

**“STUDY INTO THE ECONOMIC VIABILITY OF  
CHARGING COMMUNITY INFRASTRUCTURE  
LEVY IN CARMARTHENSHIRE COUNTY  
COUNCIL”**



**Completed on behalf of Carmarthenshire  
County Council**

**by**

**District Valuer Services (DVS)**

**12 November 2015**

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## 1 Executive Summary

### Introduction

1.1 Carmarthenshire County Council is considering preparation of a Community Infrastructure Levy (CIL) Charging Schedule for their Local Authority area. As part of the work required for the CIL, Carmarthenshire County Council has appointed District Valuer Services (DVS) to undertake an Economic Viability Study. The viability assessment will form a central element of the CIL evidence base and will, as appropriate, inform further evidence including an infrastructure delivery plan and the Preliminary Draft Charging Schedule and Draft Charging Schedule.

### Building an evidence base

1.2 Carmarthenshire County Council wishes to consider the charging of CIL across a range of development uses across the study area (using the Use Class Order 1987 (Wales) (as amended) as the basis for defining land use). To do this, the Council has identified and detailed 33 (**See Appendix A to the back of this report for details**) potential and actual development sites within their Authority boundary, which are an indicative sample of the future development types and locations that will deliver their required future growth and regeneration objectives.

1.3 This Study will investigate the market and development conditions relevant to these 33 sample development sites and undertake development viability testing to consider the levels of CIL that various development uses and locations might support. The Study will consider how changes in market conditions, development costs, density, development specifications and public sector requirements/funding impact upon the potential CIL value for each land use across the study area. This will be supported by individual scheme testing and wider sensitivity analysis.

### What is development viability?

1.4 Development viability is essentially a straightforward exercise of establishing the anticipated income and costs incurred during the course of a development and deducting the cost from the income to arrive at a single final residual value (i.e. either residual land value or residual profit), which can be benchmarked for the assessment of viability. Development appraisal models are many and varied but they are typically provided in the form of a residual valuation calculation, which is a simple equation usually expressed in one of two principle forms:

A) Gross Development Value less Development Costs (including land value)  
= Residual Profit

**OR**

B) Gross Development Value less Development Costs (including profit requirement)  
= Residual Land Value

Adopted approach to Viability

- 1.5 In this Study planning obligations are included in the form of affordable housing on the residential sites, however, in accordance with ongoing UK Government Policy formation we have also tested these sites with nil provision of affordable housing, i.e. should affordable housing be deemed as included within CIL. The development costs also include a benchmark land value as a further cost within the appraisal. Since developer profit is also accommodated within the development costs the residual outputs generated by the appraisals within this Study represent the surplus (or deficit) available for CIL in each stated scenario. **Graphic 8** below shows the principles of how the residual amounts for CIL have been calculated in this Study.

**Graphic 8**

<b>1) Scheme Revenue</b>
Less
<b>2) Construction cost</b>
Less
<b>3) Land cost</b>
Less
<b>4) Cost of Affordable Housing Obligations</b>
Less
<b>5) Developer Overheads, Finance costs &amp; Profit</b>
<i><b>Equals</b></i>
<b>6) Residual output for CIL</b>

Conclusion

- 1.6 There are a number of factors that must be borne in mind when setting CIL for residential and commercial uses. Firstly, Carmarthenshire County Council needs to conduct their own research into what infrastructure and other related services will be funded by CIL and cost these items so as to have an understanding of their overall funding requirement. When done, this can be referenced against the projected future development within an Authority area to estimate the levels of CIL required on an area basis (£'s per square metre built).
- 1.7 It is possible that an assessment of future local infrastructure funding might identify a financial shortfall over and above what CIL can provide, and so it is important that this difficult exercise is completed to estimate any shortfall and ascertain possible solutions. The exercise will also ensure that other stakeholders appreciate the local need for CIL and its funding priorities. Were this exercise to uncover a surplus in infrastructure funding, this would be a justification for charging lower rates of CIL than recommended within this report. However, we believe this latter scenario to be extremely unlikely.
- 1.8 The second question that the Carmarthenshire County Council needs to address, in conjunction with infrastructure funding, is the extent to which CIL will replace other planning obligations. As this question remains unresolved within Carmarthenshire County Council, it was decided that no allowance (beyond affordable housing on the residential sites) would be made for other planning obligations. Ultimately, it may well be that other planning obligations are substantially reduced but there is no way of knowing that at present. It is difficult to accurately factor this unknown s106 quantity



into our CIL rate proposals, but this does present a reason for being more cautious in the rates proposed.

- 1.9 Another area to be determined by Carmarthenshire County Council is with regard to longevity and review pattern of any CIL charging scheme which they decide to implement. If Carmarthenshire County Council decides to put CIL charges in place with a short time frame (i.e. 2 years) before these rates were reviewed then more conservative rates of CIL should be adopted, especially in those less active local economic areas. Conversely, if a longer period of CIL is envisaged before review (i.e. 5 years+) then it may be reasonable to adopt slightly higher rates of CIL for some of the more valuable locations/uses. Both options have their merits. A shorter period to review (and lower CIL rates) would be more responsive and would be more supportive of marginally viable developments, whilst a longer period to review (and higher CIL rates) would place more sustained downward pressure on land values. Whatever the approach, given the continuing global macroeconomic picture, we believe it is important for the Carmarthenshire County Council to consider putting in place flexible measures that provide for future review at stipulated intervals and/or in response to any pronounced market shifts.
- 1.10 At every stage within our viability testing we have endeavoured to adopt what we consider to be reasonable assumptions. Every development has its own specific attractions and challenges and trying to account for these over a wide Study area and range of uses presents its own tests. For this reason it was decided that exceptional development costs would not be included within the viability testing. Exceptional development costs are difficult to predict without a detailed site survey coupled with background research. Indeed, costs that might be deemed “exceptional” on one development may be common-place in another area. Trying to estimate how much of a general allowance should be made (for any exceptional development costs) within CIL charges is not something that can be easily done. Consequently we have erred on the side of caution in considering our recommended CIL charges.
- 1.11 Other uncertainties exist in setting reasonable rates for CIL. Broadly, these uncertainties revolve around changes within the property market (which we have factored into our sensitivity analysis) or development costs. The latter is more difficult to allow for because often costs are linked to the wider economy. So, for example, when the property market fell, so did construction costs. We therefore decided to undertake our sensitivity analysis on the basis that market shifts were relative to development costs. Some costs are driven by central government (such as higher sustainability requirements) but we have included a generic allowance for this and even these items reduce in time as technology, process and volume drive those costs down. Land cost is perhaps the greatest risk, not because values cannot reduce but because some sites have very specific value drivers (i.e. existing use value), which are difficult to account for within a flat rate charge. The foregoing is another reason to take a more cautious view in respect of the final charging rates of CIL adopted.
- 1.12 Given that viability uncertainties and the potential for change exist (and will always exist) we would recommend that further consideration be given to what could, and what could not, constitute “exceptional circumstances” in which the published rate at which CIL is charged might be varied. It may be helpful to consider publishing such guidance, so as to avoid future stakeholder confusion and/or inappropriate/spurious viability contentions.

**Recommendations**

- 1.13 Having investigated both the local and national context to CIL with Carmarthenshire County Council, and having undertaken viability assessments of a wide range of development schemes across a broad geographical area and multiple pertinent Use Classes, our recommendations in respect of CIL Charging Range and suggested CIL Charging are set out in **Schedule 1** below.

**Schedule 1**

<b><u>Geographic area</u></b>	<b><u>Use class</u></b>	<b><u>DVS Suggested Rate of CIL (Per M<sup>2</sup>)</u></b>
Charging Zone shown in map at <b>Appendix I</b>	C3- Residential Developments	<b>£60</b>
The whole of Carmarthenshire	C3- Private retirement housing	<b>£60</b>
The whole of Carmarthenshire	A1 Retail Development	<b>£70</b>

\* **Chargeable amount based on measurement to Gross Internal Area (GIA), as per RICS**

- 1.14 In identifying the CIL Ranges and suggesting the CIL rates, DVS has taken account of the additional costs that may affect a development site, planning obligations required in addition to the CIL charge, the potential for abnormal site development costs and additional costs arising from increasing building regulations and weighed these with possible future changes within both the construction and property markets.
- 1.15 Our suggested CIL Ranges and Rates, listed within **Schedule 1** above, represent our true opinion reflecting the research undertaken in accordance with the instructions and stated assumptions of Carmarthenshire County Council. We have endeavoured to balance the prospect of future property market growth (primarily applicable to the housing market) against the wider ongoing economic uncertainty and specific cost pressures that will affect some development schemes (such as exceptional development costs, unaccounted for planning obligations, land price drivers etc.).
- 1.16 It should also be noted that the Ranges and rates set out in the Schedule are made on the basis that a review of CIL charging will be undertaken within 2 to 5 years of implementation.
- 1.17 This report has been produced specifically on behalf of Carmarthenshire County Council, as a guide for the implementation of a CIL charging system. It should not be used for any other purpose nor published in any way without our prior written approval as to the form and context in which it is to appear.

## 2 Introduction

### Background to Study instructions

- 2.1 Carmarthenshire County Council is considering preparation of a Community Infrastructure Levy (CIL) Charging Schedule for their Local Authority area. As part of the work required for the CIL, Carmarthenshire County Council has appointed District Valuer Services (DVS) to undertake an Economic Viability Study. The viability assessment will form a central element of the CIL evidence base and will, as appropriate, inform further evidence including an infrastructure delivery plan and the Preliminary Draft Charging Schedule and Draft Charging Schedule.
- 2.2 The aim of the DVS study is to provide an evidence base on land, sales and rental values, construction costs and development viability for a range of land uses across Carmarthenshire County Council's administrative area (excluding that area contained within the Brecon Beacons National Park) so that the Council may consider whether the introduction of CIL would be viable in Carmarthenshire.
- 2.3 Carmarthenshire County Council adopted their Local Development Plan (LDP) in December 2014 and a CIL Charge could directly assist in the delivery of the land use objectives set out within the Carmarthenshire LDP. CIL is a mechanism for making direct contributions toward the provision of many of the LDP allocations and will be a significant tool for the delivery of the Local Authority's aspirations in terms of social and community infrastructure, and regeneration, for which there will be no alternative funding mechanism.

### Building an evidence base

- 2.4 Carmarthenshire County Council wishes to consider the charging of CIL across a range of development uses across the study area (using the Use Class Order 1987 (Wales) (as amended) as the basis for defining land use). To do this, the Council has identified and detailed 33 **(See Appendix A to the back of this report for details)** potential and actual development sites within their Authority boundary, which are an indicative sample of the future development types and locations that will deliver their required future growth and regeneration objectives.
- 2.5 This Study will investigate the market and development conditions relevant to these **33** sample development sites and undertake development viability testing to consider the levels of CIL that various development uses and locations might support. The Study will consider how changes in market conditions, development costs, density, development specifications and public sector requirements/funding impact upon the potential CIL value for each land use across the study area. This will be supported by individual scheme testing and wider sensitivity analysis.
- 2.6 The testing of a variety of sample sites and their identified development schemes will provide evidence of the development viability of CIL charges in a wide range of circumstances. This will allow Carmarthenshire County Council to consider a range of options for a potential CIL charging schedule.

What is development viability?

2.7 Development viability is an economic/financial assessment of whether a developer can reasonably bring forward a development scheme in current day (or foreseeable) circumstances. Some form of financial objective drives all developers. For private developers this will be a return for their investors, and ensuring any borrowing obligations are met. Even not-for-profit developers like Registered Social Landlords (RSLs) are driven to cover their costs and meet their own borrowing obligations.

2.8 Development viability is essentially a straightforward exercise of establishing the anticipated income and costs incurred during the course of a development and deducting the cost from the income to arrive at a single final residual value (i.e. either residual land value or residual profit), which can be benchmarked for the assessment of viability. Development appraisal models are many and varied but they are typically provided in the form of a residual valuation calculation, which is a simple equation usually expressed in one of two principle forms:

A) Gross Development Value less Development Costs (including land value)  
= Residual Profit

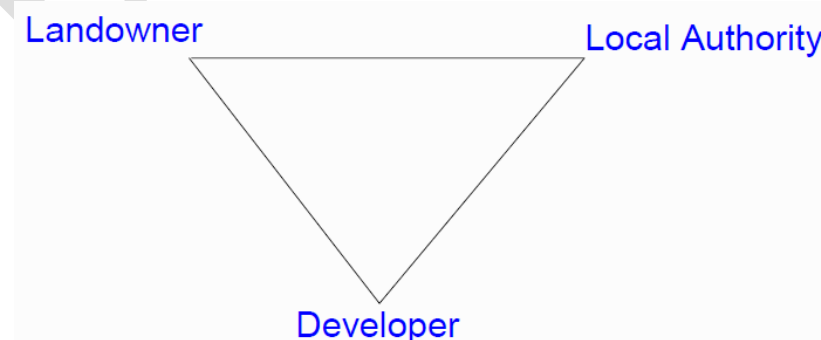
**OR**

B) Gross Development Value less Development Costs (including profit requirement)  
= Residual Land Value

Method A) is typically adopted in “House builder” appraisals where the land cost is known and accepted, whilst Method B) is the more traditional method (and used as the default in some toolkits, i.e. the Three Dragons Development Appraisal Toolkit and the Homes & Communities Agency’s Economic Appraisal Tool).

2.9 Once the inputs into a development appraisal model have been completed the final residual output will be tested against an established benchmark, often land value. For example, a developer may have purchased development land at the peak of the property market and the historic land cost (coupled with the, now anticipated, reduction in the end sale values for the proposed units) may squeeze their residual development profit to such an extent that they now consider their intended development scheme as currently unviable. Development viability is now a common language that local Authorities, valuers, land owners and developers use to understand the other parties’ challenges, concerns, needs and priorities. We view development viability as a triangle of forces interacting and competing with each other:

**Figure 1:**



- 2.10 On the first corner of the triangle is the landowner, who will require an incentive to personally develop or release the land for development. The second corner is the Local Authority (and wider community/public sector), who determine whether development is permissible and what the development should deliver to the public and local community. Finally, we have the developer who (as we infer above) may also be the landowner by the time the viability assessment is made. Each party has their own needs and external forces influencing them.
- 2.11 In settled market conditions the balance between the three sides of the triangle should reach equilibrium. For example, the developer should purchase the land at a price that fully reflects the local Authority's stated planning obligations (and CIL, where applicable) and this should be an enhanced price over the land's existing use value and which suitably incentivises the landowner to sell. However, this equilibrium is regularly being buffeted by changes in the property market (and the finite nature of land itself). The latter point is further compounded by a land taxation system that rarely provides an incentive to sell. Indeed there can be substantial tax incentives for the acquisition and non-development of land. These external forces naturally create tension between the Local Authority and Developer points of the triangle.

Linking development viability with market evidence

- 2.12 Assessing the financial viability of a development can become a very theoretical exercise and if it does, it risks becoming removed from reality and consequently a less accurate measure. This is where comparable evidence comes into use, as it allows the valuer to ascertain whether the viability inputs (i.e. adopted land value, developer's profit allowance etc.) are reasonable. If the valuer has comprehensive experience and understanding of another comparable development's viability then it is also possible to make more generic overall scheme comparisons, though careful attention is required.
- 2.13 There are, however, issues relating to the use of comparable development evidence, not least that this is often commercially sensitive and not within the wider public domain. Some evidence (such as house sales) can be fairly easily retrieved, but other evidence (such as the level of profit developers are prepared to work with in current market conditions) is usually only obtained if the valuer has been involved with the development appraisal process for comparable development schemes. Some evidence can also be anecdotally available but this must be treated with caution if it cannot be verified.

Report Structure

- 2.14 Following on from this introductory section this Study is laid out as follows:
- **Section 3-** a look at the background and context to CIL
  - **Section 4-** a review of the local development market
  - **Section 5-** our adopted testing methodology
  - **Section 6-** Residential Testing results
  - **Section 7-** Commercial Testing results
  - **Section 8-** Conclusions
  - **Section 9-** Recommendations



### 3 Context and principles to Community Infrastructure Levy (CIL).

3.1 Community Infrastructure Levy (CIL) is a planning charge based on legislation and Regulations that came into force on 6 April 2010. The levy allows local authorities in England and Wales to raise contributions from development to help pay for infrastructure that is needed to support planned development. Local authorities who wish to charge the levy must produce a draft charging schedule setting the out CIL rates (expressed as pounds (£) per square metre; to be levied on the gross internal floorspace of the net additional liable development) which are proposed. This draft charging schedule is then tested by an independent examiner.

#### What developments could attract a charge under CIL?

3.2 The Levy will apply to new dwellings and to new development of buildings above 100 square metres or more. The revenue from CIL must be applied to infrastructure needed to support the future development of the area. The Levy is non-negotiable when a CIL Schedule has been adopted by a charging Authority and, other than for particular exemptions, is chargeable on all forms of development. The CIL Regulations set out where development is exempt from CIL charge.

3.3 One key benefit of CIL is its ability to fund strategic and sub-regional infrastructure that benefits more than one local Authority area (not easily achieved through the existing S106 and S278 planning obligation regimes). The UK Government proposes that local Authorities should have the freedom to work together to pool contributions from CIL to support and deliver essential infrastructure in support of local and regional development.

3.4 The purpose of CIL is to enable the charging authority to carry out a wide range of infrastructure projects. CIL is not expected to pay for all infrastructure requirements but could make a significant contribution. However, development specific planning obligations (commonly known as S106) to make development acceptable will continue with the introduction of CIL. In order to ensure that planning obligations and CIL operate in a complementary way, CIL Regulations 122 and 123 place limits on the use of planning obligations.

3.5 The guidance states that *'it is good practice for charging authorities to also publish their draft (regulation 123) infrastructure lists and proposed policy for the scaling back of S106 agreements.'* This list now forms part of the 'appropriate available evidence' for consideration at the CIL examination.

#### What infrastructure could CIL charges be used to fund?

3.6 The Planning Act 2008 (as updated by CIL Regulations) does not provide a specific definition of infrastructure that can be funded by CIL. The Regulations do include a list of infrastructure that CIL can fund, but this is not exhaustive or exclusive and does not rule out other infrastructure. The list includes:

- Roads and other transport facilities;
- Flood defences;
- Schools and other educational facilities;
- Medical facilities;
- Sporting & recreational facilities; And

- Open spaces.

3.7 The Department for Communities and Local Government has advised that the list of CIL funded infrastructure is not absolute and includes a wide definition in order to avoid having to update the CIL Regulations on a regular basis.

3.8 The CIL Regulations provide for reform within the current system of developer contributions towards infrastructure, principally through S106 Agreements, so that the two regimes can operate alongside each other without the risk of double counting or under provision. After 6th April 2014 the CIL Regulations state that it will not be possible to pool developer contributions from more than five sites for any individual infrastructure project or type of infrastructure under Section 106 so it is important for Local Authorities to have planned for these changes.

Steps to setting up a CIL charging system

3.9 For a CIL / Tariff to be implemented the following are required:

- a) A current adopted Local Development Plan for the area;
- b) An up to date infrastructure needs assessment that establishes the requirements, timing and costs of transport and community infrastructure;
- c) The results of a viability and impact assessment concerning the likely effects of charging CIL.

3.10 The points listed at a) and b) are matters that the relevant Local Planning Authority will address. Point c) confirms the necessity for this particular Study and the evidence base that it will provide.

Deciding upon and evidencing the rate(s) of CIL to be adopted

3.11 In deciding the rate of CIL to be adopted the UK Government advises that charging Authorities must aim “to strike what appears to the charging Authority to be an appropriate balance between the desirability of funding infrastructure from CIL and the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area”.

3.12 A key feature of the 2014 Regulations is to give legal effect to the requirement in this guidance for an authority to ‘show and explain...’ their approach at examination. The explanation provided by UK Government guidance is important and should be considered in the round:

*“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)), 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.’*

- 3.13 In other words, the 'appropriate balance' is the level of CIL which maximises the delivery of development in the area. If the CIL charging rate is above this appropriate level, there will be less development than planned, because CIL will make too many potential developments unviable. Conversely, if the charging rates are below the appropriate level, development will also be compromised, because it will be constrained by insufficient infrastructure.
- 3.14 Further Government guidance explains that an appropriate evidence base should be used to inform the draft CIL charging schedule. It is suggested that it is likely charging Authorities will need to summarise evidence pertaining to economic viability in a document separate to the charging schedule, but that it is for charging Authorities to decide upon how to present such evidence.
- 3.15 Government advice to charging Authorities for the testing of viability is that this should be an area-based approach, which involves a broad test of viability across their area as the evidence base to underpin their charge. Charging Authorities are also advised to take a strategic view across their area and not focus on the potential implications of setting a CIL for individual development sites.
- 3.16 Charging Authorities are allowed to set differential CIL rates for different geographical zones in their area, but it has been made clear that this is on the proviso that those zones are defined by reference to the economic viability of development within them. Charging Authorities that plan to set differential CIL rates should seek to avoid undue complexity, so as to not frustrate or skew development within their areas and also because more complex patterns of differential rates are likely to be harder to ensure compliance with the rules on State aid.
- 3.17 CIL Regulations (Regulation 13) allows the charging authority to introduce charge variations by geographical zone in its area, by use of buildings, by scale of development (GIA of buildings or number of units) or a combination of these three factors. As part of this, some rates may be set at zero. But variations must reflect differences in viability; they cannot be based on policy boundaries. Nor should differential rates be set by reference to the costs of infrastructure.

Limits to viability testing and options

- 3.18 It is acknowledged by Government that the data available for economic viability testing is unlikely to be fully comprehensive or exhaustive and whilst a charging Authority's proposed CIL rates should appear reasonable in light of the available evidence, there is no requirement for a proposed rate to exactly mirror the evidence. As is noted within the Government guidance "*There is room for some pragmatism*".
- 3.19 The Governmental advice suggests that charging Authorities may want to directly sample a limited number of sites across their areas to supplement existing viability data. It is recommended that the selection criteria for the sites should prioritise those sites where the impact of CIL on economic viability is likely to be more significant and sites that will best inform the need (or not) for differential rates of CIL.



Other factors to consider in economic viability testing

- 3.20 As detailed in the introduction to this report the development viability assessment of a site needs to take account of all income and all cost. However, there is always potential for change within the economy and the viability of development, and this could impair the ability of developments to meet stated rates of CIL. For this reason charging Authorities are advised to avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area. Charging Authorities should also seek to illustrate, using appropriate available evidence that their proposed charging rates would be robust over time and could account for changes within property markets and land costs.

## 4 The Development Market

- 4.1 In the preceding sections we have outlined the use of development viability in building an evidence base to inform the possible charging of CIL and then noted important technical considerations in the setting of a rate(s) for CIL. It could be easy to think that the setting of CIL is simply a theoretical exercise but this section explains the important development market context, which needs to be accounted for within this Study and Carmarthenshire Council's policy formation process.

### The financial storm

- 4.2 Since early 2007 global economic market activity became much more volatile and the prolonged and sustained periods of global economic growth seen in many parts of the world (including the UK) were replaced with uncertainty and periods of recession. For many notable events such as the run on Northern Rock (September 2007) and the filing for bankruptcy by Lehman Brothers (September 2008) embodied the clear market downturn.

- 4.3 As prices fell and the "credit crunch" took hold, many in and around the property industry witnessed development immediately ceasing on numerous sites with staff and contractors being laid off. The UK Government invested substantial sums in many UK banks to avert a chaotic financial disintegration that helped cushion the market downturn but saddled the UK taxpayer with unprecedented levels of debt, which coupled with the gradual return of economic growth will take many years to reduce to more usual levels.

### The calm after the storm

- 4.4 The UK was one of the many countries effected by the 2007/2008 global economic downturn, the effects of which were seen in many sectors; business, property markets, credit markets and stock market activity. The UK economy is still realigning, which is usual within the context of economic cycles, albeit the recovery has been more gradual and prolonged than past recessions.

- 4.5 The PLC house builders and commercial developers saw their share prices decimated after the market highs but these share prices have been steadily recovering and whilst typically still below their stock market peaks (Persimmon Homes is a notable exception) there have been significant market improvements since the depths of the downturn (2008-09). Details of selected share price shifts, from peak to trough and back to recovery can be found at **Appendix B** to the back of this study report.

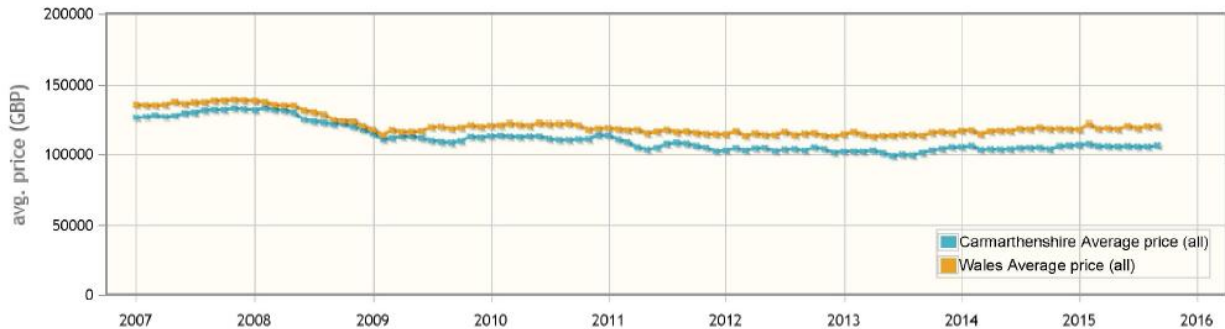
- 4.6 Today the development market is much more positive, both in Wales and across the whole UK itself. As JLL's 2015 South Wales report notes;  
*"The economy of Wales has moved into a sustained recovery and there is a more positive picture both in terms of employment and business investment."*

- 4.7 JLL's 2015 property market report also goes onto say;  
*"The past twelve months has seen the strongest performance in the Welsh economy, certainly since the start of the downturn in 2007. However, for certain sectors such as capital markets, 2014 also goes on record as providing the strongest ever performance."*

The local housing market- then & now

4.8 As can be seen in the **Graphic 1 (below)** the average house prices in Carmarthenshire and Wales peaked at the start of 2008 before a pronounced fall which levelled off at the start of 2009. Since then, there have been some limited overall average price falls in Carmarthenshire which stabilised and slightly reverse from early 2014.

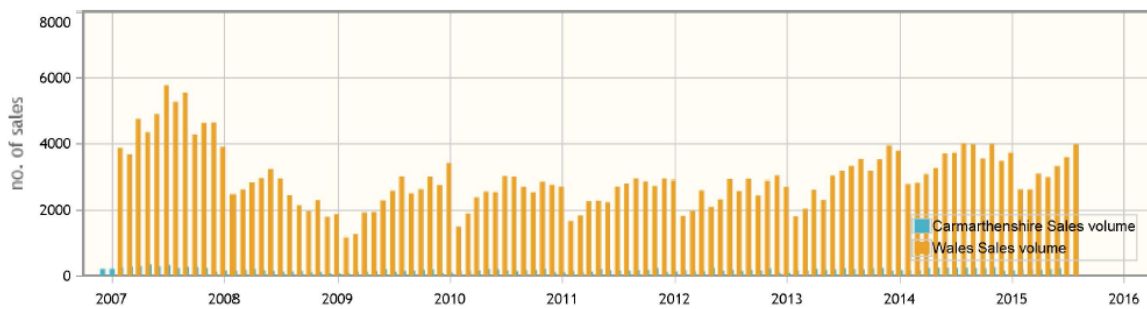
**Graphic 1**



Source: Land Registry

4.9 The changes in house prices are only part of the story, however. The simple economic law of supply and demand mean that price (i.e. house prices) is a function of supply and demand. As **Graphic 2** below illustrates the number of house sales significantly fell towards the end of 2007 but has been recovering since early 2013 (accounting for seasonality of sales).

**Graphic 2**



Source: Land Registry

The local housing market- looking ahead

4.10 The Carmarthenshire local housing markets have been previously categorised into the housing market areas listed in **Table 1 (below)**:

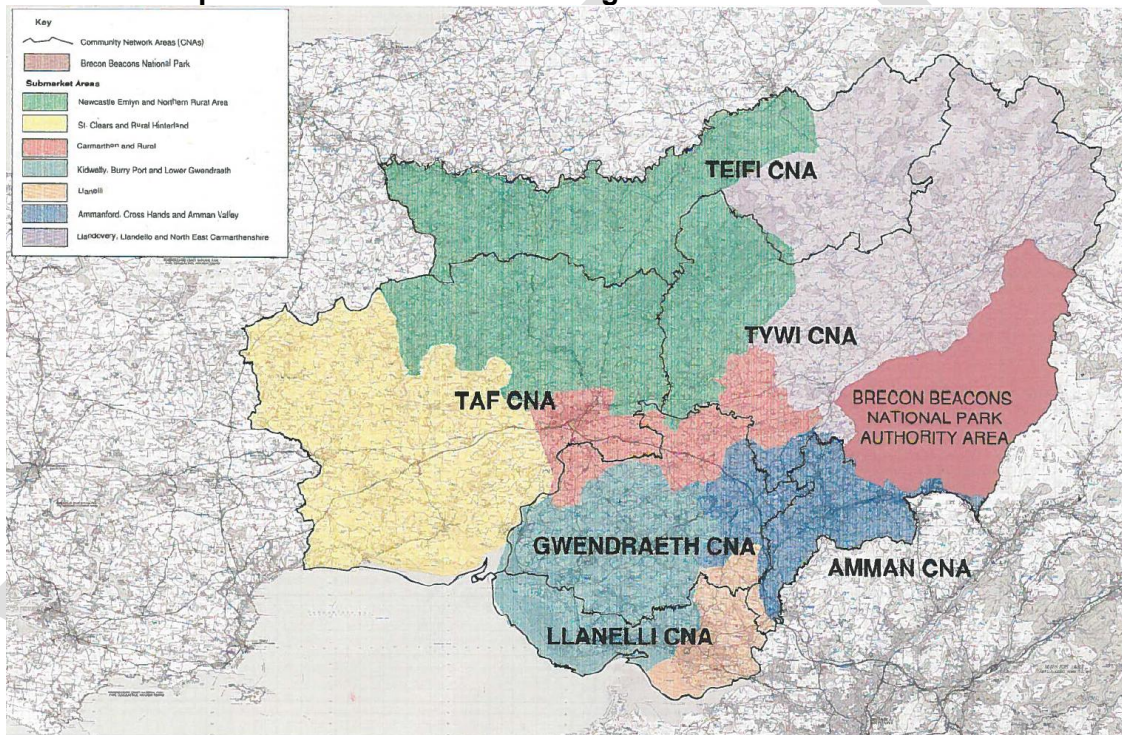
**Table 1- Carmarthenshire Housing Sub-market Areas:**

1) Llandovery, Llandeilo and North East Carmarthenshire
2) St Clears and Rural Hinterland
3) Newcastle Emlyn and Northern Rural Area
4) Carmarthen and Rural
5) Kidwelly, Burry Port and Lower Gwendraeth
6) Llanelli

7) Ammanford, Cross Hands and Amman Valley

- 4.11 In **Table 1 (see previous page)**, we list the above Carmarthenshire local housing markets in descending order of the relative housing value which has been applied in previous Carmarthenshire viability studies. Whilst we are generally content with the **Table 1** value rankings, we would point out that our house sales analysis would place the Carmarthen area much higher up the value rankings and parts of the Llanelli and Ammanford housing zones contained transactional evidence which far exceeded their low end rankings. Of course, house prices can vary significant from street to street and village to village and so the determination of housing sub-markets is always a challenge and there will always be variations within zones, which are simply pragmatic denominations.
- 4.12 For context and ease of reference, we reproduce a map showing the Carmarthenshire submarket housing areas below:

**Map 1- Carmarthenshire Housing Sub-market Areas:**



- 4.13 As with the rest of the UK, as a whole there is positive outlook for the South Wales housing market. As Savills' 2015 South Wales residential report notes:

*“Overall, we expect growth in second hand prices for Wales of more than 15% over the five-year period from 2015 to 2019 (see **Graphic 3** below) – below the UK average but higher than London. Given Cardiff is the economic centre of the region, it is best placed to outperform other locations.”*

**Graphic 3**



**Five year forecasts**

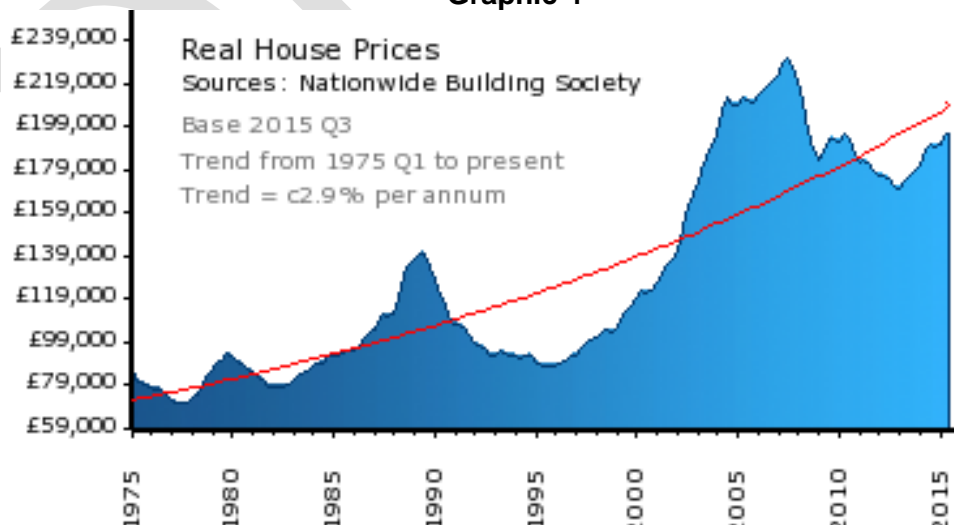
	2015	2016	2017	2018	2019	5-year
Wales	1.5%	4.0%	4.0%	2.5%	2.5%	<b>15.3%</b>

Source: Savills Research

\*NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate.

- 4.14 There are a variety of house price forecasts for Wales and the rest of the UK. Rightmove (the UK’s most popular property website) and Oxford Economics (leading economic forecaster) produced a collaborative UK forecast which they described as *“the most comprehensive house price forecast of its kind ever created, based on property and economic data rather than opinion and short-term market factors.”* Within this forecast they have forecasted UK house price growth of 30.2% for the 5 year period from 2015, and 25.9% for Welsh housing market in the same 5 year period.
- 4.15 Our views are that Carmarthenshire will share in the positive housing growth forecasted for Wales. However, whilst Carmarthenshire’s position as a generally rural county situated away from the main UK population and economic centres is a great attraction for many it also has implications for the local housing market. Therefore, we consider that house price growth in Carmarthenshire will, at best, match the Wales average but in all likelihood average prices will remain very slightly behind the “All Wales” average (as past Land Registry data has shown to be the case since 2009).
- 4.16 Despite the difficult market conditions since the market downturn in 2008, UK property remains a sound long term investment. As can be seen in **Graphic 4 below**, even when house prices take account of inflation there is still a clear long term trend of increasing value, which the Nationwide Building Society has assessed to be on average circa 2.9% growth per annum (as recorded over the period from 1975 to the end of 2015). Even accounting for the last market downturn, the rate of price increase is still on an upward curve.

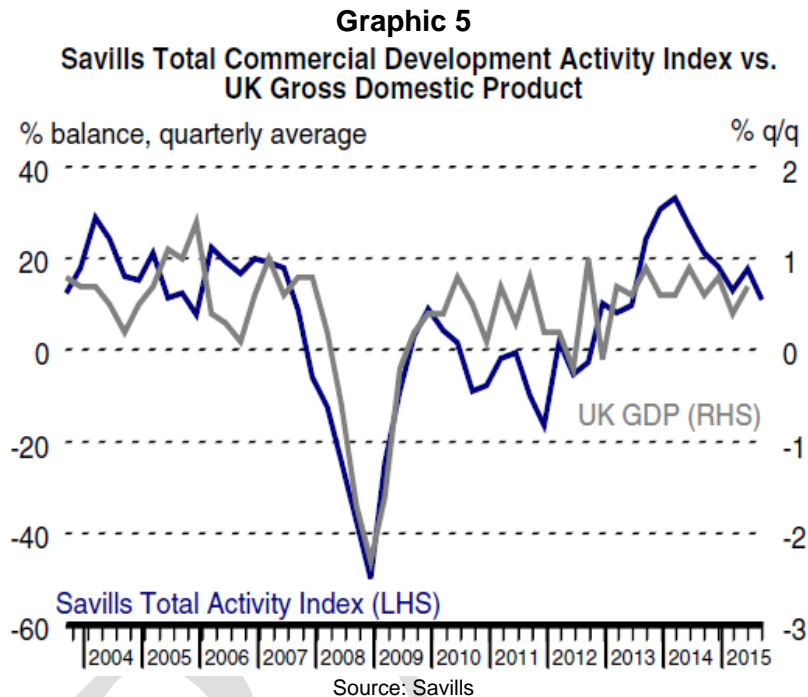
**Graphic 4**



Source: Nationwide Building Society

The local commercial market- then & now

4.17 As Savills 2015 commercial development bulletin reports, the levels of commercial development activity significantly reduced towards the end of 2007 (at the time of increasing market uncertainty) with the market fall reaching its greatest rate of decline by the end of 2008. Since 2008 the rate of decline has abated and returned to consistent positive growth since mid-2012. As shown in **Graphic 5 (below)**, changes with commercial development activity have followed similar trends within the movement of UK Gross Domestic Product (GDP).



4.18 Across the main commercial asset classes (retail, office and industrial) and more specialist sectors (leisure, healthcare, automotive, energy etc) all major property research providers (Savills, Knight Frank, JLL, Bilfinger GVA, Cushman and Wakefield etc.) are reporting positive conditions in the UK and regional markets, which in some cases are approaching 2007 property market highs. For example, Savills “Commercial market in minutes” reported overall average prime yields hardening from 4.83% in October 2014 to 4.65% October 2015- which is now coming close to the May 2007 market peak of 4.51%.

4.19 Individual sector trends have seen prime retail yields remain stable over the last 12 months but improvements continue in the UK and regional markets for Offices and Industrial uses. The weight of investor capital and limit of opportunities has continued to lead to improvements within the specialist investment sector as well. As the JLL 2015 South Wales report notes:

*“The office sector accounted for 45% of the total volume of transactions in the UK in 2014, with retail making up 20% and industrial at 11%. Notably, the “alternative” sectors now make up 19% of the total investment volumes, against 15% in 2013, which demonstrates the growing appetite for other asset classes including hotels, student accommodation, healthcare, the private rented sector (PRS), affordable housing and renewables.”*

4.20 Property market research is typically high level and statistically usually does not drill down beyond “regions” (e.g. “Wales”) and “regional” centres (e.g. Cardiff), if for no other reason than data at lower area levels can be significantly distorted by large deals or a limited numbers of transactions. Therefore, our commercial viability assessments for this study rely, where possible, upon transactional evidence within Carmarthenshire or, where not possible, within neighbouring areas; all of which is supplemented by and sense checked against the higher level market information.

4.21 The commercial market within Carmarthenshire certainly contains opportunities for developers and investors but, as a result of Carmarthenshire’s relatively lower population, demographics and distance from main regional economic centres (e.g. Cardiff, Swansea etc.) these will be very site and scheme specific. For example, as JLL South Wales research notes: *“Cardiff and prosperous market towns continue to attract investors whilst the traditional retail cores of Newport, Swansea and less affluent towns in the region are still suffering from a lack of occupier and investor interest. Prime in-town yields have remained stable at 5.5%, with good secondary moving in towards 6.5%, secondary is at 8%+ and tertiary at 10%+.”*

The local commercial market- looking ahead

4.22 The commercial market in general is very much tied to the wider UK and Global economies, whilst overlaying this is scheme and local site specific factors of each development opportunity. Looking at Knight Frank’s October 2015 investment guide they report overall “positive” future market sentiment for all assets classes with the exception of industrial/warehousing, foodstores and out of town retail which they report “stable” future market sentiment.

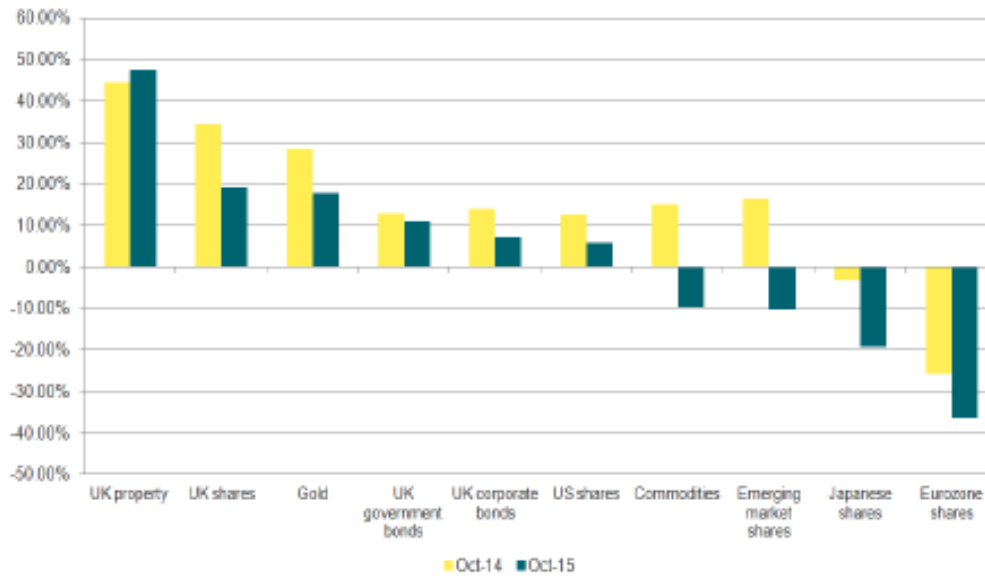
4.23 Again the general geographical, demographic and economic factors of Carmarthenshire set the context to commercial development viability but there will be viable opportunities within a range of specific site and scheme scenarios.

The outlook for developers & investors

4.24 Investors seeking a return on the investments they make and the risks they take naturally drive the private sector developers. These investors may be shareholders in a Public Limited Company (PLC) operating in the house building or commercial development sector, or at the other end of the spectrum a self-build owner-occupier. As show within the recent Lloyds Banking group report on investor sentiment (see **Graphic 6 below**), property remains the most attractive proposition to investors.

**Graphic 6**

## Investor sentiment favours UK property



Graph source: Lloyds Bank Private Banking Investor Sentiment index

Source: Lloyds Bank

- 4.25 Whilst property remains the preferred overall investment class, development of property brings its own risks that investors will seek to reflect within their return on their investment. A good example of this would be developer profit, where, at the peak of the market, developers were prepared to accept returns well below 15% on Gross Development Value for conventional housing, whereas this increased to 20% (reflecting the perceived higher risks) at the depths of the market downturn before falling back to up to 15% - 17.5% in current market conditions. The return sought has to include the investor's allowance for risk and so more risky schemes (i.e. flatted developments) will necessitate the higher returns. As the market reverts to more stable conditions, developers and their investors can move from a policy of risk aversion to one of careful risk management. This will be reflected in the development schemes they can consider and the returns they seek.
- 4.26 Cases where developers have bought land at market high prices are now rare and as the market realignment continues this is becoming less of an issue for scheme viability / deliverability. Whilst developers, landowners and the public/communities continue to adjust their requirements and expectations in response to the realigning market there remains a positive future for development. The significant prolonged under shooting of annual UK house building requirements also creates latent market demand that can ultimately be addressed by the market.



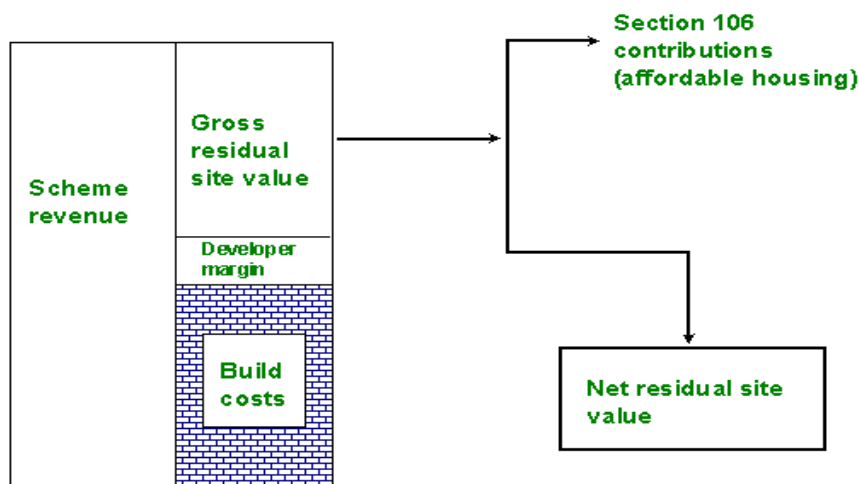
## 5 Methodology and approach to Viability Testing

- 5.1 The financial principles of development viability are explained within the introduction to this Study report. To test the financial viability of introducing a potential Community Infrastructure Levy (CIL) within the area of Carmarthenshire County Council we have tested 33 actual and/or potential development sites located across your Authority area and covering a range of intended uses from new housing to a broad range of commercial uses (retail, office, industrial etc.). Our testing of economic viability has also included sensitivity analysis which tests the impact of a range of difficult conditions (namely changes in the property and development markets). A summary list of the 33 test sites is found at **Appendix A** to the end of this report.
- 5.2 The sites tested have all been provided by Carmarthenshire County Council, since your Planning department knows the actual and potential sites which will deliver the development the Authority needs across the period of the Carmarthenshire Local Development Plan (2014 – 2021) and beyond. The sample of sites tested are all real sites within Carmarthenshire and all possess development potential. The agreed site selection criteria and Carmarthenshire Council’s knowledge of the anticipated future development patterns ensures that the test sites are representative of the typical sites which will deliver Carmarthenshire County Council’s objectives for growth.
- 5.3 Whilst the test sites are all real sites within Carmarthenshire, they are kept anonymous in this report and will remain anonymous throughout public examination of any Preliminary Draft Charging Schedule Carmarthenshire Council decides to pursue. This is an established study approach and is put in place in order to ensure that potential future planning applications are not prejudiced on any of the subject test sites.
- 5.4 Choosing a mixture of 33 development sites goes well beyond the Government guidelines for “a few sites” supplemented by “fine-grained sampling”. The number of test sites selected was based on what Carmarthenshire County Council and DVS considered appropriate when reflecting the Council area geography, sub-markets and indicative viability evidence obtain from past viability and market assessments. We also took into account past comments made by CIL examiners in England that were critical of some English Councils having not tested a wider range of site uses.
- 5.5 The Government has not placed any requirement on charging Authorities to “exactly mirror the evidence” of the market. That said, it is our view that a credible evidence base takes account of the approaches likely to be adopted by the market for development opportunities within the commissioning Local Authority. The Study also looks at actual development sites rather than notional creations. This adds further realism and weight to the testing. It is acknowledged that the level of details provided in respect of the sample development sites will not mirror the depth of information that a developer would have assembled at an advanced stage of their development proposals, but nonetheless our accumulated experience in this field allows us some clarity in endeavouring to undertake as realistic viability assessments as practicable.
- Adopted approach to Viability
- 5.6 **Appendix C** sets out details of literature providing guidance concerning the assessment of a development’s economic viability. Were development more homogenous and less complex it would be easier to draw comparisons between evidence of schemes that have advanced, and similar schemes that have yet to

proceed. Unfortunately, development viability is not only site specific but also very scheme specific and the myriad of variables make simple comparison challenging.

5.7 As highlighted earlier within the report, viability practitioners will assess scheme income and deduct development cost to arrive at a residual value within their appraisal. How the practitioner configures the costs within the appraisal will be a matter for their professional judgement, but typically the costs will be arranged in a layout that leaves land value or developer profit as the residual output. An illustration of the former configuration can be seen in **Graphic 7** below.

**Graphic 7**



Source: Three Dragons

5.8 This is one representation of how an assessment of a development’s economic viability can be arranged. In this Study planning obligations (shown as “Section 106 contributions” above) are included in the form of affordable housing on the residential sites. However, in accordance with ongoing UK Government Policy formation we have also tested these sites with nil provision of affordable housing, i.e. should affordable housing be deemed as included within CIL. The development costs also include a benchmark land value as a further cost within the appraisal. Since developer profit is also accommodated within the development costs the residual outputs generated by the appraisals within this Study represent the surplus (or deficit) available for CIL in each stated scenario. **Graphic 8** below shows the principles of how the residual amounts for CIL have been calculated in this Study.

**Graphic 8**

<b>1) Scheme Revenue</b>
Less
<b>2) Construction cost</b>
Less
<b>3) Land cost</b>
Less
<b>4) Cost of Affordable Housing Obligations</b>
Less
<b>5) Developer Overheads, Finance costs &amp; Profit</b>
<b><i>Equals</i></b>

## 6) Residual output for CIL

### The test sites

- 5.9 The 33 sites selected for this Study cover a range of geographical areas and use classes. Summary site information is set out at **Appendix A**. It should be noted that information has been generalised, as all sites are expected to be the subject of future development proposals that must not be prejudiced by the Study testing undertaken.
- 5.10 The test sites cover a range of residential and commercial use classes, as recommended by CIL examiners.

### Income & Cost inputs to viability appraisals

- 5.11 Having identified the viability methodology and sample sites it is now appropriate to detail the income and cost inputs adopted within the Study appraisals.

### Adopted approach to housing scheme revenues

- 5.12 In order to value the proposed housing schemes to be developed the comparable method of valuation was used, which had regard to actual sale values. On each residential sample the make-up of the local housing stock was taken into consideration in determining the best mix of housing within the new development scheme to complement this, whilst achieving the best sale returns. To supplement this research consideration was also given to how the local site development might fit in within the market of other local and regional housing developments.
- 5.13 DVS has access to all data listing all sales within Wales (compiled from Stamp Duty Land Tax returns) and the corresponding property surveys (compiled through the assessment of local taxation), which allowed the analysis of sales in great detail. This was extended by a review of the currently available new homes in the localities and developers' own projected sale values to verify the sales analysis. The averaged open market housing sale values adopted for each site are detailed within **Appendix F**.
- 5.14 The housing test sites have a requirement for on-site affordable housing provision, the level for which has been set in line with the affordable housing targets set out in Carmarthenshire County Council adopted LDP and associated policy information. The requirement for affordable housing has been taken into account in undertaking the viability assessments. Carmarthenshire County Council operates a policy of fixed capital payments for affordable homes available for sale. In the case of affordable homes to be rented at affordable rental levels we have adopted an income approach in line with previous viability study work undertaken in connection with Carmarthenshire County Council adopted LDP. Nil Social Housing Grant (SHG) support in respect of the affordable housing has been assumed in each case, in line with current public austerity.

### Adopted approach to commercial scheme revenues

- 5.15 A number of market led valuation methods were employed for the commercial development sites. An investment approach was adopted for the A1, A3, A4, B1, B2-B8 & C2 uses, whereby a determined rental stream is capitalised using an established market yield. Site by site research was undertaken in respect of the likely rents and yields for completed hypothetical developments proposed on the sample sites. Some of the sites did not have prime comparable evidence in the near locality and this necessitated wider market research on those sites. Even where there was a good

grouping of nearby rental evidence, it was typically necessary to extend the search area to ensure that there was a suitable evidence base of yields.

- 5.16 Due to the limited local evidence, a more wide ranging approach was adopted to valuing the hotel developments (Use Class C1), where the Hotel's earning potential was assessed to arrive at a rental level likely to be agreed under a typical management agreement for an established market operator. This rental value was referenced against acquired market intelligence (on a per bed basis) to ensure accuracy and then capitalised on the basis of an observed market yield to arrive at a capital value to an investor (investment method). This final capital value was again benchmarked against market evidence (on a per bed basis) to certify reasoned validity.
- 5.17 A dual approach of assessing the deemed capital worth of a completed development's earnings (receipts method of valuation) referenced against the sales evidence of modern and purpose built facilities (Comparable method of valuation) was adopted for care and nursing homes (Use Class C2). A full list of the adopted commercial values is detailed within **Appendix J**.

Development costs- normal construction

- 5.18 Based upon quantity surveyor's advice and existing viability evidence, a current base price per square metre of construction has been established for the different forms of residential and commercial developments in the Study area. The RICS Building Cost Information Service (BCIS) median average costs have been adopted as a baseline for the purpose of the study and these have been adjusted to reflect the study locality and, where appropriate, the quantum of development. Other market information suggests cost efficiencies (in the range of 5 – 12.5%) can be achieved on larger developments and we have made an allowance of 5% on the developments of 50 dwellings and above. Finally, a construction contingency of 2.5% has also been included under this heading.
- 5.19 In addition to the core construction costs, an allowance has been made for the wider infrastructure and utilities required in the development of a site, and this is accounted for under the "external works" heading. The use of a 15% addition on construction costs is often advised as a standard rate for this heading. However, reflecting Welsh Government requirements for Fire Sprinklers and the enhanced sustainability obligations under Building Regulations (following on from the Code for Sustainable Homes) we have decided that a single allowance would be made for external works and sustainability requirements and have adopted default rate of 17.5%. We have made no separate allowance for abnormal development costs but instead factor the potential for these and any extra-over sustainability costs within our viability margins for the residential and commercial test results.

Development costs- Planning obligations

- 5.20 Should Carmarthenshire Council adopt a CIL charging regime, it will need to amend its planning obligations to reflect the elements that will be included within CIL and those that may still be delivered through section 106. For the purposes of this Study it has been agreed that the wider planning obligations (i.e. contributions to local education, leisure etc.) would be removed from the appraisals and therefore the residual testing results include an inherent allowance for these wider planning obligations. Consequently, those planning obligations, which might ultimately still be delivered through s106, need to be accounted for by adopting CIL rates below the testing

results. This is another factor in support of not charging CIL “up to the margins of viability”.

Development costs- Professional fees, letting & sale costs

- 5.21 In accordance with advice from the quantity surveyors and other market information a standard 6% allowance for professional fees has been adopted.
- 5.22 For the sale of properties with vacant possession an agency and marketing (possibly including a dedicated sales office) cost of 3% (of value) has been adopted as a default. For affordable housing the sales and marketing fee is reduced to 0.5% to reflect the reduced marketing requirement. In all instances, an allowance of 0.5% for legal costs has been adopted.
- 5.23 For commercial developments due to be let, a letting agent's fee of 10% (first year's rent) and legal costs of 2.5% has been adopted. Rent free inducements to tenants have also been applied where market intelligence suggests this would be required. For investors purchasing these let properties cost allowances for Stamp Duty Land Tax and agent and legal costs have been set at 1.0% and 0.5% respectively.

Development costs- Land & associated fees

- 5.24 Land value / cost is one of the most important and sometimes contentious inputs / outputs within a development appraisal. The land value adopted within a developer's appraisal may be an actual land acquisition cost, or their opinion of the land's current worth. The correct land value to be adopted within the appraisal should be one that allows for the developer to fulfil all of a Local Authority's planning obligations, and now CIL. This assessment can, however, become complicated by factors such as abnormal development costs (though these should be properly reflected in the residual land value), a higher existing use value or simply landowner price aspirations.
- 5.25 Where a site already enjoys a valuable (and active) existing use it is reasonable that the landowner be incentivised to release the land for development. Anecdotal evidence from other research has suggested that such an incentive may be an uplift in value in the order of 10-30%. In reality, however, the incentive will be very specific to the landowner. Alternative use value of the site is another consideration but generally if that value was higher and easily achievable (i.e. without time, money and risk associations) the prudent landowner would have already achieved this transition to the more valuable use. Therefore, most land value benchmarks will have first reference to a site's existing use value.
- 5.26 Landowner price aspirations may be driven by any number of factors, whether a personal goal, an existing use, business objectives etc. These differing forces can lead to a variety of views, but where a sale becomes a real possibility most prudent landowners would seek a professional opinion or research the market themselves. Such undertakings may temper or inflame a landowner's price expectations.
- 5.27 We also have to recognise that in many instances landowners can be one or a small number of private individuals who are not personally in the business of developing sites themselves, and this can lead to an even wider variance in the behaviour of landowners. Where landowners can be persuaded to sell (and in some cases they will



not sell under any circumstances, other than statutory acquirement) their decision may very well be based on whether the purchase price offered allows them to achieve personal goals, or whether it is what they would deem “a life changing sum”.

- 5.28 Some development land agents may be keen to talk up the value of development land, and it is true to say that land sales can yield very large sums of money indeed. That said, because this information is often anecdotal or second hand a degree of caution has to be attached to it. This can be for many reasons such as a price being clean of abnormal costs yet to be deducted, the sale value reflecting existing infrastructure (i.e. “oven ready”) or a significant difference between the net and gross development areas.
- 5.29 DVS has access to a substantial live database with all sales (including development sites) in Wales (Via Stamp Duty Land Tax returns) and the corresponding site plans, which affords the opportunity to confirm that some sales can devalue at very high sale values per acres, yet other sales return at less extravagant rates per acre when fully analysed. As land values paid by developers will at some stage have been referenced through a development appraisal, higher land values will be indicative of developers forecasting higher sale prices, lower development costs, lower profit or a combination of variances in these inputs.
- 5.30 In the introduction to this Study, the overarching opinions concerning the economic viability of development and its interaction with the triangle of landowner, developer and the public/community sector were outlined. In the preceding paragraphs of the report some of the thoughts and drivers, which may influence landowners were highlighted. However, the value of a site cannot have sole reference to the landowner, since the developer has to make a commercial return and the public/community sector needs to deliver strategic objectives (i.e. affordable homes, community facilities etc.) and provide the wider infrastructure that the new development will necessitate (i.e. increasing demand for school places, highway changes etc.). The land price has to reflect these drivers too, and since CIL will be a net overall cost addition it follows that land values will be reduced (unless the property market improves or developers find other cost efficiencies). As is noted in a number of technical viability documents current land value should be the residual amount after all other costs (including CIL) have been deducted from the scheme revenue.
- 5.31 The UK Government’s acknowledgment that a proposed CIL rate does not have to “exactly mirror the evidence” is most salient to the question of land value because, predicting the actions of landowners can be challenging across a study of 33 sample sites. A pragmatic approach has therefore been adopted.
- 5.32 The view that has been adopted in the viability methodology is that each site must have a base benchmark value, which will reflect the site’s existing use value. If the site is in active existing use a premium to the land benchmark as an inducement for sale has been applied, but if it is not in active use (i.e. derelict site, no business present, vacant etc.) a premium to the benchmark value has not been applied. However, in all cases where a more valuable, easily identified and immediately achievable alternative use exists, a premium to the value of the land benchmark cost (irrespective of whether or not an active business is present on site) has been applied. In quite a number of instances within this Study the premium over existing use value

goes well beyond the anecdotal 10-30% uplift and more fully reflects a view towards the higher potential alternative use values.

- 5.33 The value of development land is very location specific (for example, the value of housing in some places can change significantly in a matter of a few hundred metres- if not less) and also very scheme specific. The Carmarthenshire Council has provided the DVS with the highest value schemes for sites and these have been reviewed with the study group. However it should be noted that it is possible that a developer might unlock a more valuable scheme (for example, they may upgrade a housing development into a higher value product i.e. a bespoke “heritage collection”).
- 5.34 In arriving at our assessment of the benchmark land values we recognise that (particularly with regard to some of the residential sites) in some cases landowners might anticipate higher receipts. The first point to reiterate is that where CIL is charged it will almost certainly universally place downward pressure upon land values, so some variance between landowner price aspirations and market experience is to be expected. The second point to raise concerns the viability of higher land prices. If developers are ultimately able to consistently pay higher land prices this will only be as a result of their businesses assuming more optimistic value creation or achieving lower development costs.
- 5.35 In this Study, within each appraisal we have assumed development revenues and costs, which we believe can be reasonably anticipated. That said we have had 33 development sites to consider, whereas a developer would consider each individual development opportunity in great detail, sometimes working up their development proposals over a number of years. The full development value of land can only mature and come to fruition once a developer has completed extensive site, market and planning research and legally completed land sale values will therefore be indicative of this level of investigation and certainty.
- 5.36 The benchmark land values adopted within this Study are deemed reasonable in the context of the level of development detail and certainty present (in contrast to the level of detail and certainty a developer would have when agreeing the purchase of land ripe for imminent development). For each Study development site a lot of higher-level information is available, but nonetheless the depth of information and development certainty is more indicative of an earlier stage within the development cycle and we consequently believe that the benchmark land values should be reflective of this. Therefore, the benchmark land values used are in line with what we would expect of strategic land assemblies or land purchase option agreements that also require further progression through the development cycle before land can realise its final full potential value.
- 5.37 Where very significant residual values are generated for CIL within our Study appraisals, it is fair to note that perhaps some of this surplus could be shared in some land value flexibility with the landowner. That said, Government guidance has already to some degree allowed for this in recommending that CIL should not be charged by Authorities “right up to the margin of economic viability”.

- 5.38 Lastly, the value of any SDLT due and acquisition costs of 1.0% for agency and 0.5% for legal costs have been added to each adopted land cost benchmark within the appraisals.

Development costs- developer profit and internal overheads

- 5.39 Historically, the profit benchmark for developers was around 15% (on Gross Development Value for residential developments and Cost for commercial developments) but as the market improved we saw returns regularly falling below. However, when the economy and property market fell (post 2007) we saw developer profit requirements shift up to 20% (and more where risk was greater i.e. flatted development). Latterly, as stability has returned to the market and developers have become more outwardly confident (if still more cautious in their decision making) a gradual easing of developer profit expectations has been observed. Therefore, a base allowance for developer return of 16.67% has been made, which is inclusive of developer internal overheads.
- 5.40 On the affordable housing we have adopted a contractor's return of 4.76% (equivalent to 5% return on development costs), which is in line with recent reports that have been received from Registered Social Landlords.

Development costs- finance

- 5.41 In this Study the appraisal model has been used to run development cash flows and a 6.50% debit interest rate and 3.25% credit interest rate for development finance has been adopted. Typically these 2 rates should mirror each other, as the development cash flow already allows for the drawing of developer profit and therefore any sales income should be used to offset borrowing costs on this or other development schemes i.e. the opportunity cost of scheme revenue matches the borrowing rate. However, because the Study included some smaller sites, a lower credit interest was adopted to allow for any hypothetical local/regional developers who may only have one concurrent development and not be in a position to make their money work quite so hard for them. The development periods adopted within the cash flows were based on a combination of market intelligence and the BCIS construction duration calculator.

Appraisal output- "Development Surplus/Deficit" (CIL)

- 5.42 Having input the anticipated scheme revenue and development costs for each site into the DVS appraisal model a residual "Development Surplus/Deficit" is generated for each site, which is the surplus (or deficit) left for CIL and which can be converted into a rate per square metre (measured to Gross Internal Area, as defined within the RICS code of measuring practice). A sample copy of a residential appraisal used within this Study is reproduced at **Appendix D** along with a sample copy of a commercial appraisal used within this Study at **Appendix E**. A full review of the results is undertaken in the next section.



## 6 Testing findings and options for Charging CIL for residential developments

- 6.1 This section explores the test results and considerations for charging CIL for the residential development sites assessed. The actual suggested rates of CIL are detailed within the conclusion and recommendations to this report.
- 6.2 A table of the (Anonymous) baseline residential test sites and their high level residual CIL test results is included at **Appendix F**. Sensitivity analysis detailing the effects on viability (and residual surpluses / deficits for CIL) of changes within house prices and development costs is included at **Appendices G and H**, respectively.
- 6.3 Looking at the baseline residential test results (**Appendix F**) there are notable variations within the viability results for some of the selected test sites within the existing sub-market areas but overall there appears to be a higher level of consistency amongst the results. As will be immediately apparent, the test sites considered within the Kidwelly and Newcastle Emlyn sub-market areas all produced negative baseline results and as such we do not recommend a residential CIL charge within these areas.
- 6.4 Once notable low viability sub-areas are removed, the remaining residential sub-market areas (Llandovery / Llandeilo, Ammanford / Cross Hands, Llanelli, Carmarthen and St Clears) produce average residual CIL rates of between £90 and £125 per square metre (measured to Gross Internal Area of the proposed new open market housing) before the application of a viability buffer. This remaining area of Carmarthenshire is in our opinion capable of sustaining a CIL charge and the boundaries to the potential residential CIL charging zone is illustrated in the plan found at **Appendix I** to the back of this report.
- 6.5 Viability buffers are to be factored into CIL testing to account for legal/regulatory, market and site development risks and uncertainties. There is often a significant discussion as to the whether the proposed CIL rates contain sufficient viability buffers to account for such risks and uncertainties. Anecdotally, viability buffers of between 10-50% have been considered in other CIL studies and both the Home Builders Federation and Savills recommended buffers in the sum of 30% for the CIL study work which we undertook for the Councils of Caerphilly, Merthyr Tydfil and Rhondda Cynon Taf.
- 6.6 If a 30% buffer rate were applied in the case of this study you would arrive at an average residential CIL rate of £73 per square metre in the Chargeable areas. However, given the wider application of a single residential CIL rate for Carmarthenshire County Council area, the relatively modest levels of house building in Carmarthenshire (Entirely natural for a County of Carmarthenshire's character) and specific potential for future shifts in development costs (abnormal costs, regularity requirements etc.) we are minded to suggest that consideration is given to a 40% viability buffer (£62 per square metre- see **Appendix F**) and that the residential CIL rate be rounded down to £60 per square metre for the residential charging zone illustrated in the plan at **Appendix I**.
- 6.7 One final note in respect of residential CIL charges is that retirement housing falling within the conventional C3 (dwelling houses) use class can be very viable. Our commercial testing (see **Appendix I**) has shown such C3 retirement development to be highly viable and easily capable of supporting a CIL charge in line with conventional housing. There is even a case for setting a higher charge, however,

such private retirement developments are very market specific and care of the elderly an important priority and so we recommend that these are simply charged at the same rate as proposed for conventional housing (£60 per square metre).

Accounting for the size of a development

- 6.8 Within our test results the larger development schemes are, on the whole, generally more viable than the smaller sites. For example, the top three viability results are for the largest sites; namely, site 2 (£249 CIL rate on 289 dwellings), 31 (£177 CIL rate for 206 dwellings) and 1 (£139 CIL rate for 195 dwellings). But this is not universally true, as is shown in the results for site 8 (£50 CIL rate on 221 dwellings) and site 14 (fourth highest CIL rate of £106 per square metre on just 35 dwellings).
- 6.9 Based on the viability results within this Study a case for variable CIL rates, based on numbers of dwellings, is not straightforward. On the face of it, looking at the CIL results, there could be a case for a lower CIL rate on sites below 15 dwellings. However, on closer investigation these smaller sites all fall within known low viability zones. Reflecting on this we consider there to be no evidence in support of CIL rates differentiated on development size. Furthermore, we also have concerns that such an arbitrary approach could distort the planning and development process.

Other considerations for potential residential CIL charges

- 6.10 The CIL regulations make it clear that CIL should not be charged “up to the margins of viability”, and therefore CIL should not be charged at the maximum possible rates illustrated within the Study sensitivity analysis. In order to establish which results should be used, it is necessary to consider the market outlook and period over which the CIL charges are to be applied.
- 6.11 It is our understanding that Carmarthenshire County Council is considering setting CIL charges for between 3 to 5 years but possibly with some review mechanisms. According to Savills’ 5 year house price forecast house prices could have increased by 15.3% in Wales over during that period. So any CIL evidence base derived from current market values has, in effect, another inherent viability margin.
- 6.12 The next consideration in setting CIL charges is whether these should be based on the average results or another approach. It is our view that average baseline results should be the starting point for charging as market changes are difficult to forecast with any great certainty.
- 6.13 We detail our conclusions and recommendations concerning the charging of CIL in respect of residential developments in **Sections 8 & 9**.

## **7 Testing findings and options for Charging CIL for Commercial developments**

- 7.1 The results from the commercial viability testing are very specific to the development's end use and therefore we review the results here on a use-by-use basis. A table of the (Anonymous) baseline residential test sites and their high level residual CIL test results is included at **Appendix J**. Sensitivity analysis detailing the effects on viability (and residual surpluses / deficits for CIL) of changes within market values and development costs is included at **Appendices K and L**, respectively.
- 7.2 Moving onto the commercial testing, beyond C3 Retirement housing (noted above), it will be observed (from **Appendix J**) that only convenience and comparison retail produced positive viability results within the selected test sites.
- 7.3 At **Appendix M** we provide further analysis of the viability results for convenience and comparison retail uses. There is some consistency within the average results for the two sub classes and therefore we believe there is no case for differentiating any retail charge. Somewhat counter-intuitively, the smaller developments appear more viable than the larger schemes. However, we believe this is more related to the nature of the test scheme and the associated sites and so we don't recommend a variation based on size. Applying a 30% buffer results in an average Retail CIL charge of £70 per square (See **Appendix M**) and we recommend that this be considered for your preliminary draft charging schedule.
- 7.4 We would also advise, since retail development can be very scheme specific, that the proposed retail rate is universally applied across Carmarthenshire Council area. One other suggestion for your consideration is that the smallest retail developments may be more sensitive to CIL charges and therefore, to facilitate economic activity, you may wish to apply a zero CIL rate to such developments. Determining, an appropriate retail unit size for a zero CIL rate is challenging but, in our view, there is unlikely to be a case for this to exceed the existing guided 100 square metres minimum. Again, the existing viability and market information held by Carmarthenshire Council will help validate a decision here.
- 7.5 We detail our conclusions and recommendations concerning the charging of CIL in respect of commercial developments in **Sections 8 & 9**.

## **8 Conclusion**

- 8.1 In the preceding sections we reviewed the most salient summary results and outlined the potential for charging CIL in respect of different uses and different localities. In this section we draw our Study conclusions.

### Factors to consider when setting CIL charges

- 8.2 There are a number of factors that must be borne in mind when setting CIL for residential and commercial uses. Firstly, Carmarthenshire County Council needs to conduct their own research into what infrastructure and other related services will be funded by CIL and cost these items so as to have an understanding of their overall funding requirement. When done, this can be referenced against the projected future development within an Authority area to estimate the levels of CIL required on an area basis (£'s per square metre built).
- 8.3 It is possible that an assessment of future local infrastructure funding might identify a financial shortfall over and above what CIL can provide, and so it is important that this difficult exercise is completed to estimate any shortfall and ascertain possible solutions. The exercise will also ensure that other stakeholders appreciate the local need for CIL and its funding priorities. Were this exercise to uncover a surplus in infrastructure funding, this would be a justification for charging lower rates of CIL than recommended within this report. However, we believe this latter scenario to be extremely unlikely.
- 8.4 The second question that Carmarthenshire County Council needs to address, in conjunction with infrastructure funding, is the extent to which CIL will replace other planning obligations. As this question remains unresolved within Carmarthenshire County Council, it was decided that no allowance (beyond affordable housing on the residential sites) would be made for other planning obligations. Ultimately, it may well be that other planning obligations are substantially reduced but there is no way of knowing that at present. It is difficult to accurately factor this unknown s106 quantity into our CIL rate proposals, but this does present a reason for being more cautious in the rates proposed.
- 8.5 Another area to be determined by Carmarthenshire County Council is with regard to longevity and review pattern of any CIL charging scheme which they decide to implement. If Carmarthenshire County Council decides to put CIL charges in place with a short time frame (i.e. 2 years) before these rates were reviewed then more conservative rates of CIL should be adopted, especially in those less active local economic areas. Conversely, if a longer period of CIL is envisaged before review (i.e. 5 years+) then it may be reasonable to adopt slightly higher rates of CIL for some of the more valuable locations/uses. Both options have their merits. A shorter period to review (and lower CIL rates) would be more responsive and would be more supportive of marginally viable developments, whilst a longer period to review (and higher CIL rates) would place more sustained downward pressure on land values. Whatever the approach, given the continuing global macroeconomic picture, we believe it is important for Carmarthenshire County Council to consider putting in place flexible measures that provide for future review at stipulated intervals and/or in response to any pronounced market shifts.

- 8.6 At every stage within our viability testing we have endeavoured to adopt what we consider to be reasonable assumptions. Every development has its own specific attractions and challenges and trying to account for these over a wide Study area and range of uses presents its own tests. For this reason it was decided that exceptional development costs would not be included within the viability testing. Exceptional development costs are difficult to predict without a detailed site survey coupled with background research. Indeed, costs that might be deemed “exceptional” on one development may be common-place in another area. Trying to estimate how much of a general allowance should be made (for any exceptional development costs) within CIL charges is not something that can be easily done. Consequently we have erred on the side of caution in considering our recommended CIL charges.
- 8.7 Other uncertainties exist in setting reasonable rates for CIL. Broadly, these uncertainties revolve around changes within the property market (which we have factored into our sensitivity analysis) or development costs. The latter is more difficult to allow for because often costs are linked to the wider economy. So, for example, when the property market fell, so did construction costs. We therefore decided to undertake our sensitivity analysis on the basis that market shifts were relative to development costs. Some costs are driven by central government (such as higher sustainability requirements) but we have included a generic allowance for this and even these items reduce in time as technology, process and volume drive those costs down. Land cost is perhaps the greatest risk, not because values cannot reduce but because some sites have very specific value drivers (i.e. existing use value), which are difficult to account for within a flat rate charge. The foregoing is another reason to take a more cautious view in respect of the final charging rates of CIL adopted.
- 8.8 Given that viability uncertainties and the potential for change exist (and will always exist) we would recommend that further consideration be given to what could, and what could not, constitute “exceptional circumstances” in which the published rate at which CIL is charged might be varied. It may be helpful to consider publishing such guidance, so as to avoid future stakeholder confusion and/or inappropriate/spurious viability contentions.

**9 Recommendations**

9.1 Having investigated both the local and national context to CIL with Carmarthenshire County Council, and having undertaken viability assessments of a wide range of development schemes across a broad geographical area and multiple pertinent Use Classes, our recommendations in respect of CIL Charging Range and suggested CIL Charging are set out in **Schedule 1** below.

**Schedule 1**

<u><b>Geographic area</b></u>	<u><b>Use class</b></u>	<u><b>DVS Suggested Rate of CIL (Per M<sup>2</sup>)</b></u>
Charging Zone shown in map at <b>Appendix I</b>	C3- Residential Developments	<b>£60</b>
The whole of Carmarthenshire	C3- Private retirement housing	<b>£60</b>
The whole of Carmarthenshire	A1 Retail Development	<b>£70</b>

\* **Chargeable amount based on measurement to Gross Internal Area (GIA), as per RICS**

9.2 In identifying the CIL Ranges and suggesting the CIL rates, DVS has taken account of the additional costs that may affect a development site, planning obligations required in addition to the CIL charge, the potential for abnormal site development costs and additional costs arising from increasing building regulations and weighed these with possible future changes within both the construction and property markets.

9.3 Our suggested CIL Ranges and Rates, listed within **Schedule 1** above, represent our true opinion reflecting the research undertaken in accordance with the instructions and stated assumptions of Carmarthenshire County Council. We have endeavoured to balance the prospect of future property market growth (primarily applicable to the housing market) against the wider ongoing economic uncertainty and specific cost pressures that will affect some development schemes (such as exceptional development costs, unaccounted for planning obligations, land price drivers etc.).

9.4 It should also be noted that the Ranges and rates set out in the Schedule are made on the basis that a review of CIL charging will be undertaken within 2 to 5 years of implementation.

9.5 This report has been produced specifically on behalf of Carmarthenshire County Council, as a guide for the implementation of a CIL charging system. It should not be used for any other purpose nor published in any way without our prior written approval as to the form and context in which it is to appear.



**List of Appendices**

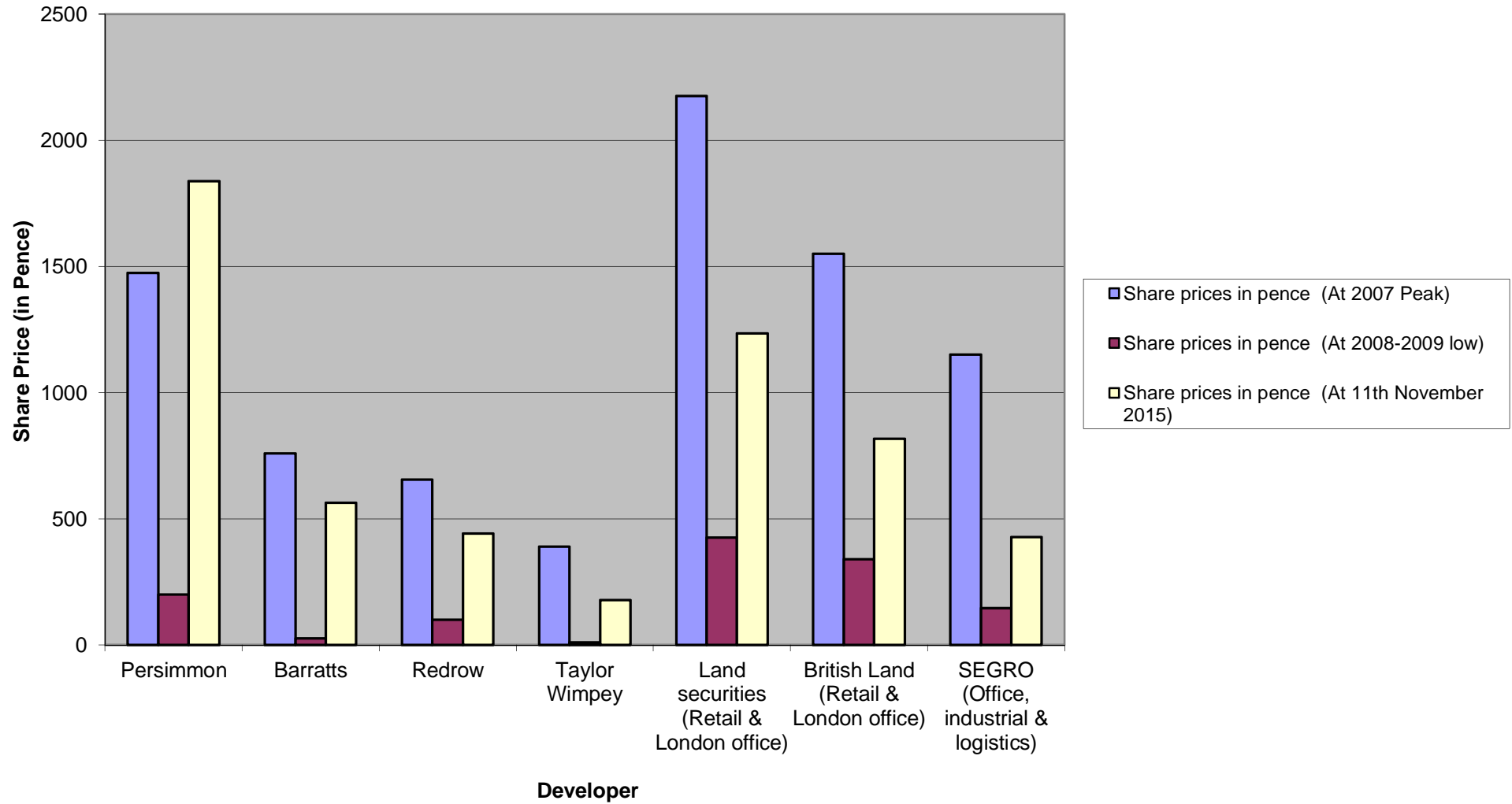
- Appendix A-** Summary list of 33 test sites
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## (Anon) List of test sites

Test ref	Site description (Final report)	Sub-market area	Use class	Gross ha	Net ha
1	Large Greenfield site on edge of town location	Llandovery, Llandeilo and north east Carmarthenshire	Dwellings (C3)	10.38	6.66
2	Brownfield site in low viability locality	Llandovery, Llandeilo and north east Carmarthenshire	Dwellings (C3)	0.29	0.29
3	Greenfield site on edge of town location	St Clears & Rural Hinterland	Dwellings (C3)	2.64	1.98
4	Western Greenfield site on edge of town location	St Clears & Rural Hinterland	Dwellings (C3)	3.67	2.75
5	(Smaller) Greenfield site on edge of town location	Carmarthen & Rural	Dwellings (C3)	0.89	0.8
6	Greenfield site on edge of town	Newcastle Emlyn & Northern Rural Area	Dwellings (C3)	0.89	0.8
7	Greenfield site on edge of town location	Llanelli	Dwellings (C3)	2.22	1.67
8	Brownfield site in town centre location	Llanelli	Dwellings (C3)	9.8	7.35
9	Greenfield site on edge of village	Kidwelly, Burry Port & Lower Gwendraeth	Dwellings (C3)	2.18	1.63
10	Greenfield site on edge of village	Newcastle Emlyn & Northern Rural Area	Dwellings (C3)	2.49	1.87
11	Greenfield site on edge of southern village	Kidwelly, Burry Port & Lower Gwendraeth	Dwellings (C3)	4.99	3.74
12	Greenfield site in low viability locality	Ammanford, Cross hands & Amman Valley	Dwellings (C3)	0.68	0.61
13	Large Greenfield site on edge of town location	Ammanford, Cross hands & Amman Valley	Dwellings (C3)	7.17	5.38
14	(Larger) Greenfield site on edge of town location	Carmarthen & Rural	Dwellings (C3)	1.29	1.16
15	Extra Care apartments (c3) in Ammanford, Cross hands & Amman Valley	Ammanford, Cross hands & Amman Valley	Extra Care apartments (c3)	1.57	1.0205
16	Nursing home (c2) in St Clears & Rural Hinterland	St Clears & Rural Hinterland	Nursing home (c2)	0.33	0.3000
17	Office development in Carmarthen & Rural	Carmarthen & Rural	Office	0.33	0.3000
18	Office development in Llanelli area	Llanelli	Office	8.07	5.649
19	Food Retail development (under 1,000sqm) in Carmarthen & Rural	Carmarthen & Rural	Food Retail- under 1,000 sqm	0.59	0.413
20	Comparison retail (under 1,000 sqm) in Ammanford, Cross hands & Amman Valley	Ammanford, Cross hands & Amman Valley	A1 Comparison Retail - Under 1,000sqm	0.08	0.056
21	Food Retail development (over 1,000sqm) in Newcastle Emlyn & Northern Rural Area	Newcastle Emlyn & Northern Rural Area	Food Retail (over 1,000 sqm)	0.83	0.581
22	Food Retail development (over 1,000sqm) in Llandovery, Llandeilo and north east Carmarthenshire	Llandovery, Llandeilo and north east Carmarthenshire	Food Retail development (over 1,000sqm)	2.74	1.918
23	Restaurant Development in Ammanford, Cross hands & Amman Valley	Ammanford, Cross hands & Amman Valley	Restaurant Development	0.33	0.231
24	Restaurant Development in Llanelli area	Llanelli	Restaurant Development, Llanelli	0.72	0.504
25	Hotel in Carmarthen & Rural area	Carmarthen & Rural	Hotel Development, Carmarthen	0.93	0.6510
26	B8 industrial use in Llandovery, Llandeilo and north east Carmarthenshire	Llandovery, Llandeilo and north east Carmarthenshire	B8	1.5	1.05
27	B8 industrial use in Ammanford, Cross hands & Amman Valley	Ammanford, Cross hands & Amman Valley	B8	9.22	6.454
28	Comparison retail (over 1,000 sqm) in Ammanford, Cross hands & Amman Valley	Ammanford, Cross hands & Amman Valley	A1 Comparison retail - Over 1,000sqm	2.34	1.638
29	Northern Greenfield site on edge of town location	St Clears & Rural Hinterland	St Clears & Rural Hinterland	1.48	1.33
30	Brownfield site on edge of town location	Ammanford, Cross hands & Amman Valley	Ammanford, Cross hands & Amman Valley	2.91	2.18
31	Brownfield site on edge of town location	Llanelli	Llanelli	7.1	5.33
32	Village infill site	Kidwelly, Burry Port & Lower Gwendraeth	Kidwelly, Burry Port & Lower Gwendraeth	0.63	0.57
33	Greenfield site on edge of town location	Llandovery, Llandeilo and north east Carmarthenshire	Llandovery, Llandeilo and north east Carmarthenshire	3.2	2.4



### Share Price changes in selected developers



## **APPENDIX C - SUMMARY OF GUIDANCE ON VIABILITY METHODOLOGY**

- 1) The principle guidance on development land valuation is the **RICS Valuation Information Paper 12 – “Valuation of Development Land”**. The paper relates specifically to the valuation of Greenfield development land and advises within the guidance that the principles are appropriate more widely. The methodology approach contained in VIP 12 is also appropriate for assessing the viability of developments, including Brownfield sites because the factors involved are similar.
- 2) VIP 12 gives clear guidance that the valuation of development land should primarily be based on market evidence if it can be used to compare the site being valued to the comparison site. VIP 12 points out that it is unusual that a proper comparison can be made and that therefore the more usual way of assessing land value is for a residual land valuation approach. The residual land valuation approach calculates the gross capital value the site will have on development and deducts from this all development costs except site acquisition costs. The residual figure represents site assembly costs (i.e. land values and site acquisition costs). If assessing on a residual basis, the actual condition of the property at the date of the assessment and current market factors (including current day values and costs) should be taken into account.
- 3) There are variations on this general approach to consider where assumptions or judgements may be made about future trends in property sales and construction to assess viability considering issues such as regenerative benefit, large developments over a period of years and sensitivity testing. These need to be considered as part of any Planning Policy viability assessment.
- 4) **Homes and Community Agency published in August 2009 a Good Practice Note – “Investment and Planning Obligations: Responding to the Downturn”** and the **Welsh Government published their “Delivering affordable housing using s106 agreements- a guidance update” in September 2009**. These good practice notes offer guidance both on delivering in the current economic climate, as well as recommending how viability should be assessed. They follow the same approach as is recommended by VIP12 on the assessment of development land value, and recommend the approach to assessing viability- that the residual land value (RLV) of the development is compared to a benchmark land value. If the RLV is in excess of the benchmark value the scheme as assessed is viable.

- 5) In both Wales and London specifically, **these guidance documents have been supplemented by the Three Dragons Development Control Toolkit Guidance Notes**, prepared for the Welsh Local Authorities and the Greater London Authority respectively. The current Guidance Note advises: *"Residual Value should be compared with the Existing Use Value of a site, Alternative Use Values, and, as general context/comparator, the site acquisition cost"*.
- 6) This Guidance Note has removed advice previously given regarding uplifts over existing use value to incentivise land owners to bring the site forward for development. The reason for this is that each property has specific factors affecting value and it would be incorrect to give a "tone" on uplift because it would not properly reflect this. For example, in some situations market value may equal existing use value which would not be reflected if a standard uplift were used.
- 7) In response to the National Planning Policy Framework (NPPF) (published by the Department for Communities and Local Government in England during March 2012) and because of the importance of assessing viability on planning applications and the lack of a national guidance on recommended methodology, **the RICS has produced (in exposure drafts initially) a Guidance Note- "Financial viability in planning" (FVIP)**. The final publication of this document is expected very soon.
- 8) The focus of this guidance is on the development management stage dealing with site specific applications. It has sought to bring the terminology used in to line with terms used by in the RICS Red Book definitions. For example, Existing Use Value is a term usually used in Asset Valuation reports for accounting purposes. Its use in viability assessments may be considered confusing.
- 9) The FVIP GN deals with the benchmark land value as follows:  
*"To be in accordance with the definition of viability, site value should equate to the Market Value **subject to the following special 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** (our emphasis). However, any assessment of market value will have regard to prospective planning obligations and the point of viability appraisal is to assess the extent of these obligations."*

- 10) The RICS define Market Value (MV) as "The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."
- 11) This definition and special assumption takes in to account the current use of the property, any uplift in value needed to incentivise the landowner to sell for development, and any potential alternative uses. It takes in to account the uncertainties of an alternative use that has not received planning consent. It is not prescriptive about what uplift is appropriate in excess of any current use value.
- 12) In practical terms the FVIP draft does not result in any significant difference in the way generic viability assessments are done. It defines the approach in a way that ties in with RICS Red Book definitions. It particularly gives advice on the Benchmark land value approach, but does not give specific guidance on what inputs to use (i.e. what level of uplift over current use etc) as this is considered to be inappropriate because this is likely to vary in every set of circumstances.
- 13) The conclusions on viability resultant from the generic assumptions adopting the "uplift over EUV" approach would not be rendered incorrect by this new definition. The actual benchmark value inputs are not inconsistent with the levels one would expect in complying with the GN.
- 14) The **Local Housing Delivery Group released their guide "Viability Testing Local Plans" (VTLP) for England in June 2012**, and this focuses primarily on area wide viability testing for the duration of the Local Plan. This guide and the RICS Guidance Note "Financial Viability in Planning" (FVIP) both deal with policy planning and subsequent delivery, and so it is important in meeting the aspirations of NPPF that these approach viability testing in a similar way. The question is therefore- Are the two guides saying different things? In one key area- assessment of land value- the answer appears to be yes. But are they? Are they, in reality, saying the same thing, but expressing it in different ways? Both guides recommend that the best way of testing viability is by the residual appraisal approach and comparing the residual land value against a Threshold land value (VTLP) or Benchmark land value (FVIP).

- 15) **The National Planning Policy Framework context (NPPF)** puts forward the following guidance: *“Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable... To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable. “... 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....”* (NPPF, paragraphs 173-4)
- 16) In ensuring that development sites are viable and deliverable, the key words in this guidance are “competitive returns”. NPPF does not explain what is meant by this term- For instance, is it the highest offer made in a competitive tender for a site? We think most valuers would accept that this is not the intention, but the lack of clarity may be problematic. In our opinion, the term is intended to mean the price at which a landowner in a competitive market with other land owners is prepared to release land onto the market for residential development.
- 17) Viability Testing Local Plans approach (VTLP) considers that *“...Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development...”* There is concern about using market value as this is seen as carrying the risk of building in assumptions of current policy costs, rather than helping to inform the potential for future policy. The guide suggests that Threshold should be based on a premium over current use values and credible alternative use values. (It is not clear if the guide intends a premium over AUV.) The premium should be determined locally, but should be evidence based to represent a competitive return to the landowner. This implies a market evidence approach- not dissimilar to MV?
- 18) Historically, this approach had assumed land would be released for a percentage (In some guides shown as a fixed uplift, or in a narrow range.) above CUV that was arbitrary, inconsistently applied and, above all, did not reflect the market. The VTLP advice that it should be based on market evidence of a competitive return to the landowner should fundamentally change the way this is assessed. Because it is based on market evidence, any uplift may range from substantial to no uplift if market evidence supports this.



19) For Greenfield sites the guide recommends use of benchmarks based on local market evidence and information on typical minimum price provisions used within developer/ site promoter agreements for similar sites. No guide has been given to the assumptions to be made on cleared Brownfield sites, which we suspect is an unintended omission.

20) We have concerns about the reference to only having regard to local evidence as this may not be available in many cases, and in any event may not reflect wider market evidence. The wording in the guide expresses how the Threshold is intended to be assessed and is very clear about that, particularly with regard to future policy. However, it gives guidance that allows unqualified market evidence to be taken in to account- Unqualified in the sense that it does not have to have regard to current or emerging planning policy requirements, and may be contrary to the development plan.

21) That said, it is fairly clear that these two bases of assessment of Threshold are, taken collectively, intended to reflect a market based competitive return to the landowner. As such, once the “wrinkles” are ironed out, this would comply with the NPPF guide.

22) **Financial Viability in Planning approach:** The definition of Benchmark site value in FVIP in site specific appraisals is: *“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.”*

23) This definition is very clear and is considered to be the same as a competitive return to the landowner referred to in NPPF. “...Has regard to...” and “...disregards...” imply that planning policies are taken in to account in assessing site value. These include the consideration of viability in some circumstances (e.g. S106 and affordable housing delivery.), and where no account of viability is considered in others (e.g. CIL charges.). The FVIP recommended approach varies from VTLP in a number of ways, predominantly:

- That market evidence generally (i.e. not restricted to local evidence) should be considered.
- That site value should have regard to planning policies and material planning considerations.
- Disregards market evidence which is contrary to the development plan.

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

25) This specifically addresses the concern referred to in VTLP that the comparator site value should not have built in assumptions based on existing planning policy obligations. So, what is taken in to account in assessing market value on these two definitions? All relevant factors that would determine the value, including:

- A competitive return to the landowner. This takes in to account additional checks, including comparable sales evidence and calculation of site value as a percentage of capital value of the scheme. It is recognised that true comparable sales evidence is difficult to find because of the heterogeneity of each site and what evidence there may be is invariably not based on current market conditions.
- Value in current or alternative uses. This may include adjustment upwards (e.g. Incentive to sell) or downwards (e.g. Reflecting risk on AUV) if appropriate, based on market evidence.

26) What this means in practical terms, in our view, is as follows:

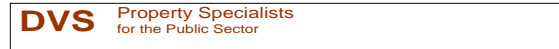
- On Brownfield (Uncleared) urban sites, it is quite likely that MV with planning assumptions will be the same as the higher of current or alternative uses, adjusted in line with market evidence of a competitive return to the landowner. There may be rare exceptions to this.
- On cleared Brownfield and Greenfield sites, MV with planning assumptions will reflect a competitive return to the landowner sufficient to bring the site forward for development, based on market evidence.

27) The guide addresses the issue of the actual sale price and considers that whilst it should be taken in to account, it may or may not be material to the assessment of Benchmark. This may be because of the change in market conditions between the date of purchase and appraisal or unreasonable/ overoptimistic assumptions by the developer.

- 28) The VTLP guide has been drafted in a “reader friendly” way that has sought to bring together a range of views from key stakeholders in the residential development process. Inevitably, with such diverse interests involved, it contains a number of inconsistencies. However, the broad thrust is that Threshold site value for area wide viability assessments should have regard to (local) market evidence, reflecting the need for a competitive return to the landowner to ensure delivery of suitable sites for development over the period of the Local Plan economic cycle.
- 29) The VTLP terminology and concepts for how to assess the Threshold site value may seem to surveyors to be unnecessarily complex, and needing a bit more refinement. The guide had not been widely exposed for review prior to publication, and there are elements within it that need to be re-considered. However, in general principles, the guide complies with NPPF guidance.
- 30) The RICS FVIP guide has been through a thorough review process and draws views from a wide range of development experts from both public and private sectors. Whilst focussing mainly on site specific viability, it also addresses area wide viability assessments to show that these two aspects of the planning process should have a common approach to ensure consistency. It is aimed at explaining the assessment of benchmark site value using existing standard terms and definitions. It recommends a market evidence based approach reflecting a competitive return for the landowner and planning policy objectives of the community. As such, it also complies with NPPF guidance.
- 31) The logical conclusion, therefore, is that if both guides are applied using the principles expressed, there should be a broadly similar set of conclusions reached on viability. In our opinion the VTLP guide would benefit from some further refinement, which may be easier said than done. RICS needs to continue engaging with the wider development industry to ensure its approach is clearly understood and accepted as meeting NPPF objectives.

DVS Appraisal Toolkit showing Viability Testing in connection with Carmarthenshire CIL Study

Site Address:	Sample DVS Appraisal		
Assumed Development:	24 Dwellings (30% will be affordable housing)		
Gross Site Area:	0.89	Hectares	Gross acres: 2.199
Net Development Area:	0.80	Hectares	Net Acres: 1.977



Appraisal showing house prices @	100%	of values determined at date of assessment
Appraisal showing build costs @	100%	of rates determined at date of assessment

No of Units	A) Open Market housing	Gross Internal Area per unit (SQM)	Sale values per GIA (Value Check)	Sale price per unit	Total market sales	(Where appropriate) Apartment sale values per assumed EFA (Value Check)	
10	4 bed detached houses	150	£1,700	£255,000	£2,550,000		
7	5 bed detached houses	180	£1,667	£300,000	£2,100,000		
<b>Total GIA: -</b>		<b>2,760</b>	<b>Total Sales: -</b>		<b>£4,650,000</b>		
No of Units	B) Affordable housing- Intermediate For Sale tenure	Gross Internal Area per unit (SQM)	CCC Transfer price	% value adjustment	Total affordable sales	CCC Location: -	
1	1 bedroom apartment	46	£52,458	na	£0	Taf Myrddin	
2	2 bedroom apartment (Same value as a house)	59	£65,572	na	£0	Taf Myrddin	
6	2 bedroom house (Same value as a flat)	83	£65,572	na	£0	Taf Myrddin	
3	3 bedroom house	88	£78,686	na	£472,116	Taf Myrddin	
4	4 bedroom house	110	£91,801	na	£0	Taf Myrddin	
<b>Total GIA: -</b>		<b>528</b>	<b>Total Sales: -</b>		<b>£472,116</b>		
No of Units	C) Affordable housing- Intermediate Rent / Social Rent	Gross Internal Area per unit (SQM)	Weekly Intermediate rent	% allowance for Voids, debts and fees	Annual Maintenance / Management	% Yield	Total affordable sales
5	Detached HOUSE (Bespoke template- No ACG)	130	£150	5.0%	£700	6.25%	£0
6	P4B HOUSE 110 (Detached)	110	£140	5.0%	£700	6.25%	£0
4	P3B HOUSE 88 (Detached)	88	£130	5.0%	£700	6.25%	£0
4	P3B HOUSE 88 (Semi-detached)	88	£109	5.0%	£700	6.25%	£0
4	P3B HOUSE 88 (Terrace)	88	£107	5.0%	£700	6.25%	£0
1	4P2B HOUSE 83 ( terrace / town house )	83	£96	5.0%	£700	6.25%	£64,678
2	P1B FLAT - COMMON ACCESS 46	46	£90	5.0%	£700	6.25%	£0
5	P3B BUNGALOW-WHEELCHAIR 115	115	£110	5.0%	£700	6.25%	£0
<b>Total GIA: -</b>		<b>83</b>	<b>Total Sales: -</b>		<b>Total Sales: -</b>		<b>£64,678</b>
<b>D) Social Housing Grant (SHG)</b>							<b>£0</b>
<b>Total GIA (SQM):</b>		<b>3,371</b>	<b>Gross Development Value (GDV) :</b>		<b>£5,186,794</b>		
<b>Total Units</b>	<b>Residential Sqft per Net Acre:</b>	<b>7,429</b>					
<b>24</b>	<b>Dwellings Per Net Hectare:</b>	<b>30.0</b>					
	<b>% number of affordable homes:</b>	<b>29%</b>					

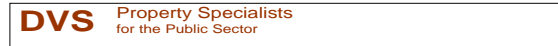
<b>E) Benchmark Land Value (BMLV) Adopted for viability testing purposes:</b>	<b>£330,000</b>	<b>BMLV per GROSS Hectare:</b>	<b>£370,787</b>	
Stamp duty	3.00%	<b>£9,900</b>	<b>BMLV per Net Development Hectare:</b>	<b>£412,500</b>
Agent fees on land acquisition	1.00%	<b>£3,300</b>	<b>Land value per GROSS acre:</b>	<b>£150,055</b>
Legal fees on land acquisition	0.50%	<b>£1,650</b>	<b>Land value per NET acre:</b>	<b>£166,936</b>
Other		<b>£0</b>		
<b>Gross BMLV:</b>		<b>£344,850</b>		

F) Construction costs:	Apartment GIA	Housing GIA	Bungalow GIA	Area total (GIA)	Total build area (SqM in GIA)	Construction rate £s psm (e.g. BCIS)	Total construction costs
					0	£1,080	£0
		3,371			3,371	£898	£3,027,158
			0		0	£997	£0
					3,371	<b>Total construction cost: -</b>	<b>£3,027,158</b>
<b>G) External Works &amp; Sustainability:</b>						17.50%	<b>£529,753</b>
<b>H) Contingency (Construction / Externals) at:</b>						2.50%	<b>£88,923</b>
<b>I) Professional Fees (Construction / Externals) at:</b>						6.00%	<b>£213,415</b>
<b>J) Other Development specific costs (E.g. Planning Obligations etc):</b>							<b>£0</b>
							<b>£0</b>
							<b>£0</b>
							<b>£0</b>
<b>K) Disposal costs</b>						<b>Total Other costs: -</b>	<b>£0</b>
Agency & Marketing fees on open market housing	At rate of:					% of GDV	
Legal fees on open market housing	At rate of:					3.00%	£139,500
Agency fees on Intermediate For Sale housing	At rate of:					0.50%	£23,250
Legal fees on Intermediate For Sale housing	At rate of:					0.50%	£2,361
Agency fees on Intermediate/Social Rent:	At rate of:					0.50%	£2,361
Legal fees on Intermediate/Social Rent:	At rate of:					0.50%	£323
	At rate of:					0.50%	£323
						<b>Total Disposal costs: -</b>	<b>£168,118</b>
<b>L) Finance</b>						<b>Debit Interest Rate:-</b>	<b>6.50%</b>
						<b>Credit Interest Rate</b>	<b>3.25%</b>
						<b>Total Finance costs: -</b>	<b>£135,766</b>
<b>M) Developer profit</b>							
Profit on Open Market Housing @	16.67%	On Open Market GDV					£775,155
Profit on Affordable Housing @	4.76%	On Affordable GDV (Including any SHG package price)					£25,551
						<b>Total Profit allowance: -</b>	<b>£800,706</b>
<b>Total development costs (including land):</b>							<b>£4,963,838</b>

<b>Total costs (before CIL) per GIA =</b>	<b>£1,473</b>		
<b>N) Development Surplus/Deficit</b>		<b>Total amount (£'s): -</b>	<b>£222,956</b>
<b>Result is amount potentially available for CIL (Before any viability margin)</b>		<b>Rate (£s per square metres) across Open Market Housing (ONLY) GIA : -</b>	<b>£81</b>

DVS Appraisal Toolkit showing Viability Testing in connection with Carmarthenshire CIL Study

Site Address:	Sample DVS commercial appraisal		
Assumed Development:	Retail		
Gross Site Area:	0.08	Hectares	Gross acres: 0.198
Net Development Area:	0.056	Hectares	Net Acres: 0.138



Appraisal showing Capital Value @ 100% of values determined at date of assessment  
 Appraisal showing build costs @ 100% of rates determined at date of assessment

Receipts:	Commercial unit size SQM (Retail Values measured to NIA)	Rent per SQM	Gross rent pa	All risk yield (YP into perpetuity)	Total
No. units					£
1	A) Small Retail	111.60	£150.00	£16,740 8.50%	£196,941
	Gross to net floor area ratio	90.00%		£16,740 0	£196,941
	<b>Deduct Tenant inducements:-</b>				
	Rent free period (treated as an upfront cost) of:	0	Months		£0
		Reverse premium (sum paid by landlord to induce the tenant to enter into the lease).			£0
		Add back Any premium to Landlord:-			£0
				<b>Gross Value</b>	£196,941
			Purchaser's investment costs (Paid / allowed in to transaction value) @ 5.50%		£10,832
			<b>A) NET DEVELOPMENT VALUE (Net investment realisation):-</b>		<b>£186,109</b>
No. units	B) Other Income streams (Investment values)	Commercial unit size SQM (Office)	Rent per SQM	Gross rent pa	All risk yield (YP)
0				£0.00	£0
	All risk Yield	6.00%			16.67
			Purchaser's investment costs (Paid / allowed in to transaction value) @ 5.50%		£0
			<b>B) NET DEVELOPMENT VALUE (Net investment realisation):-</b>		<b>£0</b>
	C) Other income / Funding grant			C) VALUE:-	£0
	Total Units	1			
	Total GIA (SQM):	124			
	Development Sqft per Net Acre:	9,646		<b>Gross Development Value (GDV):</b>	<b>£186,109</b>
	Units Per Net Hectare:	17.9			

D) Benchmark Land Value (BMLV) Adopted for viability testing purposes:	£100,000	BMLV per GROSS Hectare:	£1,250,000	
Stamp duty	4.00%	£4,000	BMLV per Net Development Hectare:	£1,785,714
Agent fees on land acquisition	1.00%	£1,000	Land value per GROSS acre:	£505,868
Legal fees on land acquisition	0.50%	£500	Land value per NET acre:	£722,669
Other		£0		
<b>Gross BMLV:</b>		<b>£105,500</b>		

	Shops (up to 1,000 sqm GIA) - BCIS Rate	Total build area (Sqm in GIA)	Construction rate £s psm (e.g. BCIS)	Total construction costs	
E) Construction costs:	134.00	124	£789	£97,836	
F) External Works & Sustainability:			17.50%	£17,121	
G) Contingency (Construction / Externals) at:			2.50%	£2,874	
H) Professional Fees (Construction / Externals) at:			6.00%	£6,897	
I) Other Development specific costs (E.g. Planning Obligations etc):				£0	
				£0	
				£0	
				<b>Total Other costs:-</b>	<b>£0</b>
J) Letting costs			% of GDV		
Agency & Marketing fees on Office Capital Sales (A)	At rate (% of 1st years' rent) of:		10.00%	£1,674	
Legal fees on Office Capital Sales (A)	At rate (% of 1st years' rent) of:		2.50%	£419	
Agency fees on Other Investment Capital Values (B)	At rate (% of 1st years' rent) of:		10.00%	£0	
Legal fees on Other Investment Capital Values (B)	At rate (% of 1st years' rent) of:		2.50%	£0	
			<b>Total Disposal costs:-</b>	<b>£2,093</b>	
K) Disposal costs			% of GDV		
Agency & Marketing fees on Office Capital Sales (A)	At rate of:		3.00%	£5,583	
Legal fees on Office Capital Sales (A)	At rate of:		0.50%	£931	
Agency fees on Other Investment Capital Values (B)	At rate of:		3.00%	£0	
Legal fees on Other Investment Capital Values (B)	At rate of:		0.50%	£0	
			<b>Total Disposal costs:-</b>	<b>£6,514</b>	
L) Finance	Debit Interest Rate:-		6.50%		
	Credit Interest Rate		3.25%		
			<b>Total Finance costs:-</b>	<b>£7,722</b>	
M) Developer profit	Profit on Development Value @ (Commercial rate)	15.00%	On Open Market GDV	£27,916	
			<b>Total Profit allowance:-</b>	<b>£27,916</b>	
			<b>Total development costs (including land):</b>	<b>£168,973</b>	

N) Development Surplus/Deficit	Total amount (£s): -	£17,136
Result is amount potentially available for CIL (Before any viability margin)	Rate (£s per square metres) across Open Market Element (ONLY) GIA :-	£138



Anon Grouping-Base CIL results

Test ref	Site description (Final report)	Sub-market area	Gross ha	Net ha	Sept Units	GDV (OMH)	GIA (OMH)	OMH Rate per GIA	% AFH	Total dph (net)	Land Benchmark	BMLV- £s per Net ACRE	BMLV- £s per GROSS ACRE	Base CIL residual; £s per GIA of private homes	CIL rate (£s per GIA of OMH) if buffer of:- 50%	CIL rate (£s per GIA of OMH) if buffer of:- 40%	CIL rate (£s per GIA of OMH) if buffer of:- 30%	CIL rate (£s per GIA of OMH) if buffer of:- 20%	
<b>Llandovery - Llandeilo</b>																			
1	Large Greenfield site on edge of town location	Llandovery, Llandeilo and north east Carmarthenshire	10.38	6.66	195	£24,885,000	14,341	£1,735	30%	29	£2,500,000	£151,912	£97,470	£139	£69.50	£83.40	£97.30	£111.20	
2	Brownfield site in low viability locality	Llandovery, Llandeilo and north east Carmarthenshire	0.29	0.29	10	£845,000	525	£1,610	30%	34	£75,000	£104,662	£104,662	£-179	£-179	£-179	£-179	£-179	Negative results; no margin appropriate
33	Greenfield site on edge of town location	Llandovery, Llandeilo and north east Carmarthenshire	3.2	2.4	61	£8,485,000	5,254	£1,615	30%	25	£800,000	£134,898	£101,174	£85	£42.50	£51.00	£59.50	£68.00	
Sub-market area average:														£15	£-22	£-15	£-7	£0	
Average with boundary change to remove low viability area:														£112	£56	£67	£78	£90	
<b>Ammanford - Cross hands</b>																			
12	Greenfield site in low viability locality	Ammanford, Cross hands & Amman Valley	0.68	0.61	8	£1,750,000	1,330	£1,316	10%	13	£100,000	£66,343	£59,514	£-175	£-175	£-175	£-175	£-175	Negative results; no margin appropriate
13	Large Greenfield site on edge of town location	Ammanford, Cross hands & Amman Valley	7.17	5.38	289	£33,455,000	19,441	£1,721	10%	54	£1,750,000	£131,639	£98,775	£249	£124.50	£149.40	£174.30	£199.20	
30	Brownfield site on edge of town location	Ammanford, Cross hands & Amman Valley	2.91	2.18	65	£7,595,000	5,070	£1,498	10%	30	£700,000	£129,948	£97,349	£0	£0.00	£0.00	£0.00	£0.00	
Sub-market area average:														£25	£-17	£-9	£-0	£8	
Average with boundary change to remove low viability area:														£125	£62	£75	£87	£100	
<b>Llanelli</b>																			
7	Greenfield site on edge of town location	Llanelli	2.22	1.67	50	£6,710,400	4,166	£1,611	20%	30	£400,000	£96,933	£72,918	£75	£37.50	£45.00	£52.50	£60.00	
8	Brownfield site in town centre location	Llanelli	9.8	7.35	221	£26,840,000	16,805	£1,597	20%	30	£2,500,000	£137,651	£103,238	£50	£25.00	£30.00	£35.00	£40.00	
31	Brownfield site on edge of town location	Llanelli	7.1	5.33	206	£27,045,000	15,550	£1,739	20%	39	£1,800,000	£136,670	£102,599	£177	£88.50	£106.20	£123.90	£141.60	
Sub-market area average:														£101	£50	£60	£70	£81	
<b>Carmarthen</b>																			
5	(Smaller) Greenfield site on edge of town location	Carmarthen & Rural	0.89	0.8	24	£4,650,000	2,760	£1,685	30%	30	£330,000	£166,936	£150,055	£81	£40.50	£48.60	£56.70	£64.80	
14	(Larger) Greenfield site on edge of town location	Carmarthen & Rural	1.29	1.16	35	£6,375,000	3,675	£1,735	30%	30	£475,000	£165,715	£149,015	£106	£53.00	£63.60	£74.20	£84.80	
Sub-market area average:														£94	£47	£56	£65	£75	
<b>St Clears</b>																			
3	Greenfield site on edge of town location	St Clears & Rural Hinterland	2.64	1.98	50	£6,435,000	3,930	£1,637	30%	25	£350,000	£71,537	£53,653	£94	£47.00	£56.40	£65.80	£75.20	
4	Western Greenfield site on edge of town location	St Clears & Rural Hinterland	3.67	2.75	63	£7,395,000	4,441	£1,665	30%	25	£500,000	£73,581	£55,135	£76	£38.00	£45.60	£53.20	£60.80	
29	Northern Greenfield site on edge of town location	St Clears & Rural Hinterland	1.48	1.33	50	£6,200,000	3,800	£1,632	30%	38	£360,000	£109,541	£98,439	£100	£50.00	£60.00	£70.00	£80.00	
Sub-market area average:														£90	£45	£54	£63	£72	
Averages across all viable sub-market areas locations:-														£104	£52	£62	£73	£83	
<b>Kidwelly &amp; Burry Port</b>																			
9	Greenfield site on edge of village	Kidwelly, Burry Port & Lower Gwendraeth	2.18	1.63	41	£5,612,500	3,956	£1,419	20%	25	£300,000	£74,484	£55,692	£-123	NA	NA	NA	NA	Negative results; no margin appropriate
11	Greenfield site on edge of southern village	Kidwelly, Burry Port & Lower Gwendraeth	4.99	3.74	94	£11,540,000	8,248	£1,399	20%	25	£650,000	£70,335	£52,716	£-82	NA	NA	NA	NA	Negative results; no margin appropriate
32	Village infill site	Kidwelly, Burry Port & Lower Gwendraeth	0.63	0.57	14	£1,430,000	956	£1,496	20%	25	£160,000	£113,598	£102,780	£-139	NA	NA	NA	NA	Negative results; no margin appropriate
Sub-market area average:														£-115	NA	NA	NA	NA	
<b>Newcastle Emlyn &amp; Northern Rural Area</b>																			
10	Greenfield site on edge of village	Newcastle Emlyn & Northern Rural Area	2.49	1.87	38	£6,070,000	4,105	£1,479	20%	20	£300,000	£64,924	£48,758	£-74	NA	NA	NA	NA	Negative results; no margin appropriate
6	Greenfield site on edge of town	Newcastle Emlyn & Northern Rural Area	0.89	0.8	20	£2,680,000	1,740	£1,540	20%	25	£165,000	£83,468	£75,028	£-8	NA	NA	NA	NA	Negative results; no margin appropriate
Sub-market area average:														£-41	NA	NA	NA	NA	

Appendix G- Residential results & SA of build costs

Test ref	Test Site	Sub-market area	Gross ha	Net ha	Sept Units	GDV (OMH)	GIA (OMH)	OMH Rate per GIA	% AFH	Total dph (net)	Land Benchmark	BMLV- £s per Net ACRE	BMLV- £s per GROSS ACRE	CIL residual @ 90% BCIS	CIL residual @ 95% BCIS	CIL residual @ 100% BCIS	CIL residual @ 105% BCIS	CIL residual @ 110% BCIS
1	Large Greenfield site on edge of town location	Llandovery, Llandeilo and north east Carmarthenshire	10.38	6.66	195	£24,885,000	14,341	£1,735	30%	29	£2,500,000	£151,912	£97,470	£307	£223	£139	£52	-£35
2	Brownfield site in low viability locality	Llandovery, Llandeilo and north east Carmarthenshire	0.29	0.29	10	£845,000	525	£1,610	30%	34	£75,000	£104,662	£104,662	£28	-£75	-£179	-£283	-£387
3	Greenfield site on edge of town location	St Clears & Rural Hinterland	2.64	1.98	50	£6,435,000	3,930	£1,637	30%	25	£350,000	£71,537	£53,653	£258	£177	£94	£9	-£77
4	Western Greenfield site on edge of town location	St Clears & Rural Hinterland	3.67	2.75	63	£7,395,000	4,441	£1,665	30%	25	£500,000	£73,581	£55,135	£250	£164	£76	-£14	-£105
5	(Smaller) Greenfield site on edge of town location	Carmarthen & Rural	0.89	0.8	24	£4,650,000	2,760	£1,685	30%	30	£330,000	£166,936	£150,055	£227	£154	£81	£8	-£65
6	Greenfield site on edge of town	Newcastle Emlyn & Northern Rural Area	0.89	0.8	20	£2,680,000	1,740	£1,540	20%	25	£165,000	£83,468	£75,028	£149	£70	-£8	-£87	-£166
7	Greenfield site on edge of town location	Llanelli	2.22	1.67	50	£6,710,400	4,166	£1,611	20%	30	£400,000	£96,933	£72,918	£215	£145	£75	£5	-£66
8	Brownfield site in town centre location	Llanelli	9.8	7.35	221	£26,840,000	16,805	£1,597	20%	30	£2,500,000	£137,651	£103,238	£205	£128	£50	-£28	-£106
9	Greenfield site on edge of village	Kidwelly, Burry Port & Lower Gwendraeth	2.18	1.63	41	£5,612,500	3,956	£1,419	20%	25	£300,000	£74,484	£55,692	£24	-£49	-£123	-£197	-£270
10	Greenfield site on edge of village	Newcastle Emlyn & Northern Rural Area	2.49	1.87	38	£6,070,000	4,105	£1,479	20%	20	£300,000	£64,924	£48,758	£65	-£4	-£74	-£144	-£213
11	Greenfield site on edge of southern village	Kidwelly, Burry Port & Lower Gwendraeth	4.99	3.74	94	£11,540,000	8,248	£1,399	20%	25	£650,000	£70,335	£52,716	£63	-£9	-£82	-£155	-£228
12	Greenfield site in low viability locality	Ammanford, Cross hands & Amman Valley	0.68	0.61	8	£1,750,000	1,330	£1,316	10%	13	£100,000	£66,343	£59,514	-£46	-£111	-£175	-£240	-£305
13	Large Greenfield site on edge of town location	Ammanford, Cross hands & Amman Valley	7.17	5.38	289	£33,455,000	19,441	£1,721	10%	54	£1,750,000	£131,639	£98,775	£389	£319	£249	£178	£106
14	(Larger) Greenfield site on edge of town location	Carmarthen & Rural	1.29	1.16	35	£6,375,000	3,675	£1,735	30%	30	£475,000	£165,715	£149,015	£260	£183	£106	£29	-£48
29	Northern Greenfield site on edge of town location	St Clears & Rural Hinterland	1.48	1.33	50	£6,200,000	3,800	£1,632	30%	38	£360,000	£109,541	£98,439	£271	£186	£100	£13	-£76
30	Brownfield site on edge of town location	Ammanford, Cross hands & Amman Valley	2.91	2.18	65	£7,595,000	5,070	£1,498	10%	30	£700,000	£129,948	£97,349	£146	£74	£0	-£74	-£149
31	Brownfield site on edge of town location	Llanelli	7.1	5.33	206	£27,045,000	15,550	£1,739	20%	39	£1,800,000	£136,670	£102,599	£331	£254	£177	£98	£10
32	Village infill site	Kidwelly, Burry Port & Lower Gwendraeth	0.63	0.57	14	£1,430,000	956	£1,496	20%	25	£160,000	£113,598	£102,780	£32	-£53	-£139	-£224	-£310
33	Greenfield site on edge of town location	Llandovery, Llandeilo and north east Carmarthenshire	3.2	2.4	61	£8,485,000	5,254	£1,615	30%	25	£800,000	£134,898	£101,174	£253	£169	£85	£1	-£83

Appendix H- Residential results & SA of house prices

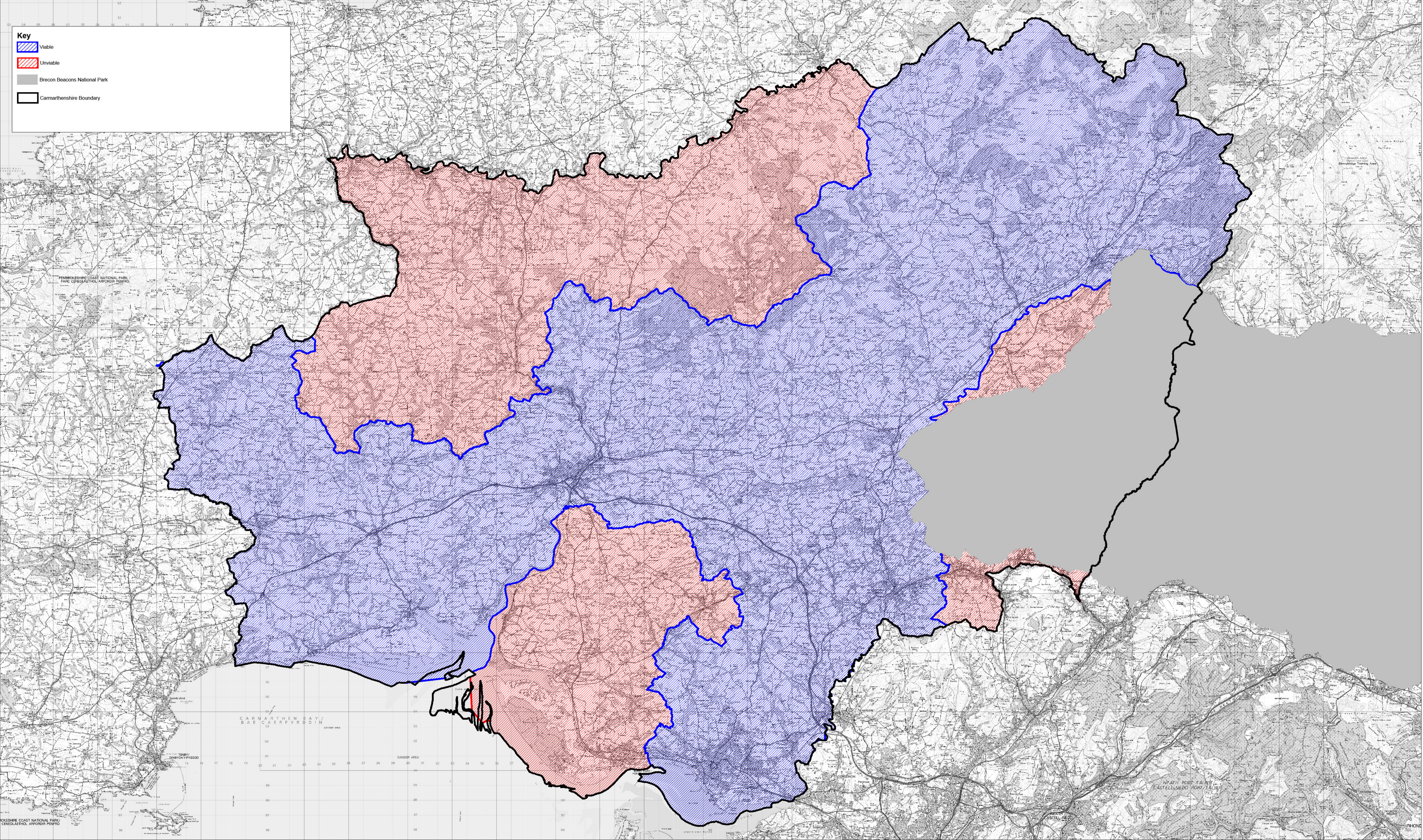
Test ref	Test Site	Sub-market area	Gross ha	Net ha	Sept Units	GDV (OMH)	GIA (OMH)	OMH Rate per GIA	% AFH	Total dph (net)	Land Benchmark	Rounded		CIL residual @ 90% HPs	CIL residual @ 95% HPs	CIL residual @ 100% HPs	CIL residual @ 105% HPs	CIL residual @ 110% HPs
												BMLV- £s per Net ACRE	BMLV- £s per GROSS ACRE					
1	Large Greenfield site on edge of town location	Llandoverly, Llandeilo and north east Carmarthenshire	10.38	6.66	195	£24,885,000	14,341	£1,735	30%	29	£2,500,000	£151,912	£97,470	£25	£57	£139	£218	£297
2	Brownfield site in low viability locality	Llandoverly, Llandeilo and north east Carmarthenshire	0.29	0.29	10	£845,000	525	£1,610	30%	34	£75,000	£104,662	£104,662	£334	£256	£179	£102	£25
3	Greenfield site on edge of town location	St Clears & Rural Hinterland	2.64	1.98	50	£6,435,000	3,930	£1,637	30%	25	£350,000	£71,537	£53,653	£59	£18	£94	£168	£242
4	Western Greenfield site on edge of town location	St Clears & Rural Hinterland	3.67	2.75	69	£7,395,000	4,441	£1,665	30%	25	£500,000	£73,581	£55,135	£81	£2	£76	£152	£228
5	(Smaller) Greenfield site on edge of town location	Carmarthen & Rural	0.89	0.8	24	£4,650,000	2,760	£1,685	30%	30	£330,000	£166,936	£150,055	£56	£13	£81	£149	£217
6	Greenfield site on edge of town	Newcastle Emlyn & Northern Rural Area	0.89	0.8	20	£2,680,000	1,740	£1,540	20%	25	£165,000	£83,468	£75,028	£158	£81	£8	£65	£139
7	Greenfield site on edge of town location	Llanelli	2.22	1.67	50	£6,710,400	4,166	£1,611	20%	30	£400,000	£96,933	£72,918	£59	£8	£75	£142	£209
8	Brownfield site in town centre location	Llanelli	9.8	7.35	221	£26,840,000	16,805	£1,597	20%	30	£2,500,000	£137,651	£103,238	£97	£24	£50	£124	£196
9	Greenfield site on edge of village	Kidwelly, Burry Port & Lower Gwendraeth	2.18	1.63	41	£5,612,500	3,956	£1,419	20%	25	£300,000	£74,484	£55,692	£242	£182	£123	£63	£4
10	Greenfield site on edge of village	Newcastle Emlyn & Northern Rural Area	2.49	1.87	38	£6,070,000	4,105	£1,479	20%	20	£300,000	£64,924	£48,758	£196	£135	£74	£13	£48
11	Greenfield site on edge of southern village	Kidwelly, Burry Port & Lower Gwendraeth	4.99	3.74	94	£11,540,000	8,248	£1,399	20%	25	£650,000	£70,335	£52,716	£203	£142	£82	£21	£39
12	Greenfield site in low viability locality	Ammanford, Cross hands & Amman Valley	0.68	0.61	8	£1,750,000	1,330	£1,316	10%	13	£100,000	£66,343	£59,514	£282	£228	£175	£122	£69
13	Large Greenfield site on edge of town location	Ammanford, Cross hands & Amman Valley	7.17	5.38	289	£33,455,000	19,441	£1,721	10%	54	£1,750,000	£131,639	£98,775	£89	£169	£249	£328	£406
14	(Larger) Greenfield site on edge of town location	Carmarthen & Rural	1.29	1.16	35	£6,375,000	3,675	£1,735	30%	30	£475,000	£165,715	£149,015	£36	£35	£106	£178	£249
29	Northern Greenfield site on edge of town location	St Clears & Rural Hinterland	1.48	1.33	50	£6,200,000	3,800	£1,632	30%	38	£360,000	£109,541	£98,439	£52	£25	£100	£175	£248
30	Brownfield site on edge of town location	Ammanford, Cross hands & Amman Valley	2.91	2.18	65	£7,595,000	5,070	£1,498	10%	30	£700,000	£129,948	£97,349	£143	£71	£0	£71	£140
31	Brownfield site on edge of town location	Llanelli	7.1	5.33	206	£27,045,000	15,550	£1,739	20%	39	£1,800,000	£136,670	£102,599	£16	£97	£177	£255	£333
32	Village infill site	Kidwelly, Burry Port & Lower Gwendraeth	0.63	0.57	14	£1,430,000	956	£1,496	20%	25	£160,000	£113,598	£102,780	£282	£211	£139	£67	£4
33	Greenfield site on edge of town location	Llandoverly, Llandeilo and north east Carmarthenshire	3.2	2.4	61	£8,485,000	5,254	£1,615	30%	25	£800,000	£134,898	£101,174	£68	£9	£85	£162	£238



# Appendix I Map showing proposed Residential Charging Zone

Scale 1:120000

Cyngor Sir Caerfyrddin,  
Gwasanaethau Cynllunio, Adran Amgylchedd,  
8 Heol Spilman, Caerfyrddin. SA31 1JY  
  
Carmarthenshire County Council  
Planning Services, Environment Department  
8 Spilman Street, Carmarthen. SA31 1JY





Appendix J- Base Commercial Results

		Use	Gross ha	Net ha	GDV (Net of Investor costs)	GIA (sqm)	NIA	Rent (spm)	Yield	Capital Value per GIA	BCIS rate per GIA	Land Benchmark	BMLV- £s per GROSS ACRE	BMLV- £s per Net ACRE	Base CIL residual (£s per sqm)
15	Ammanford, Cross hands & Amman Valley	Extra Care apartments (c3)	1.57	1.0205	£8,029,333	3,129	na		Sales basis	£2,566	£1,188	£500,000	£128,884	£198,282	£305
16	St Clears & Rural Hinterland	Nursing home (c2)	0.33	0.3000	£5,031,000	2,000	na		Income basis	£2,516	£1,516	£150,000	£183,952	£202,347	-£99
17	Carmarthen & Rural	Office	0.33	0.3000	£1,204,252	1,550	1,000	135	10.00%	£777	£1,287	£150,000	£183,952	£202,347	-£1,085
18	Llanelli	Office	8.07	5.649	£16,953,714	18,000	12,600	135	9.00%	£942	£1,287	£1,400,000	£70,207	£100,296	-£929
19	Carmarthen & Rural	Food Retail-under 1,000 sqm	0.59	0.413	£1,416,410	649.5	na	150	6.50%	£2,181	£1,080	£100,000	£68,592	£97,989	£346
20	Ammanford, Cross hands & Amman Valley	A1 Comparison Retail - Under 1,000sqm	0.08	0.056	£186,109	124	111.60	150	8.50%	£1,501	£789	£100,000	£505,868	£722,669	£138
21	Newcastle Emlyn & Northern Rural Area	Food Retail (over 1,000 sqm)	0.83	0.581	£3,209,625	1584	na	£150	7.00%	£2,026	£1,365	£150,000	£73,138	£104,482	-£164
22	Llandovery, Llandeilo and north east Carmarthenshire	Food Retail development (over 1,000sqm)	2.74	1.918	£9,275,175	3,926	na	150	6.00%	£2,363	£1,365	£500,000	£73,849	£105,499	£104
23	Ammanford, Cross hands & Amman Valley	Restaurant Development	0.33	0.231	£670,275	331	297.90	150	7.00%	£2,025	£1,963	£60,000	£73,581	£105,115	-£939
24	Llanelli	Restaurant Development, Llanelli	0.72	0.504	£1,512,473	746.9	na	150	7.00%	£2,025	£1,618	£120,000	£67,449	£96,356	-£486
25	Carmarthen & Rural	Hotel Development, Carmarthen	0.93	0.6510	£2,185,445	2400	na	£4,015 per bed	6.25%	£911	£1,453	£100,000	£43,516	£62,165	-£1,084
26	Llandovery, Llandeilo and north east Carmarthenshire	B8	1.5	1.05	£732,337	3,000	na	£32	12.50%	£244	£503	£200,000	£53,959	£77,085	-£466
27	Ammanford, Cross hands & Amman Valley	B8	9.22	6.454	£8,839,733	24,832	na	38	10.00%	£356	£503	£1,400,000	£61,450	£87,786	-£375
28	Ammanford, Cross hands & Amman Valley	A1 Comparison retail - Over 1,000sqm	2.34	1.638	£4,192,118	3577	3,219	161	10.00%	£1,172	£789	£300,000	£51,884	£74,120	£70



Test Site	Use	Gross ha	Net ha	GDV (Net of Investor costs)	GIA (sqm)	NIA	Rent (spm)	Yield	Capital Value per GIA	BCIS rate per GIA	Land Benchmark	BMLV- £s per GROSS ACRE	BMLV- £s per Net ACRE	CIL residual @ 90% Capital Value	CIL residual @ 95% Capital Value	CIL residual @ 100% Capital Value	CIL residual @ 105% Capital Value	CIL residual @ 110% Capital Value
15	Extra Care apartments (c3) in Ammanford, Cross hands & Amman Valley	1.57	1.0205	£8,029,333	3,129	na		Sales basis	£2,566	£1,188	£500,000	£128,884	£198,282	£466	£386	£305	£224	£143
16	Nursing home (c2) in St Clears & Rural Hinterland	0.33	0.3000	£5,031,000	2,000	na		Income basis	£2,516	£1,516	£150,000	£183,952	£202,347	-£336	-£217	-£99	£20	£139
17	Office development in Carmarthen & Rural	0.33	0.3000	£1,204,252	1,550	1,000	135	10.00%	£777	£1,287	£150,000	£183,952	£202,347	-£1,151	-£1,118	-£1,085	-£1,052	-£1,019
18	Office development in Llanelli area	8.07	5.649	£16,953,714	18,000	12,600	135	9.00%	£942	£1,287	£1,400,000	£70,207	£100,296	-£1,009	-£969	-£929	-£889	-£849
19	Food Retail development (under 1,000sqm) in Carmarthen & Rural	0.59	0.413	£1,416,410	649.5	na	150	6.50%	£2,181	£1,080	£100,000	£68,592	£97,969	£160	£253	£346	£438	£531
20	Comparison retail (under 1,000 sqm) in Ammanford, Cross hands & Amman Valley	0.08	0.056	£186,109	124	111.60	150	8.50%	£1,501	£789	£100,000	£505,868	£722,669	£11	£74	£138	£202	£266
21	Food Retail development (over 1,000sqm) in Newcastle Emlyn & Northern Rural Area	0.83	0.581	£3,209,625	1584	na	£150	7.00%	£2,026	£1,365	£150,000	£73,138	£104,482	-£336	-£250	-£164	-£78	£8
22	Food Retail development (over 1,000sqm) in Llandovery, Llandeilo and north east Carmarthenshire	2.74	1.918	£9,275,175	3,926	na	150	6.00%	£2,363	£1,365	£500,000	£73,849	£105,499	-£97	£4	£104	£204	£305
23	Restaurant Development in Ammanford, Cross hands & Amman Valley	0.33	0.231	£670,275	331	297.90	150	7.00%	£2,025	£1,963	£60,000	£73,581	£105,115	-£1,111	-£1,025	-£939	-£853	-£767
24	Restaurant Development in Llanelli area	0.72	0.504	£1,512,473	746.9	na	150	7.00%	£2,025	£1,618	£120,000	£67,449	£96,356	-£658	-£572	-£486	-£400	-£314
25	Hotel in Carmarthen & Rural area	0.93	0.6510	£2,185,445	2400	na	£4,015 per bed	6.25%	£911	£1,453	£100,000	£43,516	£62,165	-£1,170	-£1,127	-£1,084	-£1,041	-£998
26	B8 industrial use in Llandovery, Llandeilo and north east Carmarthenshire	1.5	1.05	£732,337	3,000	na	£32	12.50%	£244	£503	£200,000	£53,959	£77,085	-£487	-£477	-£466	-£456	-£445
27	B8 industrial use in Ammanford, Cross hands & Amman Valley	9.22	6.454	£8,839,733	24,832	na	38	10.00%	£356	£503	£1,400,000	£61,450	£87,786	-£405	-£390	-£375	-£360	-£345
28	Comparison retail (over 1,000 sqm) in Ammanford, Cross hands & Amman Valley	2.34	1.638	£4,192,118	3577	3,219	161	10.00%	£1,172	£789	£300,000	£51,884	£74,120	-£47	£11	£70	£128	£186

Appendix L- Commercial Results & SA of build costs

Test Site	Use	Gross ha	Net ha	GDV (Net of Investor costs)	GIA (sqm)	NIA	Rent (spm)	Yield	Capital Value per GIA	BCIS rate per GIA	Land Benchmark	BMLV- £s per GROSS ACRE	BMLV- £s per Net ACRE	CIL residual @ 90% Build costs	CIL residual @ 95% Build costs	CIL residual @ 100% Build costs	CIL residual @ 105% Build costs	CIL residual @ 110% Build costs
15	Extra Care apartments (c3) in Ammanford, Cross hands & Amman Valley		1.0205	£8,029,333	3,129	na		Sales basis	£2,566	£1,188	£500,000	£128,884	£198,282	£466	£386	£305	£224	£143
16	Nursing home (c2) in St Clears & Rural Hinterland		0.3000	£5,031,000	2,000	na		Income basis	£2,516	£1,516	£150,000	£183,952	£202,347	£90	-£4	-£99	-£193	-£287
17	Office development in Carmarthen & Rural		0.3000	£1,204,252	1,550	1,000	135	10.00%	£777	£1,287	£150,000	£183,952	£202,347	-£917	-£1,001	-£1,085	-£1,170	-£1,254
18	Office development in Llanelli area		5.649	£16,953,714	18,000	12,600	135	9.00%	£942	£1,287	£1,400,000	£70,207	£100,296	-£761	-£845	-£929	-£1,014	-£1,098
19	Food Retail development (under 1,000sqm) in Carmarthen & Rural		0.413	£1,416,410	649.5	na	£150	6.50%	£2,181	£1,080	£100,000	£68,592	£97,989	£487	£416	£346	£275	£205
20	Comparison retail (under 1,000 sqm) in Ammanford, Cross hands & Amman Valley		0.056	£186,109	124	111.60	£150	8.50%	£1,501	£789	£100,000	£505,868	£722,669	£242	£190	£138	£87	£35
21	Food Retail development (over 1,000sqm) in Newcastle Emlyn & Northern Rural Area		0.581	£3,209,625	1584	na	£150	7.00%	£2,026	£1,365	£150,000	£73,138	£104,482	£15	-£74	-£164	-£253	-£342
22	Food Retail development (over 1,000sqm) in Llandoverly, Llandeilo and north east Carmarthenshire		1.918	£9,275,175	3,926	na	£150	6.00%	£2,363	£1,365	£500,000	£73,849	£105,499	£284	£194	£104	£14	-£76
23	Restaurant Development in Ammanford, Cross hands & Amman Valley		0.231	£670,275	331	297.90	£150	7.00%	£2,025	£1,963	£60,000	£73,581	£105,115	-£682	-£810	-£939	-£1,067	-£1,196
24	Restaurant Development in Llanelli area		0.504	£1,512,473	746.9	na	£150	7.00%	£2,025	£1,618	£120,000	£67,449	£96,356	-£274	-£388	-£486	-£592	-£698
25	Hotel in Carmarthen & Rural area		0.6510	£2,185,445	2400	na	£4,015 per bed	6.25%	£911	£1,453	£100,000	£43,516	£62,165	-£894	-£989	-£1,084	-£1,179	-£1,274
26	B8 industrial use in Llandoverly, Llandeilo and north east Carmarthenshire		1.05	£732,337	3,000	na	£32	12.50%	£244	£503	£200,000	£53,959	£77,085	-£400	-£433	-£466	-£499	-£532
27	B8 industrial use in Ammanford, Cross hands & Amman Valley		6.454	£8,839,733	24,832	na	£38	10.00%	£356	£503	£1,400,000	£61,450	£87,786	-£309	-£342	-£375	-£408	-£441
28	Comparison retail (over 1,000 sqm) in Ammanford, Cross hands & Amman Valley		1.638	£4,192,118	3577	3,219	£161	10.00%	£1,172	£789	£300,000	£51,884	£74,120	£173	£121	£70	£18	-£33

Appendix M- Retail CIL analysis

Ref	Site description (Final report)	Sub-market area	Use	Gross ha	Net ha	GIA (sqm)	NIA	Rent (spm)	Yield	Land Benchmark	BMLV- £s per GROSS ACRE	BMLV- £s per Net ACRE	Base CIL residual
19	Carmarthen Convenience retail	Carmarthen & Rural	Food Retail-under 1,000 sqm	0.59	0.413	649.5	na	£150	6.50%	£100,000	£68,592	£97,989	£346
21	Newcastle Emyln Convenience retail	Newcastle Emyln & Northern Rural Area	Food Retail (over 1,000 sqm)	0.83	0.581	1584	na	£150	7.00%	£150,000	£73,138	£104,482	-£164
22	Llandeilo Convenience retail	Llandovery, Llandeilo and north east Carmarthenshire	Food Retail development (over 1,000sqm)	2.74	1.918	3,926	na	£150	6.00%	£500,000	£73,849	£105,499	£104

Average CIL Base rate £95

CIL rate if a 20%	CIL rate if a 30%	CIL rate if a 40%	CIL rate if a 50%
£76	£67	£57	£48

Ref	Site description (Final report)	Sub-market area	Use	Gross ha	Net ha	GIA (sqm)	NIA	Rent (spm)	Yield	Land Benchmark	BMLV- £s per GROSS ACRE	BMLV- £s per Net ACRE	Base CIL residual
20	Llanelli Comparison Retail	Llanelli	A1 Comparison Retail - Under 1,000sqm	0.08	0.056	124	111.60	£150	8.50%	£100,000	£505,868	£722,669	£138
28	Cross hands Comparison Retail	Ammanford, Cross hands & Amman Valley	A1 Comparison retail - Over 1,000sqm	2.34	1.638	3577	3,219	£161	10.00%	£300,000	£51,884	£74,120	£70

Average CIL Base rate £104

Averages across all viable sub-market areas locations:- £100

CIL rate if a 20% Viability margin were applied:-	CIL rate if a 30% Viability margin were applied:-	CIL rate if a 40% Viability margin were applied:-	CIL rate if a 50% Viability margin were applied:-
£83	£73	£62	£52

Averages across all viable sub-market areas locations:- £80 £70 £60 £50