bed House	£275,000	£300,000	£325,000	£350,000	£375,000	£400,000	£450,000
4 Bed House	£357,500	£390,000	£422,500	£455,000	£487,500	£520,000	£585,000
Value (£/m^2)	**£2,500**	**£2,800**	**£3,100**	**£3,400**	**£3,700**	**£4,000**	**£4,300**

2.5.6 Values patterns can often be indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the future district development strategy and any potential variation to CIL across the district.

2.5.7 Previous viability work undertaken by others indicated the potential need for a differential approach to both affordable housing and CIL across the district – potentially with policy varying by location. Through this assessment we look again at this as part of re-exploring the CIL viability scope. We also consider the additional viability pressures likely to be associated with town centre development; and whether consideration should be given by the Council to any other form of differentiation – including within the overall affordable housing policy approach.

2.5.8 It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to Thanet District. However, these factors do not affect the scope to get a clear overview of how values vary typically, or otherwise, between the settlements and localities, given the varying characteristics of the district; as set out in these sections and as is suitable for the consideration of Local Plan viability and deliverability.

Affordable housing

2.5.9 Importantly, in addition to the market housing, the development appraisals also assume a requirement for affordable housing (AH). As this study seeks to test the viability of potential Local Plan policies holistically, we have tested and reviewed a range of potential affordable housing policy targets from 20% to 30%. With 0% AH also tested, it is possible to interpolate between points in considering the wide range of scenarios and outcomes.

2.5.10 For the affordable housing, we have assumed that approximately 80% is affordable rented tenure and 20% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the overall scheme mixes and affordable housing proportion in each scenario). Some early stages testing was also carried out on the assumption that a proportion (10%) of the overall housing would be required as affordable home ownership (applied only where the existing tenure mix and proportion did not already include this potential requirement). Further testing may be required or helpful in the future if the Council determines through additional evidence that a requirement for a different mix of affordable home ownership is required through a needs assessment.

2.5.11 Tenure will normally be decided based on an up to date Strategic Housing Market Assessment (SHMA) ensuring that properties meet local needs at the time of the application). In practice many tenure mix variations could be possible; as well as many differing rent levels derived from the affordable rented (AR) tenure approach - as affected by local markets and by affordability. The same applies to the intermediate (currently assumed as shared ownership) affordable housing element in that the setting of the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) or other affordable housing provider's retained equity, and the interaction of these two would usually be scheme specific considerations. Shared ownership (SO) is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.

2.5.12 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant or equivalent subsidy input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant or other public subsidy / equivalent.

2.5.13 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the 'payment to developer', 'RP payment price', 'transfer payment' or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site-specific viability issues (including specific work on SPDs, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals – looking at the capitalised value of the estimated net rental flows (value of rental income after deduction for management and maintenance costs, voids allowances and the like). We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.

2.5.14 In broad terms, the transfer price assumed in this study varies between approximately 30% and 65% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The LHA rate for the Thanet Broad Rental Market Area (BRMA) that covers the Thanet District Council area for the varying unit types was used as our cap for the affordable rental level assumptions.

2.5.15 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the provider's (e.g. RP's) own development strategies, and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, external funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

2.6 Gross Development Value – Commercial / Non-residential

2.6.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions are needed. Typically, these are made with regard to the rental values and yields that would drive the value of completed schemes within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).

2.6.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, EGi, CoStar and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.

2.6.3 Figure 6 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.

2.6.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the district. This enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. This is consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions (unless floor-space in excess of 100 sq. m is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). In many cases, however, limited or no new build information for use of comparables exists, particularly given recent and current market circumstances. Therefore, views have had to be formed from local prevailing rents / prices and information on existing property and past research carried out on behalf of the Council. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a Thanet District only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.

2.6.5 These varying rental levels were capitalised by applying yields of between 5.0% and 7.5% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined were appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.

2.6.6 It is important to note here that small variations can have a significant impact on the GDV that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions in the local context (but envisaging new development and appropriate lease covenants etc. rather than older stock), could well act against finding that balance.

2.6.7 This approach enabled us to consider the sensitivity of the results to changes in the capital value of schemes and allowed us then to consider the most relevant results in determining the parameters for setting non-residential CIL rates across the district. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3.

Figure 6: Assumed rental Value for Commercial Schemes

Development Type		Value Level (Annual Rental Indication £/sq. m)		
		Low	Medium	High
A1 - Large Retail	Retail warehouse/foodstore	200	250	300
A1 – A5 -Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)*	120	140	180
A1 – A5 - Small Retail	Local convenience stores and local shops*	100	125	150
B1(a) - Business - Offices -	Town centre office building	150	190	230
B1(a) - Business - Offices	Edge of / out of town office building	150	190	230
B1/B2/B8 - Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	70	85	100
B1/B2/B8 - Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	50	60	70
C1 - Hotel (budget)	Hotel - town centre / edge of town (60 beds)**	2000	2500	3000
C2 - Residential Institution	Nursing home / care home (40 beds)	200	250	300

* Smaller shops with a sales area of less than 3,000 sq. ft. (280 sq. m), assuming longer opening hours.
**Capital value £/sq. m

2.6.8 As with residential development, consideration was given as to whether there should be any varying approach to CIL charging levels for commercial and other developments locally. On review, it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between general location (area) within the district so far as the likely location of such development is concerned. This was borne out on review of the commercial values data and results.

2.6.9 There is variety in terms of values across the district. However, there were typical values that informed our rental and other assumptions for the appraisals, based on the upper end rental indications seen for business uses (offices and industrial / warehousing) as appropriate for high quality new build schemes and on the variety of indications seen for retail. In both cases these were taken from a combination of the VOA Rating List, EGi, CoStar and other sources as far as were available whilst keeping the review depth proportionate and economic in the study overview context. In respect of other commercial / non-residential development types again a district-wide overview was considered appropriate.

2.6.10 Overall, we found that in the event of identifying scope to charge a CIL on commercial or non-residential development in viability terms, there is no clearly justifiable or readily definable approach to varying that through viability findings based on location / geography. Whilst certain specific scheme types could create more value in one location compared with another in the district, typically there was felt to be no clear or useful pattern which might be described for that. It must be accepted that there will always be variations and imperfections in any level of overview approach; with or without area based differentiation.

2.7 Development Costs – General

2.7.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site-specific cases can be. As with the scheme scenario building, an overview of the various available data sources is required.

2.7.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.

2.7.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in setting CIL charging rates and ensuring those are not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.8. Development Costs – Build Costs

2.8.1 The base build cost levels shown below are taken from the BCIS. In each case the figure has been rebased using the Thanet District location factor. Costs assumed for each development type are provided in Appendix I. For the purposes of this exercise we have added an allowance for housing schemes of 10 units or less and made a deduction for flatted schemes of 10 units or less based on advice provided by the

RICS BCIS within a report commissioned by the Federation of Small Businesses (FSB)[15]. Figure 7 below summarises these.

Figure 7: Build Cost Data (BCIS Median, Thanet District location factor relevant at time of research)

Development Type		BCIS Build Cost (£/sq. m)*
Residential C3	Build Costs Mixed Developments - generally (£/sq. m)	£1,242
	Build Costs Estate Housing - generally (£/sq. m)	£1,212
	Build Costs 'One-off' Detached Housing (3 units or less)	£1,772
	Build Costs Flats - generally (£/sq. m)	£1,412
	Build Costs Flats - 3-5 Storey (£/sq. m)	£1,402
	Build Costs (Sheltered Housing - Generally) (£/sq. m)	£1,512
A1 - Large Retail	Retail warehouse/foodstore	£802
A1 – A5 -Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	£1,104
A1 – A5 - Small Retail	Local convenience stores and local shops	£1,104
B1(a) - Business - Offices -	Town centre office building	£1,857
B1(a) - Business - Offices	Edge of / out of town office building	£1,754
B1/B2/B8 - Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	£1,368
B1/B2/B8 - Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	£1,021
C1 - Hotel (budget)	Hotel - town centre / edge of town (60 beds)	£2,042
C2 - Residential Institution	Nursing home / care home (40 beds)	£1,685

*excludes external works, contingencies and any FSB cost allowance on small sites (these are added to the above base build costs)

2.8.2 Unless stated, the above build cost levels do not include for external works / site costs, contingencies or professional fees (added separately). An allowance for plot and site works has been allowed for on a variable basis within the appraisal depending on the scheme type (typically between 5% and 20% of base build cost). These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions

[15] RICS BCIS Report for The Federation of Small Businesses – Housing development: the economies of small sites - the effect of project size on the cost of housing construction (August 2015)

(after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

2.8.3 For this broad test of viability, it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

2.8.4 In all cases further allowances have been added to the total build cost in respect of meeting optional technical housing standards as discussed earlier in this chapter.

2.8.5 An allowance of 5% of build cost has also been added in all cases, to cover contingencies (i.e. unforeseen variations in build costs compared with appraisal or initial stage estimates). This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.

2.8.6 The interaction of costs and values levels will need to be considered again at future reviews of CIL and the Local Plan. In this context it is important to bear in mind that the base build cost levels may vary over time.

2.8.7 At the time of reporting the latest available BCIS briefing (September 2017) stated on build cost trends:

'*There is still a great deal of uncertainty over the terms that will be agreed when the UK leaves the European Union, however the government's position papers suggest that the UK will eventually withdraw from the Single Market and the Customs Union.*

While almost any outcome is still possible BCIS will continue to produce forecasts based on three scenarios. These reflect the different political outcomes from the exit negotiations from the EU and are equally likely. However, the forecasts reflect the increased likelihood of restrictions on the movement of labour and pressures on Sterling that are likely to result from a structured withdrawal from the Single Market and the Customs Union even with follow-on agreements in place.

- *an 'upside' scenario based on the assumption that the UK will remain in the European free trade area, but there are restrictions on the movement of labour*

- *a 'downside' scenario based on the assumption that the UK does not have favourable access to the European Union market and there are restrictions on the movement of labour; and*

- *a 'central' scenario based on some restrictions to trade and there are restrictions on the movement of labour.*

The terms 'central', 'upside' and 'downside' reflect the impact of the scenarios on construction demand.

BCIS is publishing the 'central' scenario as the forecast for the price and cost indices but it should be borne in mind that each forecast is equally possible.

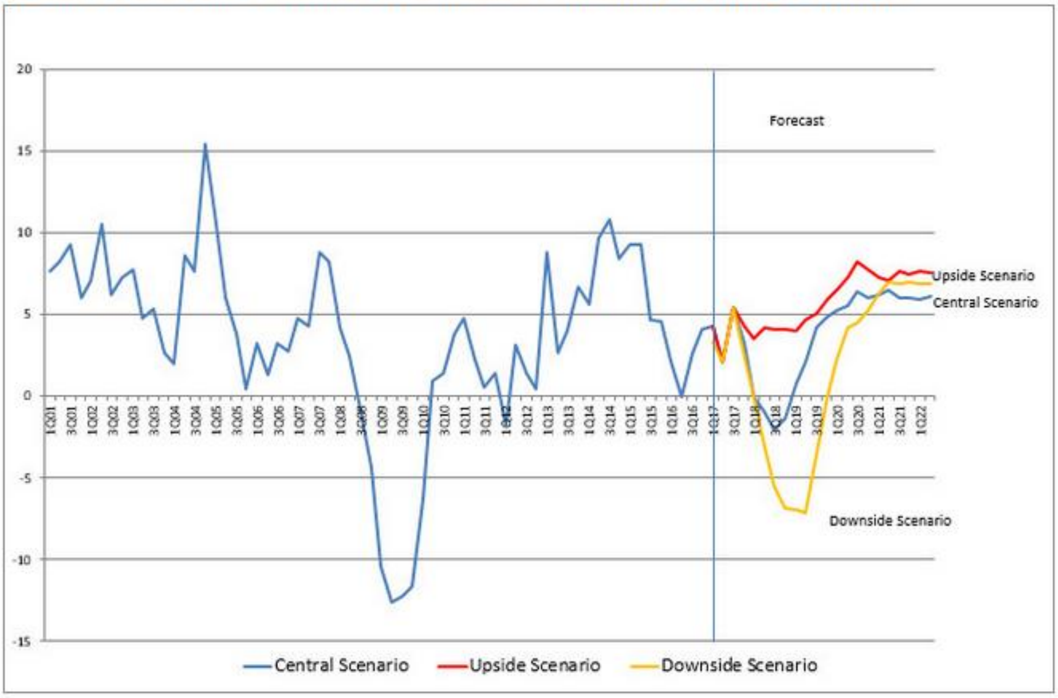
The current forecasts are based on exit from the EU at the end of the two year period following the signing of Article 50. Unfortunately we are no more enlightened about the arrangements upon exit from the EU, but the likelihood of a period of transition following this two year period is looking more probable. BCIS will be monitoring potential outcomes closely, and will amend its forecast assumptions accordingly going forward.[16]

[16] BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (September 2017)

	Percentage change				
	2Q17 to 2Q18	2Q18 to 2Q19	21Q19 to 2Q20	2Q20 to 2Q21	2Q21 to 2Q22
'Central' scenario					
TPI	-1.0	+2.1	+5.5	+6.5	+6.1
GBCI	+3.3	+3.2	+4.2	+4.6	+4.9
New work output*	+1.8	-0.3	+1.0	+4.2	+5.7
'Upside' scenario					
TPI	+4.2	+4.7	+7.3	+7.1	+7.5
GBCI	+3.3	+3.2	+4.8	+5.4	+5.6
New work output*	+3.3	+5.4	+6.2	+6.5	+5.5
'Downside' scenario					
TPI	-3.1	-7.1	+4.2	+7.0	+6.9
GBCI	+3.3	+3.2	+3.7	+4.3	+4.4
New work output*	-1.4	-9.8	-5.7	+6.5	+9.8

*Year on year (2Q17 to 2Q18 = 2016 to 2017), constant prices 2013

Figure 1. BCIS All-in Tender Price Index – Annual percentage change



Source: BCIS

2.8.8 Therefore, at the point of reporting we cannot be sure how the European scenario or other external influences will play-out either short or longer term on the economics potentially affecting development viability. It is still too early to tell. The influences on the property market from a values and rates of sales point of view seems likely to be at least as great as that on construction and build costs. At the current time, in general the overall reasonably positive housing market conditions were seen to continue through into the early part of 2017 albeit seemingly now, based on very latest indications, with flattening prices or reduced growth as the year progresses;

and in some instances, with lower prices meaning a relatively neutral picture on house price movement at present.

2.9 Development Costs – Fees, Finance & Profit

2.9.1 The following costs have been assumed for the purposes of this study alongside those noted above and vary slightly depending on the scale and type of development. Other key development cost allowances for residential scenarios are as follows - *for the purposes of this assessment only* (Note: Appendix I also provides a summary):

Professional fees:	*Total of 10% of build cost*
Site Acquisition Fees:	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).*
Finance:	6% p.a. interest rate *(assumes scheme is debt funded)* *Arrangement fee variable – basis 1-2% of loan*
Marketing costs:	*3.0% - 6.0% sales fees* *£750 per unit legal fees*
Developer Profit:	*Open Market Housing – 20% GDV* *Affordable Housing – 6% of GDV (affordable housing revenue).*

2.10 Development Costs – Fees, Finance & Profit (Commercial)

2.10.1 Other development cost allowances for the commercial development scenarios are as follows:

BREEAM:	*5% of build cost*
Professional and other fees:	*10% of build cost*

Site Acquisition Fees:	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)*
Finance:	*6.5% p.a. interest rate (assumes scheme is debt funded)* *Arrangement fee variable – 1-2% loan cost*
Marketing / other costs:	*(Cost allowances – scheme circumstances will vary)* *1% promotion / other costs (% of annual income)* *10% letting / management / other fees (% of assumed annual rental income)* *5.75% purchasers costs – where applicable*
Developer Profit:	*20% of GDV*

2.11 Build Period

2.11.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by examples where available. The build periods are for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme type and size, having the effect of increasing the periods over which finance costs are applied. Appendix I provides the detail.

2.12 Community Infrastructure Levy & Other Planning Obligations

2.12.1 Current guidance states the following with regard to CIL: '*At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions*'[17]. The purpose of the list is to ensure that

[17] DCLG – Community Infrastructure Levy Guidance (February 2014)

local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance[13] states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

2.12.2 The Council expects that on non-strategic sites, a great majority of existing planning obligation requirements would be taken up within the CIL charging scope, but nevertheless sites are still required to contribute to site-specific mitigation measures (for example relating to open space / highways / transport and similar requirements). The non-strategic site appraisals therefore include a notional sum of £3,000 per dwelling (for all dwellings – including affordable - and all schemes). This is purely for the purposes of this study and in the context of seeking to allow for a range of potential requirements – effectively as an additional contingency in respect of any residual s.106 requirements / s.278 highways works or other site-specific matters, acting alongside potential CIL payments in terms of the collective development costs to be considered. There may be considerable s106 costs on many sites, particularly strategic sites identified in the Plan and as set out in draft in the IDP. However, many detailed cost estimates are not yet available, hence the use of a proxy.

2.12.3 A different approach is taken with the strategic sites where the appraisals have been conducted on the basis of calculating the potential surplus available to fund s106 and other infrastructure requirements as set out in the next section.

2.13 Strategic Sites

2.13.1 As part of this viability assessment update, we have also considered the viability, at a high level, of a selection of key ‘strategic’ scale sites as set out above - Manston Court (SP13), Birchington-on-sea / Westgate (SP14, SP15, SP17), Westwood (SP16) and Manston Airport (SP05).

2.13.2 To test the potential viability of sites of a strategic scale and characteristics, appraisals were carried out and, as agreed with the Council, the specific inputs for each scenario appraisal based primarily on high-level assumptions reflecting published information and our experience of viability work on similar sites in a range of other locations – both for strategic level assessment and site-specific viability review / s.106 negotiation purposes.

2.13.3 In viability terms the same general principles apply in reviewing the potential viability of these sites as for the other site typologies tested through this process. There are, however, bespoke assumptions that have been varied to reflect the different characteristics of these sites, and these are discussed further here.

2.13.4 Essentially any residual appraisal requires certain elements of the inputs (assumptions) to be fixed so that the result (residual) becomes the output and changes to that can be reviewed as adjustments to a key variable are made. In this case we have run the strategic site appraisals on the basis of fixing the land value at £250,000 and the site wide enabling costs / infrastructure and plot costs at £27,000 per dwelling, with the latter in this case placed by DSP above the upper end of the range £17,000 to £23,000 indicated as typical per plot strategic infrastructure costs within the Harman Report[18] which states: *'Cost indices rarely provide data on the costs associated with providing serviced housing parcels, i.e. strategic infrastructure costs which are typically in the order of £17,000 - £23,000 per plot for larger scale schemes'*.

2.13.5 For the purposes of this study we have assumed site infrastructure to include site costs necessary to provide *'serviced plots for building construction from unoccupied, secured, and uncontaminated site'*[19]. Effectively the costs are related to all other physical works that are needed to ready a site for development so that in combination with the assumptions on BCIS based housebuilding costs (i.e. covering works within the serviced parcels) sufficient overall cost has been allowed to build the housing development.

2.13.6 The s.106 (indicative scope for which we are viewing through the potential surplus) then covers the site-specific mitigation in terms of impact on community infrastructure "caused by" the development (the usual tests apply). With the enabling cost and s.106 viewed together, all site-specific ingredients should be achieved so far as viability permits – to support its physical development and directly related infrastructure needs.

[18] Local Housing Delivery Group – Viability Testing Local Plans (June 2012)
[19] Homes & Communities Agency – Development Appraisal Tool (v4)

2.13.7 Following the above, the result of the appraisal is then in practical terms a planning obligations residual with a fixed level of land and profit – i.e. after allowing for the land as a fixed cost within the appraisal along with profit calculated as a fixed percentage of the GDV of the scheme (based for the assessment purposes at 20% GDV on market housing and starter homes (where applicable) / 6% on affordable housing). The residual value (any surplus seen) above the fixed land cost allowance made is then the amount potentially available for s106 site mitigation / planning obligations (and / or any other potentially applicable costs not usually allowed for at this stage of review – e.g. any unknown development abnormals).

2.13.8 For each strategic site development scenario, we have carried out sensitivity testing on the basis of potentially rising and falling base costs and values - in set steps as seen in the results of this report and appended to the rear of this study (Appendix IIb). In broad terms, the sensitivity testing helps to show the impact of a rising or falling market on potential viability. It is likely that sites of the scale envisaged here would be differentiated for in CIL charging terms (e.g. nil or possibly reduced rated for CIL) owing to the likely scale of s.106 costs in combination with the site enabling/infrastructure costs as noted above. The output can however be considered the maximum level of potential surplus available for either CIL or s106.

2.13.9 We have assumed delivery rates based on our experience of dealing with the review of viability for large scale strategic developments on a site-specific basis across the country. In very general terms, a faster rate of delivery is likely to have a positive impact on viability as the overall finance costs should reduce with a shortening development period. However, with a delivery rate that is too high there is a risk that the trajectory starts to impact on sales values as units flood the market.

2.13.10 At the time of compiling this report we have not included additional costs in the viability testing for the strategic sites on this basis. We are of the opinion, however, that the scale of development is such that build costs will be lower than those allowed-for (i.e. at the BCIS rate as per the general scenarios testing) due to economies of scale. As our tests and results are based on median BCIS rates, there is probably sufficient allowance to cover additional costs of complying with those policies if required - as long as they are not set beyond the scope set out in our sensitivity testing.

2.13.11 For both the enabling infrastructure and the s106 costs we have assumed for the purposes of this study that those will be front-loaded. Details of when costs occur and payments are required can only really be known once a scheme is developed in detail, so this reflects a logical approach in our experience. The land payments are assumed to be made early in the appraisal periods. Again, in reality, payment profiles will vary and be subject to individual delivery details – phasing and negotiation between the involved parties.

2.14 Indicative land value comparisons and related discussion

2.14.1 Land value in any given situation should reflect the specifics on existing use, planning potential and status / risk, development potential (usually subject to planning) and constraints, site conditions and necessary works, costs and obligations. It follows that the planning policies and obligations, including any site specific s106 requirements, will also have a bearing on land value; as has been recognised by Local Plan and CIL Examiners as well as Planning Inspectors.

2.14.2 As discussed previously, in order to consider the likely viability of any development scheme relevant to the Local Plan and its policies, the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be somehow measured against a comparative level of land value. This is a key part of the context for reviewing the strength of the results as those change across the range of assumptions on sales values (GDVs), s.106 costs and other sensitivity tests (crucially including the effect of affordable housing policy targets (%s) applied fully in the case of the residential tests).

2.14.3 This comparison process is, as with much of strategic level viability assessment, not an exact science. It involves judgements and the well-established acknowledgements that, as with other appraisal aspects, values associated with land will, in practice, vary from scheme to scheme as well as being dependent to some extent on timing in relation to market conditions and other wider influences such as Government policy. The levels of land values selected for this comparison context are often known as 'benchmark' land values, 'viability tests' or similar (as referred to in our results tables – Appendix II and within the following report Chapter 3). They are not fixed in terms of creating definite cut-offs or steps in viability, but in our experience, they serve well by adding a filter to the results, to enable the review of those. They help to highlight the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change; with the relevant assumptions (variables) in this case being the GDV level (value level – VL), affordable housing proportion and, to a lesser extent, the extent of other policy related costs and s.106 level included for scheme specific mitigation in addition to the CIL rate tested in each case.

2.14.4 Our practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons in this way. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the land supply picture that the Council expects to see.

2.14.5 The Thanet emerging strategy for growth is based upon a district settlement hierarchy and the key principle of focusing new development in locations that are highly accessible, and that can take advantage of and support Thanet's existing infrastructure and services. The existing built up areas of the district will continue to deliver housing but a significant amount of greenfield housing land will be allocated to meet the Council's housing targets.

2.14.6 The scale of the difference between the RLV and comparative land value level (i.e. surplus after all costs (including policy costs), profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to judge the potential scope across the various development circumstances to meet other policy costs / requirements. It follows that, in the event of little or no surplus or a negative outcome (deficit), we can see a poor viability relationship and vice versa.

2.14.7 The land value comparison levels are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. In our experience, sites will obviously come forward based on very site-specific circumstances – including in some cases beneath the levels assumed for this purpose.

2.14.8 In order to inform these land value comparisons or benchmarks we have reviewed existing evidence, previous viability studies and sought to find examples of recent land transactions locally. Limited evidence of such was available from the various soundings we took and sources we explored. In the usual and appropriate way for such a study, we reviewed information sourced as far as possible from the DCLG, VOA, previous research / local studies / advice provided by the Council, through seeking local soundings, EGi, Co-Star; and from a range of property and land marketing web-sites. Details, so far as available, are provided in Appendix III.

2.14.9 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data. Nevertheless, in areas where it is available, the data can provide useful indicators, certainly in terms of trends. The VOA however does publish residential land value estimates for policy appraisal on behalf of the DCLG. The data for Thanet District (but taking into account the numerous caveats and basis for those values) has also been considered.

2.14.10 Previous viability studies have used a range of figures based on serviced residential land of between £575,000 to £1.3m per hectare.

2.14.11 In our experience of dealing with site specific viability, greenfield land values tend to be assumed at minimum option agreement levels. These are typically around £100,000 and not exceeding £150,000 per gross acre (i.e. approx. £250,000 to maximum £370,000 per gross hectare).

2.14.12 The Government also publishes residential land value estimates for policy appraisal and includes data for Thanet District. This indicates a residential land value of £1.44m per hectare. However, this needs to be set in the context of the assumptions underpinning that level of land value. Land values and comparisons need to be considered on a like-for like basis. A different basis is assumed within this and other viability assessments, with all development costs accounted for as inputs to the RLV appraisal, rather than those being reflected within a much higher, “serviced” i.e. “ready to develop” level of land value. That much higher level of land value assumes all land and planning related costs have been met / discharged – i.e. includes the assumption that there is a nil affordable housing requirement (whereas in practice the affordable housing requirement can impact land value by around 50% on a 0.5 ha site with 30% AH) together with nil CIL. That level of land value would also assume that full planning consent is in place, whereas the risk associated with obtaining planning consent can equate to as much as a 75% deduction when adjusting a consented site value to an unconsented land value starting point. Lower quartile build costs and a 17% developer’s profit (compared to the assumed median build costs and 20% developer's profit used in this study) are additional assumptions that lead to a view of land value well above that used for comparison (benchmark purposes) in viability assessments such as this.

2.14.13 So the assessment approach (as relates to all land values) assumes all deductions from the GDV are covered by the development costs assumptions applied within the appraisals.

2.14.14 As can be seen in Appendix IIa (main residential scenario test results) and taking into account the various information available, we have made indicative comparisons focussing on land value levels in a range between £0.25m/ha and £3m/ha so that we can see where our RLVs fall in relation to these levels (including both above and below) and the overall range between them. The comparisons are referred to within our assessment as 'viability tests'. They act as 'benchmarks'. This approach does not prevent the presentation and review of results that fall outside this range, however.

2.14.15 These benchmarks are based on a review of available information such as noted above. In this case the approach was informed primarily by experience of using a range of benchmarks (in common with DSP's usual and established practice) as per previous work undertaken combined with any information from site specific reviews and, as noted, any further information gathered through our research and exercise of seeking local soundings (stakeholders' survey – as outlined in Appendix III).

2.14.16 The figure that we consider to represent the minimum land value likely to incentivise release for development under any circumstances in the Thanet District context is around £250,000/ha as above, based on gross (overall) site area. Land values at those levels are likely to be relevant to development on greenfield land (such as agricultural land or in cases of enhancement to amenity land value) and therefore potentially relatively commonly occurring within the land supply picture in the case of strategic development, where applicable, and any urban area greenfield land.

2.14.17 At this level, it could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA and a range of other sources to be valued at circa £20,000 - £25,000/ha in existing use). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations in such scenarios would not go beyond these levels either – they could well do in a range of circumstances.

2.14.18 Again, looking at a prudent approach to assumptions and guides for the study purpose only, an RLV exceeding a PDL viability test at say £0.75m/ha ('viability test 3') would comfortably exceed the lower benchmark land values upon which the Council's previous viability assessment work is understood to have been based.

2.14.19 The £1.2m/ha – £1.75m/ha viability test 4-5 is likely to be indicative of land already in residential use or with a higher than typical existing or alternative commercial use implementable.

2.14.20 As with the other levels, these are simply guides aimed to help review the strength of the appraisal results. The guidance available on the subject of viability also discusses land value considerations – see the further points and commentary below.

2.14.21 Once again, it is important to note that at these levels and all levels indicated by the RLV results being compared with them (see the tables at Appendix IIa), the land values shown indicate the receipts available to landowners after allowing within the RLV appraisals for all development costs. This is to ensure no potential overlapping / double counting of development costs that might flow from assuming land values at levels associated with serviced / ready for development land with planning permission, etc. The RLVs and the indicative comparison levels ('viability tests') represent a "raw material" look at the land, with all development costs falling to the prospective developer (usually the site purchaser).

2.14.22 Land value judgements for the assessment purpose are based on seeking to ensure a competitive return to a willing landowner, as is recognised through the RICS guidance on 'Financial Viability in Planning' (RICS GN 94/2012 – as noted below), the NPPF requirements and other guidance sources on viability assessment.

2.14.23 The consideration of land value – whether in the RICS' terms (see below) or more generally for this context, involves looking at any available examples ('comparables') to inform a view on market value and may well also involve considering land value relating to an existing or alternative use ('EUV' or 'AUV'). A similar concept to existing use value may also be referred to as 'CUV' (i.e. current use value). In addition, there may be an element of premium (an over-bid or incentive) over 'EUV' or similar required to enable the release of land for development – i.e. to take a site out of its current use, but not necessarily applicable where a site has become redundant for that use.

2.14.24 The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggested that '*the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development*'. This benchmark is referred to as threshold land value in that example: '*Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely*'. Further it goes on to say that '*There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied*'.

2.14.25 RICS Guidance[20] refers to site value in the following '*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… The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations'.*

2.14.26 In the Local Housing Delivery Group report[21] chaired by Sir John Harman, it is noted that '*Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.*

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values'.

[20] Financial Viability in planning – RICS Guidance note (August 2012)
[21] Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

2.14.27 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable policies which balance viability factors with the overall affordable housing and infrastructure needs of the district.

2.14.28 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner's expectations.

3 Findings and Recommendations

3.1 General context for results review

3.1.1 The findings considered here relate to the appraisal RLV results tables at Appendix IIa (Tables 1a to 1p) and Appendix IIb (strategic sites summary) in respect of the residential test scenarios and Appendix IIc (Tables 2a to 2f) for the equivalent commercial development tests. A guide to the content of those tables will be provided below.

3.1.2 As noted above, TDC is currently considering new Local Plan policies. Alongside this, as a potential means to seeking contributions towards the infrastructure provision needed to support the emerging Local Plan growth moving ahead, the Council is also reviewing the extent to which there is scope to implement a Community Infrastructure Levy (CIL) for the district.

3.1.3 With both of these influences on viability under review and considered as variables within our appraisals, there is the potential for the overview to become quite circular or complex.

3.1.4 Given a combination of potential policy and CIL cost influences on viability, and the range of levels at which these could come together, for reporting purposes in the following sections we have decided first and foremost to consider the results that are based on a narrowed-down view of the likely realistic CIL charging level. From the overall range tested (CIL trial rates at £0 – 200/sq. m) we refer to Table 1q at the end of Appendix IIa, as will be discussed later in this chapter. At emerging findings stage, DSP advised that the likely parameters for TDC CIL charging rates would be £0 to 150/sq. m; with a typical / district-wide rate most likely falling well within the upper parameter noted here.

3.1.5 Allowing explicitly for a “buffer” factor, albeit acknowledged to be essentially arbitrary, so as to further ensure that CIL charging rates are not set to the margins of viability, for the purpose of reviewing the potential affordable housing (AH) policy cost impacts, we will consider the results related to the £150/sq. m CIL tests and for now assume that translate to approximately a £75/sq. m residential CIL charge – i.e. based on a 50% buffer factor from the £150/sq. m tests. From Table 1q we can see that a £75/sq. m CIL would represent approximately 2.4% GDV at VL3 values

(£3,100/sq. m); approximately 2.2% GDV at VL4 (£3,400/sq. m). Our research suggests these values are most likely to represent the areas of the overall range around which the sales values of a majority of the most Plan relevant development will be likely to fall – necessarily based on current assumptions. This means reading-off from the Appendix IIa Tables results at approximately £150/sq. m CIL in each case, to assess whether and to what extent a similar, higher or lower CIL charge might be appropriate in various scenarios in conjunction with AH at the 20 – 30% test levels. Again, this feel for the likely level of AH policy targets was informed by our earlier work; and is being reconsidered at this full reporting stage.

3.1.6 As noted, these positons are inter-dependent, so a firmer view on one (either AH or CIL) can only be taken with the other assumed to be fixed for review purposes. From that position as a starting point guide, we will aim to consider potential variations / alternatives. In any event, TDC will be able to consider the wider results in this context, and how they relate to the range of circumstances and developments in the district.

3.1.7 First we consider residential development, which is the main assessment focus. This is because, firstly, the policy positions selected by a local planning authority (TDC in this case) create a considerable influence on the viability of development (most significantly in relation to affordable housing), especially alongside a fixed (non-negotiable) level of CIL charging where that is to be introduced. The same cannot be said of a Council's sphere of influence over the viability of commercial / non-residential development; that is much more limited.

3.1.8 Secondly, invariably the scale of residential development (quantum of new accommodation) is such that the source of CIL income is typically very largely weighted towards the market residential developments that pay it.

3.1.9 Nevertheless, after considering the residential findings and potential implications / recommendations, we will go on to consider the likely variable viability of commercial development in Thanet District – more on that follows (primarily in respect of our review of the potential CIL charging scope, based on viability).

3.1.10 Affordable housing, being a key factor influencing development viability over which the Council has a significant level of direct control, is therefore the main focus for the reporting in this section. How the Council progresses, selects and operates its affordable housing policies will be a major factor in ensuring sufficient viability to deliver a wide range of developments to underpin the Local Plan.

3.1.11 For these reasons the assessment will need to suggest any adjustments and policy positions that the Council should consider in our view, related to viability. However this may be about considering options – potential alternatives – which will be noted where applicable. Furthermore, the Council need not follow these report findings exactly because, overall, this is about considering the evidence collectively and setting out policies that will respond to an appropriate balance between the needs and viability.

3.1.12 The base results for the residential scenario tests are set out in Tables 1a to 1m within Appendix IIa.

3.1.13 The results of the additional sensitivity test outcomes are found at Appendix IIa Table 1n onwards.

3.1.14 Table 1n includes the additional sensitivity test results showing the impact on the RLVs of adding Building Regulations M4(2) and (3) compliance related costs, where the percentages (%s) in each case indicate the proportion of dwellings (all dwellings – both market and affordable) assumed to bear the additional costs relevant to either M4(2) or (3). At the stage of preparing this report, TDC had been considering policies to seek a modest proportion of all new dwellings to M4(2) – indicatively at 10 to 20%. The wider information set allows the impact of these positions and potential alternatives, if needed, to be considered purely on viability terms. The results may be compared with the base set for the 50 mixed dwellings tests – at Appendix IIa Table 1j.

3.1.15 This work could therefore help to inform the degree to which the Council could consider (subject also to evidence of needs) implementing policies covering some or all of the optional areas of the national approach to potential enhanced housing standards. Commentary will be provided relating to areas over and above the Building Regulations core approach that has now become standard – e.g. in respect of the scope in local viability terms to seek a proportion of homes to increased accessibility standards under Part M4 (2) and (3), as above. The extent of influence of this will be dependent on the requirements ultimately sought by TDC.

3.1.16 The final viability results set at Table 1p is for a test scenario of 25 flats with ground floor commercial (assumed retail) element, primarily envisaging a town centre or larger urban area development type. These tests provide further context for considering any applicability of potential differential policy options (e.g. on affordable housing) for such sites and areas; a theme which we have now considered for a number of authorities and which, from emerging findings stage here, could be relevant for TDC to consider in our view. More on this follows.

3.1.17 Generally, from the information provided a view may be taken about the likely impact of other policy combinations not specifically appraised. Whilst it is not possible or necessary to appraise all potential combinations, further appraisals could be run or advice provided in order to verify the development of a particular policy in moving towards the further progression of the proposed policy set – if relevant to the requirements being firmed up by the Council.

3.1.18 In the case of all potential policy and other costs and values variables, clearly there are great number of potential combinations and outcomes. At this policy development stage, the aim is that this reporting helps inform the Council's emerging positions, which may then be further considered and/or tested if necessary - once a more settled emerging policy set is developed. DSP can advise further if the Council requires.

3.1.19 In keeping with this approach, building from our emerging findings stage work and initial internal reporting shared and discussed with the Council officers during the summer months of 2017, the viability testing has continued to include affordable housing explored across the range 0%, 20%, 25% and 30% across all scenarios of 5 or more dwellings tested. The earlier stages settling and review of assumptions and results showed the relevance in the local circumstances of exploring beneath an existing and potential 30% AH headline scenario more widely, but not above it. In fact we found that 30% became the practical upper end of the AH testing, as will be seen below.

3.1.20 In considering all additional policies, and indeed the impact of the existing or potential CIL charging rate levels(s) it will be critical to view the varying outcomes allied to, and not independent from, the AH %s. The adding of too great a development costs burden alongside the Council's priority of securing affordable housing will inevitably increase the pressure on and ability to secure the intended AH delivery. A CIL takes a fixed, non-negotiable top-slice from the development revenue.

If other policy related costs are applied too extensively and too rigidly, those will have the same effect.

3.1.21 The re-testing of the viability scope available to support affordable housing requirements is a key element of such an assessment, given the impact that these requirements always have on development finances; a consistent finding from our work across a large number of studies. The findings are therefore discussed with a view to policy adjustments being made where necessary, in comparison with the existing and / or any previously or currently proposed positions. Run and used in this way, the assessment informs the new Local Plan policy development.

3.1.22 In each case, the affordable housing included for the re-testing is assumed on the basis of the current understanding of its tenure and mix – i.e. affordable rented (at 80% of the re-tested AH content in all cases) and intermediate affordable housing; the latter assumed in the form of shared ownership (making up 20% of the appraisal AH content). As noted above, the Government's Housing White Paper proposals introduce the prospect of a minimum 10% 'affordable home ownership' content within developments, in place a the previously considered 20% 'starter homes' element, but the details around this remain unknown at the point of our reporting. This may need to be considered further as the Council moves forward with its further development of policies and housing enabling activities.

3.1.23 Given, as noted above and discussed with TDC officers, the national position on the WMS based 11+ dwellings threshold for affordable housing, our focus on the residential results review is on the schemes above rather than below a likely TDC policy threshold at 11. The inclusion of the appraisals of scenarios of fewer than 11 dwellings illustrates the impact of the CIL alongside other development costs, bearing in mind also that for this assessment purpose only those smaller schemes carry increased build costs in line with the BCIS FSB reporting (as noted above).

3.1.24 Under the current CIL regulations it could be possible to consider differentiation for such smaller schemes not carrying an AH requirement, and we look at this below.

3.1.25 In all cases the range of CIL "trial" rates has been applied across all tests – indicating the impact of CIL – across a test range £0/sq. m to £200/sq. m at £25/sq. m intervals - combined with the other variables under review.

3.2 A guide to using the Appendix IIa Results Tables

3.2.1 The tables of RLVs (1a to 1m – base sets) at Appendix IIa set out the appraisal results by increasing development size (number of dwellings within each assumed scenario) – as per 2.3.2 (Figure 2) above and Appendix I. For each scenario, the results relate to the tests carried out with 0%, 20%, 25% and 30% affordable housing (AH) – shown moving down each table set from top to bottom. In each case the 0% AH tests provide a base scenario for comparison only – enabling the effect of introducing and then increasing the AH content to be seen clearly, and particularly of relevance to schemes of 11+ dwellings, as above.

3.2.2 Each table cell of the Appendix IIa tables contains in the white (un-coloured/non-shaded) left-side or upper sections a RLV result (in £s). In the corresponding lower or right-side side table areas (including the green coloured cells) the same RLV is then expressed in £/Ha terms, based on the indicative density and approximate land-take assumptions used. Each £ figure is an appraisal result expressed in these ways.

3.2.3 The results are displayed by assumed value level (VL) which rises from 1 (lowest test) to 7 (highest test), moving left to right in the tables - as used in each test shown. The impact of the varying strength of values available to support viability is clear to see at the range of AH %s tested – increasing VL supporting a higher £ RLV and £ RLV/ha as represented by the increasing boldness of the green shading that can be seen.

3.2.4 Again simply to highlight the results trends, an increasing AH% test is shown to have the opposite effect in all cases – with generally reducing extent and boldness of green colouring showing the declining levels of the RLVs as the appraised AH context increases from 0% through each step to 30% in all cases.

3.2.5 As per 3.1.25 above, the range of applied trial CIL charging rates (tests) are shown moving from the top to bottom of each Appendix IIa Table section. Following down each set relating to a single VL and AH% test, the RLVs can be seen to reduce with an increasing CIL rate applied, as expected. The interaction of this effect with other matters needs to be considered, especially given the fixed (non-negotiable) nature of CIL charging once in place.

3.2.6 We assume that further consideration of the CIL will need to be also informed by the Council's latest available information on infrastructure needs associated with the emerging new Local Plan, and the likely direction of the Plan policies together with the site supply picture.

3.2.7 We noted the values picture seen in Chapter 2 – see section 2.5 above (Figure 5 and Appendix I for an overview). To recap, in general summary, from within the broader overall range found here, the data indicates a relatively narrow range of values seen across the areas that are most likely to support a majority of new housing development. We consider at this stage, current assumptions, that those values are most closely represented by the central part of our VLs range – VL 2 to VL4 i.e. £2,800 to £3,400/sq. m or approximately £260 to £316/sq. ft. (rounded indications). Within this, we consider that values around VL3 or 3 to 4 are likely to be seen most frequently for new builds. Higher values will be seen much less frequently, except where see views are available or schemes are higher spec. / more individual in nature, both within and outside the main settlements.

3.2.8 As is often the case, most areas can support mixed values. In the TDC context, for example, this means that although typically lower in value, development within the towns of Ramsgate and Margate will see variable values being achieved – including at higher values within our overall test range.

3.2.9 In considering CIL especially, a key factor for the Council will be the role that the various areas and sites types are expected to play in accommodating development. Consistent with supporting the growth associated with an up to date Local Plan, a CIL would be a high-level district-wide response and contributor. It is not possible or realistic for CIL to reflect and respond to all levels of local variation in values in other matters. How it overlays with the planned site supply, even if that means some level of misfit in areas not supplying a significant level of development in the overall planned terms, is most important. The CIL principles are such that the charging schedule should ideally be as simple as possible, accepting that usually values and other characteristics do not actually respect any particular boundaries, in more than a general way. All sites are different, and varying values will even be seen within sites.

3.2.10 The residual land values (RLVs) produced by the current stage appraisals are "filtered" against a series of 'viability tests' shown in the Appendix IIa table footnotes i.e. benchmark land values (BLVs). So, the bolder the green colour, the stronger the indicative outcome, as it reaches or exceeds the level of the higher viability tests. This indicates a scenario likely to be workable with increased frequency or greater confidence – i.e. across a wider range of site types and circumstances.

3.2.11 The emerging Local Plan context includes potential development spread across a range of localities and site types – from small infill / redevelopment to large scale greenfield release sites and we assume the hybrid greenfield / brownfield site proposal at Manston Airfield. Certainly, a mix of greenfield and previously developed land (PDL) appears set to support the planned delivery.

3.2.12 Given this backdrop, as noted above it is appropriate to consider the results against a range of potential land value expectations – i.e. BLVs. A range £250,000/ha representing greenfield (enhancement to agricultural or similar low exiting use value) up to £3m/ha maximum representing the most highly valued PDL; i.e. at levels likely to be justified only in certain limited circumstances within this district. At points within this range, which may be reviewed, our view is that Viability Tests 3 at £750,000/Ha, particularly, and 4 at £1.2m/Ha are likely to be most relevant for PDL sites in the TDC context. Some sites and proposals will command higher values of course when viewed on £/ha terms, including those relating to existing offices and retail or proposals for high density / high value residential or the more viable forms of retail development (further commentary in later report sections).

3.2.13 In reviewing the outcomes, we also keep an eye on the £sum RLVs and not just the RLVs expressed in £/Ha terms. This can be especially relevant to smaller PDL and town centre / higher density sites, where meeting the same or similar £/Ha rates might not provide a realistic picture and, for example, the prospect of being able to buy an existing or former commercial use, or perhaps existing residential property, needs to also be kept in mind.

3.2.14 At this stage this is considered a reasonable and appropriate approach, again consistent with DSP's established and supported approach to strategic level viability assessments.

3.2.15 However, as applies to the assessment process more generally, it may be kept under review and revisited if appropriate as TDC progresses its emerging Plan development work – e.g. following the next stage consultation and further review / settling of policy positions as well as likely proposed settling of the development strategy - distribution of new development and type of sites.

3.2.16 Whichever approach to CIL (or any similar replacement) is progressed, TDC will need to continue to operate its overall approach to parallel obligations (s.106 and other policy requirements) in an adaptable way; reacting to and discussing particular site circumstances as needed (and supported by shared viability information for review where collective policy aims are under-pressure owing to abnormal costs or similar). CIL (as we assume will also apply with any replacement following similar principles) will be fixed, but will need to be viewed as part of a wider package of costs and obligations that will need to be balanced and workable across a range of circumstances.

3.2.17 As noted above, also included at the rear of Appendix IIa at this stage is a table (see Table 1q) showing indicatively how the range of residential CIL trial charging (test) rates in Thanet District appear when expressed as percentages (%s) of the range of sales values assumptions – the VLs now in use – i.e. CIL trial rates as % GDV. That table also provides indications as to how we considered a residential 'LIT' (Local Infrastructure Tariff) could look here, based on the Government's CIL Review Panel's recommendations. At the point of writing-up this report, however, as noted above, the Government has now indicated (late November 2017) within the autumn budget statement that the LIT proposals will not be pursued – the CIL will be retained, albeit with adjustments. In any event, DSP had used this sort of guide as background information for clients and we consider it relevant context / additional information for consideration by TDC.

3.2.18 This further information does not represent additional viability testing, but may be useful in purely a loose "health-check" type way to help make sure that CIL charging rates are not set too high. The CIL Review Panel has envisaged a LIT not exceeding say 1.75% to 2.5% GDV. Those areas of the %GDVs are coloured in yellow on the Table 1u grid, and may still provide useful context. DSP's view over several years of CIL viability and rates setting experience has been that, as a guide, realistic CIL charging rates should not exceed say 3 to 5% GDV equivalent (areas indicated by the green Table 1q colouring). Within the lower to mid-range of this guide, we can see that a TDC relevant and proportionate charging rate or rates appear to be in the area say £75/sq. m and in any event probably not looking beyond a potential £100/£125 sq. m. upper parameter in the event of a significant level of development coming forward in locations supporting values higher than VL3.

3.2.19 We reiterate that these are background / informal indications only, and will be considered further through the following run through of what we can draw from the viability test results. Nevertheless, it can be seen that there is a good level of overlap between these levels and pointers – the grid may assist for context and simple checking / gauging of the proposed charging rates selections by this secondary measure.

3.3 A guide to using the Appendix IIb Summary Table (and related Argus appraisal summary reports – Strategic Sites

(<u>Note added August 2018</u>: At the point of final confirmation of this report and re-issue to TDC August 2018, a DSP Viability Update report is also available following TDC's adjusted development strategy for the new Local Plan latest iteration – Viability Update 2018 re revised strategic sites approach. The latest approach, as reflected in the Update 2018, no longer includes Manston Airfield.)

3.3.1 Appendix IIb follows a different format, owing to the nature of the approach, assumptions and indicative outputs of this assessment stage appraisals of the TDC strategic sites allocations – emerging proposals.

3.3.2 Using information supplied by TDC as far as available at the point of DSP needing to fix assumptions, the Appendix IIb Summary Table shows, for each site or development area considered in this way (viewing from left to right across the table):

- TDC policy reference / Site location;
- Assumed (as per TDC information) gross (total) and net (developable) site areas;
- Indicative average densities on developed areas (assumed at 35 – 40 d.p.h.);
- Indicative (no of.) dwellings - capacities;
- Sensitivity test – tested level of affordable housing (%) by scenario;
- Assumed land cost (£m) – based on £250,000/Ha applied to the assumed total site area – equivalent to a benchmark and enabling any indicative ('estimated') potential financial surplus to be viewed;

- Penultimate column - the indicative total £ surplus (residual) after allowing for the stated land cost, assumed profit, affordable housing at each stated test %, and all other development costs (but nil CIL assumed). These are current stage results of the development generated funds potentially available to support costs or obligations that have not been identified / settled or allowed for at this stage (again see the assumptions);

- Final (right-hand end) column – that same indicative surplus figure, but now also expressed as a £ per dwelling equivalent (based on all dwellings – assumed scheme total number).

3.3.3 It should be noted that the surplus figures are necessarily current stage assumptions and review based results. This is a high-level picture that could and most likely will alter as more information becomes known about the sites and market conditions vary, etc.

3.3.4 As with all other elements of this assessment work, the assumptions used and findings indicated in this report and appendices are not intended to determine or override site-specific discussions that may already be underway or be progressed in the coming period. The purpose here is to review to a point where, along with other information and engagement being progressed for and by TDC, a view can be taken on whether or not there are reasonable prospects of viable development being achieved, to support the wider deliverability of these sites.

3.3.5 We are aware that proposals are being actively pursued through the usual planning application process in some instances – a case in point being the Mansfield Airport site, SP05. In our view and experience, whilst inevitably a site promoter's/developer's views and approach may be different to a Council's in a number of respects, there can be no better indication of confidence in a site's overall deliverability than is evidenced by such parties' considerable involvement in bringing forward and investing in progressing proposals.

3.3.6 The appraisal summary prints that follow the Appendix IIb summary table are in standard Argus Developer appraisal software format. This shows the relevant scenario basics on each cover sheet and then lists through pages 2 to 4 the appraisal inputs in summary form.

3.3.7 The reported financial surplus (after taking account of all currently assumed development costs) is shown within page 3 as a figure beside the item 's106 surplus'. This represents a single occurrence of this estimated amount – in £s.

3.3.8 These indications are based on a VL4 values assumption overall – scheme-wide i.e. market housing sales at £3,400/sq. m (approximately £316/sq. ft.) with the affordable housing revenue assumed at 50% of that level, again on an overall (mixed AH tenure) basis.

3.3.9 Generally, where known and consistent with the TDC provided information, allowance has been made for the set-aside of land for education (new schools provision) – land assumed to be bought-in, serviced and provided for that purpose, at nil cost to the education authorities / bodies procuring the new schools construction works.

3.3.10 In the case of the indicative 2,500 dwellings scenario appraised for the Manston Airport site (policy proposal SP05) and again reflecting the TDC supplied information at this stage, a capital cost (construction estimated at £15.2m) has also been included for the 4 forms of entry (4FE) primary schooling provision likely to be required there, we understand.

3.3.11 Other than these assumed education related requirements, the appraisals do not explicitly reflect s.106 requirements, which in a wider sense are currently unknown – hence the approach taken to considering indicatively what sums might remain for dealing with matters not currently factored in. This also needs to be considered in light of the enabling, external and site-wide works / infrastructure costs assumptions made, as noted in Chapter 2 (see 2.13.4). Typically we find that some s.106 matters may be adequately covered by those assumptions, but this will only be better understood with more detailed information available in due course, in the normal way in our experience – as matters progress towards the delivery stages.

3.3.12 Each appraisal summary within Appendix IIb also contains at its final page (5) a grid titled 'sensitivity analysis report.' This again is presented in the Argus standard reporting format where this feature is used. Provided for further information, in each case this shows how sensitive our reported outcomes are to changes in the housing values and / or costs necessarily assumed at a point in time. The base point and outcome is shown in the centre of each grid, where no adjustment is made to either the values (horizontal axis) or housebuilding costs (vertical axis). The bracketed land value (assumed land cost) is shown as the second figure in each case, with the indicative additional surpluses (where without brackets) or deficits (bracketed) shown above the constant land cost figure assumption / benchmark. This element of the review will be discussed further below, along with the appraisal base results – see section 3.11.

3.4 Commercial / non-residential development – review context, and a guide to the Appendix IIc tables

3.4.1 Primarily for informing a potential TDC review CIL, as set out above (and see the Appendix I Commercial Assumptions Overview Sheet), appraisals of a typical range of commercial / non-residential scenarios for such an assessment have also been carried out and reviewed. The approach to this aspect is consistent with the scope that is generally suitable in our experience, using assumptions informed by our research and wider involvement in CIL viability, so as to be representative of local circumstances – again, based on a high-level overview approach rather than site-specific level detail.

3.4.2 As will be seen, using assumptions appropriate for the assessment purpose and ensuring no reliance on pushing to the margins of viability in order to support CIL charging, this proportional approach requires only a much smaller number of appraisals. These were developed as sets to the point where in each case viability was eroded. Once a very low, nil or negative RLV outcome is reached it is not necessary to explore further. A view may be taken, therefore, on the extent to which the appraisal input assumptions would need to improve to support viability clearly enough to provide CIL charging scope; and how realistic that extent of movement in assumptions would be.

3.4.3 We have noted that, unlike in the case of residential development (and in particular the role in setting policy as affects affordable housing impacts), there is little scope for a Council to influence the viability of commercial and non-residential development provided it does not add, through unnecessary policy, to the development costs usually associated with such development.

3.4.4 As with residential, the strength of the market and therefore of the strength of relationship between development values and costs is key; the most significant factor. However, there are considered to be no significant instances of TDC local policy influence that will have a direct development cost and therefore a clear negative viability impact compared with a typical approach that we see.

3.4.5 Although key information will be contained within other assessments and data contributing to the evidence base, we have some general points to offer as the Council considers the employment and other commercial/non-residential development aspects of its Plan-making process. These will be picked up briefly in later sections below.

3.4.6 Appendix IIc Table 2a to 2f display the commercial scenarios test results – again as both RLVs in £ (absolute) terms (white / non-coloured results table sections) and expressed in £/Ha terms.

3.4.7 The format of the results reporting overview uses the same principles and approach as for the Appendix IIa residential scenarios.

3.4.8 This time each sheet (page) within the Appendix shows the range of scenarios (by land use type) tests top to bottom. Each one of those has been tested at 3 trial rent levels (L- low, M- mid/medium and H - high) simply to explore the sensitivity of the RLV outcomes to that assumption varying in combination with a yield test going initially from most positive (at 5% - Table 2a) to least positive for the study purposes (at 7.5% - Table 2g) RLV indications.

3.4.9 Clearly seen are both the deterioration in results with increasing yield % (less positive for the capitalisation of the rental assumptions, indicating a less secure, higher risk income stream assumed for the commercial property investor).

3.4.10 From this we can gain a feel for:

- Those scenarios likely to be consistently viable on a sufficient basis to support CIL charging, and;

- The extent to which more positive assumptions are required and may or may not be realistic in the short term (next few years, as applicable to a CIL charging schedule) for those potential development uses that currently appear unable to support CIL charging.

3.4.11 In the case of the Appendix IIc tables, the impact of our tested "trial" CIL charging rates in combination with the other variables considered here, can be seen increasing from left to right as we add CIL cost at intervals of £20/sq. m – considered a sufficiently fine-grained testing approach, bearing in mind that interpolation between tests is also possible. In this case, we did not test beyond £160/sq. m. having formed the view that such a level of CIL would most likely be unrealistic for such developments in the district.

3.4.12 We have taken the view that overall the same range of comparison/benchmark land values ('our Viability Tests' 1 to 6 again as listed in the Appendix Tables footnotes) are applicable. In most cases, broadly it is considered that meeting or exceeding the £0.75m/Ha test as minimum and the £1.2m/Ha test in many circumstances would prove sufficient. However, in the case of larger format retail and town centre development it is anticipated that higher land values up to £3m/Ha equivalent highest test, or potentially beyond, could sometimes be justified and need to be met.

3.4.13 As with the review of residential scenarios, it can be seen that where higher land values than our key tests are needed, this will often be shown to be supported by the appraisal RLVs – e.g. in the case of large format retail. The relevant results sets do indicate that higher land values could be, or could need to be, supported in such cases.

3.4.14 Our findings review for the Commercial / non-residential scenarios is found later in this report, following the residential findings commentary that we set out next.

3.5 FINDINGS REVIEW – Residential scenarios (Appendix IIa)

3.5.1 Viewed overall, the results are seen to be mixed, with sensitivity to the assumed value level (VL – aligned to potential site characteristics location) an important factor throughout. The interaction of the VL and AH% - i.e. the VL needed to support affordable housing within various scenario types is also key, as is the viability test used to filter / view the strength of the RLV result in each case. The latter depends on the likely host site type – varying from greenfield to PDL.

3.5.2 Across the range of results, for both residential and commercial tests, although seen more frequently in the latter (Appendix IIc) it can been seen that some scenarios and assumptions combinations return a financial deficit as appraised. Rather than list the meaningless negative individual residuals, indicative of non-viable scenarios for the assessment purpose, those results areas are simply shown as ‘Negative RLV’, often covering multiple assumptions combinations – e.g. low values (residential VLs / commercial rents and yields tests) and/or AH test % too high. A CIL trial rate too high for the circumstances is also seen to have the same effect in some cases, although the increasing CIL trial rate is seen to have a much more graduated effect of reducing the results. The approach taken to displaying the results in this way is for ease of quickly seeing the tests that do not support the collective costs assumed in those cases.

3.5.3 In reviewing the results, whilst prudent assumptions have been used throughout as part of ensuring that viability is not taken to the margins when CIL charging and policy costs are being considered, we also give consideration to an explicit “buffer” factor, as noted above. This means stepping back from the CIL charging rates indicated to be possible in theory from each assumptions combination as per the tabled results; those show the maximum CIL charging rates that can be supported by that particular assumptions set on the basis of meeting or beating a particular land value comparison – the results “filtering” (‘Viability Tests).

3.5.4 To inform the Council’s approach, we suggest considering a “buffer” factor of say 50% for looking at potential realistic CIL charging rates here - potential CIL reviewing purposes. This means approximately halving the rates that appear to be supported by a particular scenario (assumptions combination) at any point within the Appendices IIa and IIb tables. This is essentially arbitrary, and intended only as a guide aimed at keeping will within the margins of viability – it need not be adhered to strictly as it is still quite hypothetical and the viability work does not have to be followed precisely in any event. Instead, as with other Local Plan and CIL evidence, the Council should be able to show how the assessment has informed its overall approach. Nevertheless, this might help to bring some further focus to TDC’s review of the results and what it takes from this necessarily and appropriately wide set of information provided at the point where policy positions and other matters are in early consideration stages, we understand.

3.5.5 Following this principle (and although a guide only) alongside using prudent assumptions throughout, we would be looking for approximately £150/sq. m CIL scope in order to support say a £75/sq. m CIL charging rate. We will follow this approach below, as an enhanced measure to inform potential CIL rate(s) setting well within the margins of viability.

3.5.6 Again, the same principles and approach is used from and in response to the commercial results set – Appendix IIc. See more on that in dedicated sections below.

3.5.7 On all aspects, on reviewing and considering the results and findings, we suggest that TDC will usefully do this alongside a "reality check" – i.e. consider in the context of its local delivery and s.106 collection experience, bearing in mind that CIL charges would replace a reliance on s.106. Usually, the use of s.106 would be expected to reduce significantly with CIL in place, and especially in the case of the general range of sites – no-strategic developments.

<u>Affordable Housing Threshold(s) and smallest scenarios (<11 dwellings)</u>

3.5.8 Subject to having in place suitable local evidence of affordable housing needs combined with an ongoing housing supply significantly reliant on the smallest sites (i.e. of circa. 10 or fewer dwellings), subject also to viability, TDC could promote a policy seeking affordable housing or affordable housing contributions to spread the burden across most or all sites.

3.5.9 However, our understanding is that, whilst there will continue to be a wide range of very small developments coming forward, the new homes growth supply moving forward under the emerging LP will not be reliant on these as a crucial part of the overall spectrum of the delivery. The dwelling numbers delivering the overall growth will come from larger sites.

3.5.10 Some of the single unit developments are likely to be self-builds, which would not incur CIL charging.

3.5.11 Typically we find there is a range of practical challenges involved in securing on-site provision of affordable homes within the smallest schemes in any event, unless the local development market and affordable housing providers become adjusted to this owing to the nature of site supply. There can be issues with design integration, management and affordability.

3.5.12 From experience in practice, there is no evidence to suggest that viability is necessarily worse on smaller compared with larger schemes.

3.5.13 Overall, however, with higher build costs allowed for in this assessment, we can see that the scope for securing AH within such schemes would be limited and particularly if a simple, essentially flat-rate, CIL charge were to be introduced.

3.5.14 Looking at the potential collective costs of development, we can compare the results from 0% AH with those at 20% AH to see the deterioration in viability and for example the likely impact on the CIL charging scope in TDC's case. This is especially the case with the lower to mid-values (beneath VL4) and where those combine with PDL development, whereas with 0% AH a wider range of scenarios look potentially viable.

3.5.15 Looking at the 10 dwellings tests for example (Table 1d), we can see that a land value equivalent to approximately £0.75m/Ha is reached at VL3 with £100/sq. m max CIL (say £50/sq. m "buffered"). At VL4 the equivalent test provides a RLV of approx. £1.2m/Ha, i.e. meeting the next viability test. In the same table we can see that to support 20% AH, the values assumptions need to increase by 1 x VL in each case; reducing the number of scenarios likely to be sufficiently viable to support any meaningful level of AH as well as CIL.

3.5.16 The BCIS FSB report assumed higher build costs are undoubtedly having a significant influence on the smaller housing schemes viability findings.

3.5.17 Overall, given the national policy thrust allied to the more mixed nature of site supply and the viability scope supported by typical TDC values combined with the higher build costs assumptions used for the assessment purpose, we consider the findings point towards continued CIL charging at similar to existing levels, but not to the reduction of AH thresholds beneath the WMS approach level at this stage.

3.5.18 Similarly, the findings also suggest little meaningful scope to differentiate upwards with a reviewed CIL charge covering these smaller residential developments.

3.5.19 In general, we think the smaller sites scenarios represent the likely reality that many such schemes will needed to supported by perhaps higher than typical values, reflecting their more individual nature; or by a more economic view on build and other development costs than we are able to assume for the assessment purpose.

3.5.20 It may be that, as with all other CIL related aspects, this could be kept under review as more settles down on the Government's very recent Autumn Statement in regard to its intentions on matters such as the CIL and also any subsequent developments on AH tenure and other matters that influence viability.

Likely AH threshold (policy trigger point) - 11 dwellings (Table 1e)

3.5.21 We can see the improvement in RLVs (and therefore indicated viability outcomes) moving from looking at 10 dwellings (table 1d) to 11 at Table 1e. The continued use, as an assessment assumption, of the increased FSB/BCIS based build costs at 10 dwellings (as per the smaller scenario tests) is seen to place pressure on viability, with that particular effect no longer in place for the 11 dwellings tests.

3.5.22 In this scenario, 25% and 30% AH amount to the same assumed scheme mix – i.e. including 3 no AH dwellings (and so at 30% AH in both cases, after rounding to whole AH dwellings provision).

3.5.23 The results suggest a reasonable spread of scenarios capable of supporting up to 30% affordable housing (envisaged as required in the form of on-site provision unless the alternative of a financial contribution or alternative provision is clearly justified and agreed) together with say £75/sq. m CIL after considering the rough guide but nevertheless significant allowance for buffering. VL2 values support this to viability test 3. An outcome around viability test 4 is supported by VL4 values.

3.5.24 This type of scenario is assumed to be most relevant to suburban or smaller settlement locations. In that context, and certainly were it relevant on a greenfield site, we consider that the 30% AH in combination with CIL indicatively at around £75/sq. m should be achievable. Moved to a more central town location and / or with a higher land value needing to be reached, we can see that a 20% AH content improves viability meaningfully over the 30% tests and for example is likely to mean a more comfortable combination of requirements with this level of CIL.

3.5.25 Overall we suggest that a national policy aligned affordable policy threshold headline at 11 dwellings would be a suitable approach in Thanet District, with the influence of viability necessarily acknowledged so that the policies may be operated with some flexibility where the need for that is robustly justified. This, we consider, would amount to a typical and appropriate approach; suggested for consideration at up to 30% AH but also keeping in mind the increasing pressure on viability that is likely to be seen in some PDL scenarios, perhaps especially where lower values could combine with higher development costs – e.g. Margate and Ramsgate town centres, and areas with similar characteristics having an influence together on viability. We suggest also that final consideration of the policy detail may be informed by or be subject to review pending national level clarity on affordable home ownership tenure that may now come forward.

15 Houses (Table 1f)

3.5.26 These results show a continuation of the above indications – very similar indications as those seen from the 11 dwellings findings discussed above. There is no further commentary to add at this stage.

15 Flats (Table 1g)

3.5.27 The higher VLs (for example as may be more relevant to sea views and other more individual / exclusive / higher-spec. developments) are seen to support a range of very positive looking RLV results. However, in the likely TDC overall Local Plan supply context, we consider the more relevant outcomes are those relating to the lower to mid-values (more typical values up to and including VL4).

3.5.28 From these scenarios, we see that many results are poor or at best marginal with lower-end values assumed. Even at 0% AH the VL1 and VL2 results appear unlikely to support deliverable schemes with any regularity. This is due to a poorer relationship between the lower values and higher build costs assumed, and is an inherent issue that we tend to see with the viability of flatted development in lower value situations. We find this generally in a much wider range of locations – it is not unique to this assessment for TDC. Although the significantly higher development density has a positive viability influence, and in fact this may be understated in some cases at our assumed 75 d.p.h. in this instance, the increased development costs in combination with the likely need to meet a higher assumed PDL site value are significant factors negatively influencing the viability view – generally poorer results seen.

3.5.29 Values at more like VL4+ seem likely to be needed to support up to 30% affordable housing in combination with other costs – including a CIL charge at around the above level of approx. £75/sq. m. At the current time, such values are considered unlikely to be regularly or reliably achieved in the town settings within Thanet District that such schemes appear more likely to come forward in.

3.5.30 Consistent with earlier stage emerging findings discussed with officers, we suggest that this points to the consideration of a lower than headline level of affordable housing being sought in the town based scenarios, and particularly within the town centres that look set to be an important ingredient of the Council's updated development strategy being put in place through the emerging new Local Plan.

3.5.31 Our suggestion, based on the findings and local as well as wider experience of similar scenarios to date, is for TDC to consider a relevant AH target at not more than 20% (again potentially subject to later stage review as noted above). This would apply to development characteristics expected to be more typical of the town centres, potentially sitting beneath a more widely applicable higher target as above; but in any event suggested not exceeding the highest tested proportion here - 30%.

3.5.32 Considered further below, it will be relevant to review whether the larger scenario tests point to similar findings and suggested policy direction for TDC's consideration.

30 Flats – Retirement/Sheltered (Table 1h)

3.5.33 The premium values usually achieved for such schemes as new-builds, together with the densities and typically reduced scope of external works, are in our experience positive viability influences in balance with the higher build costs associated with the construction of enlarged communal (non-saleable) areas in comparison with general market apartments development. Higher sales values than those assumed for the wider assessment purpose (VLs up to £4,300/sq. m) are in our view likely to relevant should such schemes come forward in the district – although through our research we have found no recent or current examples of similar scheme types at this stage.

3.5.34 This may be a question of demand or perhaps the relative affordability of other retirement options, but we consider that these schemes would be likely to come forward with both demand in place and sufficient sales values to support the development costs; some similar issues to those related to apartments development in a wider sense. We consider that this is likely to mean viable developments capable of supporting contributions to both affordable housing and CIL, should schemes come forward.

3.5.35 Following this through, as seen at Table 1h, we have tested this scenario at bespoke VLs ranging from £4,933 to £5,733/sq. m. The results show that lower VLs than these adjusted levels could also support viable development contributing to affordable housing and a CIL.

3.5.36 The results indicate that seeking not more than 30% AH looks to be a workable scenario again - outcomes broadly similar overall to those considered so far.

3.5.37 Overall in respect of this form of development (assuming within the C3 planning use class and therefore part of the very wide spectrum of market housing development), we consider there to be no reason for differentiating for it in affordable housing policy target or indeed CIL charging rate terms.

3.5.38 This means that in considering a 20% town centre policy, for example, we envisage that the same requirement would also apply to this form of development and this appears a suitable and equitable approach. So far as we can see, policy explicitly addressing such development, in respect of the affordable housing scenario, is not likely to be required.

3.5.39 The findings are consistent with our wide experience of site-specific viability assessments across a variety of local authority areas. Schemes of this type are regularly supporting CIL payments alongside making some level of contribution towards meeting local affordable housing needs, although with viability regularly discussed and a variety of PDL scenarios the norm.

3.5.40 Our experience and general wider practice has been that financial contributions are typically the mode of provision from such schemes, although this need not affect the policy starting point or mean that the policy scope should be restricted to this, particularly as different forms of development and tenure formats could become a part of the overall picture in the coming period, with a greater national level emphasis on and need for housing for the elderly.

30 Houses (Table 1i)

3.5.41 These tests provide RLVs £/Ha that are similar overall to those produced by the 15 houses at Table 1f, as above. At the low values, most noticeable in the VL1 tests, the

RLVs are lower than those at Table 1i; with the mid to upper VLs they are very similar.

3.5.42 At VL2 on greenfield, this scenario looks able to support 30% AH with up to around £50/sq. m (i.e. CIL at approximately 50% of the maximum seen in the table with land at £250,000/Ha. Support of a £75/sq. m CIL alongside 30% AH appears to require VL3 values to be comfortably viable on a greenfield or low value PDL site. VL4 would bring a larger range of PDL sites into potential viability, with all test RLVS significantly exceeding viability test 3 at £750,000/Ha. 20 to 25% AH looks workable on a fuller range of PDL sites at VL4, with the £1.2m/Ha viability test 4 in mind.

50 dwellings – mixed housing development (Table 1j)

3.5.43 Here we are considering either assumed PDL or, potentially, greenfield based mixed estate housing type development prospects. We have a positive influence of assumed slightly higher density (at say 50 d.p.h) and on the other hand an element of the scheme subject to the higher build costs rates relevant to flats. Overall, the results show that generally at lower values (VLs 1 and 2) the RLV £/Ha outcomes are beneath those produced by the 30 dwellings all houses scheme, but at VL3+ mostly the results from this scheme are marginally more positive than the Table 1i set.

3.5.44 A wide range of scenarios looks workable at VL3 with up to 30% AH and say £75/sq. m CIL, perhaps more, when hosted on greenfield land. Viability test 3 (envisaging PDL) may also be reached with 30% AH and say £60 – 70/sq. m CIL; or 25% AH with at least £75/sq. m CIL. In a PDL situation, with 30% AH assumed fully delivered (as it needs to be for CIL setting in the case of a confirmed 30% AH policy) the CIL scope would most likely be reduced beneath £75/sq. m unless VL4+ values were available to support the viability.

Larger schemes –
85 houses (Table 1k); **100 and 250 mixed dwellings** (Tables 1l and 1m)

3.5.45 There are some more negative or marginal outcomes at 250 mixed dwellings compared with 100, as the scheme cashflow gets longer and finance costs increase, although once again there is not a great deal of difference between those results sets. Primarily with likely greenfield development in mind, again these scenario tests indicate the potential to support up to 30% affordable housing along with a CIL at

£100/sq. m plus assuming VL3 values. Some VL2 scenarios also look potentially viable with 30% AH on greenfield land, although those become marginal and appear to bear CIL only at up to about £50/sq. m.

3.5.46 Except with a nil CIL, at VL2 the 250 unit scenario appears to struggle to support the 30% AH though, and on greenfield land only. Reducing the AH content to 25% provides some CIL scope – at approximately £25/sq. m after our buffering view. A further reduction of the AH context to 20% sees the CIL scope rise to around £40/sq. m. in this scenario.

3.5.47 As above, however, assuming that same scenario with VL3 values, the 30% AH looks to have good viability prospects in combination with CIL at £100/sq. m or a little higher.

3.5.48 We can see here the “cusp” of viability sufficient to support AH at up to 30% in combination with a CIL at say £75/sq. m is seen around sale values of approximately £3,000/sq. m. DSP has observed this effect in the case of some other local authority areas, and this “cusp” is most closely represented here by our VL3 in relation to greenfield scenarios and 30% AH. For PDL scenarios, the equivalent point is generally seen here at or closer to VL4 values and so with the range VL2 to 4 being most relevant overall for the assessment purpose, a differential approach on affordable housing between greenfield and at least some PDL sites is suggested to TDC for consideration. The consideration of this is expected to be most relevant of all to town centre type development – where in Thanet’s case lower values and relatively high site and development costs could often coincide. Depending on the potential or likely location or range of locations and sites under consideration for such development, the probable sensitivity of the outcomes to lower or falling values may need to be considered as part of looking at relevance to policy proposals.

3.5.49 These scenarios are currently assumed and appraised primarily envisaging larger but “non-strategic” greenfield release sites – with appropriate land value considerations and development carrying the CIL charges together with a modest level of residual s.106 and other collective cost requirements – i.e. an equivalent approach to that assumed for the smaller sites. This approach appears suitable as generally such a site would fall beneath the scale of development expected to support very large site-specific development mitigation and infrastructure costs (e.g. new school provision, major new road works or similar). As above, we can observe the pressure that higher land values typically associated with PDL sites might well place on viability; compared with straightforward greenfield development providing an owner with a significant land value uplift, whilst still having the capacity to bear significant planning obligations.

3.6 <u>Additional sensitivity tests to further inform potential TDC policies development – dwellings with higher access standards - Building Regulations Part M4(2) and (3)</u> (Table 1n)

3.6.1 In terms of reviewing the potential viability impacts of any policies requiring enhanced accessibility standards with regard to Build Regulations Approved Document Part M4 (2) - Category 2: Accessible and adaptable dwellings - we have included a range of additional sensitivity testing within the wider set of appraisals (additional results at Appendix IIa, Tables 1n - 50 mixed dwellings). Using the 30% AH assumption, being the potential headline policy figure or upper parameter for the AH policy requirement. These results may be compared with the corresponding wider base sets at Table 1j, as above. For ease of reference, the VL3 30% AH results (only) from Table 1j are set aside the sensitivity test RLVs.

3.6.2 The additional tests consider firstly the effect of an additional (i.e. over base emerging policy assumption at 10%) 10% or 20% dwellings (from all dwellings – both market and affordable) being required to meet M4(2) standards. Looking at potential cumulative costs impacts, for each of these additional tests all base policy costs assumptions were left in place (including CIL trial rate across the full range tested together with in each case £3,000/dwelling s.106 contingency, the Local Employment and Training Contribution, SAMM cost and the cost assumption for electric vehicle charging points (proposed policy SE05)). The tests then also add costs representing 5% and then 10% M4(3) compliance to both tested levels of M4(2).

3.6.3 The results indicate that with M4(2) extra-over costs included, there is a relatively minor impact on viability, viewed in isolation, although this needs to be viewed alongside the range of other viability influences and we suggest considered with caution in the TDC context. TDC needs to take account of how these seemingly minor individual added costs areas can come together to add significantly to a growing cumulative costs impact.

3.6.4 Although we are of the opinion that the sensitivity of the results to the change in costs to the varied extent tested for M4(2) is not one that can be easily differentiated and on that basis it is unlikely that this requirement would lead to a previously viable scheme becoming unviable in practice, care needs to be taken not to add unduly to the development costs overall.

3.6.5 To illustrate this, we can see that the base assumption (i.e. 10% M4(2) only) alongside the other base costs as at 3.6.2 above (and see Chapter 2 / Appendix I) produces an RLV meeting viability test 3 using VL3 sales values with 30% AH and around £60 – 65/sq. m CIL scope (after our full buffering). However, in order to take on board additional M4 costs at any of the sensitivity levels tested takes the RLV beneath that viability test unless we reduce the CIL to about £50/sq. m; and then only with a maximum of the additional 20% M4(2) in combination with 5% compliance to M4(3).

3.6.6 A wide range of variables is under review here. The Council may find it useful to compare the various results in a similar way to that discussed above.

3.6.7 So we can see how the collective development costs could come into play and we have to bear in mind the level of values typically available to support scheme viability in the district in combination with development across a range of sites. A combination of the two policies (i.e. seeking dwellings to separately meet M4(2) and (3) standards) as tested does start to impact on scheme viability, with only a small proportion of dwellings assumed to meet M4(2) standards. This suggests that a firm requirement for M4(3) compliance at anything other than a nominal level on larger sites may be going too far in viability terms. This does not rule out the Council's emerging approach to seek a 5% element compliant with M4(3) in addition to requiring 10% new dwellings to M4(2). However, we suggest that an open / aspirational approach to policies, and to that element in particular may well be more appropriate than a fixed requirement.

3.6.8 Councils considering policies also need to bear in mind that the additional M4(2) and M4(3) requirements are exclusive; no requirement or only one of these alternative optional standards may apply to a dwelling; not both. They are independent criteria.

3.6.9 For general information, DSP is beginning to gain initial experience of some Councils' emerging approaches to these matters. In case of assistance to TDC, we are aware of some emerging polices that align the M4(2) provision sought broadly to the affordable housing content of schemes (or to a similar overall proportion of dwellings) – i.e. potentially seeking the equivalent of all or most affordable homes to be provided to meet M4(2), and perhaps also setting out a desire to have a small proportion of the affordable housing meeting M4(3). In our view such an approach would be consistent with our findings here (simply provided as an indication respecting the principles noted). From initial Examination stage engagements on these matters, we have also picked up what we think may be an understandable uncertainty on the part of Examiners in some cases where the requirements affect all or a high proportion of new homes.

3.6.10 In any event, as above, potential policies in these areas, if pursued, may well be best based on a flexible approach – guiding or targeting provision to be met as far as possible in the particular circumstances, towards meeting any identified needs.

3.6.11 TDC may wish to consider these proposals in respect of other “add-ons” sought – e.g. the emerging approach regarding the Local Employment and Training Contribution and the car charging points policy proposals. These all add cost and, once included within appraisals representing the policy direction, inevitably mean that from the limited development value created a top-slicing effect is occurring and is necessarily influencing the residual scope to support CIL alongside the usual high priority of affordable housing. Priorities and the ordering of those should be considered by TDC in any further refining of policy proposals

3.6.12 Any potential policies in these areas need to be considered in the context of the affordable housing (AH) % scope discussed above. For example, these factors, and effectively leaving some potential flexibility for a range of other / newly identified costs, could also further fit with the case for setting affordable housing policies and CIL charging rates at levels within the potential maximums that may be achievable in only particular circumstances within a district such as this – i.e. supporting some relatively modest sales values and, overall, a mixed viability picture.

3.6.13 Many iterations of policy and assumptions based results are possible in these respects, although interpolation of results is also informative given a predictable impact by % dwellings requirement with fixed cost assumptions in place. However, DSP can support and inform further discussion with TDC if required in this regard – for example in considering narrowing-down to potentially workable policy combinations perhaps once TDC has further considered priorities. In all cases the

Council needs to bear in mind the cumulative or collective impact of policy on development viability, as with any other policy requirement, and take into account whether the need for the policy can be shown. It is important that the basis for the percentage requirement be evidenced in needs, rather than based on viability alone.

3.6.14 Alongside the viability implications, we are of the view that other factors on practical aspects and the workability of policies are also relevant here.

3.6.15 On this, numbers rounding and the "product" of the calculation of dwelling numbers and policy percentage appears potentially relevant, just as it does in the context of affordable housing policy considerations and on-site provision. In our view a planning authority should also be mindful of the potential combination of requirements and property types sought on a development, bearing in mind that the key to delivery will be the market and the need to have scope to produce a reasonable number of properties unfettered by various use / type restrictions (thinking here of the unit numbers available after considering affordable housing (as possibly expanded to include new forms under the White Paper), potentially self-build (see below) and enhanced accessibility, etc. As discussed, some of these requirements to dot overlap – a development may be expected to include a range of them, affecting delivery across a large proportion of the site.

3.7 **<u>Additional sensitivity tests to further inform TDC's policies development – town centre mixed-use example – 25 flats with retail element</u>** (Table 1p)

3.7.1 Table 1p shows the results of these further sensitivity tests – aimed to inform a relative view of the impact of including a retail unit (e.g. for a local convenience store, restaurant/café, comparison retail or similar) within a residential-led development.

3.7.2 Viewed relative to the other flatted scenario appraisals, the indications are that this is more likely than not to reduce the overall scheme viability; a more viable scheme would be solely residential unless the ground floor use were significantly more valuable than envisaged here. A wider spread of negative RLVs or marginal results is seen compared with the sets at Table 1g (15 flats) for example.

3.7.3 VL5 or higher values appear to be needed to support the scheme costs and 30% AH with a CIL as discussed, at say £50 – 100/sq. m; or VL4 with a nominal (very low) level of CIL only.

3.7.4 However, the positive contribution to boosting viability made by a reduction to approximately 20% AH is also clear to see, with some VL4 scenarios looking potentially viable with a slightly lower CIL (after full buffering) of up to approximately £60/sq. m.

3.7.5 We take these findings to be a reinforcing indication of our suggestion for TDC to consider a 20% AH policy for application to at least such scenarios (most likely to be in a town centre or similar context); and also a pointer towards considering options and looking potentially at a wider differential approach to AH % targets, based on greenfield and PDL sites, and dependent on the overall nature of the site supply that will support the emerging Local Plan housing provision.

3.8 Dwelling sizes – Nationally Described Space Standard

3.8.1 At the stage of setting assumptions, there was no emerging new / provisional draft policies set to consider. However, we understood that TDC would probably look to include the national standard within its policies or may seek to guide development with reference to it.

3.8.2 On this basis only, and for the Council's information, dwelling sizes meeting this standard have been assumed throughout. Therefore the above and wider reporting – including the viability findings and recommendations – reflects this across the assessment. The findings indicate scope to support the use of the standard (across all new dwellings) if it is appropriate locally – the needs are evidenced and the approach is to be required or encouraged here.

3.8.3 In our experience so far, this base assumption typically has only a very small negative impact on viability and is more of an early stage planning and design consideration rather. It should not be an obstacle to viability. In any event, the assumptions cater adequately for the usual affordable housing dwelling size requirements of the relevant providers.

3.8.4 This information is provided from a viability viewpoint only. We have not considered the needs aspects, which Thanet District Council would also need to do if it decides to use the standards to set requirements within its Local Plan policy set.

3.9 Sustainable construction – Energy and water usage efficiency

3.9.1 The same applies at this stage to the sustainable construction based assumptions. We have assumed all dwellings built to (former) Code for Sustainable Homes Level 4 equivalent standards under the Building Regulations – for energy and water usage efficiency.

3.9.2 With the 2% effective additional contingency added to the base build costs in all appraisals, and so considered as part of the collective costs burden in looking at other key policies impacting viability the most – particularly on affordable housing, this means that appropriate standards have been allowed for in this respect.

3.9.3 As noted above, in regard to water usage efficiency it is considered that there are no costs significant enough to be appraised and measured in this assessment or the wider policy setting context. The overall costs assumptions used are considered appropriate to also reflect that requirement, informing and in support of any confirmed policy requiring all new dwellings to be built so as to enable a maximum water usage level of not more than 110 litres per person (occupant) per day (110 lpppd).

3.10 Self / Custom-build

3.10.1 As has been noted through the preparation of the methodology and assumptions reporting above, we consider that it should be possible (if needed) to viably accommodate an element of serviced, ready to develop, self-build plots as part of larger scale development – subject to monitoring of demand which we understand can be highly variable from area to another. From initial consideration of such potential policies, it appears likely to remain a profitable aspect of the overall development activity and have a broadly neutral effect on viability provided there are not too many restrictions on its workings.

3.10.2 We are of the view that capacity and viability are more likely to vary in relation to particular allocations or larger sites. Again, specific thresholds or cut-offs are difficult to identify. As an indication, and unless on specifically allocated and tailored smaller sites intended for this form of development (if infrastructure provision / development mitigation can be overcome) it appears likely that up to say 10% of plots on larger schemes (of say 50 to 100 dwellings minimum) might represent a potentially workable maximum from a practical and market point of view. This relates also to the points made above about considering a reasonable quantum of relatively "unfettered" outright market development being possible on sites with affordable housing and other policy requirements also coming together. Again, there are emerging examples of such policies that may be of interest to TDC.

3.11 Strategic scale development – Appendix IIb and findings

(Note added August 2018: At the point of final confirmation of this report and re-issue to TDC August 2018, a DSP Viability Update report is also available following TDC's adjusted development strategy for the new Local Plan latest iteration – Viability Update 2018 re revised strategic sites approach. The latest approach, as reflected in the Update 2018, no longer includes Manston Airfield.)

3.11.1 Following the introduction at 3.3 above, it should be noted that the surplus figures reported in the summary table at Appendix IIb are necessarily current stage assumptions and review based results. This is a high-level picture that could and most likely will alter as more information becomes known about the sites, and market conditions vary, etc.

3.11.2 As per the review process outlined above, however, the results show a reasonable prospect of viable residential based development in some form, with potential to support varying quantities of s106 measures or equivalent in addition to the usual costs of development at this scale and including affordable housing, with the latter targeted and assumed to be included as per the envisaged impact of the proposed policy (targeting up to 30% AH). This is in accordance with our emerging findings.

3.11.3 The exact nature of the s.106 or equivalent requirements that may be viable at a site-specific level will not usually be determined until the planning application stage, however.

3.11.4 From the results here, TDC is able to see the potential trade-off picture – combination varying but potential balances achievable between affordable housing and other obligations / matters; all subject to how the site-specifics begin to pan out and then develop of course; and at this stage not tested beneath 20% AH. The Council may be able to begin to consider how the included policy and development costs allowances combined with the indicative potential surpluses (most appropriately viewed as likely maximums in our view) compare with the developing picture of information for these locations and sites; and how its ongoing review of this might be extended to any additional / abnormal works implications and costs not covered by the assumptions to date.

3.11.5 Clearly there are many potential LP policy and other costs combinations that could also be appraised indicatively. At this stage, the additional policy costs associated with SAMM (assumed critical), electric vehicles points and the Local Employment and Training initiative (assumed non-critical) are included within the appraisal assumptions alongside the stated level of AH and, as far as known, the education land / build requirements as noted above. Again, where indicated to DSP, allowance has also been made for buying and servicing land for other land uses – e.g. employment / leisure.

3.11.6 The current indications may also feed into the consideration of any additional / external funding implications, where the overall costs scope supported by the assumed development values may already appear under pressure, for example in terms of major of off-site infrastructure not currently quantified. The usual scope of on-site and typical enabling works is envisaged by the assumptions made, but at this stage it has not been possible to consider the implications of, for example, major road network additions to serve new development.

3.11.7 Overall, the range of results indicates that the Council is planning development that, considered in this way, is very likely to be viable, albeit (and as is always necessarily the case) with the achievable planning obligations packages needing detailed resolution in due course.

3.11.8 This mirrors the general site typologies related findings (as per the Appendix IIa results).

3.11.9 It follows that the results provided here should at this stage be considered as approximate maximums based on the values and other assumption used. Changes in assumptions, even if apparently small, e.g. owing to unidentified abnormal costs / potentially negative viability outcomes from other forms of development or any necessary land value flex – can have an impact on the overall results.

3.11.10 It is possible that where robust justification is provided by a developer, the Council may need to review viability in specific circumstances, and not just in the strategic site cases. This reflects wider experience in practice, and not just in TDC's case, and will involve working with the development industry to ensure optimum delivery in areas such as affordable housing and its tenure mix, the degree to which additional sustainability measures (e.g. beyond building regulations requirements prevailing at any point) and / or other matters, etc., might be accommodated given detailed review at appropriate points.

3.11.11 Additional to the base results (as reported at the Appendix IIb Summary Table) the appraisal summaries in each case also display tabled outcomes of sensitivity tests – see the page 5 sheet of each Argus summary. To recap, those have been run within the Argus software and again follow a standard reporting format to look at the revised surplus (or deficit, where bracketed) figures that result from varying assumed combinations of values rising or falling and / or build costs rising or falling from the current base assumptions levels.

3.11.12 Building on the introduction at 3.3 above, in each of these 'Sensitivity Analysis Report' grids, the base level outcomes are those seen at the centre point – where the outcome from a '0.000%' 'Construction: Rate pm^{2}' adjustment (from base) in combination with a '0.00 pm^{2}' 'Sales: Rate pm^{2} adjustment is seen. This base position (core assumption, with no adjustment mad to sales values or build costs) is shown as a nil or very close to nil figure.

3.11.13 With the assumed land cost, a fixed input in all cases, the variable profit figures shown as positives (non-bracketed) or negatives (bracketed figures) indicate the increased or reduced total surpluses available under varying combinations of increased / reduced values and / or increased / reduced costs. This is aimed to provide additional information to TDC, linked to the points necessarily made above and illustrating how the outcomes are sensitive to the assumptions used at a particular point in time – we must reiterate that they are very likely to be seen to move around.

3.11.14 This further information suggests a capacity for values growth to balance out and probably outweigh build costs increases over time, but only through time will it be seen how this actually pans out. With increasing values, the indicative potential surplus quickly grows in each case, and likewise it is also decreases markedly with a reduction in values compared with the base assumption at £3,400/sq. m (envisaging an attractive living offer through extensive place-making), particularly alongside rising build costs.

3.11.15 These additional sensitivity tests use trial steps producing comparative outcomes (i.e. RLV results equivalent to those at Appendix IIb Table 2b column '1') based on values moving up and down by £250/sq. m increments from base levels; and/or build costs moving up and down by 2.5% increments from the stated base levels.

3.11.16 It must be acknowledged that these again are all high-level tests, consistent with the wider assessment of development scenarios relevant to the TDC emerging Local Plan.

3.11.17 Based on the limited level of available site-specific knowledge and detail to this point, which again is not unusual in our wider experience, our appraisal approach is consistent with that we have used in other cases and seeks to inform an indicative potential level of funding that could be available to support s.106 and / or CIL related infrastructure costs (as well as any other currently unidentified costs).

3.11.18 The approach also includes developers' profits fixed for the assessment purpose at 20% GDV (market sale housing) and 6% GDV (affordable housing) along with a fixed land cost and all other usual development cost allowances, including finance, allowed for. Again, purely related to the assessment purpose, the sensitivity of results to land value variance has been tested through the use of land value levels (representing greenfield enhancement value, subject to planning and unserviced, with the prospective developer meeting all development costs) at £250,000/Ha applied to the gross (whole) potential site area.

3.11.19 To date our experience of CIL and its interaction with strategic sites proposals has generally been that by the time the site-specific infrastructure and development mitigation needs are costed in (and usually secured through a negotiated s.106 agreement that also ensures the delivery of infrastructure in a timely way to support the development progression), little or no financial viability scope also remains with which to fund CIL payments.

3.11.20 Nevertheless, the findings related to the current 'nil CIL' tests indicate potential surpluses per dwelling (all dwellings) in the range approximately £3,000 to £31,000 per dwelling after allowing for all other usual development costs for schemes of this nature. Included within those development costs assumptions, we have allowed for external and site-wide works – enabling and onsite infrastructure – at an equivalent of £27,000/dwelling; an allowance significantly in excess of that suggested by the Harman Report, as has been noted.

3.11.21 We suggest that at the lower end seen, as above, this range of indicative surpluses for additional s.106 (beyond, in that case, the estimated costed schools provision) appears to indicate viability likely to be under pressure with the collective assumptions used at this stage in that scenario – i.e. SP05 Manston Airfield site assumed with 30% AH and all regular costs of development.

3.11.22 At this stage, the relevance of abnormal development costs is not known.

3.11.23 Overall, we consider that these strategic sites early stages review outcomes certainly suggest reasonable prospects for viable development. However, the Council will need to consider the indicative surplus outcomes compared with its developing picture on likely significant planning obligations costs as more detail / cost information emerges.

3.11.24 Therefore, we suggest that these scenarios and outcomes could usefully be reviewed further as the TDC proposals progress, and as the Council's work with involved development interests builds up.

3.11.25 As with other elements of a potential CIL, and associated with the developing picture on infrastructure, we are not aware of the Council's potential approach to CIL and the strategic site proposals. However, in our experience of both strategic level viability assessments and viability reviews related to planning application stage submissions on large sites such as this, by the time the very extensive site enabling / opening-up works and site-specific mitigation and infrastructure works costs are allowed for, this type of situation most frequently warrants bespoke treatment for CIL. This generally means a zoned approach including a specific nil-rate or low-rate differential approach for such proposals. On this basis, s.106 becomes the route through which the obligations necessary to permit the scheme are secured and can be negotiated with the benefit of flexibility, ability to consider relative priorities and then the scope to more closely control the delivery of the specifically needed infrastructure.

3.11.26 From our gauge of the report provided and the situation here, these would appear to be scenarios more likely to lend themselves to a nil-rate or low-rate CIL zoning, with s.106 used primarily and a fixed general CIL charging rate, assuming pursued, not applied in these instances.

3.12 Affordable housing policy scope (and interaction with other planning obligations including CIL / infrastructure provision) – recapping – Overview

3.12.1 Looking at a potential "headline" type position, this is certainly not likely to be appropriate at greater than a 30% AH target.

3.12.2 As above, if anything we consider that owing to the sensitivity of results to values falling away from the key area (and especially the circa £3,000/sq. m / approximately VL3 "cusp" of viability mentioned above) and the likely ongoing incidence of PDL sites, the viable range for affordable housing targets more typically, overall, is considered likely to be say 20 to 30%. As in all areas, some scenarios will not achieve this, and a lower target would not necessarily be responsive enough to ensure full compliance across the board in any event.

3.12.3 As we see it, building on earlier stage findings discussed with TDC, there are options for TDC to consider (alongside its other evidence and information, as above) – with all %s noted necessarily as targets, operated with regard to specific needs and viability:

1. **Differential AH policy.** By this we mean consider differential AH policy targets within the range 20 – 30%. We suggest that the key differential here is likely to be around the difference between PDL sites (where typically higher land values coincide with often mixed values and sometimes higher costs) and greenfield (lower, more definable land buy-in costs, typically fewer development abnormals, except frequently in the case of strategic sites). We suggest, for TDC's consideration, that this approach could usefully see a 30% target for greenfield; lowered 20% for at least some other development. Noting the importance of town centre redevelopment / regeneration emerging within the Plan, we suggest that at the very least such a differential be considered for those areas. Looking beyond those, it appears that at this stage there would also be a justification for considering extending any such policy initiative to all urban area sites; and also to all PDL scenarios – depending on the Council's site supply overview and overall Plan relevance of different site types and locations.

2. **Single AH policy at 25% target.** This potential option for consideration would effectively run an average type view through the above, not necessarily as responsive to variables but more so than a higher, 30% sought across the board

type of approach (as we understand has been considered in early stages Local Plan development phases).

3. **Single AH target 30%.** Continue the previous and early stages discussions aspirational target type approach based on necessity – i.e. owing to needs, setting a single clear aim and guide; and negotiating where necessary – potentially more frequently than in the above scenarios. In looking at this or indeed at a 25% single target level, TDC may take the view that the Government's emerging but as yet uncertain policies on matters such as affordable home ownership seem likely to have some level of positive overall viability effect. However, in balance with that, authorities may take the view that any such more viable element delivered in due course ought to allow a greater proportion of more affordable/rented affordable homes to come forward within some AH mixes.

3.12.4 How TDC choses to settle-down the direction of this key policy area will not be dictated by this viability assessment, but informed by it along with other information and the review of delivery experience available to the Council.

3.12.5 At this stage, and particularly with a CIL or other updated planning obligations strategy to be developed in response to the emerging LP infrastructure needs, we recommend, overall, that consideration is giving to a differential policy approach. We consider that this would leave some degree of greater flexibility, as far as is possible, to weigh-up and balance these assumed priority requirements with a suitable level of other planning obligations / CIL – to the extent that the TDC viability picture permits, all as considered above.

3.12.6 The consideration of this remains circular to some extent, unavoidably, as the costs areas cannot be separated – the cumulative costs need to be factored in. With key policy directions settled bearing in mind this balance, it will then be possible for TDC to refine views and proposals on a CIL or other infrastructure contributions strategy; possibly dependent on or informed by more information on the Government's proposals following the apparent dropping of its CIL Review Panel's 'LIT' proposals, as noted earlier. In the meantime, it needs to be remembered that the policy costs (assumed fully applied, not at lower levels based on the necessary target approach) need to be taken account of in setting-up CIL charging rates in particular.

3.13 FINDINGS REVIEW – Commercial / non-residential scenarios (Appendix IIc)

3.13.1 Our assessment work on the review of commercial and non-residential development has focused on our typical approach to CIL viability, again using an established approach to apply the same principles as used in the residential assessment aspects.

3.13.2 As is generally the case (i.e. is not Thanet District specific) the scope of policies relating to residential development are the key areas where an individual planning authority can have a significant influence overs matters effecting viability – directly through policy selection.

3.13.3 The same does not apply to a significant extent in respect of all other forms of development, including for employment and commercial use.

3.13.4 In respect of other development, it appears more to be case of working with the market, being open, incentivising and engaging with development interests as far and productively as possible – aiming to review and promote or protect / select the most appropriately and accessible sites for relevant uses, seek necessary development that also meets other strategies and policies, and so on.

3.13.5 Unfortunately it is necessary to acknowledge that, particularly when viewed in terms and using assumptions appropriate to strategic level local authority viability work, viability for many such forms of development looks likely to remain challenging.

3.13.6 However, this does not necessarily mean that suitable schemes will not come forward. Generally, it suggests though that the Council should look to proceed in a way that presents to the market and requires the least controlling policy intervention and additional development cost measures over and above usual planning and design criteria, including national base standards.

3.13.7 Unless there are particular additional review requirements relevant to the overall Plan delivery and viability picture that emerge in due course as firmed-up draft policy positions and proposals become available for review, the best indications as to the viability of commercial and non-residential development in the district (as may also be relevant to overall Plan delivery) will be gained from considering the viability scope for such developments to support the CIL – the approach taken here, with the findings from this exercise considered below. This follows the introduction to the results shown at Appendix IIc, as per the methodology outlined above and the use / content of the tables (2a to 2f) as per the guide at section 3.4.

3.13.8 We have prepared up to date assumptions (as noted in Chapter 2 above and at Appendix I) and run appraisals as reflected at Appendix IIc. Again, Appendix III outlines the information reviewed on values, using a broadly equivalent overall approach to that for the residential assessment work. Pending any such further work to be added to the information available to the Council, we have included latest accessible commercial market and values data to the rear of Appendix III to this report (sourced from Co-Star).

3.13.9 This allowed us to reflect and consider the varying strength of the relationship between the development values and costs – as relevant to any key development forms such as employment (B uses) and retail (A uses); this relationship being the key to the review again.

3.13.10 In the meantime, as noted above there may be some aspects of strategy that TDC can usefully consider in looking further at the evidence gathering on areas such as employment land need and supply, retail assessments, and so on.

3.13.11 At the national level, prior to the Brexit decision the commercial sector remained generally positive but the lead up to that led to some uncertainty in the market. The future direction of the commercial market following the decision to leave the EU, and indeed subsequent / ongoing discussions, remains uncertain.

3.13.12 Similar uncertainties were noted earlier in the report in respect of the varied potential outcomes for build cost trends.

3.13.13 As above, in looking at commercial property development at present, in many instances we must acknowledge the probable short-term challenge, at least, around the delivery of significant new development; and particularly on a speculative basis.

3.13.14 We expect that the Council's policy set will continue to develop themes of promoting and encouraging development focussed on improvements to the offer presented by the district's town and other centres that serve a more localised catchment through neighbourhood shopping etc.

3.13.15 In our wide experience of CIL viability, generally poor viability or at best mixed results tend to be seen from most test scenarios other than those representing certain forms of retail development.

3.13.16 Usually we find that this is especially the case for most of the B (business/employment) use class types. As noted, such outcomes do not necessarily mean that development will not be delivered through flexibility in development appraisal inputs and negotiations – factors that we cannot assume in prudently assessing viability for informing Local Plan development and CIL setting purposes.

3.13.17 To test and fully inform TDC's potential positions moving ahead, however, the following commentary runs through our current appraisal results – considered here by development use type.

A1 – Large format retail

3.13.18 Following DSP's established, tested route to considering the viability for CIL of various forms of retail development, these units are envisaged as typically for retail warehousing or foodstore use and are readily definable as such. They also clearly exceed the Sunday Trading related sales floor area threshold (at 3,000 sq. ft. / approx. 280sq. m), which represents a clear differential point for CIL charging, as a secondary measure / form of clarification alongside the large format retail use as a development type.

3.13.19 These large retail units remain amongst the most clearly viable forms of development and should be able to support CIL charging if they continue to come forward.

3.13.20 Should any further development of these types occur, our strong viability findings suggest that they could comfortably absorb a CIL charging rate of say £100/sq. m and as an option this could be set to match or broadly match the upper parameters discussed and suggested above for the residential charging rate(s) scope.

3.13.21 On this basis, we suggest that amongst the potential options, a straight-forward approach could be taken by TDC – i.e. to differentiate only for retail in this way - in respect of its type. This links also to our findings and recommendations in respect of other forms of retail – more on this follows.

Small retail units – district-wide

3.13.22 The town centre comparison shop units / retail test outcomes appear strong using the more positive values assumptions combinations – e.g. 'M' or 'H' rent tests with 5% yield; 'H' rental assumptions in combination with not higher than a say a 6% yield. However, these scenarios are seen to be highly sensitive to less positive values assumptions, and this indicates that they are also likely to be highly sensitive to any increased development costs.

3.13.23 Having taken a relatively positive approach to the town centre retail assumptions to test the points at which viable looking scenarios may be created, our overview is that a lower or nil CIL charging rate would be appropriate for any developments within the town and indeed other key centres.

3.13.24 Looking at our 3rd row of results also representing smaller shops development, the same clearly applies to those using current assumptions, and in fact the outcomes are more marked for these. In the local circumstances, from a viability viewpoint we recommend consideration of a nil-rate (£0/sq. m) for all such developments, as it appears highly possible that CIL charging could have a potentially damaging effect on the viability of any new local shops provision; contrary to the Council's continued approach to supporting the vitality of the various levels of centres in the district and supporting new development.

3.13.25 Approached in this suggested way, however, the TDC CIL could be relatively simple, with only the larger format developments – envisaged primarily away from the town centre boundary areas, positively charged, should any more of those come forward.

3.13.26 We noted at emerging findings stage that there could be an option to consider a low charging rate for smaller retail units development, or an alternative of a lower charging rate applicable to all retail development (for example on the basis of anticipated supply). However, on further review, we propose consideration of a differential approach that our findings show would better reflect the key characteristics and likely different resulting viability scenarios.

Further background – Retail

3.13.27 In the event that the Council decides, on balance, to run with a differential approach to setting CIL charging rates for retail development, there are particular considerations to be aware of. This is primarily because it is necessary to set out clearly how the differentiation is set up and described. A differential approach needs to be based on viability evidence, as included within this report and appendices. It follows that reduced evidence ought to be needed to support an approach involving no or limited differentiation, moving back towards the intended nature of a CIL originally perhaps (before the scope were introduced to differentiate by scale of development, and the exceptions/reliefs were fewer, for example)

3.13.28 DSP has experience of both single and differential CIL charging rates approaches for retail development. However, as a high-level outcome the general viability variation between larger (retail warehousing and foodstore / supermarket type) and smaller retail formats identified here is consistent with most of our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work in many cases.

3.13.29 Developing the outline above, the further information on retail in this sub-section is provided for completeness and background at this stage; it provides further insight for use by TDC if a differential approach is considered relevant, bearing in mind the LP context around the types of development planned, in particular, and coming forward more generally in ways that support the plan policies.

3.13.30 Potentially the following factors are to be considered. This applies to all retail scenarios (across Use Classes A1 – A5; i.e. also covering food and drink, financial services, etc.).

3.13.31 In practice, the "churn" of and adjustments to existing shop units or conversions from other uses may provide much of the new smaller shops provision. TDC may wish to consider the extent to which CIL liable new builds may occur.

3.13.32 The extent to which retail of any form is overall plan relevant. If certain or all forms are likely to be coming forward on an ad-hoc basis only (i.e. outside the plan policies scope) then potentially it may be considered that any non-viability of individual schemes is not critical under the CIL principles

3.13.33 No or limited / uncertain overall plan relevance of a certain development use type would also suggest the prospect of a low level of increase in CIL receipts compared with either setting a nil CIL or not pursuing CIL at the current stage; or a low level of receipts impact compared with (reduction in CIL funds relative to) setting a higher, more viability impacting charging rate.

3.13.34 In any event, as part of considering the impacts of any CIL proposals (both positive and negative), the Council may also wish to consider the relevance of any unintended consequences for other forms of development, such as smaller shops in the various centres and other individual or small groups of shops. Overall, our understanding with regard to this district area is that this range of retail uses is probably the key factor to which any approach to CIL and / or s.106 planning obligations needs to respond – in order to support the likely more general LP positions on retail, perhaps, as well as particular higher value proposals.

3.13.35 Following adjustments made to the regulations, charging authorities have for some time been able to set differential CIL rates by reference to varying scale of development as well as varying development use (as has been noted above, for example, in relation to residential development). DSP's experience is that differentiation has been possible - as well as most clearly justified and described - based on scale where that relates to varying development use (i.e. retail offer, site and unit type, site etc. associated with that). The difference between larger and smaller format retail can be clearly defined for these purpose, as has been successfully done across a range of assessments and charging schedules in the last 5 years since the early period of CIL viability assessment; with type the key differential and size a secondary factor relating to scale but acting as a further way of clarifying the differentiating factors.

3.13.36 Looking at size of unit only (i.e. an approach led by or relying solely on different scales of development) can be problematic or lead to inequities in our view. DSP's experience is such that a retail use does not necessarily change characteristics in any readily determinable way at any specific floor area point other than that determined by the Sunday Trading provisions. We consider that unless a prospective charging authority has particular planning policies that influence viability (i.e. cause switch points in viability) either side of a certain floor area, the floor area based provisions relating to Sunday trading continue to provide the only clear unit size linked switch in viability, bearing in mind that a particular floor area figure needs to be in place to create a viability threshold.

3.13.37 Since altering the assumed floor area to any point between say 200 and 500 sq. m would not trigger varying values or costs at this level of review, basically the reported values / costs relationship stays constant; so that we do not see altering viability prospects as we alter the specific floor area assumption over that range but assume development for the same use type (same type of retail offer). This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit alone.

3.13.38 We find the same at other unit size assumptions. In essence, to support a CIL differential at an alternative threshold point it is necessary to show a distinct change in viability, which would come from different appraisal inputs applying at a particular point – whether at 500, 1,000, 2,000 sq. m or indeed any particular unit size. So the same applies on altering the high level testing for floor area variations on supermarkets or similar; the use type does not switch at particular points so that selection of thresholds for the varying scale of development could be arbitrary. This in itself could create inequity. In each case, unless viability were found to be different either side of any such point (a particular floor area figure), in our view and experience it would not be appropriate to differentiate.

3.13.39 The key factor differentiating the smaller types of retail scenarios that we refer to from the larger ones is the value / cost relationship related to the type of premises and the use of them; they are simply different scenarios where that relationship is not as positive as it is in respect of larger, generally out of town / edge of town stores. Specific floor area will not in itself produce a different nature of use and value / cost relationship unless applied in relation to the Sunday Trading provisions so far as we can see. Related to the opening hours available to an operator, these provisions create a clear threshold and at that a clear differentiator – based on sales area of less than 3,000 sq. ft. (approx. 280 sq. m).

3.13.40 To reiterate, in our view any differentiation is more about the distinct development use – i.e. the different retail offer that it creates and the particular site type that it requires, etc. The description of the use and its characteristics may therefore be more critical than relying simply on a floor area threshold or similar. The latter could also be set out to add clarity to the definition and therefore to the operation of a charging schedule in due course, however.

3.13.41 In case of assistance in this respect, DSP has worked with a number of authorities on the details of these aspects. As an example that considered and established this principle, the adopted Wycombe DC CIL Charging schedule included wording clarifications, in the form of footnotes to assist with the definitions of the chargeable retail use types, put forward by that Council and accepted by the Inspector at Examination, as follows:

[1] Superstores/supermarkets are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit.

[2] Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for mainly car-borne customers.

3.13.42 So, to recap, only if differentiating between these smaller and larger retail formats, we consider that creating a link with the size of sales floor space associated with the Sunday Trading provisions (3,000 sq. ft. / approx. 280 sq. m) may provide the most appropriate threshold as a secondary measure to the development use description that is the most relevant factor in both creating and describing the viability differential. Such an approach may not be relevant here. However, drivers towards this approach in some locations may be the overall plan relevance of different types (as new builds or larger extensions of over 100 sq. m triggering CIL liability) and any concerns over added development risk to smaller shops provision associated with adopting a single rate at too high a level. This approach to setting up a differential approach to CIL charging for retail development assumes the threshold being used for clarity and to further explain the nature of the development use that the viability and a charging rate differential is linked to if CIL is pursued.

3.13.43 There are a range of retail related uses, such as motor sales units, wholesale type clubs / businesses, which may also be seen locally, although not regularly as new builds because these uses often occupy existing premises. Whilst it is not possible to cover all eventualities for ad hoc development, and that is not the intention of the CIL principles, we consider that it would be appropriate in viability terms to also link these to the retail approach that is selected based on the main themes of plan delivery, all as above.

3.13.44 Similarly, we assume that where relevant any new fast food outlets, petrol station shops, etc., provided for example as part of large retail developments, would be treated as part of the retail scheme.

3.13.45 Other uses under the umbrella of retail would be treated similarly too. Individual units or extensions would be charged according to their size applied to the selected rate as per the regulations and standard charging calculation approach.

Office developments (B1(a))

3.13.46 In common with our and others' typical findings across similar assessments covering a wide range of areas, we have found office developments insufficiently viable to support CIL charging in Thanet District at this time. The Appendix IIc results clearly display this, with even the most positive values assumptions combinations used here not supporting positive RLVs.

3.13.47 Whilst not necessarily meaning that schemes will not come forward (as applicants may be able to make alternative assumptions or have particular overriding business drivers for developments) we need to recommend a nil charging rate (£0/sq. m) applicable to any office developments on a district-wide basis.

Industrial / warehousing (B1, B2, B8)

3.13.48 Although we regard Thanet District as a more established location for such uses compared with offices, again based on researched assumptions appropriate for the assessment purpose these appraisal outcomes are some way short of displaying viability outcomes sufficient to support CIL charging.

3.13.49 Again, as above, at this time we need to recommend a nil charging rate (£0/sq. m) applicable to any such developments on a district-wide basis, albeit with the same practical points also relevant here.

Hotels (C1) and Care Homes / similar (C2)

3.13.50 The hotel test scenarios show insufficient viability to support CIL charging across the board, using values and cost assumptions considered to be appropriate for the Thanet context.

3.13.51 Whilst the Care Home (nursing homes) tests returned a range of positive results, we consider these to be similar in nature to the town centre retail appraisal test outcomes – i.e. relatively insecure and very sensitive to the values assumptions reducing and /or development costs increasing.

3.13.52 The effect of an increasing yield % assumption, reducing the capitalisation of the assumed rental income levels, is to reduce the positive results scope to only the 'H' rents by the time a 6% yield is considered unless greenfield development is envisaged, and then very likely only with a low CIL (see Table 2c at Appendix IIb).

3.13.53 Looking at this, TDC may wish to give consideration to the treatment of extra care housing and how this relates to the residential (C3) or C2 rate charging scope, as below. Being primarily a housing rather than a care "offer", that is assumed to fall within use Class C3, although TDC may wish to consider these definitions and details because often the distinction between C3 and C3 is difficult to establish and clearly set out.

<u>Housing for the elderly – Care based development provision (C2) compared with retirement living/sheltered (C3)</u>

3.13.54 In looking at residential development, consistent with our wide experience of CIL viability, rates setting and site-specific viability review workload to date, we noted above that we would recommend that no differentiation be made for market provided sheltered housing or similar developments. Whilst such schemes involve the costly construction of much larger non-saleable proportions of overall floor area (communal space) and need to be reviewed with particular assumptions (appraisal adjustments) that we have reflected, they also have some balancing viability characteristics. These include typically achieving premium sales values, having higher densities and reduced external works.

3.13.55 These schemes are in our view part of the wide spectrum of market housing. In our experience, both where a CIL is operational and without CIL, commercial negotiations tend to take place in respect of affordable housing contributions on such developments. As with all other schemes, that and other aspects of negotiation have the capacity to deal with viability issues where the collective costs cannot all be carried by a scheme, and a site-specific viability appraisal (planning applicant submission) and review investigates that.

3.13.56 Affordable sheltered housing (within C3) and nursing / care homes (C2 uses) will be exempt from CIL charging through the regulations.

3.13.57 Within the wide range of potential formats of accommodation for the elderly, there is very likely to be a range of scheme types coming forward. These may fall within C3 (e.g. an 'Extra-Care' scheme that is primarily residential, but where varying degrees of support may be additionally available); or C2 such as care / nursing homes and other facilities where the occupants are residents but the primary function and reason for development is the provision of care; a care-led rather than residential-led scenario. It is possible that the determination of the relevant planning Use Class may be difficult in some situations, and likely that this will need to be considered on a scheme-by-scheme basis.

3.13.58 The charging schedule should, however, seek to make clear the Council's intentions in treating these various forms of development, described for clarity.

Other development uses

3.13.59 As a regular component of our CIL viability assessment work, we consider a range of other development uses – their likely viability.

3.13.60 So, in common with most of our other CIL studies, we have also carried out some initial high-level consideration of other development uses such as leisure (e.g. bowling / fitness / gym) or other D class elements such as health / clinics / nurseries etc.

3.13.61 Bearing in mind the key development value / cost relationship that we are examining here, we find that it is not necessary to carry out full appraisals of these because a simple comparison of the completed value with the build cost indications from BCIS (before consideration of other development costs) points to poor to (at best) marginal development viability. This one of the key reasons why these forms of development are generally not seen stand-alone, but tend to be provided as part of mixed use schemes that are financially driven by the residential and /or retail development.

3.13.62 Much the same applies to elements such as health / clinics and other similar, more community oriented development.

3.13.63 Following our extensive iterative review process, throughout this assessment we can see that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before CIL scope is considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).

3.13.64 In such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability. Such scenarios are generally unviable in the sense we are studying here – as a starting point. This is because they have either a very low or no real commercial value and yet the development costs are often similar to equivalent types of commercial builds. We regularly see that even the build costs, and certainly the total costs, exceed levels that can be supported based on any usual view of development viability. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them.

3.13.65 As will be seen below, there are a wide range of potential development types which could come forward as new builds, but even collectively these are not likely to be significant in terms of "lost opportunity" as regards CIL funding scope. We consider that many of these uses would more frequently occupy existing / refurbished / adapted premises.

3.13.66 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in the main they are likely to be a long way from producing any meaningful CIL funding scope.

3.13.67 There are of course a range of other arguments in support of a distinct approach for such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure. They may even be the very types of facilities that the pooled CIL contributions will ultimately support to some degree. For all this, so far as we can see the guiding principle in considering the CIL regime as may be applied to these types of scenarios remains their viability as new build scenarios.

3.13.68 As a part of reviewing the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from entries in the VOA's Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS. As has been discussed above, where the relationship between these two key appraisal ingredients is not favourable (i.e. where costs exceed or are not sufficiently outweighed by values) then we can quickly see that we are not dealing with viable development scenarios. The lack of positive relationship is often such that, even with low land costs assumed, schemes will not be viable. Some of these types of new developments may in any event be promoted / owned by charitable organisations and thereby be exempt from CIL charging (as affordable housing is).

3.13.69 On this basis, Figure 8 below provides examples of this review of the relationship between values and costs - in a range of these other scenarios. This is not an exhaustive list by any means, but it enables us to gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and further complication within any local CIL regime. These types of value / cost relationships are not unique to the Thanet District area at all. Very similar information is applicable in a wide range of locations in our experience, although the largely urban nature of this authority area increases the relevance of certain types of development uses and therefore the potential need to ensure that any essential delivery is not undermined. (See Figure 8 below – following page).

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost indications –BCIS**	Viability prospects and Notes
Cafés	£140 - £370 per sq. m.	£1,400 - £3,700 per sq. m.	Approx. £2,240 - £2,950	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	£50 - £80/ per sq. m.	£500 - £800 per sq. m.	Approx. £1,780 - £2,550	Clear lack of development viability
Day Nurseries (Nursery School /Creches)	£80 - £150 per sq. m.	£800 - £1,500 per sq. m.	Approx. £2,000 - £2,840	Insufficient viability to clearly and reliably outweigh the costs
Garages and Premises	£40 - £60 per sq.	£400 - £600 per sq. m.	Approx. £580 - £1000	Low grade industrial (B uses) - costs generally exceed values
Halls - Community Halls	£20 - £40 per sq. m.	£200 - £400 per sq. m.	Approx. £1,860 - £2,475	Clear lack of development viability – subsidy needed
Leisure Centre - Health and Fitness (Sports Centres/ recreational centres) generally	£60 - £80 per sq. m.	£600 - £800 per sq. m.	Approx. £1,470 - £1,950	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Leisure Centre Other - Bowling / Cinema	No information available		Approx. £1,300 - £2,160	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Museums	No information available		Approx. £1,200 - £3,860	Likely clear lack of development viability – subsidy needed
Storage Depot and Premises	£40 - £80 per sq. m.	£400 - £800 per sq. m.	Approx. £,100 - £1,475 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	No information available		Approx. £1,860 - £2,430 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs based on other than high-end looking value assumptions.

*£/sq. m rough guide prior to all cost allowance (based on assumed 10% yield for illustrative purposes - unless stated otherwise).

**Approximations excluding external works, fees, contingencies, sustainability additions etc.

***BCIS Latest available data average of Thanet Location Factor

(Above: Figure 8)

3.13.70 Our recommendation is for the Council to consider a zero (£0/sq. m) rate in respect of a range of other uses such as included within the above table. As in other cases, this could be reviewed in future - in response to monitoring information.

3.13.71 Our overriding view at the current time is that the frequency of these other new build scenarios in general that could reliably support meaningful CIL scope in the district area is likely to be very limited.

3.13.72 In addition to seeking to ensure that the approach to planning obligations (including any future CIL) does not add unduly to the viability pressures uncertainty to potential investment, the Council could consider the following types of areas and initiatives (outside the formal scope of the brief for this assessment, but put forward purely as practical indications in relation to the more general Local Plan delivery considerations on commercial / employment and non-residential development uses):

- Consideration of market cycles – plan delivery is usually about longer term growth as well as short term promotion and management of growth opportunities that will contribute to the bigger picture;

- Work with the market – be responsive etc. as suitable opportunities are identified;

- Regenerate / improve and protect key existing employment areas;

- Provide land where assessed to be most needed;

- A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;

- Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;

- Specific sites / locations and opportunities – for example in relation to the plan proposals and what each are most suitable for. Focus on the most accessible, best and most valuable locations for particular uses;

- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) or other development – balance the element in deficit or with reduced viability;

- Scenarios for particular / specialist uses – e.g. the local knowledge based employment economy; or that may be non-viable as developments but are business-plan / economic activity led;

- Explore any local specialisms or particular industries / sectors from which economic advantage and stimulation of other activity can be made;

- As with residential, consideration of the planning obligations packages again including their timing (triggers) as well as their extent.

- A likely acceptance that business development overall is unlikely to be a significant regular contributor to general community infrastructure provision in the short-term at least.

- Seek other investment and consider incentive schemes.

3.14 Additional Commentary

3.14.1 We consider that the above identifies scope to both identify opportunities with viability potential and find the appropriate balance between affordable housing needs, other planning policy objectives and scheme viability.

3.14.2 This is consistent with DSP's wide experience of successful CIL, Local Plan and Affordable Housing viability evidence and outcomes through to examination and on to adoption stages, as well as in the detail of affordable housing and other planning policies and viability factors in operation in practice

3.14.3 In our view, at a "Whole Plan" level, looking at an appropriate level at the range of potential development scenarios and policy areas likely to be supporting the new

Local Plan, these appear to be capable of meeting the requirements of NPPF 173/174.

3.14.4 This is provided that TDC maintains an approach of not adding unduly to the national baseline policies together with addressing its local affordable housing needs as far as is practical, also taking account of the scope for a future CIL or other infrastructure contributions strategy; and that landowners' expectations are also at realistic levels reflecting requirements and constraints as well as the opportunities side.

3.14.5 Wherever pitched, the policies will need to be accompanied and explained by appropriate wording and guidance that sets out the strategic context and nature of the targets but also recognises the role of viability in implementation. Where robustly justified by a developer, a practical approach may need to be acknowledged - which can be responsive to particular circumstances - those will continue to be highly variable with site specifics. The need for this type of approach is likely to be particularly important in the event of ongoing economic and market uncertainty such as we still appear to have at the current time, although very latest post-Brexit market indications appear are still mixed and more positive overall perhaps than were initially predicted. Only time will tell how these matters play out, however.

3.14.6 The suggested inclusion within recommendations (and any subsequent use of) reduced / lower than headline targets for affordable housing, and / or an equivalent targeted type approach on other policy cost areas, does not imply that such targets would always be met at their lower levels; this cannot be certain to be achieved at any policy level.

3.14.7 This viability evidence will need to be considered in conjunction with wider evidence on housing needs and the shape of site supply (type, location and size of sites coming forward), infrastructure needs and planning, employment land and so on.

3.14.8 Keeping the picture informing the Plan development topical, it will be also be essential to monitor, review and keep up to date evidence associated with the policies as part of creating a sound overall approach.

3.15 OVERALL - Brief summary – main policy considerations

3.15.1 The following table (Figure 9, below) provides a quick guide to the key policy development observations offered to TDC, in respect of areas directly impacting development costs and based on the findings and recommendations as discussed above.

Figure 9 – Brief Overview – Table of Key Policy Development and CIL Observations

Site supply and likely deliverability – "whole Plan" overview	Generally a picture of potential viability across a likely good mix and spread of sites and locations; should be capable of supporting a balance of affordable housing and other policy costs - subject to site-specific characteristics and details, with the use of targets and flexibility as needed, acknowledging both the needs and the role of viability. Consider setting AH and CIL within apparent maximum levels to allow some scope for consideration of other policy costs, unforeseen site costs (e.g. abnormals, etc.) TDC may wish to revisit / refine, with the settled knowledge of proposed policy positions and more on emerging site types and locations. OVERALL, with AH allowed for as proposed below, and CIL charging rates not exceeding the parameters considered here (but to be considered further in relation to settled policy directions), there is considered to be relatively little available "slack" to take-up, and this needs to be kept in mind first and foremost in setting AH policy targets, in considering the extent and rigidity of other policy requirements; and then also in setting up a potential CIL charging rates.

Affordable housing (policy target scope - %)	
Sites 11+ dwellings – district wide	Parameters for policy target(s) - Suggested consideration of 20 - 30% range; not exceeding 30% as a target / headline in any circumstances. Options to consider a simple 25% or 30% headline policy applicable district-wide, subject to the commentary provided.
All town and other key centre areas / sites with similar characteristics	Suggested consider reduced target – indicatively 20%. Suggested consider the option of applying same to a wider range of PDL sites, informed by the firmed-up nature of the proposed site supply.
Generally	Consider and need for potential further review with more knowledge of firmed-up national policy and emerging tenure models / evolving mix.
Enhanced accessibility – M4(2) & (3)	
M4(2) – options available but suggested consider application to some but not all dwellings and, with any M4(3) element also required, a smaller proportion, potentially allied to an element of the AH provision and suggested as not for rigid application in any event. With M4(3) in particular, significant cost and early stages design impacts to consider.	
Overall consider a guided / target based and flexible rather than rigid approach. Evidence of need required.	
Open Space	
From wider experience, DSP has encountered potential issues with onerous on-site / provision based open space policies - consider emerging policies and ensure workable within range of site constraints.	
Water and energy usage efficiency	
Building regulations standards – assumed former CfSH4 equivalent standards and water usage not exceeding 110 lpppd included and considered viable if relevant.	
Nationally described space standard	
Included and considered viable if relevant.	

Self & Custom-build	
Considered no significant implication for overall viability but, as a proportion of a development, potentially more practical on larger schemes (indicatively only, say 50+ dwellings) where, together with other requirements, this would still allow an appropriate proportion of usual market sale housing. Again, if needed and relevant locally.	
CIL	
Residential (all forms of C3, including for the elderly - retirement / sheltered)	Parameters £0 - 150/sq. m overall, approximately. Highest value locations likely to see relatively little new housing, however. Indicatively, and we suggest subject to review / refinement generally with the LP policy base settled, a district-wide rate at not exceeding £100/sq. m could be considered and provisionally we have suggested circa. £75/sq. m on this basis. The scope is not likely to significantly exceed this unless other development costs burdens and obligations are reviewed and priorities considered.
Large format retail (Retail warehousing, foodstores - out of town centres, but equally could be applicable district-wide, as discussed).	Up to the upper residential parameters (suggested not more than say £100/sq. m)
All other retail – smaller shops, all types	A lower rate or other differential approach could be justified but, overall, consideration of a nil-rate (£0/sq. m) for all other forms – small shops – is suggested.
All other development uses, including employment (Offices / industrial / warehousing – B1 – B8); Hotels (C1); Care Homes (C2); other non-specified development forms including leisure and community uses, etc. – all as discussed.	Suggest consider nil-rating (£0/sq. m)

Notes & Limitations

The purpose of the assessment reported in this document is to inform the Council's on-going work on further refining and progressing the policies of the emerging Thanet District Local Plan and its work towards a potential Community Infrastructure Levy (CIL) Charging Schedule (or other approach to securing infrastructure contributions to support the planned growth, along with the need to secure necessary site-specific development mitigation).

This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership Ltd; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

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In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the Council's policies continue to be applied practically from case to case.

It should be noted that every scheme is different and no review of this nature can reflect the variances seen in site specific cases. Specific assumptions and values applied for our test scenarios are unlikely to be appropriate for all developments. A degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and further informing the Council's policy development.

Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated, therefore the indicative surpluses (or other outcomes) generated by the development appraisals for this review will not necessarily reflect site specific circumstances.

Accordingly, this assessment (as with similar studies of its type) is not intended to prescribe land values or other assumptions or otherwise substitute for the usual considerations and discussions that will continue to be needed as individual developments with varying characteristics come forward. This is also true in respect of the long timescales in Local Plan *development and implementation over which the economy and development climate (national and more local influences and impacts) are very likely to vary. Nevertheless, the assumptions used within this study reflect the policy and strategy direction of the Council as far as known at the time of carrying out this assessment and therefore take into account the cumulative cost effects of policies where those are relevant.*

(Note: At the point of final confirmation of this report and re-issue to TDC August 2018, an update is also available following TDC's adjusted development strategy for the new Local Plan latest iteration – Viability Update 2018 re: revised strategic sites approach.)

Report ends (DSP v4)
Assessment period to December 2017

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