

**For:  
Eastleigh Borough Council**

**Eastleigh Local Plan:  
Viability Study**

**Final Report (DSP v6)**

April 2018

DSP17488

# Final Report (v6)

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## Executive Summary

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### Summary of assessment approach:

- 1 Eastleigh Borough Council (EBC) commissioned the Dixon Searle Partnership (DSP) to undertake a viability assessment to inform and support the emerging draft Eastleigh Borough Local Plan 2016 to 2036 (EBLP).
- 2 The following assessment report, which this Summary overviews briefly, considers the likely impacts of EBLP policies on new development anticipated to come forward in the borough either through allocations in the plan or windfall planning permissions. The report assesses the development viability prospects of various relevant forms of development by allowing for typical build and associated development costs, adding in the costs associated with meeting local plan policy requirements and considering how these (collectively) are supported by the range of typical new-build housing sales values as those vary across the borough. The approach uses a number of different development typologies. These appropriately reflect an overview of the nature of development expected to come forward over the plan period in terms of site size and scheme type, nature of location, dwelling mix and tenure.
- 3 The approach taken is a high-level strategic one which reflects the nature and extent of uncertainty associated with a local plan covering a large geographical area, a range of housing market characteristics and over a twenty-year period. The approach has been applied widely elsewhere and is considered appropriate, robust and sufficiently detailed for the purpose of informing the development of and justifying the application of policy through a local plan.
- 4 The assessment tests for different levels (percentages) of affordable housing provision alongside potential rates of CIL (Community Infrastructure Levy) charging. Their impact on development viability is considered through the review of varying residual land value (RLV) appraisal outcomes as one or both of these key policy cost areas is adjusted – across a large number of appraisals covering wide range of trial policy combinations.

- 5 Affordable housing consistently places the most significant individual financial ‘burden’ imposed by the planning system on new development (a universal effect and not just an EBC assessment finding). The assessment helps to inform the potential “trade-off” between affordable housing and other matters, such as the scope to support CIL, since it is simply not possible for the development finances to meet all desired obligations in full. Again, this is a common finding.
  
- 6 The study considers the influence of varying new-build sales values, with the range represented by 8 value levels (VLs) reflecting the values likely to be achieved in different parts of the borough, the outer 2 of which are upper and lower benchmarks. The main range of 6 VLs representing most new build sales occurring in the borough at the present time range from £2,800 per m<sup>2</sup> to £4,800 per m<sup>2</sup> which, for example, would cover house prices of £280,000 to £480,000 for a 100m<sup>2</sup> 3-bed market sale property (see Table i below).
  
- 7 Within the range reviewed, the lower VLs are considered most representative of the Eastleigh town housing market, for example, with the mid-range levels reflecting areas such as Hedge End, West End & Fair Oak; mid to upper levels representing some areas of Chandlers Ford, Bishopstoke and Botley and the highest VLs representative of higher value schemes as may be seen in those areas and also in locations such as Hiltingbury and Old Bursledon.

Table i – Residential sales value levels in Eastleigh Borough - Indicative

Market Value (MV)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8
£/m <sup>2</sup>	£2,400	£2,800	£3,200	£3,600	£4,000	£4,400	£4,800	£5,200
£/ft <sup>2</sup>	£223	£260	£297	£334	£372	£409	£446	£483
<b>Indicative Relevance of Value Levels</b>	Lower sensitivity test / falling market	Eastleigh, Allbrook, Netley Abbey, (VL2-3 estimated/typical)						Higher sensitivity test – not regularly applicable in the Borough / rising market
			Hedge End, West End, Fair Oak, Horton Heath, Bursledon, Chandler's Ford (VL4-5 estimated/typical);					
				Bishopstoke, Botley, Hamble-Le-Rice				
						Others & higher / rising market		

- 8 In reviewing the development viability picture provided by the range of RLV results, the study differentiates between likely land values for greenfield and brownfield (previously developed land – PDL) development. For greenfield development the position assumed is that RLVs (once all costs and policy burdens are factored in) of at least £250,000 per Hectare (£/Ha) need to be achieved before development would generally be considered viable.
- 9 For PDL the indication generally is that RLVs of £1.5m/Ha need to be achieved in order to support viable development with a good level of confidence across a range of site types. This higher RLV comparison level (benchmark/viability test) is a reflection of the significantly higher existing land use values associated with bringing forward PDL compared with greenfield development, which is largely based on an enhancement to existing use based on agricultural land value. The report detail considers the influence of these matters, and how varying site specifics will tend to affect them.
- 10 The study tests affordable housing percentages of 0%, 20% and 35%; the latter being the council’s local plan policy target.
- 11 Whilst the council does not yet impose a Community Infrastructure Levy (CIL) charge on new development, a considerable amount of work was undertaken towards working up a CIL for Eastleigh Borough during the process of preparing the former 2011-29 local plan. The 2011-29 plan was found unsound meaning that CIL was not progressed subsequently to support that plan version. Informed by that earlier viability work, this assessment reuses trial CIL charging rates largely established during that work as new test rates – at £0/m<sup>2</sup>, £75/m<sup>2</sup> and £125/m<sup>2</sup>. This is to ensure that the EBLP policies are not considered in isolation i.e. without the costs associated with a CIL also taken into account. With the EBLP policies confirmed in due course, it will be possible to further consider the viability scope for CIL charging, based on latest available information.
- 12 While a great deal of the assessment focus is on housing development at this stage (as that is consistently found to be the development sector over which local planning policy has the greatest influence on development viability), the report also addresses the viability of commercial and non-residential development including of employment development uses and retail schemes as key aspects of the work that is also necessary to inform CIL charging related to the EBLP in due course.

- 13 The report sets out our findings, including in Appendices, in the form of a series of matrices for the different development typologies. These show the RLVs arising out of different types of development (greenfield / PDL, flats/houses/a mixture) in different local markets (as represented by the VLs range, as above), assuming the application of local plan policies and, crucially, with varying test levels for affordable housing targets and potential (currently only by means of trial rates) CIL costs as described above. From these matrices it can be seen what impacts the application of different levels of affordable housing provision and / or CIL can have on development viability.
- 14 The report also considers the impacts of other individual local plan policies which are likely to impact on development viability; in particular, building accessibility and space standards, energy efficiency / sustainability standards and requirements for the provision of public open space.
- 15 This report does not address the viability of the preferred Strategic Growth Option (SGO) north of Bishopstoke and north and east of Fair Oak as that is addressed in a separate report by DSP.
- 16 The assessment looked at 10 different development typologies (see Table ii below) which were considered to represent the type of development either proposed for allocation in the EBLP or expected to come forward as windfall development.

Table ii – Residential development typologies used for viability testing

Dwellings (no.)	Type	Density (dph)	Type (GF/PDL)	Area (ha)	POS (ha)	Build (months)
11	Houses	40	GF/PDL	0.28	0.10	9
15	Houses	40	GF/PDL	0.38	0.13	12
15	Flats	75	GF/PDL	0.20	0.06	12
30	Mixed	50	GF	0.60	0.24	12
30	Flats (SH)	125	PDL	0.24	0.13	18
50	Flats	150	PDL/GF	0.33	0.22	18
50	Mixed	50	PDL/GF	1.00	0.40	18
100	Mixed (10% AHO)	40	PDL/GF	2.5	0.8	24
100	Mixed	40	PDL/GF	2.50	0.80	24
500	Mixed	40	PDL/GF	12.5	3.99	60

Abbreviations within the above:

No. = number (of dwellings);

dph = dwellings per hectare;

GF = greenfield;

PDL = previously developed land;

Ha = hectares;

POS = public open space;

SH = Sheltered / retirement housing;

AHO = Affordable home ownership

### Summary of findings:

- 17 Given the nature of the study methodology described briefly above, as might be expected, the viability results are best described as 'mixed'. The viability of development is very closely tied to sales value levels (the main influence over this being location) such that what might be viable in a mid to higher VL typical housing values area might not be viable in an area represented more typically by the lower VL tests.
- 18 In general terms, greenfield developments (which comprise all of the new housing allocations proposed in the EBLP) appear to be viable across the majority of the borough. The assessments generally show that greenfield development is able to support emerging EBLP policies and deliver both levels of affordable housing which are likely to meet EBLP targets as well having scope to deliver at least some degree of CIL. As might be expected, and certainly in DSP's experience a fairly typical finding, viability becomes stretched when considering flatted schemes on PDL sites in the areas where values typically reflect lower VLs.
- 19 The main and really only clearly identifiable area of the borough where it appears that development viability might be tight is Eastleigh (town) and, in particular Eastleigh town centre where the development opportunities are likely to be on PDL rather than greenfield sites. This means that higher RLVs will most often need to be achieved to cover the higher site values related to existing uses (EUVs), frequently higher costs of developing (typically) flatted or mixed schemes on PDL-type sites. Allied to these characteristics, the most likely incidence of lower sales values will probably not assist this. Eastleigh town centre is one of the lowest VL areas in the borough. As a result, DSP had advised that the council may need to give

consideration to the more flexible application of affordable housing policy and/or CIL (or setting lower targets / CIL levels) in the town centre in order for these development viability characteristics and scheme delivery prospects to be respected and supported as far as possible.

- 20 Associated with these findings, and dependent on the flexibility with which the new policies may be adopted, amongst the recommendations is the potential consideration of differential policy.
- 21 By way of illustration only of an area of the findings, part of one of the summary RLV tables for one of the housing typologies is summarised in Table iii below. This shows the RLV results (in £s/ha) for the 50 units mixed (housing & flats) typology assuming delivery a 35% affordable housing content in accordance with policy. Within the assessment report Appendix IIa there are two further tables for each typology - showing the 20% affordable housing and 0% affordable housing test results for comparison. The tables also include information on the appraisal RLV sums (in £s - as well as expressed in £/ha terms as in the table below). Looking across the full suite of tables for each typology it can be seen how different CIL charging rate scenarios impact on the viability of different types of development in various parts of the borough (as represented by the indicative areas relevant to the VLs – consistent with the Table i overview above)).

Table iii – Example results - RLV matrix extract

Dev Scenario	Site Type	Market Floor Area (m <sup>2</sup> )	Density (dph)	Value Level	Value £/m <sup>2</sup>	RLV with £0/m <sup>2</sup> CIL	RLV with £75/m <sup>2</sup> CIL	RLV with £125/m <sup>2</sup> CIL
50 units Mixed 35% AH	GF / PDL	3,085	50	VL1	£2,400	Negative RLV		
				VL2	£2,800			
				VL3	£3,200	£462,458	£270,248	£142,109
				VL4	£3,600	£943,751	£770,834	£652,578
				VL5	£4,000	£1,415,142	£1,242,225	£1,126,947
				VL6	£4,400	£1,886,532	£1,713,615	£1,598,337
				VL7	£4,800	£2,357,923	£2,185,006	£2,069,728
				VL8	£5,200	£2,829,313	£2,656,396	£2,541,118

Notes:

**Red result** = RLV £/Ha beneath greenfield viability test (land value benchmark)

**Green results** = RLVs £/Ha above 1. greenfield (@ £250k/Ha) and 2. guide overall PDL (@ £1.5m/ha) viability test (land value benchmark)

- 22 Looking at the example results extracted above, bearing in mind the viability tests (land value benchmarks) at £250k/Ha for greenfield and £1.5m/Ha for PDL, the following indications are seen:
- £125/m<sup>2</sup> CIL could not be charged on a greenfield site in a VL3 area as the RLV of £142,109/ha is below the £250k/ha threshold;
  - However, £75/m<sup>2</sup> CIL could be charged in a VL3 area as the RLV is £270,248/ha;
  - 35% affordable housing and £125/m<sup>2</sup> CIL could be accommodated in all other VL areas on greenfield sites;
  - Development would probably only be viable on a PDL site in a VL6 area (representing house prices towards the upper end for the borough) as all the RLVs supported by VLs 1 through to 5 in that test scenario fall below the £1.5m/ha threshold, although on this basis a 'non-viable' position becomes marginal with a nil (£0/m<sup>2</sup> CIL).
- 23 The above table (iii) shows only one development typology at one affordable housing policy target level. Looking at the full suite of tables for each of the affordable housing scenarios and for each of the development typologies, the impacts of different affordable housing levels in combination with the varying trial CIL test levels can be seen on RLVs in different VL areas.
- 24 Turning to some of the other policy impacts, the assessment highlights the potential impacts of EBLP policies which require specific standards to be achieved - be this in the form of enhanced accessibility to new housing, energy efficiency & sustainability related or public open space provision. In particular it highlights the significant costs associated with achieving the Building Regulations M4(3) wheelchair adaptability standards as required by Policy DM31 of the EBLP for specified types and scales of development and the on-site public open space requirements of Policy DM35 in the case of some scheme types. The 'Passivhaus' standards included in Policy DM2 are also noted as having an impact on viability, although considered a minimal / likely supportable one at the levels tested, based on DSP's understanding. Rather than indicating that such policies will definitely render development unviable, the findings highlight that these impacts exist and this needs to be borne in mind when considering the cumulative policy 'burdens' placed on development; and therefore

the likely need for flexibility in the application of policy to reflect the pressures of the cumulative policy costs.

- 25 Turning to non-residential forms of development, the study notes that viability for most forms of non-residential development is, and looks likely to remain, quite challenging when reviewed using assumptions suitable for the study purpose – to seek to ensure that any CIL does not operate at the margins of viability. Only large scale out of town retailing, should there be any during the plan period, and Use Class C2 Care Homes look likely to be able to support a CIL without adversely impacting on viability. At present, the review points to town centre retail development, offices, industrial, warehousing, education facilities, community, health and leisure facilities as being non-viable for CIL charging purposes, or marginally viable at best and therefore highly unlikely to be able to support a CIL at this forthcoming inception stage associated with the new EBLP.
- 26 In DSP’s wide experience of such matters, these findings are generally typical of similar studies carried out across areas having similarly varied characteristics and values available to support the various costs of development. They are not all specific to Eastleigh borough. Given current Brexit related uncertainties around the nature of the commercial and speculative property markets and therefore future development values (as supported by occupier demand) and costs, in general terms the assessment recommends, in order not to compromise development viability, that the council applies the least controlling policy interventions and additional cost measures over and above usual planning and design criteria and national base standards.
- 27 Especially if simple uniform policies are retained (as can be positive for clarity to the development industry), the assessment also recommends that flexibility is built into both the wording of policies and their application to reflect the likelihood of differing viability in different circumstances and areas; and how this may change over time

Executive Summary Ends – Final Report (v6)

# 1. Introduction

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## 1.1 Background to the Viability Assessment

1.1.1 The Council's currently adopted Local Plan consists of the 'saved' policies of the Eastleigh Borough Local Plan Review (2001-2011) supplemented by additional guidance in the form of Supplementary Planning Guidance (SPG) and Supplementary Planning Documents (SPD).

1.1.2 In response to identified housing need in the borough, the Council is progressing a new Local Plan, which will be known as the Eastleigh Borough Local Plan 2016-2036 (EBLP) the latest pre-submission version of which was recommended to Council on 11<sup>th</sup> December 2017 and is known as Eastleigh Borough Local Plan 2016-2036 (EBLP 2036).

1.1.3 The Council has not yet adopted a Community Infrastructure Levy (CIL) although work was undertaken with consultation on a draft CIL undertaken in 2013-14. Associated with its work on the emerging EBLP 2036, the Council is considering whether to introduce a CIL for the Borough – to support the infrastructure requirements leading from the new Plan identified development. As part of this study, therefore, preliminary advice is provided on the potential for the introduction of a CIL here, building on previous evidence undertaken and provided by DSP on behalf of the Council<sup>1</sup>.

1.1.4 The Local Plan must be prepared in accordance with the requirements set out in the current National Planning Policy Framework (NPPF) and the accompanying Planning Practice Guidance (PPG)<sup>2</sup>. The NPPF introduced a clear requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. In addition, further guidance on this requirement is covered by the

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<sup>1</sup> DSP – EBC Affordable Housing Viability Assessment Update (2012); DSP – EBC CIL Viability Assessment (2013); DSP – EBC Local Plan: Viability Assessment Supplementary Report (2014).

<sup>2</sup> It should be noted that at the time of finalising this report, the Ministry of Housing, Communities and Local Government had started consultation on draft revisions to the NPPF alongside new draft Planning Practice Guidance for Viability as well as separate consultation on potential reforms of developer contributions:

MHCLG: NPPF Consultation Proposals & Draft Text for Consultation

MHCLG: Draft Planning Practice Guidance for Viability

MHCLG: Supporting housing delivery through developer contributions. Reforming developer contributions to affordable housing and infrastructure.

Given the timing of this report and the consultations, the results of those consultations cannot be taken into account in this Viability Assessment.

national Planning Practice Guidance and other publications, which are also the subject of the current consultations.

- 1.1.5 This study provides the viability evidence which, alongside work undertaken by others where applicable, contributes to a suite of documents used to inform and support the emerging Local Plan of the Council.
- 1.1.6 It is in the interests of the Council, local communities, developers and all other stakeholders, to ensure that the proposed policies, sites and the scale of development identified in the plan are deliverable as a whole - to ensure a sound Plan through the examination process. This is equally true of the level (or levels) of CIL that may be required across the borough in due course.
- 1.1.7 In light of the above, the Council has therefore commissioned this viability assessment. This will help to assess and inform policies in the Local Plan that have cost implications, provide a viability appraisal of the sites typologies likely to come forward through the Local Plan and provide a high-level assurance that the proposed sites and the scale of development identified in the plan would not be subject to such a scale of obligations (potentially including a CIL) and policy burdens that their ability to be developed viably is threatened.
- 1.1.8 In summary, the objectives of the Council's Brief were as follows:
- The study will establish whether there is a reasonable prospect that the Eastleigh Local Plan policy requirements and development proposals are viable.
  - The study will separately test viability with regard to:
    - A Strategic Growth Option;
    - Other development - general brownfield (i.e. previously developer land – 'PDL') and greenfield development;
    - Advising on an appropriate rate for a future Community Infrastructure Levy; for affordable housing provision; and for other policy requirements.
  - The main focus of the study is to advise on the deliverability of the Local Plan and its policy requirements. Preliminary advice only is required regarding CIL. The viability appraisal will be proportionate to support Local Plan policy. A 'red book' valuation assessment is not required. Most focus should be applied to viability

testing the Strategic Growth Option. The testing of other development should be robust but can be relatively broad brush.

1.1.9 Therefore, as part of this commission, DSP were asked to provide an assessment of the likely viability of the Council's Strategic Growth Option (SGO). That information has been provided to the Council separately and has been used as part of the evidence assessed to inform its consideration of that in the latter part of 2017 (to the current stage); DSP's provided SGO viability information does not form part of this report. As in the case of the aspects of the overall assessment and reporting covered in this document (i.e. the assessment scope dealing with general development sites and the updated preliminary CIL viability advice), the viability and other information related to the SGO is expected to be kept under review as necessary - by way of separate reporting.

## **1.2 Background to the CIL**

1.2.1 As well as testing the viability of the Local Plan policies and strategies, as noted above the Council requires preliminary advice on an appropriate rate (or rates) for a potential future CIL which ensures, as far as reasonably possible, the viability and deliverability of development; whilst taking into account the wider costs associated with the policies and other obligations which are proposed for inclusion in the Local Plan.

1.2.2 In 2013, DSP undertook a CIL viability assessment on behalf of the Council. That report provided analysis and recommendations for CIL charging scope across the Borough. The changes during the development process of the Local Plan over the intervening period mean that a CIL has not been progressed to date. However, the approach and methodology for evidencing a CIL locally remains the same. As such this study uses the previous recommendations as a starting point for considering the potential level of CIL that could be viable in conjunction with the Local Plan policies emerging through the new Local Plan. This provides the requested preliminary view of CIL. Whilst this report considers the potential extent of any charging levy that may be introduced, it is not intended to identify the proposed Charging Schedule, or form part of the legislative framework required to introduce CIL locally. Further work is likely to be required to inform this process and will be progressed independently of this assessment and report; usually in our experience with a firmer basis for the Local Plan policy set established.

1.2.3 The Council will be aware that the Government commissioned a review of the Community Infrastructure Levy<sup>3</sup> with the task of assessing the extent to which CIL *‘does or can provide an effective mechanism for funding infrastructure, and to recommend changes that would improve its operation in support of the Government’s wider housing and growth objectives’*. The CIL Review team’s report was published in October 2016 and in summary recommended that the Government should replace the CIL with a hybrid system of a broad and low level Local Infrastructure Tariff (LIT) and s106 for larger developments.

1.2.4 Through its Housing White Paper, the previous Government stated that following the CIL Review Team’s report, it would *‘examine the options for reforming the system of developer contributions including ensuring direct benefit for communities, and will respond to the independent review and make an announcement at Autumn Budget 2017’*. Latest information following the Autumn Statement<sup>4</sup> suggests that the Government may not be taking on board many of the recommendations of the CIL Review Panel and will launch a consultation with detailed proposals on the following measures<sup>5</sup>:

- *‘removing restriction of Section 106 pooling towards a single piece of infrastructure where the local authority has adopted CIL, in certain circumstances such as where the authority is in a low viability area or where significant development is planned on several large strategic sites.’<sup>9</sup> This will avoid the unnecessary complexity that pooling restrictions can generate*
- *speeding up the process of setting and revising CIL to make it easier to respond to changes to the market. This will include allowing a more proportionate approach than the requirement for two stages of consultation and providing greater clarity on the appropriate evidence base. This will enable areas to implement a CIL more quickly, making it easier to set a higher ‘zonal CIL’ in areas of high land value uplift, for example around stations*
- *allowing authorities to set rates which better reflect the uplift in land values between a proposed and existing use. Rather than setting a flat rate for all development of the same type (residential, commercial, etc.), local authorities will*

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<sup>3</sup> A Report by the CIL Review Team – A New Approach to Developer Contributions (submitted October 2016 but published February 2017)

<sup>4</sup> 22<sup>nd</sup> November 2017

<sup>5</sup> <https://www.gov.uk/government/publications/autumn-budget-2017-documents/autumn-budget-2017#housing>

*have the option of a different rate for different changes in land use (agricultural to residential, commercial to residential, industrial to residential). All the protections for viability from CIL, such as the Examination in Public, will be retained*

- *changing indexation of CIL rates to house price inflation, rather than build costs. This will reduce the need for authorities to revise charging schedules. This will ensure CIL rates keep up with general housing price inflation and if prices fall, rates will fall too, avoiding viability issues*
- *giving Combined Authorities and planning joint committees with statutory plan-making functions the option to levy a Strategic Infrastructure Tariff (SIT) in future, in the same way that the London Mayoral CIL is providing funding towards Crossrail. The SIT would be additional to CIL and viability would be examined in public. DCLG will consult on whether it should be used to fund both strategic and local infrastructure'*

1.2.5 At the time of completing our assessment work as reported in this document, latest information from the Government suggests that the CIL Review Panel's LIT recommendations will not be taken forward.

1.2.6 Another consultation exercise has now been published (as of 5<sup>th</sup> March 2018), as alluded to above<sup>6</sup>, that may further impact on CIL and other developer contributions. At the time of completing our assessment work currently it appears most likely that the CIL will continue but potentially in an amended form, with further details awaited. Obviously at this stage we have not been able to take into account any potential future changes to the CIL other than through high-level commentary within this report. Depending on the timing of the Council's progression of a CIL aligned to the new Local Plan, and relative to the availability of any new approach and guidance, EBC may need to review this further.

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<sup>6</sup> MHCLG: Supporting housing delivery through developer contributions. Reforming developer contributions to affordable housing and infrastructure.

### 1.3 Eastleigh Borough Profile

- 1.3.1. Eastleigh Borough is located on the south coast in urban South Hampshire and as stated in the Council's EBLP 2036: *'adjoins the eastern and northern boundaries of the city of Southampton, bordering Test Valley borough to the north-west, Winchester district and the South Downs National Park to the north, Fareham borough to the east (with a shared boundary along the River Hamble and its estuary) and New Forest district to the south-west via a shared boundary in Southampton Water'*.
- 1.3.2. The EBLP 2036 goes on to explain: *'The main town in the Borough is Eastleigh. The Borough includes two other large urban areas – Chandler's Ford and Hedge End – and some sizeable settlements at Bishopstoke, Fair Oak, Horton Heath, West End, Bursledon, Botley, Hamble and Netley. The Borough has an area of 79.8 sq. km. It is predominantly suburban in character.'*
- 1.3.3. The most significant element of the new strategy for the Borough is the location of new housing development. In preparing the Local Plan, the Council has identified a need to find land for a minimum of 14,580 dwellings over the period 2016-2036.
- 1.3.4. The EBLP 2036 states: *'The Council has produced a housing trajectory for the Local Plan. The housing trajectory estimates that, taking into account sites with permission for development, existing allocations and the potential for further development within urban areas to 2036, the Council should identify greenfield sites sufficient to accommodate a minimum of 4,020 new dwellings in total...In addition, land is required for other uses, in particular employment, in order to ensure that there will be local jobs for new residents, and to support the PUSH Spatial Position Statement (2016). The Council has estimated a requirement for 144,050sq.m. (net) of new employment floorspace (2016-2036). Alongside residential and employment development, there will be a need for new transport and utilities infrastructure, and for new green infrastructure and community infrastructure including schools and sport and recreation facilities.'*
- 1.3.5. In addition to proposals for identified greenfield sites and allowances for windfalls based housing supply through the Local Plan, the Council has identified a Strategic Growth Option (the above noted proposed 'SGO') for comprehensive development in the area north of Bishopstoke and north of Fair Oak - identified as being capable of

delivering up to approximately 5,200 new dwellings (including around 3,350 within the Plan period).

#### **1.4 Purpose of this Report**

- 1.4.1 Responding to the national planning context and guidance as noted above, taking account of the local circumstances this assessment involves the review of the financial viability of site typologies representing a range of typical site types likely to come forward across the Plan. The assessment will provide the evidence base for the viability of the EBLP 2036 policies, informing and supporting the deliverability of the Plan overall.
- 1.4.2 This approach does not require a detailed viability appraisal of every site anticipated to come forward over the plan period but rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather potential policies that are likely to have a close bearing on development costs. In our experience this means a focus predominantly on the viability prospects and potential policies associated with housing development, as the ability for a local authority to influence the viability of other forms of development (non-residential/employment/commercial) through local policy is much more limited.
- 1.4.3 To this end, the study requires the policies and proposals in the Local Plan to be brought together to consider their cumulative impact on development viability including the potential introduction of a CIL locally.
- 1.4.4 The assessment approach applies sensitivity testing to policy costs including affordable housing combined with allowances for meeting the requirements for other optional housing standards - including relating to the access to and use of buildings, water efficiency and space standards.
- 1.4.5 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.

- 1.4.6 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue (sales income) generated by the completed scheme (the gross development value – GDV).
- 1.4.7 The residual valuation technique has been used to run appraisals on sample scheme typologies representing development scenarios that are likely to come forward across the borough under the emerging development strategy.
- 1.4.8 The study process produces a large range of results relating to the exploration of a range of potential affordable housing percentage targets as well as other variables. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform the policy setting process.
- 1.4.9 A key element of the viability overview process is the comparison of the RLV results generated by the development appraisals and the potential level of land value that may need to be reached to ensure that development sites continue to come forward - so that development across the area is not put at risk owing to unrealistic policy burdens in combination with other development cost factors. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. The results sets have been tabulated in summary form and those are included in Appendix IIa (residential) and IIb (commercial/non-residential scenario tests).
- 1.4.10 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons will be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested.

1.4.11 This report then sets out findings and recommendations on the viability of the Plan as a whole whilst providing preliminary advice on potential local implementation of a CIL.

## 1.5 Policy & Guidance

1.5.1 This viability assessment has been produced in the context of and with regard to the NPPF, CIL Regulations and other Guidance currently in place and applicable to studies of this nature. Prepared in this way, this study has also had regard to the national Planning Practice Guidance ('PPG'), which includes the relevant CIL guidance.

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

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

*'Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable.'*

*Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local*

*standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle’.*

- 1.5.4 Having regard to this guidance the Council needs to ensure that the Local Plan, in delivering its overall policy requirements, can address the requirements of the NPPF. Specific changes to the NPPF are currently under consideration. This report cannot pre-judge the outcome of the consultation and any changes that may be made to the NPPF. Dependent on whether or how the newly introduced (March 2018) NPPF and associated consultations (including in regard to potential revisions to the viability assessment in both a plan-making and decision-making context) influence its particular Plan development and potential future CIL considerations and their timings, EBC may need to further consider its evidence base or particular use of that, and any additional work or updated context, as 2018 progresses.
- 1.5.5 Further guidance is set out in the current PPG which re-iterates these messages where it says *‘Plan makers should consider the range of costs on development. This can include costs imposed through national and local standards, local policies and the Community Infrastructure Levy, as well as a realistic understanding of the likely cost of Section 106 planning obligations and Section 278 agreements for highways works. Their cumulative cost should not cause development types or strategic sites to be unviable. Emerging policy requirements may need to be adjusted to ensure that the plan is able to deliver sustainable development’.*
- 1.5.6 In addition, relevant information is contained in the publication ‘Viability Testing Local Plans – Advice for planning practitioners’ published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the ‘Harman’ report). That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in the Plan making process.
- 1.5.7 The government’s reform of the planning system has placed significant limitations on the scope to set locally-specific standards and policy requirements. Following

consultation on the Housing Standards Review (August 2013), on 27th March 2015 in a written Ministerial Statement (WMS) the Government formally announced a new approach to the setting of technical housing standards in England. This has been accompanied by a new set of streamlined standards.

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

1.5.9 The new approach does however introduce optional Building Regulations requirements for access (volumes 1 and 2) – Part M4 (2) and (3) - and water efficiency which provide for potential to introduce a higher local standard than the minimum national building regulations, where evidenced (both in needs and viability terms) and appropriate. Based on similar criteria, a nationally described space standard has also been introduced, which can be implemented through the planning system.

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

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

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

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

- *‘Contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1000sqm (gross internal area).*
- *In designated rural areas, local planning authorities may choose to apply a lower threshold of 5-units or less. No affordable housing or tariff-style contributions should then be sought from these developments. In addition, in a rural area where the lower 5-unit or less threshold is applied, affordable housing and tariff style contributions should be sought from developments of between 6 and 10-units in the form of cash payments which are commuted until after completion of units within the development. This applies to rural areas described under section 157(1) of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty.*
- *Affordable housing and tariff-style contributions should not be sought from any development consisting only of the construction of a residential annex or extension to an existing home.*
- *Additionally, local planning authorities should not seek section 106 affordable housing contributions, including any tariff-based contributions to general infrastructure plots, from developments of Starter homes. Local planning authorities will still be able to seek other section 106 contributions to mitigate the impact of development to make it acceptable in planning terms, including addressing any necessary infrastructure’.*

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

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

1.5.16 In May 2016, however, the Court of Appeal overturned that decision so that the s106 and affordable housing threshold based on a national minimum development size were re-introduced (as per the earlier WMS). The EBLP affordable housing policy (DM30) reflects this position and does not seek the provision of affordable housing from schemes of 10 or fewer dwellings (subject also to maximum gross floor space requirements – at 1,000 sq. m new development).

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

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

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

**'Affordable housing:** *Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.*

**Social rented** housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency {now Homes England}.

**Affordable rented** housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

**Intermediate housing** is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low-cost homes for sale and intermediate rent, but not affordable rented housing.

Homes that do not meet the above definition of affordable housing, such as “low cost market” housing, may not be considered as affordable housing for planning purposes.’

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

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

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

*(2) Regulations under this section—*

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

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

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

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

*(4) In this section “affordable housing” means new dwellings in England that—*

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

*(b) are starter homes within the meaning of Chapter 1 of Part 1 of the Housing and Planning Act 2016 (see section 2 of that Act)<sup>7</sup>.*

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

1.5.21 We have not, at this stage, taken into account any potential changes to the definition of affordable housing, although from what we are able to pick up at the current time, these are unlikely to significant change what is envisaged within such a viability assessment – i.e. a mix of rented and intermediate / affordable home ownership tenure (latter such as shared ownership).

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<sup>7</sup> Housing & Planning Act 2016

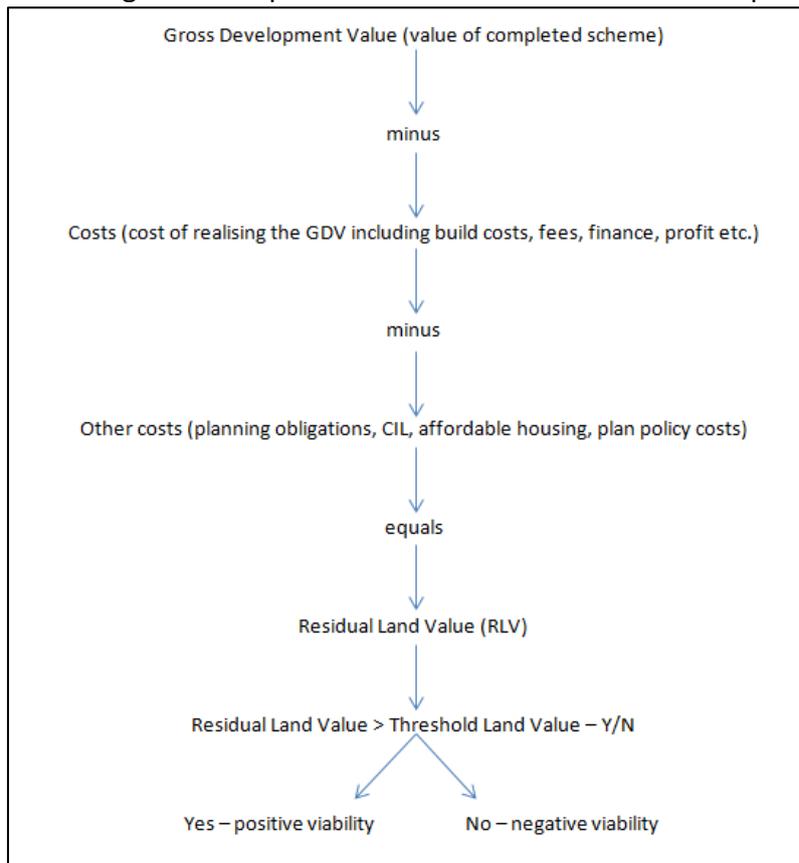
## 2 Methodology

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### 2.1 Residual valuation principles

- 2.1.1 Collectively this study investigates the potential viability and, therefore, deliverability of the Draft EBLP 2036 and its policies - including preliminary advice on a potential CIL.
- 2.1.2 There will be a number of policies that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on discussions with Council officers around the range of policies being considered for inclusion in the new Plan. This study considers how the cost of these potential obligations interact and therefore estimates the collective impact on viability of a range of policy options. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.
- 2.1.3 Prior to fixing assumptions, necessarily at a point in time, and running appraisals (as outlined in the following paragraphs) we undertake an extensive information review, property market research and a development industry stakeholders’ survey. As a part of this, a review of the potential policy proposals enables us to assess which are considered likely to have a particular development cost impact, or additional cost implications over and above typical costs (for example utilising the costs information from established sources such as the Building Cost Information Service of the RICS (BCIS)). Appendix I to this document also provides a quick reference guide to the assumptions used and includes a policy review schedule indicating the view taken with respect to the potential policies so far as those are known at the time of this assessment.
- 2.1.4 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme types.
- 2.1.5 Residual valuation, as the term suggests, provides a “residual” value from the gross development value (GDV) – i.e. from the estimated total sale value on completion - of a scheme, after all other costs are taken into account. The diagram below (Figure 1) shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



- 2.1.6 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).
- 2.1.7 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.
- 2.1.8 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as from the DCLG, Valuation Office Agency (VOA) reporting, previous

and current evidence held by the Council and its immediate neighbours and any available sales, or other evidence on value, are used for this purpose in making our assessment. Typically, as here, there is very little information readily available for use in terms of genuine and reliable comparables on land values and in any event, available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a particular level of land value need to be understood. The RICS recognises this and suggests that *'if market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for site and try to recover some or all of this overpayment via reductions in planning obligations'*<sup>8</sup>. As such a range of information as mentioned above has to be relied upon to inform our assumptions and judgments.

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

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

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<sup>8</sup>RICS Financial Viability Appraisal in Planning Decisions: Theory and Practice. April 2015  
Eastleigh Borough Council – Local Plan: Viability Study – Final Report (DSP17488)

## 2.2 Key Policy Areas for Testing - Summary

### Energy & Water

- 2.2.1 As a result of the Housing Standards Review, local authorities will need to ensure that any specific policy in regard of water consumption is set at no more than 110 litres/person/day.
- 2.2.2 The Council, through EBLP Policy DM2 (environmentally sustainable development), proposes to introduce the minimum requirements and therefore for this assessment a minimum level of compliance (consumption not exceeding 110 litres per person per day (lpppd)) has been assumed. However, for that, no additional cost allowance is required<sup>9</sup>.
- 2.2.3 This study assumes that the Sustainable Design / Construction Standards are based on meeting the requirements of the building regulations in terms of energy use due to the Government's withdrawal of the Code for Sustainable Homes. The Government expects local planning authorities to take the above noted Ministerial Statement of its intentions into account in applying existing policies and not set conditions with requirements above a former Code for Sustainable Homes (CfSH) Level 4 equivalent. Until the Government confirms next steps on the path to 'nearly zero energy', we assume that the Council will continue to apply energy standards equivalent to former Code Level 4.
- 2.2.4 Appendix I provides the detail but data taken from the DCLG Housing Standards Review Impact Assessment (average £ per unit extra-over (E/O) cost) for meeting the energy requirements for former CfSH Level 4 equivalent has been used as a proxy for building regulations compliance.
- 2.2.5 No other sensitivity testing has been carried out in relation to higher levels of the CfSH or zero carbon as a result of the Government announcement to delay the introduction of national zero carbon policy and the scrapping of the allowable solutions element of national policy.

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<sup>9</sup> N.b. Extra over costs of attaining water efficiency standards of 110lpppd are in the region of £6-£9 per dwelling according to the DCLG Housing Standards Review Cost Impacts Study (September 2014). In our opinion this would have such a marginal impact on scheme viability that it has not been included in this assessment.

### Affordable Housing

2.2.6 The Council's adopted Local Plan (Eastleigh Borough Local Plan Review 2001-2011) sets out the following affordable housing policies (policy 74H: Housing):

*To secure the provision of affordable housing, the Borough Council will seek to ensure all of the following:*

- i. that a target of 35% of the new dwellings provided on sites which meet the other criteria set out below are affordable;*
- ii. that affordable dwellings are provided on all sites capable of accommodating 15 or more dwellings and in special circumstances that affordable dwellings are provided on smaller sites, these circumstances are:-*
  - a. where sites are located in parts of the Borough with the highest level of need for affordable housing, or*
  - b. where the location is particularly sustainable in respect of proximity to shops, schools, community facilities and good public transport, or*
  - c. where the number of sites for 15 or more dwellings that come forward is likely to be limited in a particular area of the Borough.*
- iii. a mix of types of affordable dwellings; and*
- iv. that the affordable elements are integrated with the whole development.*

2.2.7 In carrying out this viability assessment, as requested by EBC, we have undertaken a review of affordable housing in order to inform the Council's decision-making process, from a viability perspective only, looking both at the threshold for affordable housing as well as the proportion to be sought on qualifying sites. More detail on the affordable housing assumptions is provided below and at Appendix I.

### Nationally Described Space Standard

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

2.2.9 Dwelling sizes assumed compliant with the national space standards have been included in the modelling for this viability assessment - as a standard assumption throughout and reflecting the EBLP policy proposal DM32. See Appendix I for detail.

#### Access to and use of Buildings

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

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

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

2.2.12 Again, as with the use of the residential space standards, there needs to be evidence of both need and viability. We understand that the Council is considering the

implementation of a policy (proposal DM31) to require 80% of dwellings on all sites to meet Category 2 M4(2). The Council is also considering requiring at least 2 dwellings or 7% (if a higher number) of all market housing; at least 1 dwelling or 8% (if a higher number) of all affordable housing; and 100% of all specialist housing for older people to meet the Part M4(3) standard (wheelchair user dwellings).

- 2.2.13 As part of the viability testing process, we have therefore carried out sensitivity testing reviewing the likely viability impact of including policies on the access to and use of buildings. We set out below the likely additional costs for including policies that meet the optional Category 2 and/or 3 requirements of Part M4 of the Building Regulations and those have been used in our sensitivity testing. It should be noted that enhanced requirements (where implemented) are independent of each other so that a dwelling may be provided to meet either standard but not both; there is no overlap or scope to meet different criteria within a single dwelling.
- 2.2.14 As part of the Government's Housing Standards Review consultation, cost analysis was produced by EC Harris (and subsequently updated) relating to areas that included Access. Within the 2014 update to that review document, approximate costs of complying with the optional Category 2 requirements of Part M4 were included. This indicates various costs for different types of dwelling and on different forms of development. For the purposes of this report, the average extra over access cost per dwelling is approximately total of £2,447 for houses and £1,646 for flats for meeting Part M4 (2) standards. This is based on an average extra over access cost per dwelling (£682/dwelling) alongside the average access related space cost per dwelling but without allowing for cost recovery (£1,444/ dwelling).
- 2.2.15 For Part M4 (3) the same report indicates average extra over (E/O) costs to be £15,691 for flats and £26,816 for houses.
- 2.2.16 Within this viability assessment, testing has been carried out applying the Council's above proposed policies throughout, and with further sensitivity testing carried out in relation to the element being considered as a particular requirement on specialist housing for older people.

### Affordable Home Ownership, Custom & Self-Build

- 2.2.17 The Housing and Planning Act 2016 introduced a requirement for Local Planning Authorities in England to promote the supply of starter homes. The exact proportion is not set out in the Act, but previous consultation suggested that it would be in the region of 20% of new homes on all new developments (with certain exceptions). The publication of the Housing White Paper seems to indicate a change of position leading to a likely requirement of 10% of new homes to be provided as 'affordable home ownership' products – as noted above and assumed as accommodated here in the form of shared ownership under both the existing and proposed mixed tenure affordable housing provision.
- 2.2.18 Starter homes exception sites are also still referred to within the PPG as a form of starter homes supply. However, it is not clear what relationship this has with any requirement for all sites to provide a proportion of Starter Homes or affordable home ownership products. Related to the type of previously developed land ('PDL') - i.e. brownfield sites - on which the starter homes initiative is envisaged to be primarily focused, DSP's view is that land values should be reflective of the site characteristics, development type and mix - as in all other cases. Based on the national proposals as were last seen, developments specifically aimed at this model would not be providing an affordable housing quota, s.106 or CIL funded infrastructure. In our view, based on 80% market sale values this is, at the very least, likely to be no less viable on such a site than a combination of full market and regular affordable housing in the sense that has been required to date.
- 2.2.19 Looking at any starter homes provision as set out loosely in the Act (i.e. not exception site starter homes but starter homes as a proportion of normal residential development) further information is needed from the Government before the impact on viability could be more fully considered and indeed it appears that it may no longer be an expectation. For this report, therefore, no additional testing has been carried out on the impact of starter homes but a requirement for a minimum percentage of affordable home ownership products (for example through shared ownership tenure) has been included within the modelling.
- 2.2.20 From DSP's experience of considering custom / self-build to date (albeit limited to early stages exploratory work on viability) we consider that the provision of plots for custom-build has the potential to be a sufficiently profitable activity so as not to prove a significant drag on overall site viability. Broadly, from review work

undertaken so far, we would expect it to be at least neutral in viability terms, with the exact outcomes dependent on site-specific details – as with other aspects of the development process.

## 2.3 Scheme Development Scenarios

2.3.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of development, whilst including testing and sensitivity testing on the policies considered to have an impact on development viability. The scenarios were discussed and settled with the Council following a review of the information provided. That review scope included the adopted Local Plan, previous viability work undertaken in relation to CIL, earlier iterations of an EBC emerging Local Plan, Assessment of Affordable Housing, Developer Contributions Guidance, Strategic Land Availability Assessment (SLAA), PUSH Objectively Assessed Housing Need Update and other information.

### Residential Development Scenarios

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

Figure 2: Residential Scheme Types (Mixed = mix of houses and flats)

Scheme Size Appraised (Dwelling No.s)	Type	Assumed Housing Density (Dwellings per Ha – DPH – developable (net) site area	Assumed Site type
11	Houses	40	Greenfield / PDL
15	Houses	40	Greenfield / PDL
15	Flats	75	Greenfield / PDL
30	Mixed	50	Greenfield
30	Flats (Sheltered)	125	PDL
50	Flats	150	PDL /Greenfield
50	Mixed	50	PDL /Greenfield
100	Mixed (10% Low Cost Home Ownership)	40	PDL /Greenfield
100	Mixed	40	PDL /Greenfield
500	Mixed	40	Greenfield

- 2.3.3 The assumed dwelling mixes are shown in Appendix I and have been based on the range of information reviewed, including taking into account the recommendations contained within the Council’s Assessment of Affordable Housing Report<sup>10</sup>.
- 2.3.4 The scenarios reflect a range of different types of development that are likely to be brought forward through the planning process across the borough so as to ensure that viability has been tested with reference to the potential housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the area by scheme location / type whilst and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.
- 2.3.5 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types in different combinations according to particular site characteristics.
- 2.3.6 In all cases it should be noted that a “best fit” of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers particularly. The affordable housing numbers (content) assumed within each scheme scenario can be seen at Appendix I – Assumptions overview spreadsheet.
- 2.3.7 The dwelling sizes assumed for the purposes of this study are as follows (see figure 3 below):

Figure 3: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
Studio Flat (SF)	n/a	39
1-bed flat	50	50
2-bed flat	70	70
2-bed house	79	79
3-bed house	93	100
4-bed house	112	130

<sup>10</sup> Opinion Research Services – Eastleigh Borough Assessment of Affordable Housing and Other Housing Types 2017 (April 2017)  
Eastleigh Borough Council – Local Plan: Viability Study – Final Report (DSP17488)

- 2.3.8 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. As has been noted above, if dwelling space standards (aligned to the Nationally Described Space Standard) are to be introduced by Eastleigh Borough Council within the Draft Local Plan, that can only happen where there is a proven need to do so and also on the basis that viability considerations are taken into account. As above, we have, however, assumed for the purposes of this assessment process that meeting the nationally described space standard will be a requirement for all new dwellings in the Borough – as per proposed policy DM32.
- 2.3.9 Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative ‘Values Levels’ (‘VL’s) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to assess, compare and price schemes. It provides a more relevant context for considering the potential viability scope.
- 2.3.10 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. The dwelling types and sizes will vary, as will their values, both within and between schemes. Our research suggests that the sale prices applicable to some larger house types would in practice generally exceed those produced by our dwelling size assumptions, owing to some larger unit sizes being delivered. However, usually we would expect such properties be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m ‘Value levels’ basis used (rather than simply at sale price regardless of size). In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre (£/sq. m or £/m<sup>2</sup>) is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

## 2.4 Commercial / Non-Residential Development Scenarios

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

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

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

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m <sup>2</sup> )	Site Coverage	Site Size (Ha)
Retail - larger format (A1) - convenience	Foodstore / Supermarket	2500	40%	0.63
Retail - larger format (A1) - comparison	Retail Warehousing	1500	25%	0.60
A1- A5 - Small Retail	Other retail - town centre	300	70%	0.04
A1-A5 - Small retail	Convenience Stores*	300	50%	0.06
B1(a) Offices - Town Centre	Office Building (individual buildings - town centres urban areas)	500	60%	0.08
B1(a) Offices - Out of town centre	Office Building (business park type - various)	2500	40%	0.63
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	500	40%	0.13
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	2000	40%	0.50
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	2800	80%	0.35
C2 – Care Home /Residential Institution	40-Bed care home / nursing home	1900	60%	0.32

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

- 2.4.3 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the borough. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from CoStar Commercial Real Estate Intelligence, the VOA Rating List and other web-based review as well as any feedback from consultation. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases, property marketing details. Collectively, our research enabled us to apply a level of “sense check” to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.
- 2.4.4 In addition to testing the commercial uses of key relevance above, further consideration was given to other development forms that may potentially come forward locally. These include for example non-commercially driven facilities (community halls, medical facilities, schools, etc.) and other commercial uses such as motor sales / garages, depots, workshops, surgeries / similar, health / fitness, leisure uses (e.g. cinemas / bowling) and day nurseries.
- 2.4.5 Clearly there is potentially a very wide range of such schemes that could be developed over the life of any CIL charging schedule. Alongside their viability, it is also relevant for the Council to consider the likely frequency and distribution of these; and their role in the delivery of the development plan overall. For these scheme types, as a first step it was possible to review (in basic terms) the key relationship between their completed value per square metre and the cost of building. We say more about this in Chapter 3.
- 2.4.6 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale, etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the usual development sense being reviewed here and related to any CIL contributions scope. We are also able to consider these value / cost relationships alongside the range of main appraisal assumptions and the results that those provide (e.g. related to business development). This is an iterative process in addition to the main

appraisals, whereby a further deteriorating relationship between values and costs provides a clear picture of further reducing prospects of viable schemes. This starts to indicate schemes that require other support rather than being able to produce a surplus capable of some level of contribution to a potential future CIL.

- 2.4.7 Through this process we were able to determine whether there were any further scenarios that warranted additional viability appraisals.

## **2.5 Gross Development Value (Scheme Value)**

### **Market housing (sale) values**

- 2.5.1 In order to determine likely values for development across the borough, a range of information sources has been considered. As well as reviewing the Council's existing evidence base we also carried out a range of our own research on residential values across the borough (see Appendix III). It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we considered existing information contained within previous research documents including previous viability studies; from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.
- 2.5.2 A framework needs to be established for gathering and reviewing property values data. As with previous viability work undertaken for the Council, in researching residential values patterns we considered that the settlements (rather than ward or other areas) provided the best and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen linked to the likely provision of development across the borough.
- 2.5.3 This provides comprehensive research and analysis of both new build sold data, currently available new build property across the borough, together with Zoopla current area statistics. This data has been gathered for an overview of the value patterns seen across the borough in order to inform assumption setting prior to the appraisal modelling phase. It was particularly important to collect the residential values data by settlement areas as the strength of values varies by location across

the borough. The north and south of the borough for example have stronger values typically than seen and likely to be seen within most of Eastleigh town.

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

2.5.5 For the residential scheme types modelled in this study, and based on the research undertaken, a range of (sales) value levels (VLs) have been applied to each development scenario. This is in order to test the sensitivity of scheme viability to geographical values variations and / or with changing values as may be seen with further market variations. The VLs covered typical residential market values (average prices across a scheme) over the range £2,400/m<sup>2</sup> (approx. £223/sq. ft.) to £5,200/m<sup>2</sup> (approx. £483/sq. ft.) as shown in Figure 5 below:

Figure 5: New Build Values (Sales Prices) Assumptions Range – Indications - Summary

Market Value (MV)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	
£/sq. m	£2,400	£2,800	£3,200	£3,600	£4,000	£4,400	£4,800	£5,200	
<b>Indicative Relevance of Value Levels</b>	Lower sensitivity test / falling market	Eastleigh, Allbrook, Netley Abbey, (VL2-3 estimated/typical)							Higher sensitivity test – not regularly applicable in the Borough / rising market
			Hedge End, West End, Fair Oak, Horton Heath, Bursledon, Chandler’s Ford (VL4-5 estimated/typical);						
				Bishopstoke, Botley, Hamble-Le-Rice					
						Others & higher / rising market			

2.5.6 Values patterns can often be indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the borough development strategy and any potential revision to the CIL. The Council previously consulted on a proposed CIL for the borough, where it

was considered necessary to recommend differentiation between central Eastleigh (town) and the rest of the borough. Through this assessment we look again at this as part of re-exploring the CIL viability scope. We also consider the additional viability pressures likely to be associated with town centre development; and whether consideration should be given by the Council to any other form of differentiation within its overall policy set and expectations on planning obligations – including within the overall affordable housing policy approach.

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

### **Affordable housing**

- 2.5.8 Importantly, in addition to the market housing, the development appraisals also assume a requirement for affordable housing (AH). As this study seeks to test the viability of potential EBLP 2036 policies holistically, we have tested and reviewed potential affordable housing policy targets from 20% to 35% (percentages representing the proportion of dwellings on a site to be sought from market-led housing developments). For comparative / base level viability purposes only on larger sites (those above the 11+ dwellings assumed national threshold), together with considering smaller sites and CIL, we have also undertaken 0% AH tests.
- 2.5.9 For the affordable housing, we have assumed that approximately 70% is affordable rented tenure and 30% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the assumed overall scheme mixes and affordable housing proportion in each scenario). These AH tenure mix assumptions were informed by reference to the 2014 SHMA, and selected in favour of the older (2009) Affordable Housing SPD based mix of 65/35 (rented / intermediate) basis that EBC has typically used as a starting point for negotiation. DSP considered it appropriate to reflect the latest available evidence

and this position also reflects a “worse case” scenario for viability from these alternatives – i.e. a prudent view for the assessment purpose. Should the Council continue to operate the 65/35 starting point, that could be expected to have a reduced viability impact to some degree, compared with the greater proportion of affordable rented tenure assumed for the assessment.

- 2.5.10 Some early stages testing was also carried out on the assumption that a proportion (10%) of the overall housing would be required as affordable home ownership (applied only where the existing tenure mix and proportion did not already include this potential requirement). Further testing may be required or helpful in the future if the Council determines through additional evidence that a requirement for a different mix of affordable home ownership is required through a needs assessment.
- 2.5.11 In reality tenure will normally be decided based on an up to date needs assessment ensuring that properties meet local needs at the time of the application. In practice many tenure mix variations could be possible; as well as many differing rent levels derived from the affordable rented (AR) tenure approach - as affected by local markets and by affordability. The same applies to the intermediate (currently assumed as shared ownership) affordable housing element in that the setting of the initial purchase share percentage, the rental level charged on the Registered Provider’s (RP’s - i.e. Housing Association or similar) or other affordable housing provider’s retained equity, and the interaction of these two would usually be scheme specific considerations. Shared ownership (SO) is sometimes referred to as a form of ‘low cost home ownership’ (LCHO); or more lately ‘affordable home ownership’. As an influence on overall scheme revenue, appropriate assumptions are made on the affordable housing tenure mix, for the study purpose.
- 2.5.12 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently Homes England (formerly the Homes and Communities Agency- HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant or equivalent subsidy input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant or other public subsidy / equivalent. This does not rule out the possibility that, working with Homes England or other agencies, or through using secured financial

contributions / any available EBC funding, additional monies over and above the required developers' subsidy might be drawn in to support AH provision, its tenure mix and affordability.

- 2.5.13 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the 'payment to developer', 'RP payment price', 'transfer payment' or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site-specific viability issues (including specific work on SPDs, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals – looking at the capitalised value of the estimated net rental flows (value of rental income after deduction for management and maintenance costs, voids allowances and the like). We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.
- 2.5.14 In broad terms, the transfer price assumed in this study varies between approximately 30% and 65% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The LHA rate for the Portsmouth Broad Rental Market Area (BRMA) that covers the Eastleigh Borough Council area for the varying unit types was used as our cap for the affordable rental level assumptions.
- 2.5.15 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the provider's (e.g. RP's) own development strategies, and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, external funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

## 2.6 Gross Development Value – Commercial / Non-residential

- 2.6.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions are needed. Typically, these are made with regard to the rental values and yields that would drive the value of completed schemes within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).
- 2.6.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, CoStar and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.
- 2.6.3 A range of annual rental values were assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.
- 2.6.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the borough. This enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. This is consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions (unless floor-space in excess of 100 sq. m is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). In many cases, however, limited or no new build information for use of comparables exists, particularly given recent and current market circumstances.

Therefore, views have had to be formed from local prevailing rents / prices and information on existing property and past research carried out on behalf of the Council. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not an Eastleigh Borough only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study. Figure 6 below shows the range of rental values assumptions used for our testing.

Figure 6: Assumed rental Value for Commercial Schemes

Development Type		Value Level (Annual Rental Indication £/sq. m)		
		Low	Medium	High
Retail - larger format (A1) - convenience	Foodstore / Supermarket	£200	£250	£300
Retail - larger format (A1) - comparison	Retail Warehousing	£160	£220	£280
A1- A5 - Small Retail	Other retail - town centre	£150	£200	£250
A1-A5 - Small retail	Convenience Stores*	£100	£140	£180
B1(a) Offices - Town Centre	Office Building (individual buildings - town centres urban areas)	£150	£190	£220
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£150	£190	£220
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£70	£90	£110
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£60	£75	£90
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	£4,000**	£5,000**	£6,000**
C2 – Care Home / Residential Institution	40-Bed care home / nursing home	£200***	£250***	£300***

\* Convenience stores with sales area of less than 3,000 sq. ft. (280 sq. m), assuming longer opening hours.

\*\*annual room rates

\*\*\* weekly room rates

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

viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including potentially, CIL.

- 2.6.6 It is important to note here that small variations can have a significant impact on the GDV that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions in the local context (but envisaging new development and appropriate lease covenants etc. rather than older stock), could well act against finding that balance.
- 2.6.7 This approach enabled us to consider the sensitivity of the results to changes in the capital value of schemes and allowed us then to consider the overall viability of that type of development and the most relevant results in determining the parameters for any potential CIL. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3.
- 2.6.8 As with residential development, consideration was given as to whether there should be any varying approach taken forward to CIL charging levels for commercial and other developments locally. There is variety in terms of values across the borough but overall we found that in the event of identifying scope to charge a CIL on commercial or non-residential development in viability terms, there is no clearly justifiable or readily definable approach to varying that through viability findings based on location / geography. Whilst certain specific scheme types could create more value in one location compared with another in the borough, typically there was felt to be no clear or useful pattern which might be described for that. It must be accepted that there will always be variations and imperfections in any level of overview approach; with or without area based differentiation.
- 2.6.9 We have noted above that in all respects further consideration to the CIL aspects and scope may well need be given at the stage of EBC pursuing CIL proposals. Preliminary advice only is set out within this report. However, this serves the purpose of both informing the Local Plan viability (ensuring that both residential and non-residential development types are reviewed, bearing in mind the likely collective costs of development – including policy proposals and allowing for an assumed CIL or

equivalent cost burden within the overall implications and approach) and continues the groundwork informing a potential CIL.

## **2.7 Development Costs – General**

- 2.7.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site-specific cases can be. As with the scheme scenario building, an overview of the various available data sources is required.
- 2.7.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.
- 2.7.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in reviewing development viability more widely and ensuring that any CIL is not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

## **2.8. Development Costs – Build Costs**

- 2.8.1 The base build cost levels shown below are taken from the BCIS. In each case the figure has been rebased using the Eastleigh Borough location factor (an adjustment of the base figure indexed for Eastleigh Borough). Costs assumed for each development type are provided in Appendix I. Figure 7 below summarises these:

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

Development Type		BCIS Build Cost (£/sq. m)*
Residential C3	Build Costs Mixed Developments - generally (£/sq. m)	£1,169
	Build Costs Estate Housing - generally (£/sq. m)	£1,140
	Build Costs Flats - generally (£/sq. m)	£1,355
	Build Costs Flats - 3-5 Storey (£/sq. m)	£1,321
	Build Costs (Sheltered Housing - Generally) (£/sq.m)	£1,293
Retail - larger format (A1) - convenience	Foodstore / Supermarket	£1,418
Retail - larger format (A1) - comparison	Retail Warehousing	£719
A1- A5 - Small Retail	Other retail - town centre	£990
A1-A5 - Small retail	Convenience Stores	£990
B1(a) Offices - Town Centre	Office Building (individual buildings - town centres urban areas)	£1,664
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£1,542
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£937
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£610
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	£1,829
C2 – Care Home / Residential Institution	40-Bed care home / nursing home	£1,422

\*excludes external works / contingencies (these are added to the above base build costs)

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

2.8.3 For this broad test of viability, it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather

than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

- 2.8.4 In all cases further allowances have been added to the total build cost in respect of meeting optional technical housing standards as discussed earlier in this chapter.
- 2.8.5 An allowance of 5% of build cost has also been added in all cases, to cover contingencies (i.e. unforeseen variations in build costs compared with appraisal or initial stage estimates). This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.
- 2.8.6 The interaction of costs and values levels will need to be considered again at future reviews of the Local Plan and at the point of considering the implementation of a CIL. In this context it is important to bear in mind that the base build cost levels may vary over time.
- 2.8.7 At the time of reporting the latest available BCIS briefing (December 2017) stated on build cost trends:

*‘There is still a great deal of uncertainty over the terms that will be agreed when the UK leaves the European Union.*

*While almost any outcome is still possible, we will continue to produce forecasts based on three scenarios. These reflect the different political outcomes from the exit negotiations from the EU and are equally likely. BCIS has revised the three scenarios in the light of recent announcements from the government regarding Brexit. The uncertainty of the results of the Brexit negotiations will undoubtedly lead to BCIS revising its assumptions again as more is known.*

*In all scenarios, it is assumed that there will be no change of UK government over the forecast period, that there is political stability in the rest of the world, and that a gradual rise in interest rates puts pressure on consumer spending. The scenarios are:*

- An 'upside' scenario based on the following assumptions – The UK remains a member of the EU but with no voting rights from cessation of the two-year period following the signing of Article 50. A 'transitional period' of two years follows, with continued payments to the EU (which will be deducted from the final 'divorce bill'). Negotiations run a lot smoother than with the 'central' scenario, providing investors with greater clarity at an earlier stage. It is assumed that following the end of the transitional period, any trade agreements with the EU will be the same as prior to the EU Referendum, and those with the rest of the world will boost the UK economy. Sterling exchange rates are expected to remain depressed until the end of the transitional period, then return to pre-EU Referendum levels thereafter, with a consequential reduction in imported materials prices. Free movement of labour continues to the end of the transitional period, with an exemption on movement of operatives in the construction industry thereafter. It is assumed that it remains desirable for EU workers to work in the UK, and that demand for construction operatives in the EU remains unchanged. The economy picks up during the transitional period as confidence returns.*
- A 'downside' scenario based on the following assumptions – Based on the assumption that the UK has a 'hard Brexit' at the end of the two-year period following the signing of Article 50, i.e. from 1st quarter 2019. It is assumed that following withdrawal from the EU, any trade agreements with the EU are a lot less favourable than prior to the EU Referendum, and there are restrictions on the movement of labour. It is assumed that Sterling exchange rates worsen, which adversely affects the price of imported materials and the desire of EU construction workers to work in the UK. The UK starts paying a 'divorce bill' from 1st quarter 2019. The economy goes into recession during the transitional period and only recovers at the end of the forecast period.*
- A 'central' scenario based on the following assumptions – The UK remains a member of the EU but with no voting rights from cessation of the two-year period following the signing of Article 50, i.e. from 1st quarter 2019. A transitional period of two years follows, with continued payments to the EU (which will be deducted from the final 'divorce bill'). It is assumed that following the end of the transitional*

*period, any trade agreements with the EU are less favourable than prior to the EU Referendum. Sterling exchange rates are expected to remain depressed until the end of the transitional period, then gradually return to pre-EU Referendum levels thereafter. Free movement of labour continues to the end of the transitional period, with restrictions in movement after that. It is assumed that it remains desirable for EU workers to work in the UK, and that demand for construction operatives in the EU remains unchanged. GDP recovers slowly towards the end of the period as confidence returns.*

*The terms 'central', 'upside' and 'downside' reflect the impact of the scenarios on construction demand, rather than the outcome for construction tender prices.*

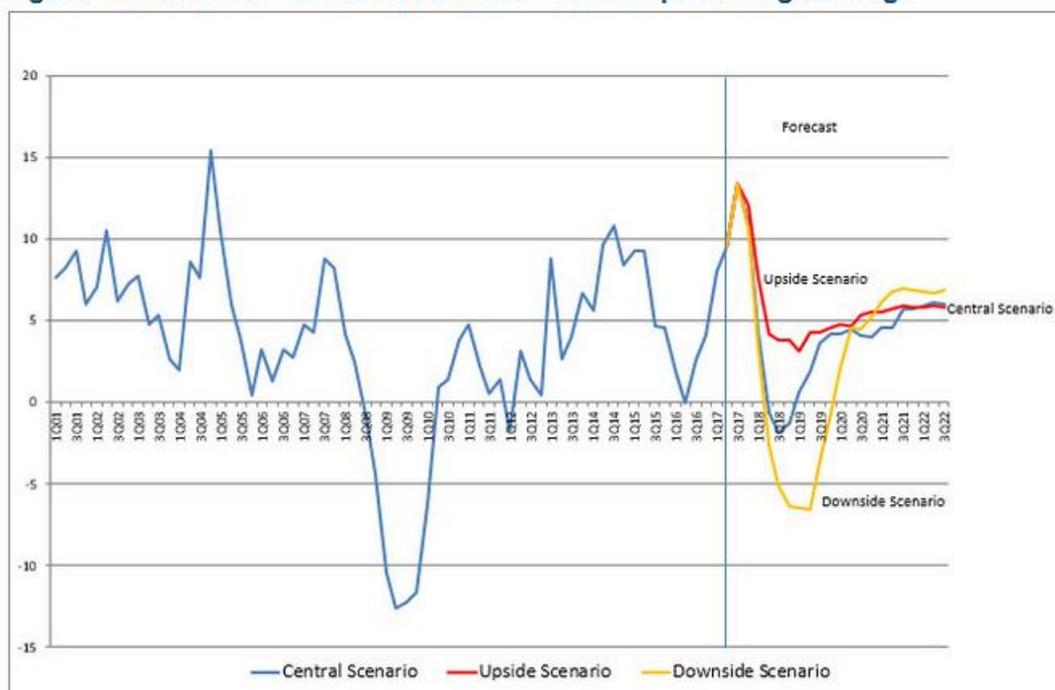
*We are publishing the 'central' scenario as the forecast for the price and cost indices but it should be borne in mind that each forecast is equally possible<sup>11</sup>.*

	Percentage change				
	3Q17 to 3Q18	3Q18 to 3Q19	3Q19 to 3Q20	3Q20 to 3Q21	3Q21 to 3Q22
'Central' scenario					
TPI	-1.9	+3.6	+4.1	+5.7	+6.0
GBCI	+3.2	+2.9	+3.3	+4.6	+4.1
New work output*	-0.2	+1.1	+4.2	+5.7	+4.7
'Upside' scenario					
TPI	+3.8	+4.3	+5.3	+5.9	+5.8
GBCI	+3.2	+2.9	+3.3	+3.5	+3.4
New work output*	+5.4	+6.2	+6.5	+5.5	+5.3
'Downside' scenario					
TPI	-5.1	-3.7	+4.5	+7.0	+6.9
GBCI	+2.9	+4.3	+4.7	+5.0	+4.5
New work output*	-9.8	-5.6	+6.6	+9.8	+6.2

\*Year on year (3Q17 to 3Q18 = 2017 to 2018), constant prices 2015

<sup>11</sup> BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (September 2017)  
Eastleigh Borough Council – Local Plan: Viability Study – Final Report (DSP17488)

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



Source: BCIS

2.8.8 Therefore, at the point of reporting we cannot be sure how the European scenario or other external influences will play-out either short or longer term on the economics potentially affecting development viability. It is still too early to tell. The influences on the property market from a values and rates of sales point of view seems likely to be at least as great as that on construction and build costs. At the current time, in general the overall reasonably positive housing market conditions were seen to continue through into the early part of 2017 albeit seemingly now, based on very latest indications, with flattening prices or reduced growth into 2018; and in some instances, with lower prices meaning a relatively neutral picture on house price movement at present.

## 2.9 Development Costs – Fees, Finance & Profit

2.9.1 The following costs have been assumed for the purposes of this study alongside those noted within section 2.6 above and vary slightly depending on the scale and type of development. Other key development cost allowances for residential scenarios are as follows - *for the purposes of this assessment only* (Note: Appendix I also provides a summary):

<u>Professional fees:</u>	Total of 10% of build cost
<u>Site Acquisition Fees:</u>	1.5% agent's fees 0.75% legal fees Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).
<u>Finance:</u>	6.5% p.a. interest rate (assumes scheme is debt funded)
<u>Marketing costs:</u>	3.0% - 6.0% sales fees £750 per unit legal fees
<u>Developer Profit:</u>	Open Market Housing – 20% GDV Affordable Housing – 6% of GDV (affordable housing revenue).

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

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

<u>BREEAM:</u>	5% of build cost
<u>Professional and other fees:</u>	10% of build cost
<u>Site Acquisition Fees:</u>	1.5% agent's fees 0.75% legal fees Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT)
<u>Finance:</u>	6.5% p.a. interest rate (assumes scheme is debt funded)
<u>Marketing / other costs:</u>	(Cost allowances – scheme circumstances will vary) 1% promotion / other costs (% of annual income) 10% letting / management / other fees (% of assumed annual rental income) 5.75% purchasers' costs – where applicable

Developer Profit: 20% of GDV

## 2.11 Build Period

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

## 2.12 Community Infrastructure Levy & Other Planning Obligations

2.12.1 Current guidance states the following with regard to CIL: *'At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions'*<sup>12</sup>. The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

2.12.2 The Council is considering the implementation of a CIL and if it were to progress that, a great majority of existing Planning Obligation requirements would be taken up within the CIL charging scope. Nevertheless, developments would often still be required to contribute to site-specific mitigation measures (for example relating to particular open space / highways / transport and similar requirements).

2.12.3 For this study, we have re-tested (included within appraisals) a CIL equivalent to £0/m<sup>2</sup>, £75/m<sup>2</sup> and £125/m<sup>2</sup> for residential and a range of CIL rates for non-residential developments – at £50/m<sup>2</sup> intervals from £0 to £200/m<sup>2</sup> and in all cases

<sup>12</sup> DCLG – Community Infrastructure Levy Guidance (February 2014)

based on the viability advice previously produced by DSP (CIL Viability Assessment September 2013) and covering the range of CIL rates previously consulted upon for the PDCS and DCS of the 2014 CIL submission – not progressed owing to the ongoing Local Plan development scenario.

2.12.4 The appraisals also include (alongside these CIL assumptions) a notional sum of £3,000 per dwelling (for all dwellings – including affordable - and on all schemes) effectively as an additional contingency in respect of any residual s.106 development mitigation requirements as above.

### **2.13 Strategic Sites**

2.13.1 Purely as a reminder here, as part of building its evidence base, the Council has commissioned work by DSP looking at the potential viability of its preferred Strategic Growth Option (SGO)<sup>13</sup> – linking to the deliverability prospects for that. This wider assessment report scope does not include that work, but is complimentary to it, with a common approach and assumptions used between the two, as far as appropriate. The SGO related information, including DSP’s viability work and any subsequent updating, should be referred to, and is available on the Council’s web-site.

### **2.14 Indicative land value comparisons and related discussion**

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

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

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<sup>13</sup> Viability Study- Emerging Findings – High Level review of Strategic Growth Option (SGO) Update November 2017

including the effect of affordable housing policy targets (%s) applied fully in the case of the residential tests).

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

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

2.14.5 The EBLP 2036 emerging strategy for growth indicates that although there will undoubtedly be a role for PDL sites and in particular town centre regeneration, the strategy concentrates predominantly on greenfield sites in the countryside / edge of settlement locations.

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

- 2.14.7 The land value comparison levels are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. In our experience, sites will obviously come forward based on very site-specific circumstances – including in some cases beneath the levels assumed for this purpose.
- 2.14.8 In order to inform these land value comparisons or benchmarks we have reviewed existing evidence, previous viability studies and sought to find examples of recent land transactions locally. Limited evidence of such was available from the various soundings we took and sources we explored. In the usual and appropriate way for such a study, we reviewed information sourced as far as possible from the DCLG, VOA, previous research / local studies / advice provided by the Council, through seeking local soundings, Co-Star; and from a range of property and land marketing web-sites. Details, so far as available, are provided in Appendix III.
- 2.14.9 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data. Nevertheless, in areas where it is available, the data can provide useful indicators, certainly in terms of trends. The VOA however does publish residential land value estimates for policy appraisal on behalf of the DCLG. The data for Eastleigh Borough (but taking into account the numerous caveats and basis for those values) has also been considered.
- 2.14.10 In our experience of dealing with site specific viability, greenfield land values tend to be assumed at minimum option agreement levels. These are typically around £100,000 and in our experience in any event not exceeding £150,000 per gross acre (i.e. approx. £250,000 to maximum £370,000 per gross hectare).
- 2.14.11 The Government also publishes residential land value estimates for policy appraisal (DCLG December 2015) which includes figures for Eastleigh Borough. This indicates a residential land value of £2.79m per hectare. However, this needs to be set in the context of the assumptions underpinning that level of land value. Land values and comparisons need to be considered on a like-for like basis. A different basis is assumed within this and other viability assessments, with all development costs accounted for as inputs to the RLV appraisal, rather than those being reflected within

a much higher, “serviced” i.e. “ready to develop” level of land value. That much higher level of land value assumes all land and planning related costs have been met / discharged – i.e. includes the assumption that there is a nil affordable housing requirement (whereas in practice the affordable housing requirement can impact land value by around 50% on a 0.5 ha site with 35% AH) together with nil CIL. That level of land value would also assume that full planning consent is in place, whereas the risk associated with obtaining planning consent can equate to as much as a 75% deduction when adjusting a consented site value to an unconsented land value starting point. Lower quartile build costs and a 17% developer’s profit (compared to the assumed median build costs and 20% developer’s profit used in this study) are additional assumptions that lead to a view of land value well above that used for comparison (benchmark purposes) in viability assessments such as this.

2.14.12 So, the assessment approach (as relates to all land values) assumes all deductions from the GDV are covered by the development costs assumptions applied within the appraisals. In our view this would lead to a significantly reduced residential land value benchmark when taking into account all of those factors.

2.14.13 As can be seen in Appendix IIa (main residential scenario test results) and taking into account the various information available, we have made indicative comparisons focussing on land value levels in a range between £0.25m/ha and £2.5m/ha so that we can see where our RLVs fall in relation to these levels (including both above and below) and the overall range between them. The comparisons are referred to within our assessment as ‘viability tests’. They act as ‘benchmarks’. This approach does not prevent the presentation and review of results that fall outside this range, however.

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

2.14.15 At this level, it could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA and a range of other sources to be valued at circa £20,000 - £25,000/ha in existing

use). The (former) HCA (now 'Homes England') issued a transparent assumptions document associated with the User Notes for its 'Area Wide Viability Model' (2010) which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations in such scenarios would not go beyond these levels either – they could well do in a range of circumstances.

2.14.16 Again, looking at a prudent approach to assumptions and guides for the study purpose only, an RLV exceeding a PDL viability test at say £1.5m/ha ('viability test 5') would in our view indicate a 'cautious' viability benchmark representing a potential premium over 30% on the VOA (Government Valuation Office Agency's) industrial land data for the South East.

2.14.17 The £1.75m/ha - £2.5m/ha viability test 5-6 is likely to be indicative of land already in residential use or with a higher than typical existing or alternative commercial use implementable.

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

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

2.14.20 Land value judgements for the assessment purpose are based on seeking to ensure a competitive return to a willing landowner, as is recognised through the NPPF requirements and other guidance sources on viability assessment.

2.14.21 The consideration of land value – whether in the RICS' terms (see below) or more generally for this context, involves looking at any available examples ('comparables')

to inform a view on market value or considering land value relating to an existing or alternative use ('EUV' or 'AUV'). A similar concept to existing use value may also be referred to as 'CUV' (i.e. current use value). In addition, there may be an element of premium (an over-bid or incentive) over 'EUV' or similar required to enable the release of land for development – i.e. to take a site out of its current use, but not necessarily applicable where a site has become redundant for that use.

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

2.14.23 RICS Guidance<sup>14</sup> refers to site value in the following *'Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan... The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations'*.

2.14.24 In the Local Housing Delivery Group report<sup>15</sup> chaired by Sir John Harman, it is noted that *'Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the*

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<sup>14</sup> Financial Viability in planning – RICS Guidance note (August 2012)

<sup>15</sup> Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

*model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.*

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

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

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

## 3 Findings and Recommendations

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### 3.1 General context for results review

- 3.1.1 The findings considered here relate to the appraisal RLV results tables at Appendix IIa (Tables 1a to 1k) in respect of the residential test scenarios and Appendix IIb (Tables 2a to 2f) for the equivalent commercial development tests. A guide to the content of those tables will be provided below.
- 3.1.2 As noted above, EBC is currently further considering its emerging Local Plan policies and, currently as a secondary / potential future related and supporting element, an updated picture on CIL viability (preliminary information).
- 3.1.3 With both of these influences on viability under review and considered as variables within our appraisals, there is the potential for the overview to become quite circular or complex.
- 3.1.4 Where included, the 'DM' (Development Management) reference numbers are policy proposals as per the December 2017 version EBLP.
- 3.1.5 Given a combination of potential policy and potential CIL cost as well as other obligations and influences on viability, and the range of levels at which these could come together, for reporting purposes in the following sections we have used the previously assessed CIL rates parameters. This enables us to review and report on fewer variables impacting collectively, and also to provide a feel for whether we would now expect to find any significant change from the previous CIL viability findings and recommendations considered by and consulted upon by EBC. Accordingly, we have included CIL at test levels of £0/sq. m, £75/sq. (as previous) and £125/sq. m across the residential scenarios, representing how a CIL at these levels could now influence overall viability – both by development type, scale and location / potential geographical zone.
- 3.1.6 Given the primary assessment purpose, i.e. to inform the Local Plan, however, our main focus in this section is on the likely viability impact of the Plan policies and not in seeking to specifically determine updated potential CIL charging rates. The approach ensures that appropriate allowances have been made.

- 3.1.7 From this, we will seek to identify the extent to which these CIL assumptions appear to remain appropriate at this stage. Then, only where there is considered to be notable clear scope to consider higher CIL charging rates than those consulted on previously (or indeed a potential need to consider lower rates or alternative zoning) will we comment in further detail.
- 3.1.8 First and foremost, we consider residential development, which is the main assessment focus. This is because, firstly, the policy positions selected by a local planning authority (EBC in this case, but applied to any Council) create a considerable influence on the viability of development (most significantly in relation to affordable housing), especially alongside a fixed (non-negotiable) level of CIL charging once implemented. The same cannot be said of a Council's sphere of influence over the viability of commercial / non-residential development; that is much more limited.
- 3.1.9 Secondly, invariably the scale of residential development (quantum of new accommodation) is such that the source of CIL income is largely weighted towards residential. Again, this is typical, and not just an EBC factor.
- 3.1.10 Nevertheless, after considering the residential findings and potential implications / recommendations, we will go on to consider the likely variable viability of commercial development in Eastleigh Borough – more on that follows (primarily in respect of our included re-review for the preliminary advice requested on the potential CIL charging scope, based on viability).
- 3.1.11 Affordable housing, being a key factor influencing development viability over which the Council has a significant level of direct control, is therefore the main focus for the reporting in this section. How the Council progresses, selects and operates its affordable housing policies will be a major factor in ensuring sufficient viability to deliver a wide range of developments to underpin the new Local Plan.
- 3.1.12 For these reasons the assessment will need to suggest any adjustments and policy positions that the Council should consider in our view, related to viability. However, this may be about considering options – potential alternatives – which will be noted where applicable. Furthermore, the Council need not follow these report findings exactly because, overall, this is about considering the evidence collectively and setting out policies that will respond to an appropriate balance between the needs and viability. The assessment informs policy development, rather than the Council and Plan having to follow it specifically.

- 3.1.13 The base results are set out in Tables 1a to 1h (covering the 11 to 100 dwellings tests) and 1k (500 dwellings) within Appendix IIa.
- 3.1.14 Table 1i (100 dwellings further sensitivity testing) shows the results related to additional costs assumed potentially associated with increased energy efficiency (carbon reduction) requirements under proposed policy DM2, with the Table 1h base results set alongside for comparison.
- 3.1.15 Table 1j shows a matrix of results, again from further sensitivity testing of the 100 dwellings scenario, but this time looking at policy combinations potentially varying (effects “switched on and off”) on the basis of reviewing the higher accessibility requirements (M4(2) and (3) under proposed DM31) first without and then with the Council’s envisaged open space policies (additional land take) also assumed (as per DM35). The colour shading used in this table represents general trends in the results only, helping to highlight those.
- 3.1.16 Generally, from the information provided a view may be taken about the likely impact of other policy combinations not specifically appraised – for example through broad interpolation between tests. Whilst it is not possible or necessary to appraise all potential combinations, further appraisals could be run or advice provided in order to verify the development of a particular policy in moving towards the further progression of the proposed policy set – if relevant to the requirements being firmed up by the Council or indeed to subsequent national policy developments or other “outside” influences.
- 3.1.17 In the case of all potential policy variables, clearly there are great number of potential combinations and outcomes. At this relatively early policy development stage, the aim is that this reporting helps inform the Council’s emerging positions, which may then be further considered and/or tested if needs be, once a more settled emerging policy set is developed or, as above, other factors come into play as more than potential future influences or consultation stage proposals – for example including the national planning policy environment. DSP can advise further if the Council requires.
- 3.1.18 In keeping with this approach described and building from both the Council’s longstanding AH target approach as well as earlier viability assessment work, the assessment uses a headline 35% AH target level. However, as noted above, and given

previous experience of variable viability (as picked up on in the course of the earlier CIL viability assessment) as well as our emerging findings at this review stage, we considered it appropriate to also test at 20% AH and the potential relevance of this wider context is considered further below. Additionally, the 0% AH tests provide both a “base viability” context which is useful for seeing where viability per-se may be more challenging (e.g. owing to combination of scheme/site type and location) and also for considering any implications for CIL as well as for EBC’s proposed national compliant 11+ dwellings AH threshold position.

- 3.1.19 From the previous and current assessment work, we are able to see that testing with a view to any AH requirements of targets above 35% is not likely to be relevant in the local context.
- 3.1.20 In considering all additional policies, and indeed the impact of the existing or potential CIL charging rate levels(s) it will be critical to view the varying outcomes allied to, and not independent from, the AH %s. The adding of too great a development costs burden alongside the Council’s priority of securing affordable housing will inevitably increase the pressure on and ability to secure the intended AH delivery. The CIL takes a fixed, non-negotiable top-slice from the development revenue once in place. If other policy related costs are applied too extensively and too rigidly, those will have the same effect.
- 3.1.21 The re-testing of the viability scope available to support affordable housing requirements is a key element of such an assessment, given the impact that these requirements always have on development finances; a consistent finding from our work across a large number of studies. The findings are therefore discussed with a view to draft policy adjustments being potentially considered where recommended, in comparison with the existing and / or any previously or currently proposed positions. Run and used in this way, the assessment informs the emerging Local Plan progression.
- 3.1.22 In each case, the stated AH% is fully allowed for, as it would also need to be in looking at CIL viability detail, and assumes the Council’s latest assessed tenure mix target.

## 3.2 A guide to using the Appendix IIa Results Tables

- 3.2.1 The tables of RLVs (1a to 1k overall) at Appendix IIa set out the appraisal results by increasing development size (number of dwellings within each assumed scenario) – as per 2.3.2 (Figure 2) above and Appendix I. For each scenario, the results relate to the tests carried out with 0%, 20% and 35% affordable housing – shown moving down each table set from top to bottom. In each, as above, case the 0% AH tests provide a base scenario for comparison only – enabling the effect of introducing and then increasing the AH content to be seen clearly, and particularly of relevance to schemes of 11+ dwellings, consistent with draft policy proposal DM30.
- 3.2.2 Each table cell of the Appendix IIa tables contains in the white (un-coloured/non-shaded) upper or left-side sections a RLV result (in £s). In the corresponding lower or right-side table areas (those including the green coloured cells) the same RLV is then expressed in £/Ha terms. Each £ figure is an appraisal result expressed in these ways.
- 3.2.3 The £RLV/Ha is based on the indicative density and approximate land-take assumptions used (allowing also for non-developed land including the EBC DM35 open space (OS) proposals assumed rigidly applied on-site across all scenarios) except in the ‘no OS’ tests included in Table 1j matrix. That alternative view enables the consideration of how much some results could improve with open space dealt with differently, and also in considering any potential variations that may need considering in the balance between requirements such as AH, OS and enhanced accessibility (M4(2)/(3)) – potential trade-offs.
- 3.2.4 The results are displayed by assumed value level (VL) which rises from 1 (lowest) to 8 (highest), moving top to bottom in the tables - as used in each test shown. The impact of the varying strength of values available to support viability is clear to see at the range of AH %s tested – increasing VL supporting a higher £ RLV and £ RLV/ha as represented by the increasing boldness of the green shading.
- 3.2.5 Again, simply to highlight the results trends, an increasing AH% test is shown to have the opposite effect in all cases – with reducing boldness of green colouring showing the declining levels of the RLVs as the appraised AH content increases from 0% through each step to 35% in all cases.
- 3.2.6 As per 3.1.5 and 3.1.22 above, the range of applied trial CIL charging rates (tests) are shown moving from the left to right of each Appendix IIa Table section. Following

across each set relating to a single VL and AH% test, the RLVs can be seen to reduce with an increasing CIL rate applied, as expected. The interaction of this effect with other matters needs to be considered, especially given the fixed (non-negotiable) nature of CIL charging once in place, although in the case of Eastleigh Borough assuming a potential future scenario; advance allowance made (or made to cover equivalent s.106 or other obligations in the meantime).

- 3.2.7 In Chapter 2 we noted the values picture seen – see section 2.5 above (Figure 5) and Appendix I for an overview). To recap, in general summary, from within the broader overall range found here, the data indicates a relatively narrow range of values seen across the areas that are most likely to support a majority of new housing development here. We consider at this stage, current assumptions, that those values are most closely represented by the central part of our VLs range – VL3 to VL5 i.e. £3,200 to £4,000/sq. m or approximately £300 to £375/sq. ft. (rounded indications).
- 3.2.8 As is often the case, most areas can support mixed values. This means that although typically lower in value, for example development in the main town of Eastleigh can see higher values than the typical levels that we consider will more usually be at or around the lower end the above range. As a broad current indication, we found values likely to be just below or around our VL2 (@ £3,200/sq. m) for Eastleigh and particularly the town centre; and at the time of review almost all within the range VL4 (@ £3,600/sq. m) to VL5 (@ £4,000/sq. m) in all other locations currently relevant to the proposed pattern of new housing growth. This is also consistent with our use of an overall sales values assumption at £3,750/sq. m within the separate DSP SGO high-level assessment work as noted earlier. We will therefore focus on this narrower view of the most currently relevant VLs for this stage of review of viability; and of how that might be expected to vary between Eastleigh town (town centre especially) and most other “housing supply Plan relevant” areas of the Borough. Site and scheme characteristics will of course also significantly influence viability in conjunction with the typical values levels available to support it – the reporting picks up on these influences.
- 3.2.9 Likewise, the VLs indicative of ‘EBC upper-end new build values’ are more typically relevant only in the usually higher value coastal areas and rural generally lower density private housing areas found towards the east of the borough abutting Winchester District.

- 3.2.10 In considering CIL especially, a key factor for the Council will be the role that the various areas are expected to play in accommodating development. Consistent with supporting the growth associated with an up to date Local Plan, and not related to any other existing deficits in infrastructure provision, an updated CIL would be a high-level borough-wide response and contributor. It is not possible for CIL to reflect and respond to all levels of local variation in values in other matters. How it overlays with the planned site supply, even if that means some level of misfit in areas not supplying a significant level of development in the overall planned terms, is most important. The CIL principles are such that the charging schedule should ideally be as simple as possible, accepting that usually values and other characteristics do not actually respect any particular boundaries, in more than a general way. All sites are different, and varying values will even be seen within sites.
- 3.2.11 The residual land values (RLVs) produced by the current stage appraisals are “filtered” against a series of ‘viability tests’ shown in the Appendix IIa table footnotes i.e. benchmark land values (BLVs). So, the bolder the green colour, the stronger the indicative outcome, as it reaches or exceeds the level of the higher viability tests. This indicates a scenario likely to be workable with increased frequency or greater confidence – i.e. across a wider range of site types and circumstances.
- 3.2.12 Consistent with the consideration of land values noted above, in the following sections we consider the results associated with greenfield development in the range £250,000 to £500,000/Ha. The lower end of that (viability test 1) represents a suitable benchmark for “bulk” farm land purchase at a significant enhancement to existing use value; as appropriate for example to the SGO at this stage of the process and assessment, in our experience. A mid-range level at up to around £370,000/Ha would generally be the maximum we would expect to see in greenfield site circumstances, although for the study purpose and smallest greenfield sites, perhaps including edge of settle paddocks etc. we should also bear in mind the potential relevance of levels up to approximately £500,000/Ha i.e. our viability test (benchmark) 3.
- 3.2.13 While the emerging EBC development strategy is essentially and necessarily greenfield based, the diminishing scope on previously developed land (PDL) remains relevant to the Plan delivery at this point of review; including in a town centre vitality context. In the Eastleigh BC context, we consider that viability test 5 at £1.5m/Ha is the most appropriate benchmark against which to consider most PDL scenarios,

especially since they will most often be sites or premises that have reached a stage of a redundant former use; or where ongoing use or refurbishment for that is not economic.

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

3.2.15 At this stage this is considered a reasonable and appropriate approach based on the available information and nature of the emerging LP proposals, again consistent with DSP's established and supported approach to strategic level viability assessments. As with all aspects of such an assessment, however, it could be necessary to adjust judgements in the event of needing to consider any revised context – all as above.

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

### **3.3 Commercial / non-residential development – review context, and a guide to the Appendix IIb tables**

3.3.1 For the purpose of informing the Local Plan, but more directly relevant to the preliminary CIL viability advice sought by EBC, appraisals of a typical range of commercial / non-residential scenarios for such an assessment have also been carried out and reviewed (as at 2.4.2 (Figure 4) above and see Appendix I Commercial Assumptions Overview Sheet).

3.3.2 The approach to this aspect of the assessment is consistent with the typical scope required in our experience, and with assumptions informed by our research and

experience, so as to be representative of local circumstances – again, based on a high-level overview approach rather than site-specific level detail.

- 3.3.3 As will be seen, using assumptions appropriate for the assessment purpose and ensuring no reliance on pushing to the margins of viability in order to support CIL charging, this proportional approach requires only a much smaller number of appraisals. These were developed as sets to the point where in each case viability was eroded. Once a very low, nil or negative outcome is reached it is not necessary to explore further. A view may be taken, therefore, on the extent to which the appraisal input assumptions would need to improve to support viability clearly enough to provide CIL charging scope; and how realistic that extent of movement in assumptions would be.
- 3.3.4 Unlike in the case of residential development (and in particular the role in setting policy as affects the viability impacts from affordable housing), there is little scope for a Council to influence the viability of commercial and non-residential development provided it does not add, through unnecessary policy, to the development costs usually associated with such development.
- 3.3.5 DSP also has wider experience of commercial and non-residential development viability for CIL setting and Local Plan policy purposes – as context for considering the findings for EBC. Together with review of the market and updated information gathering (information as at Appendix III), from this we are able to form a view on whether the CIL charging scope is likely to have changed significantly since the previous CIL proposals as informed by DSP CIL viability assessment work of 2013 and the Council's subsequent consultations. This is the approach we have taken to providing preliminary advice (updated) as included below.
- 3.3.6 We will provide some further detail in later sections. However, subject to further consideration of any readily available new data or pointers at the stage of progressing a future CIL, our high-level overview is that at this point we would not expect to see materially increased viability scope to support CIL compared with our earlier recommendations on that. In particular, from wider experience applied to locally relevant assumptions on development values and costs, we would expect this to be the case in respect of the typical key CIL assessment finding that a £0/sq. m charge (nil-rating) is likely to remain appropriate for employment (B Use) development – offices and industrial development.

- 3.3.7 As with residential, the strength of the market and therefore of the strength of relationship between development values and costs is key; the most significant factor. However, there are considered to be no significant instances of EBC local policy influence that will have a direct development cost and therefore a clear negative viability impact compared with a typical approach that we see.
- 3.3.8 Although key information will be contained within other assessments and data contributing to the overall evidence base, we have some general points to offer as the Council considers the employment and other commercial/non-residential development aspects of its Plan-making process. These will be picked up briefly in later sections below.
- 3.3.9 Appendix IIb Tables 2a to 2f display the commercial scenarios test results – again as both RLVs in £ (absolute) terms (white / non-coloured results table sections) and also expressed in RLV £/Ha terms (with green colouring and increasing boldness of that indicating the likely strength of viability).
- 3.3.10 So the format of the results reporting overview uses the same principles and approach as for the Appendix IIa residential scenario results.
- 3.3.11 This time, each sheet (page) within the Appendix (IIb) shows the range of scenario tests top to bottom - by development use type. Each one of those has been tested at 3 trial rent levels (L - low, M - mid/medium and H - high). This enables us to explore the sensitivity of the RLV outcomes to the rent level assumption varying, in combination with a yield test going initially from most positive (at 5% - Table 2a) to least positive for the study purposes (at 7.5% - Table 2g RLV indications).
- 3.3.12 Clearly seen are both the deterioration in RLV results with increasing yield % (less positive for the capitalisation of the rental assumptions, indicating a less secure, higher risk income stream assumed for the commercial property investor) and reducing rent assumption.
- 3.3.13 For the commercial development typology appraisals and the purposes of this preliminary CIL viability advice only, CIL has been tested at £50/sq. m intervals from £0/sq. m to £200/sq. m. This is sufficient for an overview at this stage. However, the effect of increasing CIL cost is clearly seen moving from left to right in each table as the CIL trial rate rises as shown. Whilst interpolation between tests/results is

possible, at these intervals the results show steps that might need closer review through finer grained testing should EBC progress a CIL in due course. To take the advice from preliminary to informing CIL consultation, additional work could be considered and would be best carried out using latest available values and costs information at that point.

3.3.14 For the preliminary view, however, from this we can gain a feel for:

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

3.3.15 In this case, we did not test beyond £200/sq. m. having formed the view that such a level of CIL would most likely be unrealistic for relevant developments in the borough.

3.3.16 For both greenfield and PDL based development, we have taken the view that overall the same range of comparison/benchmark land values ('our Viability Tests' 1 to 7 again as listed in the Appendix Tables footnotes) are applicable. In most cases, broadly it is considered that meeting or exceeding the £1.5m/Ha test would prove sufficient on PDL. However, in the case of larger format retail and town centre development it is anticipated that higher land values up to £2.5m/Ha equivalent or beyond could sometimes be justified and need to be met. On greenfield, the same enhancement to existing use value and applicable lower-end viability tests (benchmarks) would be appropriate as for residential development (overall range £250,000/Ha to maximum £500,000/Ha).

3.3.17 Many of the results for the relevant more valuable development types (e.g. larger format, some town centre retail and care homes) do indicate that higher land values could be, or could need to be, supported; as is seen also in the case of mid to higher value residential development.

3.3.18 Our findings review for the Commercial / non-residential scenarios is found from section 3.5 below, following the residential findings commentary that we set out next.

#### **3.4 FINDINGS REVIEW – Residential scenarios (Appendix IIa)**

3.4.1 Viewed overall, the results are seen to be mixed, with sensitivity to the assumed value level (VL - aligned to potential site location see Figure 5 (2.5.4) above and Appendix I) an important factor throughout. The interaction of the VL and AH% - i.e. the VL needed to support affordable housing within various scenario types is also key, as is the viability test used to filter / view the strength of the RLV result in each case. As discussed above the latter depends on the likely host site type – varying from greenfield (maximum viability test / benchmark 3 at £500,000/Ha) to PDL (more typically viability test / benchmark 5 at £1.5m/Ha).

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

3.4.3 As will be seen below, the flatted scheme scenarios (tests comprised entirely of flats) generally indicate more challenging viability with VLs lower than 5 to 6, and except for sheltered / retirement type schemes (table 1d) for which, typically, we would expect to see premium values achieved and a good base level of viability where demand exists to support the progression of those schemes. The finding that generally higher values are needed to support flatted schemes, and especially of the type most appropriate to a town centre or edge of centre settings, for example, is not unusual in our experience – not only an Eastleigh BC consideration.

- 3.4.4 In reviewing the results to inform the preliminary updated CIL advice, prudent assumptions have been used throughout as part of ensuring that viability is not taken to the margins when CIL charging scope and policy costs are being considered.
- 3.4.5 At a subsequent stage of considering the detail of a potential CIL charging schedule it may also be relevant to build in an additional ‘buffer’ factor. Although essentially arbitrary and a guide only, that may be used as a means of keeping well within the margins of viability. Consistent with other aspect of this type of assessment, any explicitly stated “buffer” need not be adhered to strictly as it is still quite hypothetical and the viability work does not have to be followed precisely in any event. Instead, as with other Local Plan and CIL evidence, the Council should be able to show how the assessment has informed its overall approach in striking an overall balance between the desirability of securing infrastructure to support new development in the Plan, and its viability.
- 3.4.6 Nevertheless, this might help to bring some further focus to EBC’s review of the results and what it takes from this necessarily and appropriately wide set of information provided at the point where policy positions and other matters are still under consideration - further review prior to firming up for the submission version Local Plan stage. It is usual practice that the detail of a CIL could then be considered more closely in tandem with a settled Local Plan policy set, on the basis however of having considered a need to accommodate CIL or broadly equivalent planning obligations levels alongside the emerging LP policies.
- 3.4.7 Again, the same principles and approach are used in building and in response to the commercial results set – Appendix IIb. See more on that in specific sections below.
- 3.4.8 In all aspects, on reviewing and considering the results and findings, we suggest that EBC will usefully do this alongside a “reality check” – i.e. consider in the context of its local delivery and s.106 planning obligations experience to date, through varying economic and property market conditions.

**Likely AH threshold (policy trigger point) – 11+ dwellings** (Appendix IIa - Table 1a)

- 3.4.9 The results suggest a reasonable range of scenarios capable of supporting 35% affordable housing (envisaged as required in the form of on-site provision unless the alternative of a financial contribution or alternative provision is clearly justified and agreed) together with the CIL rates tested.

- 3.4.10 On greenfield land, if applicable at this scale, the 35% AH looks supportable at VL3 (i.e. across the full range of EBC locations in such a scheme context).
- 3.4.11 On PDL, this looks potentially supportable at VL4, but a likely more comfortable outcome with VL5 values; so with fairly typical or likely achievable new-build values in most areas with the exception, probably, of Eastleigh town.
- 3.4.12 On higher value PDL sites (instances of existing use value plus any premium based land value significantly exceeding £1.5m/Ha) the 35% may come under pressure with other policies and obligations fully allowed for, as we can see through VL5+ values being needed to support RLVs greater than £1.5m/Ha. Accordingly, we can see that 20% AH is readily achieved at VL4 values on PDL, with some likely tolerance. This also clearly suggests that an AH level beyond 35% is unlikely to be realistic as any form of area-wide approach.
- 3.4.13 Overall, we suggest that a national policy aligned affordable policy threshold headline at 11 dwellings would be a suitable approach in Eastleigh borough, with (under current national policy) the influence of viability necessarily acknowledged so that the policies may be operated with some flexibility where the need for that is robustly justified. This, we consider, would amount to a typical and appropriate approach; suggested for consideration at not exceeding 35% AH (but also potentially subject to review pending national level clarity on planning policy, obligations and viability; and also to how affordable housing / low cost tenure definitions and formats may develop under emerging national policy).
- 3.4.14 Bearing in mind the VLs (sales values) needed to support 35% AH, and on review of the number of smaller PDL sites that are set to be relevant to the Local Plan delivery, the Council may need to consider how best to deal with this headline and appropriate operational flexibility in applying that, or potential policy options in the range 20 – 35% AH. This theme will be revisited on review of larger test scenario results, as follows.

**15 Houses** (Table 1b)

- 3.4.15 These results show a continuation of the above indications – very similar results and findings when comparing with those seen from the 11 dwellings outcomes discussed above.
- 3.4.16 From this it would appear that there is likely to be no particular benefit in considering a higher threshold at which the AH threshold (policy trigger point) or, in the case of EBC, operating a lower AH% target across schemes of say 11 to 14 dwellings.
- 3.4.17 The same PDL and site frequency considerations are considered to be applicable; as are, therefore, the same AH policy considerations and potential options.

**15 Flats** (Table 1c)

- 3.4.18 From these scenarios, we see that many results are poor or at best marginal with lower-end values assumed and even at 0% AH the VL1-3 are negative RLVs based on the assessment assumptions; broadly speaking results that appear unlikely to support deliverable schemes with any regularity. This is due to a poorer relationship between the lower values and higher build costs assumed, and is an inherent issue with the viability of flatted development in lower value situations.
- 3.4.19 We see this generally in a much wider range of locations – it is not unique to this assessment for EBC. Although the significantly higher development density has a positive viability influence, and in fact this may be understated in some cases at our currently assumed 75 dph here, the increased development costs in combination with the likely need to meet a higher assumed PDL site value are significant factors negatively influencing the viability view – generally poorer results seen.
- 3.4.20 This scenario is assumed as a low-rise (not usually exceeding 2-3 floors) development as might be found adjacent to or within an existing residential or mixed-use area, for example on the site of a public house, garage, small commercial use or similar. Clearly, a higher density assumption improves the results view in RLV £/Ha terms, however, and this could be a relevant factor. EBC may wish to consider this and DSP's assumptions and findings on larger flatted schemes (see below) might help inform this.

- 3.4.21 Bearing in mind that such a scheme is much more likely to come forward on PDL and not generally on a greenfield site, values at VL6-7 plus look likely to be needed to support 35% affordable housing in combination with other costs. However, at the current time, such values are considered unlikely to be regularly achieved in Eastleigh town, as a key example.
- 3.4.22 Should such a scheme be located on greenfield land, then values at VL5 should support, but not with the highest CIL level tested.
- 3.4.23 This brings us back to the wider results and potential policy options theme, for consideration by EBC and subject to best fit with its emerging LP development supply. Overall, a lower AH% might be considered appropriate for policy if this is considered a key form of development, regardless of future potential CIL rates and differentiation. The inclusion of a nil (£0/sq. m) CIL charging rate is of course the most a CIL charging schedule can do to respect likely poor or challenging viability, but the indications here are that such an approach by itself might not be enough to fully reflect the varying circumstances and viability in some instances.
- 3.4.24 Consistent with earlier stage emerging findings discussed with officers, we suggest that this points either to a flexible approach (continuing as necessary in response to site-specifics and probably emphasised on PDL schemes) or (as an alternative to consider) the potential consideration of a lower than 35% headline level of affordable housing being sought in town based scenarios, and particularly here thinking of Eastleigh town centre for example. The scale of development within and degree of priority accorded to the vitality and regeneration of Eastleigh town centre will be key to this and weighing up the implications of selected policy for the delivery of the Council's strategy overall. From our information review, we have not picked up on other circumstances within the borough where the potentially challenging and overlapping viability influences of lower values, PDL sites with higher EUVs and more development complexities may impact in quite the same way. However, the Council could consider this further in the context of the emerging site supply.
- 3.4.25 Although it will also be important to consider the larger flatted schemes tests outcomes below, it is clear to see from Table 1c that a reduction from 35% to 20% AH may in some circumstances up to approximately doubles the RLV (£) (e.g. looking at the first positive result with nil-CIL), bringing a greater range of scenarios towards potential viability; potentially assisting to bridge an apparent viability gap in at least some cases.

3.4.26 Therefore, our suggestion, based on the findings and local as well as wider experience of similar scenarios to date (both on site-specific viability reviews at planning application stage and in an LP viability assessment context), is for EBC to consider a relevant AH target at not more than 20% as part of the overall approach – dependent, however, on the overall LP relevance of PDL sites and especially town centre flatted type scenarios. The consideration of and decisions on this may also be influenced by the degree to which the current necessary flexible operation of AH% targets continues – this approach could be a way of continuing with a single % policy target across the Borough, bearing in mind also the AH needs levels.

3.4.27 As noted, and discussed further below, it will be relevant to review whether the larger scenario tests point to similar findings and suggested policy direction for EBC's consideration.

**30 mixed (house and flats)** (Table 1d)

3.4.28 The same overall trends are seen within these results – i.e. expected increasing viability with higher VL, in looking at a host greenfield site compared with PDL (relevant viability tests as above); decreasing strength of viability indications with increasing AH% and /or increasing CIL assumption.

3.4.29 However, the results are notably better than for the flatted scenario discussed above, and overall not quite as strong as those from the 15 dwellings (all houses) tests. At the highest VLs, the gap between these and the 15 units results appears to close, leaving very similar results overall as the higher values support the higher development costs associated with the scheme type, including the flatted element.

3.4.30 On greenfield land, where relevant, VL3 values should support the 35% AH (along with other assumed costs) so essentially universally throughout the Borough. This envisages straightforward small scale greenfield development, with no strategic site type enabling or other significant infrastructure costs.

3.4.31 On a PDL site considered against viability test 5, typically it appears that values around VL5 as a minimum (i.e. at around £4,000/sq. m or approx. £372/sq. ft.) could be needed to support 35% AH along with other assumed costs, e.g. including a CIL.

3.4.32 Again the results also show that a reduction in the AH% could certainly significantly support viability where that becomes difficult. Results closer to those supported by VL4 values (particularly with a nil or low CIL rate) appear likely to be workable when assuming 20% AH.

### **30 Flats – Retirement/Sheltered** (Table 1e)

3.4.33 The premium values usually achieved for such schemes as new-builds, together with the densities and typically reduced scope of external works, are in our experience positive viability influences in balance with the higher build costs associated with the construction of enlarged communal (non-saleable) areas in comparison with general market apartments development.

3.4.34 Reflecting what we see from experience of the sales values relevant to such schemes, for the assessment purpose tests have been carried out at the high-end of our assumed values range - VLs 5 to 8 at £4,000 to £5,200/sq. m. We would expect the mid-range or potentially mid to upper end of this range to be seen where schemes come forward locally.

3.4.35 On this basis, the results suggest a high level of base viability (e.g. prior to considering the AH) and in general significantly stronger results compared with those indicated for general market flatted development.

3.4.36 However, at the lower end values tested for this particular typology, the results were still seen to be poor.

3.4.37 Assuming predominantly a scenario relevant to PDL delivery, it appears that the values would need to reach at least VL6 with 20% AH; at least VL7 with 35% AH.

3.4.38 On a greenfield scenario, if relevant for example as part of a larger development, VL5 values appear sufficient to support viability with 20% AH; VL6+ with 35% AH.

3.4.39 Therefore, essentially this draws out the same picture as seen for other flatted development when considering its most likely locations and host site types, with appropriate flexibility recognised and operated or any differential policy option considered likely to be relevant to both; so no distinct policy approach warranted for this particular type of market-led apartments development.

- 3.4.40 Overall in respect of this form of development (assuming within the C3 planning use class and therefore part of the very wide spectrum of market housing development), we consider there to be no reason for differentiating for it in affordable housing policy target or indeed other policy costs terms.
- 3.4.41 The findings are consistent with our wide experience of site-specific viability assessments across a variety of local authority areas. Schemes of this type are regularly supporting CIL payments alongside making some level of contribution towards meeting local affordable housing needs, although with viability regularly discussed and a variety of PDL scenarios the norm. Our experience and general wider practice has been that financial contributions are typically the mode of provision from such schemes, although this need not affect the policy starting point or mean that the policy scope should be restricted to this, particularly as different forms of development and tenure formats could become a part of the overall picture in the coming period, with a greater national level emphasis on and need for both housing for the elderly and a greater variety of housing approaches and options in terms of tenure.

#### **50 Flats** (Table 1f)

- 3.4.42 Referring back to the smaller flatted scenarios, these results overall follow the same trend and in our view point to essentially the same influences and policy considerations being involved. This scenario envisages development at a larger scale, and, as currently assumed, at a higher density than envisaged in the assessment for the 15 flats or the 30 sheltered. It is assumed as accommodated on a slightly larger site than the 30 sheltered apartments and whilst at the same VLs the RLVs from this scenario are significantly higher, the VLs more typical to the assessment overall are considered relevant as we revert to considering general market sale apartments (non- age specific).
- 3.4.43 Development in the borough to date has been low-rise, and appears likely to continue in this way with the potential exception of Eastleigh town centre (assumed the only location in the borough where more than 5 to 6 floors may be envisaged other than on a one-off basis). Should different forms of development based on characteristics such as higher buildings, a reliance on basement car parking or other matters involving greater build costs, these could be considered further. However,

the signs are and experience to date indicates that EBC values are unlikely to support such higher development costs frequently.

3.4.44 It appears that any such schemes would be likely to come forward in or around the main town centre in the Eastleigh Borough context. Therefore, consistent with the above, the findings inform the potential consideration of a reduced AH policy target for town centre development (compared with a higher general headline level for the borough) – with an option suggested at 20% (compared with a more general suggested target level at not exceeding 35% AH). Again, how this information is used is likely to be dependent on the LP site supply and overall Plan relevance, most likely together with the consideration of flexibility in operating policies vs certainty of expectations.

**50 dwellings – mixed housing development** (Table 1g)

3.4.45 Here we see overall a very similar tone of results and trends as observed for the 30 mixed dwellings tests. The results are similar too, varying either side of those for the 30 units, dependent on the exact combination of assumptions within tests being compared.

3.4.46 On a greenfield site, 35% AH is potentially supported using a VL3 assumption (in balance with £0-75/sq. m CIL); clearly at VL4. So again this suggests viability of this scenario Borough-wide, although again assuming no abnormal costs for the scale of development.

3.4.47 Looking at the development of PDL, VL5 values could support 35% AH (most likely with nil CIL based on land at an assumed £1.5m/ha, but with land values varying in practice) although VL6 do clearly, with some tolerance over viability test 5.

3.4.48 Considering the influence of site type and Plan relevant could again be key to EBC's settling of policy positions and / or approach moving forward. Provisionally, there are considered to be few sites offering scope for this or a greater scale of development on PDL.

**100 mixed dwellings** (Table 1h)

- 3.4.49 From these results essentially we glean broadly the same findings as from the 50 mixed set, as considered above. Based on the assumptions used, the results are seen to be slightly higher than those.
- 3.4.50 At this scale, moving increasingly towards a likelihood of greenfield development, and a diminishing role for PDL, the results support 35% AH using VL3 (or higher) values i.e. at £3,200/sq. m or approx. £300/sq. ft. This is considered relevant borough-wide again.
- 3.4.51 On a PDL scenario, values at around VL4 with 20% AH and VL5 with 35% AH appear to support the cumulative costs requirements – development and policy related costs assumed, together (including with at least some CIL).
- 3.4.52 Additional exploratory sensitivity tests have been undertaken using this scenario – to provide the Council with additional information in considering the potential impacts of particular policies. These are discussed below, and the areas of enhanced accessibility (Building Regulations M4(2) and (3)), energy and water usage efficiency, open space and other matters will be considered under separate headings below – intended as additional observations for EBC to consider. The Table 1i and Table 1j indications are therefore discussed after considering the 500 mixed dwellings typology, below.

**500 mixed dwellings** (Table 1k)

- 3.4.53 These tests representing larger scale development on greenfield land. They allow for upper end Harman Report site-wide and enabling works costs at £23,000/dwelling but assume at this stage no major site-specific development mitigation in terms of s.106 cost related to matters such as new schools provision. In this sense, such sites (based on these assumptions) might in our view be regarded as the larger end of non-strategic scale development.
- 3.4.54 In addition to allowing fully for affordable housing (at 35%, mixed tenure), the assumptions include the Solent Mitigation contributions, proposed policy DM2 potential additional sustainability costs, open space (DM35), M4(2) and (3) costs as per DM31 and space standards (proposed DM32). Unlike the tests at up to and including 100 dwellings (as above), these appraisals do not include specific

assumptions on s.106 alongside the 3 tested CIL rates used across the site-typologies testing in this assessment (CIL trial rates at £0, £75 and £125/sq. m).

3.4.55 Using a VL2 values assumption, we see non-viable scenarios. At VL2, we have a “cusp” of base viability with nil CIL i.e. where 35% AH is included but supports RLVs just exceeding the greenfield viability related test 1.

3.4.56 At VL3 plus, we see RLVs well in excess of the levels needed to support greenfield release, with VLs 4 to 5 likely to support a significant surplus for s.106 mitigation and / or CIL. It appears likely that there would be scope for s.106 alongside CIL charging, subject to further review when the Council comes to considering potential CIL detail.

**Additional 100 mixed dwellings sensitivity tests to further inform EBC’s policies development – Additional sustainability policy costs impact – DM2 re; minimum 1% dwellings to ‘passivhaus’ certification** (Table 1i)

3.4.57 Although this requirement appears onerous, and especially if applied rigidly, at a per dwelling level, Table 1i shows the minimal impact likely to be seen on viability scheme-wide bearing in mind that a scheme of 100 dwellings is the first point at which the minimum requirement would be met, with the provision of a single dwelling to the enhanced standard.

3.4.58 There is considered to be a barely detectable deterioration in the RLVs as a result of adding cost for this requirement.

3.4.59 Whilst on the basis of the Plan policies drafting we have seen (December 2017) this is likely not to be a viability issue, we offer an observation that we are uncertain that this policy is required or necessary bearing in mind the currently established national policy approach; based on building regulations and their progression over time, generally with a move away from locally specific policies aside from the optional standards relating to space, water usage and accessibility where needs and viability evidence supports the inclusion of those (all included as standard assumptions across this assessment).

**Additional 100 mixed dwellings sensitivity tests to further inform EBC's policies development – Consideration of the cumulative viability influence of open space and accessibility standards enhancements – alongside affordable housing (Table 1j)**

- 3.4.60 The matrix style table at Appendix IIa Table 1j shows first (table left-side) based without the proposed DM35 open space policy requirements, and second (right-side) with that additional land-take specifically included (as per the standard assessment assumption throughout), how the RLVs vary as the DM31 enhanced accessibility standards are accounted for in stages.
- 3.4.61 In both cases (without the DM35 open space specifically allowed for, and then with that) the M4(2) is added alone, then the M4(3) cost alone; and finally both M4(2) and (3) elements in accordance with DM31.
- 3.4.62 This was undertaken to provide a closer view, cumulatively of the potential viability impacts, as these aspects apply together.
- 3.4.63 We can see that the EBC proposed DM31 policy related M4(2) and M4(3) cost influences (i.e. with a small element, only, of M4(3) tested) viewed individually, are similar to each other – a similar degree of viability influence comes from each of those elements of proposed policy.
- 3.4.64 As noted earlier, compliance with M4(3) measures is particularly costly on a £ per compliant dwelling basis, and that standard in particular needs to be applied in moderation from a viability point of view. We consider that the EBC policy approach headline is consistent with this.
- 3.4.65 PDL development considerations could again be important for the Council to bear in mind here. At VL4 with 35% AH, the RLVs remain above the viability test 5 £1.5m/Ha land value benchmark with £0/sq. m CIL assumed and the DM31 accessibility enhancements allowed for; but not with the DM35 open space also factored in.
- 3.4.66 At 20% AH these dual requirements, allowed for collectively (as in all appraisals for the assessment), mean that the RLV remains above that viability test – suggesting potential suitability on a PDL site, perhaps with some tolerance.
- 3.4.67 The addition of an assumed CIL cost at £75/sq. m in seen in the lower Table section to magnify this effect.

- 3.4.68 We consider that this points back to the above findings on the flexibility with which a 35% AH target would most likely need to be considered on PDL sites, and most notably in the case of town centre type developments (relevant to Eastleigh town especially, having typically low-end values for the borough).
- 3.4.69 In our view and experience the findings also suggest that the Open Space requirements will more than likely need to be considered practically and flexibly; and again particularly on PDL sites, with the town centre development points also needing to be reiterated as far as the cumulative effects of planning policies are concerned. We understand that the EBC policy approach (within proposed DM35) reflects the variety of circumstances, whereby the level of provision and contribution will vary depending on the existing areas of open space located within the distance set by the accessibility standard, and the size of the proposed development.
- 3.4.70 Related to this, the Council has advised us that it does have a means of monetarising the open space requirements; as rooted in 2008 Planning Obligations SPD (with associated Background Paper) and subject to index-linking. This appears consistent with the type of practical approach to which we refer and we understand that the Council's experience of operating this has proved workable in practice.
- 3.4.71 More generally, however, given the extensive role for greenfield development in overall Local Plan terms, the proposed DM35 open space and DM31 enhanced accessibility requirements are considered likely to be viable when acting together.
- 3.4.72 Overall it is considered that the thrust of DM31 should prove viable in most overall Plan relevant scenarios. From a pure viability point of view, we consider it unlikely that the policy requirements as drafted (except as noted below) would be responsible for rendering an otherwise viable scheme unviable.
- 3.4.73 However, the viability angle covers only the financial aspect. Moving away from viability to the practicalities of delivery, so aside from evidence of need too, we suggest that some further thought might be given by EBC as to how an apparently rigid approach on M4(2) and (3) might work in the case of some sites and schemes – in terms of the available space, site and design constraints, any re-use of existing buildings (for example conversion elements) and so on.

- 3.4.74 We also raise a potential concern - a point for EBC's information in regard to part iii of draft DM31, however. We consider that certainly this could be challenging and possibly in some scenarios unworkable if rigidly applied. Based on the available costs information and the wider findings, we are of the view that, if tested consistently with other elements of the assessment (i.e. general occupancy housing schemes), this would mean the addition of significant and in some cases potentially unsupportable extra development costs.
- 3.4.75 Consistent with the wider testing and findings, whereby we do not consider such housing should be subject to policy differentiation as impacts viability (for example on affordable housing or other standards) it is our view that the base DM31 requirements probably represent a more suitable approach in terms of specifics, across the board. Otherwise it appears likely that greater pressure would be applied to the scope to secure affordable housing from such schemes (in our experience usually by way of financial contributions rather than on-site provision).
- 3.4.76 As a wider point only, we assume that the developers and providers of such accommodation need to meet the requirements of various occupier groups in any event; in order to have suitable housing products or the purpose, and that offer some flexibility in use according to the relevant occupier groups and needs over time. All in all, in our experience the specialist providers operating at all levels in the market could be expected to provide accommodation meeting relevant needs, as apart of supporting the demand for their provision.
- 3.4.77 We note as another wider point that draft policy DM27 also referred to the M4 requirement, but otherwise think that policy might serve to cover the necessary ground on this, albeit more generally. Once again, these are additional observations offered for EBC's consideration.

### **Other potential policy implications – optional (enhanced) standards**

#### **Nationally Described Space Standard**

- 3.4.78 All test scenarios within this assessment assume dwelling sizes (across all dwellings) that meet at least the minimums identified within this standard. In our experience this has become a typical approach to such an assessment, and many of our clients

have pursued or are pursuing policy on this basis; subject to evidence of need as well as viability.

3.4.79 We consider that the implications of meeting this are more around early planning and design considerations; and not related to financial viability to a detectable degree. For the assessment purpose, some slightly increased floor areas mean higher build costs but these are also reflected in pro-rated sales values increases because essentially we look at the strength of the relationship between development values and costs viewed through a £/sq. m basis.

#### **Water usage efficiency**

3.4.80 The Government's guidance on 'Housing: optional technical standards' (Paragraph: 014 Reference ID: 56-014-20150327) states that: *'All new homes already have to meet the mandatory national standard set out in the Building Regulations (of 125 litres/person/day). Where there is a clear local need, local planning authorities can set out Local Plan policies requiring new dwellings to meet the tighter Building Regulations optional requirement of 110 litres/person/day.'*

3.4.81 We noted that the draft proposed policy DM2 (December 2017) referred to 105 litres/person/day (lpppd) and from subsequent discussions we understand the Council is aware of this and will be progressing policy on the basis of the optional standard based on 110 lpppd as above.

3.4.82 With only a negligible (non-detectable) cost implication based on the optional standard of 110 lpppd, this is not considered a viability issue.

3.4.83 We also note that subsequently within proposed DM2 the December 2017 draft currently includes wording that goes on to seek (where viable and practical) a much more stringent 90 lpppd water efficiency level on larger developments.

3.4.84 We are not familiar with the specific justification for such an aspiration beyond the optional standard, however this is not a viability point and more of a principle for EBC to consider in a similar way perhaps to looking at the extent to which Building Regulations standards might be expected to be exceeded in respect of energy efficiency / carbon emissions in respect of the DM2 detail on that, as noted above. As a non-fixed requirement, the more stringent water efficiency aims of EBC have not been viability tested at this level of assessment.

3.4.85 However, within the EC Harris Costs Review that informed the development of the optional standards (and includes the estimated £6-9/dwelling additional cost associated with a standard of 110 lpppd) some brief information is provided on the potential costs that were considered to be associated with going to a more stringent 80 lpppd consistent with former Code for Sustainable Homes Levels 5 to 6:

*‘The Water Calculator for new dwellings has been used to ascertain the required additional measures to achieve the ‘Proposed Standard’ and Code 5/6 Costs. Following research and liaison with industry experts, it is clear that typically rainwater harvesting has been incorporated as the means to achieve the 80l/p/d required under CfSH 5 and 6. An alternative solution would be to have ‘shower only’ dwellings. However, experience is that dwellings without a bath are not preferred by house builders or registered providers.’*

The report indicates additional costs of between approximately £900 and £2,700 per dwelling for this, dependent on dwelling size. As far as DSP is aware, there is no readily available information clearly pointing to the likely cost implications of a 90 lpppd standard, as per EBC’s additional aspiration in this area of policy.

3.4.86 As above, in the circumstances and the EBC policy proposals context, DSP has not appraised a potential standard in excess of the available optional standard at 110 lpppd but we consider it likely that at such levels, or approaching these cost levels, this measure could add significant pressure to viability when taken in conjunction with all other requirements. While this might be workable in some circumstances (likely on greenfield development only) it appears appropriate that if the Council is to continue with the inclusion of such an approach, on further review, this would need to continue to be set out as a target or aspirational / aspect rather than a firm, inflexible requirement. Some assessment of priorities in particular circumstances might well be needed.

### **Self / Custom-build**

3.4.87 Draft EBLP policy DM23 – Development in urban areas – has overlapping aspects with other policies, as tends to be the case. This includes, by our reading, an aspiration rather than a rigid requirement, for development to include scope for custom builds

or self builds. There is very little actual experience of this to date, but the policy wording is quite high-level and general.

3.4.88 The Council will continue to monitor developments on the NPPF but, set out as this is, the EBC approach will not add fixed requirements to the national policy set.

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

3.4.90 We are of the view that capacity and viability are more likely to vary in relation to particular allocations or larger sites. Specific thresholds or cut-offs are difficult to identify. However, looking at this practically, in our view it becomes relevant when looking at the cumulative policy requirements within Local Plans (alongside national level policies) to consider that a reasonable quantum of relatively “unfettered” outright market development ought to be possible on sites to sufficiently incentivise developer activity, bearing in mind the affordable housing and other policy requirements also coming together.

### **CIL – Preliminary advice summary – residential development**

3.4.91 Having re-used the previously recommended CIL charging parameters of £0/sq. m to £75/sq. m and considered higher level tests at £125/sq. m, overall we are the view that these levels provide a good indicator of the likely charging rates scope in the borough.

### **3.5 PRELIMINARY CIL RELATED ADVICE - FINDINGS REVIEW – Commercial / non-residential scenarios (Appendix IIb)**

3.5.1 Our assessment work on the review of commercial and non-residential development has focused on our typical approach to CIL viability, although undertaken here to the extent appropriate to provide preliminary advice to EBC based on information updated since that used to inform the Council’s earlier work towards a CIL (not

progressed) including DSP's September 2013 viability assessment. Again this uses an established approach to apply the same principles as have been used in the residential assessment aspects.

- 3.5.2 As is generally the case (i.e. is not Eastleigh Borough specific) the scope of policies relating to residential development are the key areas where an individual planning authority can have a significant influence over matters effecting viability – directly through policy selection.
- 3.5.3 The same does not apply to a significant extent in respect of all other forms of development, including for employment and commercial use.
- 3.5.4 In respect of other development, it appears more to be case of working with the market, being open, incentivising and engaging with development interests as far and productively as possible – aiming to review and promote or protect / select the most appropriately and accessible sites for relevant uses, seek necessary development that also meets other strategies and policies, and so on.
- 3.5.5 Nevertheless, viability assessment work undertaken in this way also helps inform the Local Plan preparation, along with a wide range of other usual evidence.
- 3.5.6 Unfortunately, it is necessary to acknowledge that, particularly when viewed in terms and using assumptions appropriate to strategic level local authority viability work, viability for many such forms of development is and looks likely to remain challenging.
- 3.5.7 However, this does not necessarily mean that suitable schemes will not come forward. Generally, it suggests though that the Council should look to proceed in a way that presents to the market an approach that is as development viability responsive as is possible. This means requiring the lowest workable level of controlling policy intervention; and especially that adds additional development cost measures over and above usual planning and design criteria, including national base standards.
- 3.5.8 Unless there are particular additional review requirements relevant to the overall Plan delivery and viability picture that emerge in due course as the final EBLP policy positions and proposals become available for review, indications as to the viability of commercial and non-residential development in the borough (as may also be

relevant to overall Plan delivery) will be gained from reconsidering the preliminary viability scope for such developments to support the CIL; as outlined below.

- 3.5.9 This is based on new appraisals that have been carried out rather than simply a light-touch research based review, because this will provide the groundwork for subject refreshing and detail based on the new Local Plan and perhaps developed further once more is known on the Government's CIL review proposals. EBC is not at this stage considering imminent consultation on CIL charging proposals for the Borough.
- 3.5.10 Pending any such further work to be added to the information available to the Council, we have included latest accessible commercial market and values data to the rear of Appendix III to this report (sourced from Co-Star).
- 3.5.11 In the meantime, as noted above there may be some aspects of strategy that EBC can usefully consider in looking further at the evidence being gathered on employment land need and supply, for example.
- 3.5.12 At the national level, prior to the Brexit decision the commercial sector remained generally positive but the lead up to that led to some uncertainty in the market. The future direction of the commercial market following the decision to leave the EU, and indeed subsequent / ongoing discussions, remains uncertain.
- 3.5.13 Similar uncertainties were noted earlier in the report in respect of the varied potential outcomes for build cost trends.
- 3.5.14 As above, in looking at commercial property development at present, in many instances we must acknowledge the probable short-term challenge around delivery of significant new development, and particularly on a speculative basis.
- 3.5.15 We expect that the Council's policy set will continue to develop themes of promoting and encouraging development focused on improvements to the offer presented by Eastleigh town centre particularly, but also by the other 'Level 1' settlement hierarchy centres of Chandlers Ford and Hedge End, together with the range of smaller local and neighbourhood centres. Likewise, there are particular focuses of activity for large scale commercial development, such as at Eastleigh, Chandlers Ford and Hedge End; together with emerging proposals for new strategic scale development areas to host new employment, commercial and other mixed-use development provision.

- 3.5.16 In our wide experience of CIL and Local Plan viability, away from residential development, generally poor viability or at best mixed results tend to be seen from most test scenarios other than those representing certain forms of retail development.
- 3.5.17 Usually we find that this is especially the case for most of the B (business/employment) use class types. As noted, such outcomes do not necessarily mean that development will not be delivered through flexibility in development appraisal inputs and negotiations – factors that we cannot assume in prudently assessing viability for informing Local Plan development and CIL setting purposes.
- 3.5.18 Provisionally, therefore, we are of the opinion that the themes identified through the Council’s available evidence from its previous consideration of CIL proposals are likely to remain largely valid at this stage. To test and fully inform EBC’s positions moving ahead, however, the following commentary runs through our preliminary 2018 appraisal results – considered here by development use type.

#### **A1 – Large format retail**

- 3.5.19 The developments referred to here are typically for retail warehousing or foodstores and are readily definable as such. They also clearly exceed the Sunday Trading related sales floor area threshold (at 3,000 sq. ft. / approx. 280sq. m), which represents a clear differential point for CIL charging, as a secondary measure / form of clarification alongside the large format retail use type.
- 3.5.20 These large retail units remain amongst the most clearly viable forms of development and should be able to support CIL charging if they continue to come forward.
- 3.5.21 Current experience in the borough bears this out, with relatively recent additions and adjustments having been completed and full take-up at Hedge End for example.
- 3.5.22 Should any further development of these types occur, our relatively strong viability findings suggest that the site values will also be high, they could comfortably absorb a CIL charging scope at similar levels overall to the tested range for residential development. So it is likely, as an indication, that a CIL charging rate of say £100 to £125/sq. m could be considered for such uses. This would be fairly typical in our most recent experience of viability for CIL setting purposes. However, it appears that with

the established provision of larger format retail in the borough, especially as recently expanded, that this could be a rather theoretical element of the charging schedule that may be unlikely to yield significant CIL funding income in the next few years. On considering the context for a CIL in due course, an updated view of the sites and developments supply will inform further work on this.

### **Town centre and small retail units (including local convenience store developments) – borough-wide**

- 3.5.23 The town centre retail test outcomes appear strong using the more positive values assumptions combinations – e.g. ‘M’ or ‘H’ rent tests with 5% yield; ‘H’ rental assumptions in combination with not higher than say a 6% yield. However, these scenarios are seen to be highly sensitive to less positive values assumptions, and this indicates that they are also likely to be highly sensitive to any increased development costs.
- 3.5.24 Having taken a relatively positive approach to the town centre retail assumptions to test the points at which viable looking scenarios may be created, our overview is that a lower or nil CIL charging rate, as advised previously, would probably be appropriate for any developments within the town centre boundaries – i.e. continuing the adopted charging schedule approach. Much the same continues to apply to other smaller shops development given the tome of results that we see now with Appendix IIb for those current stage test scenarios.
- 3.5.25 So, away from the larger format retail development types (foodstores, retail warehousing) we consider it likely that a CIL rate or rates in the range say £0/sq. m to £50/sq. m would be likely to appropriate; subject to review as per all preliminary advice here in respect of CIL.

### **Office developments (B1(a))**

- 3.5.26 In common with our and others’ typical findings across similar assessments covering a wide range of areas, the current stage appraisals support preliminary / updated advice that office developments continue to be insufficiently viable to support CIL charging here.

- 3.5.27 Some positive RLVs are seen at the highest rent and most positive yield tests, but in those cases involving a more optimistic than necessarily secure yield assumption in combination with that in our view at this stage.
- 3.5.28 As per earlier advice, currently we would expect to recommend a nil charging rate (£0/sq. m) applicable to any office developments on a borough-wide basis. This is considered unlikely to change in the foreseeable period.

#### **Industrial / warehousing (B1, B2, B8)**

- 3.5.29 Although in general we regard Eastleigh Borough as a more established location for such uses compared with offices, again based on researched assumptions appropriate for the assessment purpose these appraisals are some way short of displaying viability outcomes sufficient to support CIL charging.
- 3.5.30 Again, at this time we would expect to need to recommend a nil charging rate (£0/sq. m) applicable to any office developments on a borough-wide basis. Again, this is considered unlikely to change in the foreseeable period.

#### **Care Homes / similar (C2)**

- 3.5.31 Provisionally, the appraisals of these are showing some very positive viability findings. At this stage of preliminary advice only, we would expect these to lead to positive recommendations for CIL charging scope perhaps across a similar range to that noted as likely to be suitable for residential (C3) development (range £0 to approximately £125/sq. m overall – subject to further review).

#### **Other development uses and CIL potential**

- 3.5.32 As a regular component of our CIL viability assessment work, we consider a range of other development uses – their likely viability.
- 3.5.33 So, in common with most of our other CIL studies, we have also carried out some initial high-level consideration of other development uses such as leisure (e.g. bowling / fitness / gym) and other D class elements such as health / clinics / nurseries etc.

- 3.5.34 Bearing in mind the key development value / cost relationship that we are examining here, we find that it is not necessary to carry out full appraisals of these because a simple comparison of the completed value with the build cost indications from BCIS (before consideration of other development costs) points to poor to (at best) marginal development viability. This is one of the key reasons why these forms of development are generally not seen stand-alone, but tend to be provided as part of mixed use schemes that are financially driven by the residential and /or retail development.
- 3.5.35 Much the same applies to elements such as health / clinics and other similar, more community oriented development.
- 3.5.36 Following our extensive iterative review process, throughout this assessment we can see that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before CIL scope is considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).
- 3.5.37 In such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability. Such scenarios are generally unviable in the sense we are studying here – as a starting point. This is because they have either a very low or no real commercial value and yet the development costs are often similar to equivalent types of commercial builds. We regularly see that even the build costs, and certainly the total costs, exceed levels that can be supported based on any usual view of development viability. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them.
- 3.5.38 As will be seen below, there are a wide range of potential development types which could come forward as new builds, but even collectively these are not likely to be significant in terms of “lost opportunity” as regards CIL funding scope. We consider that many of these uses would more frequently occupy existing / refurbished / adapted premises.
- 3.5.39 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in

the main they are likely to be a long way from producing any meaningful CIL funding scope.

- 3.5.40 There are of course a range of other arguments in support of a distinct approach for such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure. They may even be the very types of facilities that the pooled CIL contributions will ultimately support to some degree. For all this, so far as we can see the guiding principle in considering the CIL regime as may be applied to these types of scenarios remains their viability as new build scenarios.
- 3.5.41 As a part of reviewing the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from entries in the VOA’s Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS. As has been discussed above, where the relationship between these two key appraisal ingredients is not favourable (i.e. where costs exceed or are not sufficiently outweighed by values) then we can quickly see that we are not dealing with viable development scenarios. The lack of positive relationship is often such that, even with low land costs assumed, schemes will not be viable. Some of these types of new developments may in any event be promoted / owned by charitable organisations and thereby be exempt from CIL charging (as affordable housing is).
- 3.5.42 On this basis, Figure 8 below provides examples of this review of the relationship between values and costs - in a range of these other scenarios. This is not an exhaustive list by any means, but it enables us to gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and further complication within any local CIL regime. These types of value / cost relationships are not unique to the Eastleigh Borough area at all. Very similar information is applicable in a wide range of locations in our experience. (See Figure 8 below – following page).

Figure 8 – Value / cost relationships based viability indications – other uses

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost indications –BCIS**	Viability prospects and Notes
Cafés	£70 - £200 per sq. m.	£700 - £2,000 per sq. m.	Approx. £2,200 - £2,900	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	£25 - £120/ per sq. m.	£250 - £1,200 per sq. m.	Approx. £1,750 - £2,540	Clear lack of development viability
Day Nurseries (Nursery School /Creches)	£50 - £200 per sq. m.	£500 - £2,000 per sq. m.	Approx. £2,000 - £2,800	Insufficient viability to clearly and reliably outweigh the costs
Garages and Premises	£30 - £40 per sq.	£300 - £400 per sq. m.	Approx. £570 - £1000	Low grade industrial (B uses) - costs generally exceed values
Halls	£25 - £35 per sq. m.	£250 - £350 per sq. m.	Approx. £1,880 - £2,465	Clear lack of development viability – subsidy needed
- Community Halls				
Leisure Centre - Health and Fitness (Sports Centres/ recreational centres) generally	£80 - £110 per sq. m.	£800 - £1,100 per sq. m.	Approx. £1,460 - £1,940	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Leisure Centre Other - Bowling / Cinema	No information available		Approx. £1,300 - £2,130	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Museums	No information available		Approx. £1,200 - £3,630	Likely clear lack of development viability – subsidy needed
Storage Depot and Premises	£40 - £70 per sq. m.	£400 - £700 per sq. m.	Approx. £300 - £1,235 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	No information available		Approx. £1,860 - £2,510 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs based on other than high-end looking value assumptions.

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

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

\*\*\*BCIS Latest available data average of Eastleigh Location Factor

- 3.5.43 In looking at other development uses and CIL, we would expect our recommendation again to be for the Council to consider a zero (£0/sq. m) rate in respect of a range of other uses such as included within the above table. As with other aspects of the potential CIL considerations, this could be reviewed again in response to any further detail available and to EBC's monitoring information.
- 3.5.44 Our overriding view at the current time is that the frequency of these other new build scenarios in general that could reliably support meaningful CIL scope in the borough area is likely to be very limited.
- 3.5.45 In addition to seeking to ensure that the approach to planning obligations (including any future CIL) does not add unduly to the viability pressures uncertainty to potential investment, the Council could consider the following types of areas and initiatives (outside the formal scope of the brief for this assessment, but put forward purely as practical indications in relation to the more general Local Plan delivery considerations on commercial / employment and non-residential development uses):
- Consideration of market cycles – plan delivery is usually about longer term growth as well as short term promotion and management of growth opportunities that will contribute to the bigger picture;
  - Work with the market – be responsive etc. as suitable opportunities are identified;
  - Regenerate / improve and protect key existing employment areas;
  - Provide land where assessed to be most needed;
  - A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;
  - Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;

- Specific sites / locations and opportunities – for example in relation to the plan proposals and what each are most suitable for. Focus on the most accessible, best and most valuable locations for particular uses;
- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) or other development – balance the element in deficit or with reduced viability;
- Scenarios for particular / specialist uses – e.g. the local knowledge based employment economy; or that may be non-viable as developments but are business-plan / economic activity led;
- Explore any local specialisms or particular industries / sectors from which economic advantage and stimulation of other activity can be made;
- As with residential, consideration of the planning obligations packages again including their timing (triggers) as well as their extent.
- A likely acceptance that business development overall is unlikely to be a significant regular contributor to general community infrastructure provision in the short-term at least.
- Seek other investment and consider incentive schemes.

### **3.6 Additional Commentary – Overview – Local Plan**

3.6.1 We consider that this assessment identifies continued scope for EBC to confirm through its Local Plan the allocation of an appropriate development strategy, development management policies and a range of appropriate development opportunities; with reasonable prospects of viability and the potential to find the appropriate balance between affordable housing needs, other planning policy objectives and scheme viability.

3.6.2 This is consistent with DSP's wide experience of successful CIL, Local Plan and Affordable Housing viability evidence and outcomes through to examination and on

to adoption stages, as well as in the detail of affordable housing and other planning policies and viability factors in operation in practice.

- 3.6.3 In our view, as a “Whole Plan” overview, looking at an appropriate level at the range of potential development scenarios and policy areas likely to be supporting the new Local Plan, these appear to be capable of meeting the requirements of the NPPF including the criteria at paragraphs 173 and 174.
- 3.6.4 This is provided that EBC maintains an approach of not adding unduly to the national baseline policies together with addressing its local affordable housing needs as far as is practical, and that it factors in scope for CIL and / or other planning obligations. To make this work, landowners’ expectations will also need to be at realistic levels, reflecting the requirements and constraints as well as the opportunities side.
- 3.6.5 Wherever pitched, the policies will need to be accompanied and explained by appropriate wording and guidance that sets out the strategic context and nature of the targets but also recognises the role of viability in implementation. Where robustly justified by a developer, a practical approach may need to be acknowledged - which can be responsive to particular circumstances - those will continue to be highly variable with site specifics. The need for this type of approach is likely to be particularly important in the event of ongoing economic and market uncertainty such as we still appear to have at the current time, although very latest post-Brexit market indications are still mixed and more positive overall perhaps than were initially predicted. Only time will tell how these matters play out, however, together with the external influences of the national policy changes that are now emerging.
- 3.6.6 Suggestions to consider (and any subsequent use of) reduced / lower than headline targets for affordable housing, or other policy cost areas, does not imply that such targets would always be met at their lower levels; this cannot be certain to be achieved at any policy level.
- 3.6.7 This viability evidence will need to be considered in conjunction with wider evidence on housing needs and the shape of site supply (type, location and size of sites coming forward), infrastructure needs and planning, employment land and so on.
- 3.6.8 Keeping the picture informing the Plan development topical, it will be also be essential to monitor, review and keep up to date evidence associated with the policies as part of creating a sound overall approach.

### **3.7 Brief summary – main policy considerations**

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

Figure 9 – Brief Overview – Table of Key Policy Development and Preliminary (only) CIL Observations

Summary – policy observations and any comments / alternatives for consideration	
<b>Site supply and likely deliverability – “whole Plan” overview</b>	
<p>Generally, reasonable prospects of viable development across a likely positive mix and spread of sites and locations; should be capable of supporting a balance of affordable housing and other policy costs - subject to site-specific characteristics and details, acknowledging both the needs and the role of viability. Consider setting AH and any future CIL within apparent maximum levels to allow scope for delivery of other policy costs, unforeseen site costs (e.g. abnormal, etc.)</p> <p>EBC may wish to revisit / refine some aspects of detail, as discussed in this report.</p> <p>OVERALL, with AH allowed for as proposed below, and a potential CIL assumed at this stage within the preliminary charging rates parameters reviewed here (subject to subsequent review), there is considered to be relatively little available “slack” to take-up, and this needs to be kept in mind first and foremost in both setting and operating AH policy targets; and then also in setting up a potential CIL moving ahead, to support the new Local Plan and based on its settled policies.</p>	
<b>Affordable housing - policy target scope (%)</b>	
Sites 11+ dwellings – borough wide	Suggested consideration of 35% as headline.
All town centre sites; and potentially extended to a wider view of PDL based development.	As an option / alternative - dependent for example on site supply and the overall Local Plan role of various site types as well as particular schemes (along with national planning policy developments) - suggested potential consideration also of a differential approach including a reduced target applicable to some sites (particularly town centre, and possibly wider PDL schemes) – indicatively at 20% AH. Such an approach could be suitable for the Borough and would be a possible alternative to looking at the 35% needs driven headline and to operating that or a similar single target with greater flexibility.

	<p>In any event, at the levels considered, an adaptable approach to operating the AH policy will be necessary, with the flexibility expected to be needed to a greater degree on PDL schemes (and particularly town centre schemes) than in the case of the greenfield development which is the key to the proposed housing growth. As in all cases, and so not just an EBC related finding, a lowered target could not guarantee delivery to that specific level in all scenarios in any event.</p>
<p><b>Optional standards - Enhanced accessibility – M4(2) &amp; (3)</b></p>	
<p>All residential sites</p>	<p>Viability considered workable to include the proposed DM31 headline positions.</p>
<p>However, wider advice to consider more of a guided / target based and flexible rather than rigid approach – some sites and schemes may not lend themselves well to compliance, practically rather than from a viability perspective. In general, evidence of need required. Reservations expressed about the intended application of a stringent M4(3) policy to Elderly Persons’ housing provision – an approach consistent with that for other C3 development as per the DM31 main thrust might be more appropriate in our view. Potential viability as well as practical concerns on DM31 iii detail. Consider also the relationship with emerging policy DM27 text.</p>	
<p><b>Open Space</b></p>	
<p>DSP has encountered potential issues with onerous on-site / provision based open space policies - consider emerging DM35 approach and ensure workable within range of site constraints- e.g. PDL sites implications. A likely continued need for the Council’s practical approach advised by Officers, including the potential to monetarise the policy obligations. Unlikely to present an issue on the predominant aspect of the strategy, greenfield based development, however.</p>	
<p><b>Energy and water efficiency</b></p>	
<p>Building regulations standards – assumed former CfSH4 equivalent standards within emerging DM2 considered viable. However, additional requirement re 1% Passivhaus certified on larger developments considered beyond usual and national requirements, so queried from that point of view, although still considered unlikely to have a significant or damaging viability impact.</p>	

<p>Clarified intended use of the optional national standard at 110 litres/person/day is considered a regular requirement, particularly in a ‘water stressed’ area and not a viability issue. However, the reference to a more stringent 90 litres/person/day may not be achievable, although noted as an aspirational element rather than a firm requirement.</p>	
<p><b>Nationally described space standard</b></p>	
<p>Included as a standard assumption and considered viable – as per emerging DM32.</p>	
<p><b>Self &amp; Custom-build</b></p>	
<p>Considered no significant implication for overall viability, especially whilst envisaged by EBC as an advisory / encouragement to consider its inclusion, rather than a firm requirement. DSP has noted as a general principle suggested for consideration that the proportion of “unfettered by policy” should be kept in mind – cumulative effect of requirements for AH and other matters; and maintaining sufficient market led housing drivers.</p>	
<p><b>PRELIMINARY CIL FINDINGS – Current stage – Subject to further review on progressing detail (all TBC)</b></p>	
<p><b>Residential</b> (all forms of C3, including for the elderly - retirement / sheltered)</p>	<p>Guide parameters £0 - 125/sq. m – dependent on Plan relevant locations and site / scheme types.</p> <p>Differentiation by area (including respecting likely lower Eastleigh town centre viability) as previously assessed and consulted on, looks likely to remain relevant.</p>
<p><b>Large format retail</b> (Retail warehousing, foodstores - out of town centres, but equally could be applicable borough-wide).</p>	<p>Likely scope up to the around the upper residential parameters as above (provisionally up to £100 - £125/sq. m)</p>
<p><b>All other retail – smaller shops, all types</b></p>	<p>A lower rate or other differential approach is likely to be warranted. Overall, consideration of either a nil-rate (£0/sq. m) or rate(s) unlikely to exceed approximately £50/sq. m for all other forms – small</p>

	shops – would need to be suggested at this time.
<b>Care Homes / similar (C2)</b>	Scope likely to be recommended consistent with the residential (C3) parameters as above.
<b>All other development uses, including employment (Offices / industrial / warehousing – B1 – B8); Hotels (C1); Leisure and assembly (D) uses</b>	It remains likely that we would need to continue to recommend nil-rating (£0/sq. m).

## Limitations

*The purpose of the assessment reported in this document is to inform the Council's on-going work on further refining and progressing the policies of the emerging Eastleigh Borough Local Plan (EBLP) and also to provide preliminary advice on CIL viability as the Council works towards considering a potential Community Infrastructure Levy (CIL) Charging Schedule.*

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

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

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

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

*Accordingly, this assessment (as with similar studies of its type) is not intended to prescribe land values or other assumptions or otherwise substitute for the usual considerations and discussions that will continue to be needed as individual developments with varying characteristics come forward. This is also true in respect of the long timescales in Local Plan development and implementation over which the economy and development climate*

*(national and more local influences and impacts) are very likely to vary. Nevertheless, the assumptions used within this study reflect the policy and strategy direction of the Council as far as known at the time of carrying out this assessment and therefore take into account the cumulative cost effects of policies where those are relevant.*

**Report ends - Final version (DSP v6)**  
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