

**Barnsley Metropolitan Borough Council**

**Community Infrastructure Levy Viability  
Study**

**Final Report**

**September 2012**

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# 1 INTRODUCTION

## **Review of project aims and background to the project**

- 1.1 Barnsley MBC appointed Dr Andrew Golland, Three Dragons and Andrew Corbett, Smiths Chartered Surveyors, Barnsley to carry out a CIL (Community Infrastructure Levy) Viability Study. This is in response to the Council's potential implementing of a Community Infrastructure Levy in accordance with Section 206 of the Planning Act and the Community Infrastructure Levy Regulations 2010.
- 1.2 The project brief stated that 'The Charging Schedule must be informed by appropriate evidence which should include a broad assessment of the potential impact of CIL on the viability of development. Government guidance says that the levy charge should not be set so high as to stifle development, nor should it be set so low that insufficient funds are available for infrastructure'.
- 1.3 The aim of this study is to undertake an assessment of the economic viability of the borough with a view to setting a CIL rate (s) for the Councils proposed Community Infrastructure Levy, for both residential and non-residential development, taking account of a range of financial and other variables including different levels of affordable housing, and in accordance with the CIL Regulations and related government guidance.
- 1.4 The report's required outputs are to provide a report that:
  - Assesses viability of CIL for commercial development (all non-residential that would be eligible for payment of CIL), testing sample CIL contributions set at various levels and to recommend what level (s) should be set, based on viability evidence.
  - Assesses viability of CIL for residential development, testing sample CIL contributions set at various levels and to recommend what level(s) should be set based on this viability evidence, and taking into account the levels of affordable housing as set out in the Core Strategy.
  - To identify where differential CIL levels should be set, and at what level, if the viability studies have demonstrated that it is appropriate. This could be based on geographical differences, use class, or Greenfield/Brownfield, or other criteria, as appropriate depending upon the evidence.
- 1.5 The Council are keen to have a methodology in place that is consistent with the approach adopted in the Affordable Housing Viability Study carried out in 2010 by Three Dragons. That study established a sub market framework for analysis with respect to the residential component of this (CIL) study. This approach is further consistent with government guidance to local authorities in preparing CIL schedules.

## **Key issues with respect to CIL viability testing**

- 1.6 The CIL Viability Study will need to establish a testing 'framework' that reflects the legal context of CIL, mostly helpfully set out in DCLG's 'Community

Infrastructure Levy: An Overview (May 2011). Significant points in framing the analytical framework for a Viability Study are:

- All types of development (housing, commercial and other uses) should be viability tested. This means the testing process is in principle, extensive;
- CIL is payable on floor area, not units. It is furthermore payable on net increases in floorspace. Since many developments involve demolition, only low payments may ensue. However, it would appear that studies completed so far have taken a 'worst case' scenario, being based on gross development areas;
- Exemptions to a CIL charge – Affordable Housing and Charity projects. This does not mean that Affordable Housing does not have to be tested; just that where mixed tenure development scheme examples are tested, no CIL charge is applied to the Affordable Housing element;
- CIL can be used to cover a range of infrastructure uses: physical, social and environmental. Thus the testing framework should aim to test ambitious CIL scenarios wherever practicable.

### **Current policy considerations**

- 1.7 The Three Dragons Affordable Housing Viability Report (AHVS) provided key viability conclusions which are important in framing the direction of the CIL study.
- 1.8 The AHVS provided the Council with two main options for policy setting for affordable housing. These were:
  - Adopt a dual target broadly splitting the Borough east and west. This would involve the Rural West, Darton, Barugh. Penistone and Dodworth with one target and the rest of the Borough with another. On this basis, we would suggest a 25% target for Rural West, Darton, Barugh. Penistone and Dodworth and a target of 15% elsewhere. On this basis however, our analysis suggests that the very weakest sub markets might find even a 15% target challenging without the assistance of subsidy to support the affordable housing element. At the other end of the scale, i.e in Rural West, this policy stance could well underestimate the potential supply of affordable housing from these higher value locations.
  - Adopt a more location specific based approach, including a four way policy target. This would set a target of 35% for Rural West; 25% for Darton, Barugh. Penistone and Dodworth; 15% for South Barnsley and Worsbrough and 10% for the weakest three sub markets which include Hoyland, Wombwell. Darfield, North Barnsley and Royston, Bolton on Dearne, Goldthorpe and Thurnscoe.
- 1.9 The Council adopted a policy of 25% affordable housing in Penistone and the Rural West, Darton, Barugh and Dodworth. In the remaining sub markets, a

15% affordable housing contribution is required. Affordable housing contributions are required on schemes of 15 dwellings or more. The relevant Core Strategy policy is CSP 15 'Affordable Housing'.

### **Research undertaken for this study**

1.10 There were four main strands to the research undertaken to complete this study:

- Discussions with a project group of officers from the Council to help inform the structure of the research approach;
- Analysis of information held by the authority, including that which described the types of sites coming forward;
- Use of the Three Dragons Toolkit to analyse scheme viability (and described in detail in subsequent chapters of this report);
- A workshop held with developers, land owners, their agents and representatives from a selection of Registered Social Landlords active in the Borough. The feedback notes from the Workshop are shown at Appendix 1 of this report.

### **Structure of the report**

1.11 The remainder of the report uses the following structure:

- Chapter 2 explains the methodology we have followed in, first, identifying sub markets and, second, undertaking the analysis of development economics. We explain that this is based on residual value.
- Chapter 3 describes the analysis of residual values generated across a range of different development scenarios (including alternative percentages and mixes of affordable housing) for residential schemes.
- Chapter 4 provides sensitivity analysis in relation to the trade-offs between affordable housing contributions and CIL.
- Chapter 5 focuses on commercial schemes and tests a range of developments across the commercial use class orders. This chapter draws to a significant extent on the experience of Smiths in the local commercial property market.
- Chapter 6 summarises the evidence collected through the research and provides a set of policy options.

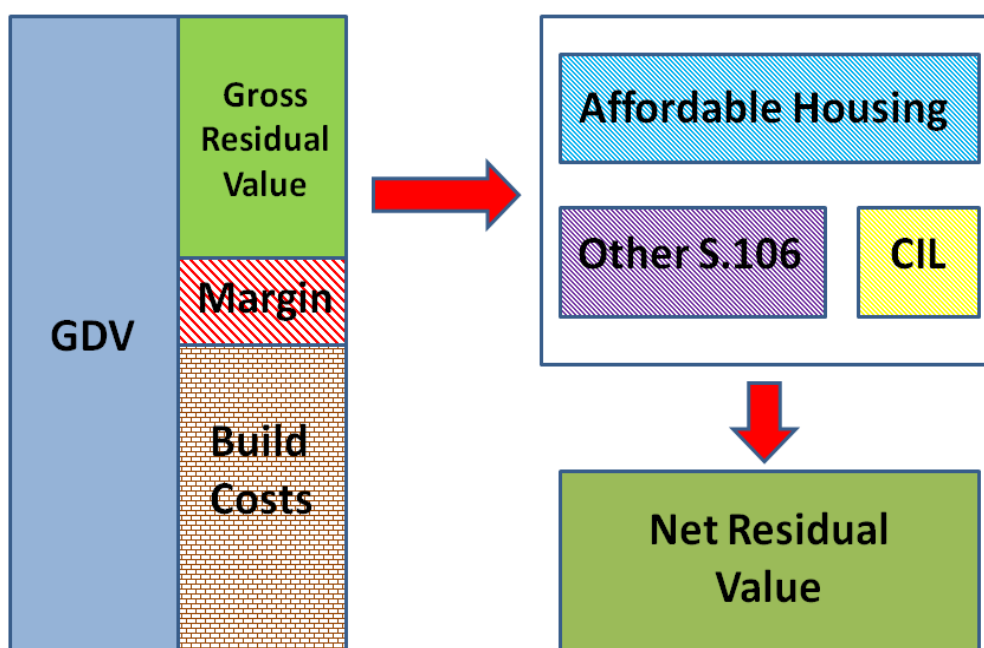
## 2 METHODOLOGY

### Introduction

#### Viability – starting points

- 2.1 We use a residual development appraisal model to assess development viability. This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates (scheme revenue) and what it costs to develop (build costs and developer margin). The model can take into account the impact on scheme residual value of affordable housing and other Section 106 contributions or CIL where this is being tested.
- 2.2 Figure 2.1 below shows diagrammatically the underlying principles of the approach. Scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme costs assume a profit margin to the developer and the 'build costs' as shown in the diagram include such items as professional fees, finance costs, marketing fees and any overheads borne by the development company.

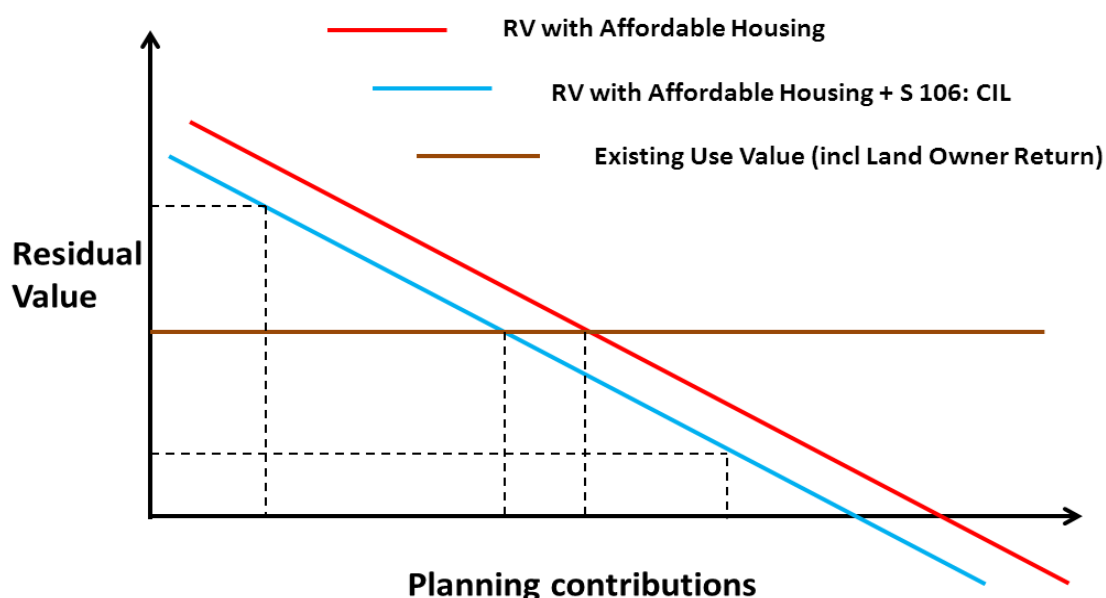
**Figure 2.1 Viability, CIL and Affordable Housing**



- 2.3 The gross residual value is the starting point for negotiations about the level and scope of Section 106 or CIL contribution. The contribution will normally be greatest in the form of affordable housing but other Section 106 items or CIL will also reduce the gross residual value of the site. Once the Section 106 contributions/CIL have been deducted, this leaves a net residual value.
- 2.4 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.

- 2.5 A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will not guarantee that development happens. The Existing Use Value (EUV) of the site, or indeed a realistic alternative use value for a site will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing.
- 2.6 Figure 2.2 shows how this operates in theory. Residual value (RV) falls as the proportion of affordable housing increases. At point (a), RV is greater than EUV and provided that this margin is sufficient for the land owner to bring the site forward, then it will be viable.

**Figure 2.2 Residual Value (RV) and Existing Use Value (EUV)**



- 2.7 Where RV is equal to the EUV and there is relatively little incentive in theory to bring the site forward.
- 2.8 As the diagram shows, other impacts, in the form of either CIL or Section 106, will reduce the viability of a development since their aggregate effects are to bring residual value closer to EUV.
- 2.9 Where grant is available for affordable housing, the economics will improve and the red and blue lines will be shifted to the right of the chart, making it easier for the new development to generate a margin over the EUV.
- 2.10 The analysis we have undertaken uses a Three Dragons Viability model. The model is explained in more detail in Appendix 2, which includes a description of the key assumptions used.

### **3 RESIDENTIAL VIABILITY ANALYSIS**

#### **Introduction**

- 3.1 This chapter of the report considers viability for residential schemes including affordable housing.
- 3.2 We have selected a range of development types across a range of scheme sizes and densities, and across a range of sub markets. This provides the basis for understanding the extent to which a CIL may be applicable and viable.
- 3.3 The chapter explores the relationship between the residual value for the scenarios tested and existing/alternative use values.

#### **Sub Market areas**

- 3.4 Variation in house prices has a significant impact on development economics and the impact of affordable housing on scheme viability.
- 3.5 We have taken a consistent approach to the determination of sub market areas in line with the Council's Affordable Housing Viability Study (AHVS), completed in September 2010.
- 3.6 That study undertook a broad analysis of house prices in Barnsley using HM Land Registry data to identify the sub markets. The house prices which relate to the sub markets provide the basis for a set of indicative new build values. Table 3.1 below sets out the sub markets in the Borough developed for the AHVS and this study.
- 3.7 The following postcode sectors are included with the following sub market areas although transactions within these postcode sectors have been excluded from the analysis. This is because the postcodes sector is either very peripheral or its house prices would be derived from a settlement outside Barnsley's border:
- 3.8 Rural West: HD8 8; HD8 9; HD9 1; HD9 2; HD9 7; S35 0; S35 1; S35 4; S35 8; S36 1; S36 2; WF4 4.
- 3.9 Penistone and Dodworth: S35 2.
- 3.10 Darton and Barugh: WF4 2.
- 3.11 Rural East: DN5 7; WF9 4.
- 3.12 Hoyland, Wombwell and Darfield: S62 7; S63 5; S63 7.
- 3.13 North Barnsley: WF4 2.
- 3.14 Bolton, Goldthorpe and Thurnscoe: DN5 7; S64 0

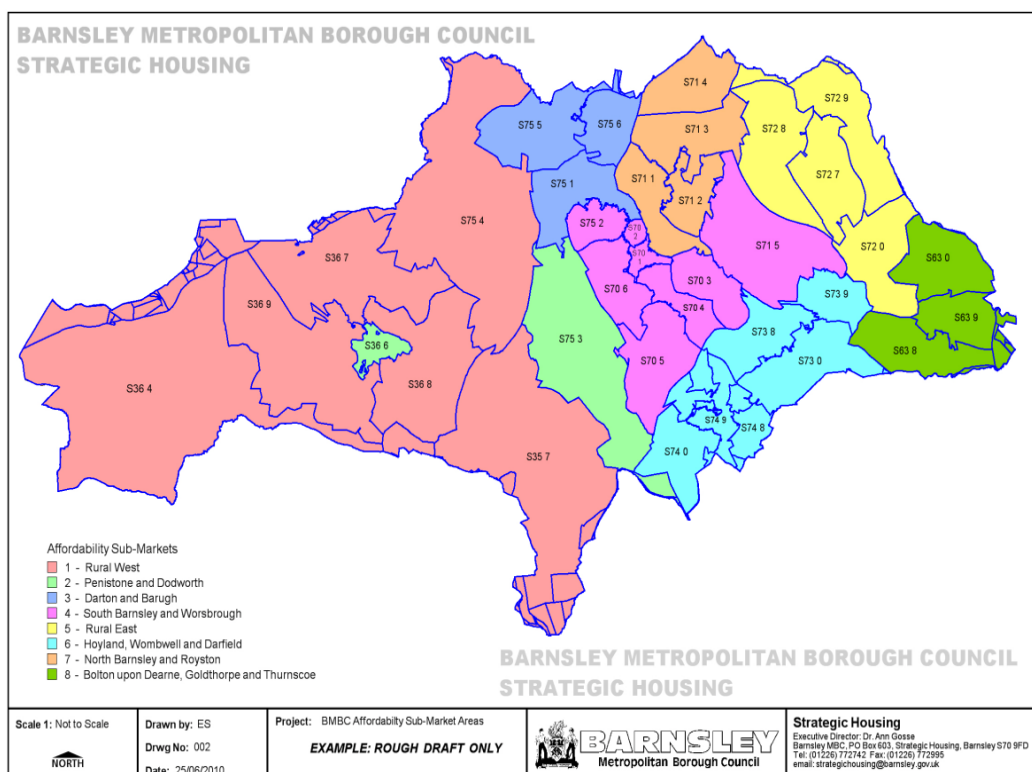


**Table 3.1 Viability sub markets in the Barnsley area**

Sub Market	PCS	Large Settlement	Medium Settlement	Small Settlement
RURAL West	S36 7		Hoylandswaine	Kidfield
	S75 4		Silkstone	Cawthorne,
	S35 7			Thurgoland, Howbrook, Bromley
	S36 8		Oxspring, Silkstone Common (South)	Snowden Hill,
	S36 9		Thurstone	Ingbirchworth, Langsett
	S36 4 (North West)			Dunford Bridge, Townhead
Penistone & Dodsworth	S36 6	Penistone		
	S75 3		Dodworth,	Pilley
Barton & Barugh	S75 1		Barugh	
	S75 5		Barton	Kexbrough
	S75 6		Barton (East)	Mapplewell
South Barnsley and Worsbrough	S75 2	Barnsley		
	S71 5	Barnsley		
	S70 1	Barnsley		
	S70 6	Barnsley		
	S70 3	Barnsley		
	S70 4	Barnsley		
	S70 2	Barnsley		
	S70 5	Worsbrough		Birdwell
Rural East	S72 9			Buerley
	S72 7		Grimethorpe	
	S72 8			Cudworth, Shafton
	S72 0			Great Houghton, Little Houghton
Hoyland, Wombwell and Darfield	S74 8	Hoyland (East)		
	S74 0	Hoyland (West)		Blacker Hill
	S73 0		Wombwell (South)	Hemingfield
	S74 9	Hoyland		
	S73 9	Darfield		
	S73 8		Wombwell (North)	
North Barnsley and Royston	S71 2	Barnsley		
	S71 4	Royston		
	S71 1	Barnsley		
	S71 3	Barnsley		
Bolton, Goldthorpe and Thurnscoe	S63 8	Bolton upon Dearne		
	S63 9	Goldthorpe		
	S63 0	Thurnscoe		

Source: Market value areas as agreed between Three Dragons and Barnsley MBC

The map below shows the sub market areas in GIS format:



## Testing assumptions

- 3.15 The analysis is based on the policy position (CSP 15 Affordable Housing) with respect to affordable housing. That is to say, we have tested viability for residential sites at 25% (affordable housing) in the Penistone and Rural West, Darton, Barugh and Dodworth sub markets; and at 15% affordable housing in all other sub markets.
- 3.16 The policy position with respect to affordable housing set out in CSP 15 is that a contribution will be required on sites of over 15 dwellings only.
- 3.17 However, we have tested smaller sites on the basis that although an affordable housing contribution may not be required by policy, the smaller sites (which were shown in the viability study to be no less viable than large ones) may bear a contribution to CIL or indeed to general Section 106 obligations.
- 3.18 The Council have been clear in commissioning this study, that any CIL will have to take into account in principle, the level of affordable housing required on sites.
- 3.19 The sample of sites we tested is shown in Table 3.2 below.

**Table 3.2 Sample of residential schemes tested**

Case Study Schemes	Development Type	Site Size	Density per Ha or Sq M	AH Targets Test	Sub Markets: Location
1 Residential Unit	1 x D	0.05	20	0%	
3 Residential Units	2 x S-D; 1 x D	0.1	30	0%	
5 Residential Units	2 x T; 2 x S-D; 1 x D	0.14	35	0%	
8 Residential Units	4 x T; 2 x S-D; 2 x D	0.23	35	0%	
12 Residential Units	6 x T; 4 x S-D; 2 x D	0.3	40	0%	
15 Residential Units	6 x T; 4 x S-D; 5 x D	0.33	45	As per Policy CSP 15	15% AH or 25%
25 Residential Units	30% T; 40% S-D; 30% D	0.71	35	As per Policy CSP 15	
50 Residential Units	30% T; 40% S-D; 30% D	1.42	35	As per Policy CSP 15	
100 Residential Units	30% T; 40% S-D; 30% D	2.85	35	As per Policy CSP 15	
300 Residential Units	10% F; 20% T; 40% S-D; 30% D	7.5	40	As per Policy CSP 15	
1000 Residential Units	10% F; 20% T; 40% S-D; 30% D	25	40	As per Policy CSP 15	
D = Detached					
S-D = Semi Detached					
T = Terraced					
F = Flat					
CIL = Community Infrastructure Levy					
AH = Affordable Housing					
RW = Rural West					
SB & W = South Barnsley and Worsbrough					
NB & R = North Barnsley and Royston					

- 3.20 Table 3.2 shows schemes tested from a single residential unit (detached house) through to a large scheme of 100 units. As with the AHVS the schemes are notional only. The testing of individual sites is most properly done where full information is agreed between developer and the local authority.
- 3.21 Table 3.2 shows (in the final column on the right hand side) that the affordable housing policy will only be applied to sites with a dwelling capacity of 15 and over.
- 3.22 Table 3.3 shows the results of the viability testing. It shows residual values in £ million per hectare. The table shows that we have tested both policy options across the range of housing sub markets.
- 3.23 The absence of a policy requiring affordable housing contributions on schemes with a capacity of less than 15 dwellings makes a very significant difference to viability on small sites.
- 3.24 In South Barnsley and Worsborough for example, residual value at 12 units is £0.64 million per hectare (£640,000) versus £210,000 per hectare for a scheme of 50 residential units.
- 3.25 At the lower end of the market the differences are even starker in terms of viability. In North Barnsley and Royston residual value is £270,000 per hectare in a 12 units scheme, versus a minus residual value of £100,000 for 50 residential units.
- 3.26 These differences have important implications for policy setting with respect to CIL. In principle on small sites, there is more, not less, viability headroom.
- 3.27 That being said, substantial residual values are nevertheless achieved in the two higher value sub markets of Penistone and Dodworth and Darton and Barugh, and will be achieved by default in the Rural West. This relates to larger sites which are still affected by the affordable housing threshold. For example, a 300 unit scheme will be expected to achieve a residual value of close to £400,000 per hectare.
- 3.28 There is no strict viability definition. Viability should be referred to the relationship between residual value and existing use value. There are nevertheless a number of scenarios which anticipate a nil or negative residual value. These are clearly non viable outright and relate to the two lower value sub markets for larger (than 15 dwellings) schemes and for the largest schemes in the Hoyland, Wombwell and Darfield sub markets.
- 3.29 For scenarios with a low positive residual value (say less than £200,000) these may not prove competitive with industrial sites, although may prove sufficient value to encourage an agricultural land owner to bring land forward which has a current existing use value of, for example, £10,000 per hectare.

**Table 3.3 Results of the viability testing**

Case Study Schemes	Development Type									
		Test at 25%			Test at 15%					
		RW	P & D	D & B	SB & W	RE	H, W & D	NB & R	B, G & T	
1 Residential Unit	1 x D	£2.05	£0.84	£0.76	£0.40	£0.34	£0.27	£0.13	-£0.15	At below AH threshold
3 Residential Units	2 x S-D; 1 x D	£2.29	£0.96	£0.85	£0.45	£0.35	£0.24	£0.10	-£0.19	
5 Residential Units	2 x T; 2 x S-D; 1 x D	£2.50	£1.08	£0.96	£0.56	£0.49	£0.36	£0.22	-£0.10	
8 Residential Units	4 x T; 2 x S-D; 2 x D	£2.49	£1.08	£0.96	£0.55	£0.52	£0.40	£0.25	-£0.07	
12 Residential Units	6 x T; 4 x S-D; 2 x D	£2.74	£1.20	£1.05	£0.64	£0.58	£0.44	£0.27	-£0.02	
15 Residential Units	6 x T; 4 x S-D; 5 x D	£1.99	£0.53	£0.41	£0.29	£0.22	£0.08	-£0.09	-£0.45	At above AH threshold
25 Residential Units	30% T; 40% S-D; 30% D	£2.10	£0.55	£0.41	£0.29	£0.20	£0.04	-£0.10	-£0.51	
50 Residential Units	30% T; 40% S-D; 30% D	£1.45	£0.40	£0.30	£0.21	£0.14	£0.04	-£0.10	-£0.37	
100 Residential Units	30% T; 40% S-D; 30% D	£1.41	£0.37	£0.27	£0.19	£0.13	£0.03	-£0.10	-£0.35	
300 Residential Units	10% F; 20% T; 40% S-D; 30% D	£1.58	£0.39	£0.28	£0.20	£0.11	-£0.01	-£0.14	-£0.43	
1000 Residential Units	10% F; 20% T; 40% S-D; 30% D	£1.58	£0.39	£0.28	£0.20	£0.11	-£0.01	-£0.14	-£0.43	
D = Detached										
S-D = Semi Detached										
T = Terraced										
F = Flat										
CIL = Community Infrastructure Levy										
AH = Affordable Housing										
RW = Rural West										
SB & W = South Barnsley and Worsbrough										
NB & R = North Barnsley and Royston										

- 3.30 Table 3.3 shows residual values which are net of CIL or any Section 106 contributions. In the AHVS, Section 106 contributions were calculated as a package of £5,000 per unit. Assuming an average dwelling size per development of say 80 square metres, this would be £62.50 per square metre as a CIL charge (assuming all other things equal).
- 3.31 The impact of this on viability will be to reduce the residual values in Table 3.3 by between £150,000 and £200,000 per hectare depending on density.
- 3.32 The net impact of this on larger sites (15 or more dwellings) is to bring residual values in all but the very highest sub markets down to around a nil value. Certainly, only Penistone and Dodworth and Darton and Barugh, and the Rural West look to able to sustain any realistic residual value once affordable housing contributions have been taken account of.
- 3.33 On smaller sites, the picture is brighter. Table 3 suggests that all sub markets with the exception of the lowest three might be able to sustain a CIL at around £5,000 per unit equivalent (say around £60 per square metre).
- 3.34 Thus a number of options emerge for setting CIL for residential schemes. In general the options are two dimensional: to differentiate a CIL charge by location or sub market; or second, to differentiate the CIL charge by scheme size, where the affordable housing threshold would focus the 'dividing line'.
- 3.35 Several options are justifiable based on a CIL which discounts for the effects of the affordable housing policy. One option is to set a CIL at say £60 per square metre for all sites under 15 dwellings with the exception of those in the two lowest value areas (North Barnsley and Royston and Bolton, Goldthorpe and Thurnscoe).
- 3.36 Another option is to set a CIL for the higher value areas only, but across all site sizes. On the basis of the evidence though, we think this policy should realistically only apply to Penistone and Dodworth, Darton and Barugh, and the Rural West sub markets.
- 3.37 A uniform CIL (a charge across all sub markets) may be feasible if the affordable housing policy is relaxed. We consider the trade-offs involved here in the following chapter.

## 4 FURTHER POLICY TESTS: CIL VERSUS AFFORDABLE HOUSING

### Introduction

- 4.1 In the previous chapter, the impact of a CIL charge was tested taking into account the policy position of the Council with regards to affordable housing. In this respect, the recommendations on the scale of CIL are made assuming affordable housing to be a key priority.
- 4.2 Having run the calculations however, we feel that it may be helpful to show how much CIL might be deliverable, were policy to be scaled back somewhat to allow for a greater contribution for other infrastructure delivery.
- 4.3 Table 4.1 shows residual values on a per hectare basis for a 15 dwelling scheme. It shows residual values broken back against market units at the different affordable housing percentages. The table is helpful in showing how much additional Section 106 or CIL could be gained by scaling back affordable housing contributions.
- 4.4 For example, in a higher value area such as Penistone and Dodsworth, taking a 15% affordable housing contribution, rather than a 25% affordable housing contribution would add £440,000 per hectare to the viability of the scheme. In a lower value area such as Hoyland (Wombwell and Darfield), reducing the affordable housing requirement from 15% to say 5%, will increase residual value by around the same amount (£430,000) on a per hectare basis.
- 4.5 Clearly in all instances, any 'trading off' in policy objectives will require the Council to consider the reality of viability on a specific site and take into account Existing Use Value in particular.

**Table 4.1 CIL deliverable at varying proportions of affordable housing: 15 units**

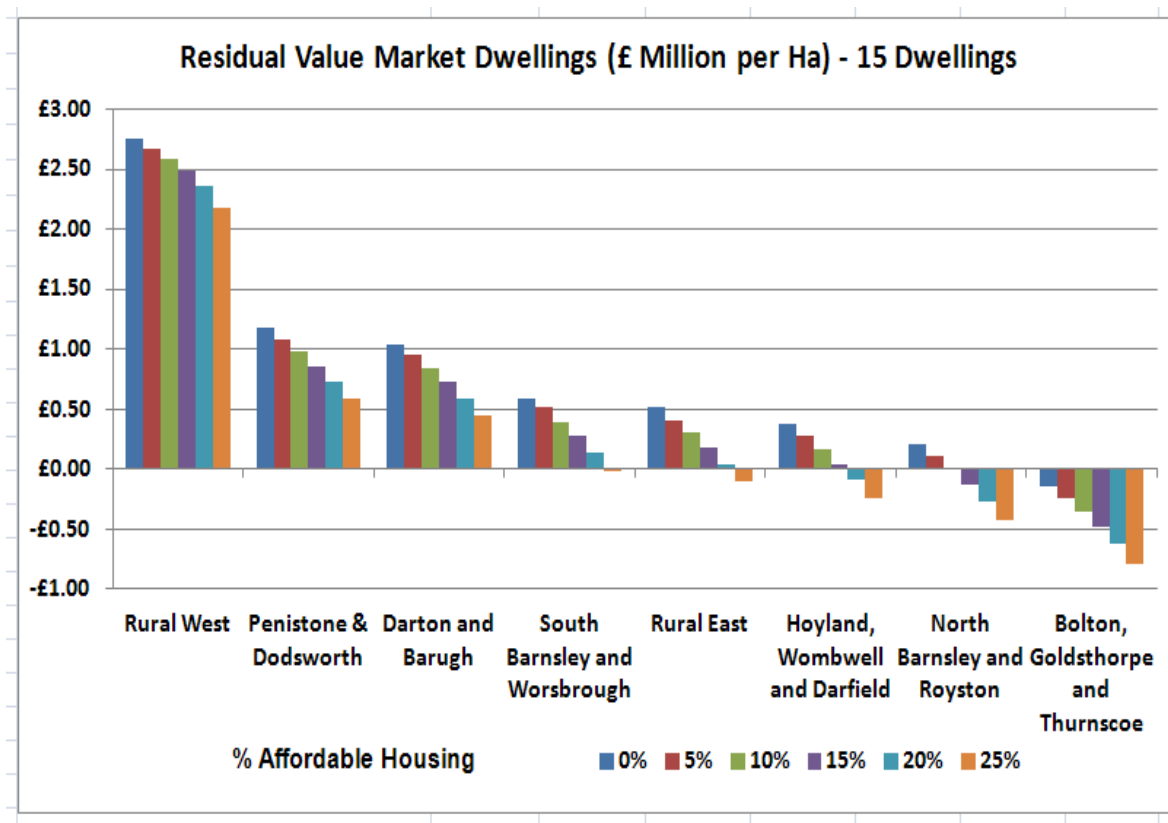
	% Affordable Housing					
	0%	5%	10%	15%	20%	25%
Rural West	£3.60	£3.51	£3.38	£3.27	£3.10	£2.96
Penistone & Dodsworth	£1.55	£1.43	£1.29	£1.19	£0.98	£0.75
Darton and Barugh	£1.38	£1.26	£1.12	£0.97	£0.79	£0.61
South Barnsley and Worsbrough	£0.81	£0.68	£0.54	£0.38	£0.20	£0.00
Rural East	£0.71	£0.59	£0.44	£0.28	£0.03	-£0.02
Hoyland, Wombwell and Darfield	£0.54	£0.42	£0.27	£0.11	-£0.07	-£0.27
North Barnsley and Royston	£0.32	£0.19	£0.04	-£0.12	-£0.31	-£0.52
Bolton, Goldthorpe and Thurnscoe	-£0.14	-£0.28	-£0.42	-£0.59	-£0.75	-£0.99

- 4.6 The figures in Table 4.1 are shown graphically in Figure 4.1 below. They relate to a notional scheme of 15 units.



**Figure 4.1 CIL deliverable at varying proportions of affordable housing: 15 units**

4.7 The chart illustrates the figures in Table 4.1.



4.8 Table 4.2 shows a similar analysis, but for 50 dwellings.

	% Affordable Housing					
	0%	5%	10%	15%	20%	25%
Rural West	£2.75	£2.67	£2.58	£2.48	£2.36	£2.17
Penistone & Dodsworth	£1.18	£1.08	£0.98	£0.86	£0.73	£0.59
Darton and Barugh	£1.04	£0.95	£0.84	£0.73	£0.59	£0.44
South Barnsley and Worsbrough	£0.59	£0.52	£0.39	£0.27	£0.13	£0.02
Rural East	£0.51	£0.41	£0.30	£0.18	£0.04	£0.11
Hoyland, Wombwell and Darfield	£0.38	£0.28	£0.17	£0.04	£0.09	£0.25
North Barnsley and Royston	£0.21	£0.11	£0.00	£0.13	£0.27	£0.43
Bolton, Goldthorpe and Thurnscoe	£0.14	£0.24	£0.36	£0.49	£0.63	£0.79

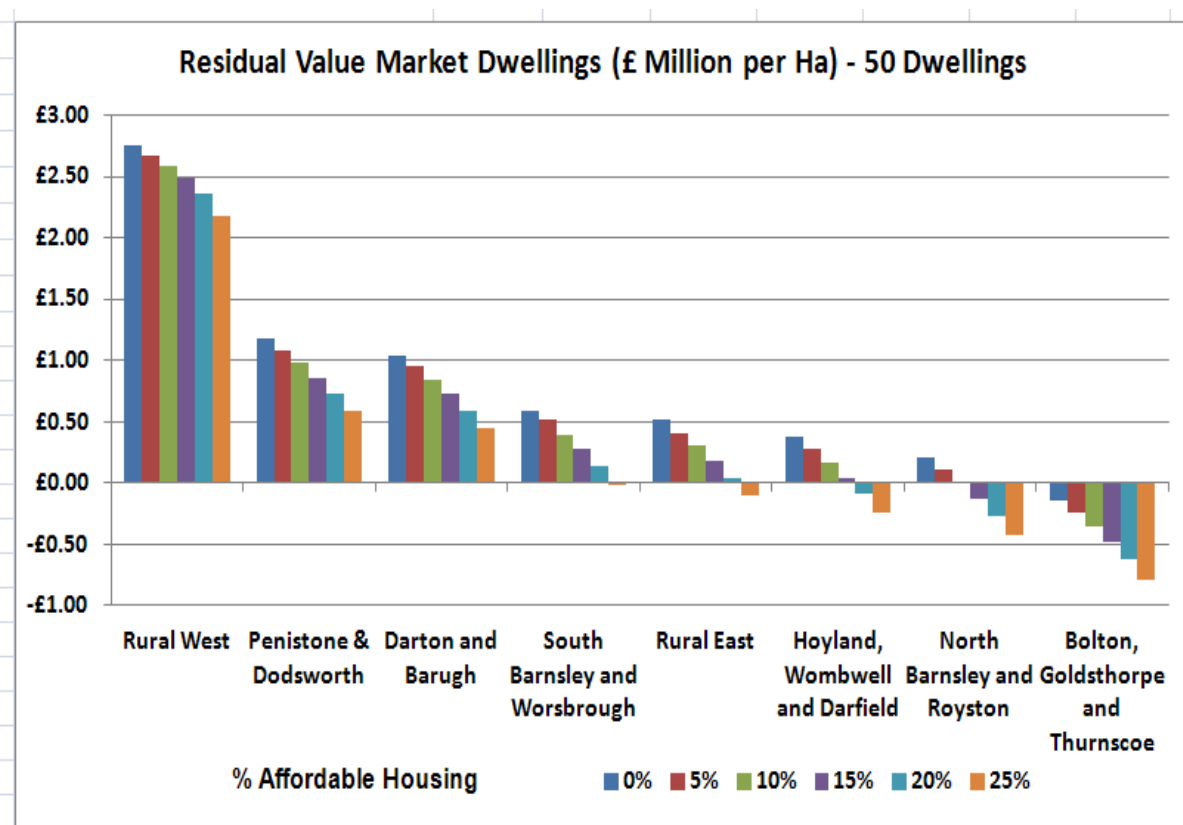


**Table 4.2 CIL deliverable at varying proportions of affordable housing: 50 units**

4.9 Table 4.2 shows a similar pattern of results to those shown in Table 4.1 These reflect a similar relative type of scheme between the two cases in terms of density and development mix. We do not think that further analysis would indicate a significantly different conclusion.

4.10 Figure 4.2 presents the data in Table 4.2 graphically.

**Figure 4.1 CIL deliverable at varying proportions of affordable housing: 15 units**



4.11 Overall, the greatest realistic gains in CIL by reducing the affordable housing target, will occur where house prices are highest, and in the higher value areas. Small reductions in the overall affordable housing target should yield significant additional value on a per unit basis in terms of CIL.

4.12 Whether then the affordable housing target should be looked at again depends in large measure on the actual potential to deliver CIL through the profile of new sites coming forward.

4.13 The Affordable Housing Viability Study of 2010 looked at recent planning permissions. This showed that the vast bulk of new development is coming forward in Urban Barnsley and the Principal Towns. In higher value areas, supply will be quite limited and hence the advantage in relaxing the (affordable housing) policy is also quite limited.

## **5 COMMERCIAL PROPERTY VIABILITY ANALYSIS**

- 5.1 The CIL legislation requires that where a local authority decides to adopt a CIL, it should be applied not only to residential property, but also to commercial development. This development falls mainly under the Use Classes Orders – Class A and Class B.
- 5.2 The assessment of viability with respect to commercial development is the same in principle as for residential. That is say, the total scheme revenue should be calculated and the costs of development taken off the revenue to see if there is any residual which may then provide the basis for a Section 106 or CIL payment.
- 5.3 The precise sample of scheme types to test is always difficult to define to ensure that a full picture of viability is gained. We requested further information on this from attendees at the Viability Workshop (Appendix 1). However this was not forthcoming.
- 5.4 We have therefore utilised best local experience of the commercial property market in the Barnsley MBC area. Smiths Chartered Surveyors have produced a matrix of scheme types which are seen to be good examples of typical schemes across the Borough.
- 5.5 These include A1 to A5 uses in a primary (Queen Street) and secondary (Peel Street) area of the town. These are shown in Table 5.1 on the following page.
- 5.6 Further uses include A4 (Drinking Establishments) and a range of B1 (Offices and Light Industry), B2 (General Industry) and B8 (Storage and Distribution). These uses are tested across a range of localities including Town Centre and Suburban (A4), North East Barnsley Industrial Estate and M1 Corridor (B1, B2 and B8) and B1 Offices (Town Centre, Business Park North/West Barnsley) and the Business Park Eastern Fringe/Dearne Valley.
- 5.7 Smiths have provided (Table 5.1) indicative rental values for all these uses along with indicative yields. Both rental values and yields will vary on a site by site basis.
- 5.8 As may be anticipated, rental are highest and yields lowest for retail uses. Rental values for retail are quoted ITZA (In terms of Zone A) reflecting the fact that space at the rear of retail stores will not be as valuable as that at the front.
- 5.9 Rents for industrial and office uses are significantly lower. For industrial units around £30 per square metre and for offices between £50 and £100 per square metre.
- 5.10 Yields for industrial and offices range from 9% to 10%.

**Table 5.1 Typical commercial schemes in the Barnsley MBC area**

USE CLASS	LOCATION	SIZE	RENTAL VALUE (£ psm)	INITIAL YIELD
<b>A1/A2/A3/A5</b>	Town Centre Prime (Queen Street)	250 sq m	£1200 ITZA	7.25 - 7.75%
	Town Centre Secondary (Peel Street)	175 sq m	£225 - £350 ITZA	8.5 - 10%
<b>A4</b>	Town Centre	150 - 500	£80	10%
	Suburban	150 - 250	£50	10 - 12%
<b>B1/B2/B8 (excluding offices)</b>	North East Barnsley Industrial Estate	500 sq m	£35	9 - 10%
		5000 sq m	£25	9 - 10%
	MI Corridor	500 sq m	£35 - £45	9 - 10%
		5000 sq m	£25 - £35	9 - 10%
<b>B1 Offices</b>	Town Centre	100 - 300 sq m	£80 - £100	9 - 10%
	Business Park North/West Barnsley	100 - 300 sq m	£60 - £80	9 - 10%
	Business Park Eastern Fringe / Dearne Valley	100 - 300 sq m	£50 - £60	10%

- 5.11 The costs of development have been taken from the BCIS (Building Cost Information Services). This source of information shows base build costs for a variety of commercial development types.
- 5.12 We have taken the following costs as per BCIS categories:
- Retail - Shops Generally – at £736 per square metre
- A4 – Public Houses – at £1,431 per square metre
- B1 – B8 – at £616 to £658 per square metre depending on unit size.
- 5.13 The appraisals for the commercial development are set out in full in Appendix 3. This shows the baseline spreadsheet we have used and the key assumptions made.
- 5.14 Table 5.2 shows the results of the analysis in summary form. The overall picture is a lack of viability for most types of commercial development. Residual values are negative in most instances, but in particular for industrial B1 type uses. A very significant improvement in viability will be needed if this type of development is to come forward as well as yield a CIL contribution. This could be achieved in a number of ways including improved capital values, reduced development costs or a combination of the two.
- 5.15 The figures do not necessarily suggest that development will not go ahead. The build costs we have adopted are general and in some instances it may be anticipated that costs are lower; or indeed that the capital value or revenue is higher. But what the figures do suggest is that there is very little headroom, if any, for Section 106 or CIL type contributions in so far as most uses are concerned.
- 5.16 The only exception to the general picture is retail, which would appear to generate a positive residual value in both case studies: at a primary and a secondary location.
- 5.17 Retail generates a substantial residual value and we feel that this warrants the charging of CIL by the Council.

**Table 5.2 Results of the commercial property analysis**

	<b>Total Revenue</b>	<b>Total Costs</b>	<b>Residual Value</b>
<b>Town Centre Primary (Queen Street)</b>	<b>£1,488,000</b>	<b>£502,648</b>	<b>£985,352</b>
<b>Town Centre Secondary (Peel Street)</b>	<b>£528,378</b>	<b>£339,512</b>	<b>£188,866</b>
<b>A4 Town Centre</b>	<b>£200,000</b>	<b>£519,467</b>	<b>-£319,467</b>
<b>A4 Suburban</b>	<b>£113,636</b>	<b>£504,785</b>	<b>-£391,149</b>
<b>B1, B2 and B8 (excluding offices) - NE Barnsley - 500 Sq m</b>	<b>£184,211</b>	<b>£449,272</b>	<b>-£265,061</b>
<b>B1, B2 and B8 (excluding offices) - NE Barnsley - 5000 Sq m</b>	<b>£1,315,789</b>	<b>£4,688,214</b>	<b>-£3,372,425</b>
<b>B1, B2 and B8 (excluding offices) - M1 Corridor - 500 Sq m</b>	<b>£210,526</b>	<b>£453,745</b>	<b>-£243,219</b>
<b>B1, B2 and B8 (excluding offices) - M1 Corridor - 5000 Sq m</b>	<b>£1,578,947</b>	<b>£4,732,951</b>	<b>-£3,154,004</b>
<b>B1 Offices - Town Centre</b>	<b>£189,474</b>	<b>£350,834</b>	<b>-£161,360</b>
<b>B1 Offices - Business Park North West Barnsley</b>	<b>£147,368</b>	<b>£343,676</b>	<b>-£196,308</b>
<b>B1 Offices - Business Park Eastern Fringe and Dearne Valley</b>	<b>£110,000</b>	<b>£337,324</b>	<b>-£227,324</b>

- 5.18 In summary, we feel that the Council should not apply a CIL to any commercial uses other than retail. On the basis of the figures, the evidence for a wide ranging CIL across many different commercial uses looks weak.

## **6 MAIN FINDINGS AND CONCLUSIONS**

- 6.1 Our analysis of viability for the purposes of setting a CIL covers a range of development types across a range of housing sub markets. Our approach to the housing sub market analysis is consistent with that used for the Affordable Housing Viability Study (AHVS).
- 6.2 That analysis identified eight sub market areas within the Borough of Barnsley. These include Rural West, Penistone and Dodworth, Darton and Barugh, South Barnsley and Worsbrough, Rural East, Hoyland, Wombwell and Darfield, North Barnsley and Royston, and Bolton, Goldthorpe and Thurnscoe. The results for Darton and Barugh acted as a proxy for Penistone and Dodworth, those for South Barnsley as a proxy for Rural East and those for North Barnsley as a proxy for Bolton, Goldthorpe and Thurnscoe.
- 6.3 The analysis of viability for this study took account of the Council's adopted policy on affordable housing set out in CSP 15 'Affordable Housing'. The Council adopted a policy of 25% affordable housing in Penistone and the Rural West, Darton, Barugh and Dodworth. In the remaining sub markets, a 15% affordable housing contribution is required. Affordable housing contributions are required on schemes of 15 dwellings or more.
- 6.4 The analysis of commercial schemes looked at a range of development types across the Borough. As is required by the CIL legislation, the full range from retail, through offices and industrial was analysed. A similar (residual value) approach was adopted for the commercial property as for the residential.
- 6.5 The study has been carried out in line with the expectations of the CIL guidance. The findings reflect the realities of the residential and commercial property markets in Barnsley.

### **Key findings**

- 6.6 Generally, viability is weak across both the residential and commercial sectors within the Barnsley MBC area. However, commercial development looks generally less likely to be able to sustain a CIL than is the case for residential development.
- 6.7 Related policies are key. In particular, the affordable housing policy which exempts small sites (less than 15 units) from an affordable housing contribution. This means that smaller sites, being exempted from the affordable housing policy, have higher relative residual values, and hence a higher potential to deliver CIL.

### **Residential development**

- 6.8 The analysis in Chapter 3, which looked at the economics of residential development, showed two main theoretical options: to set a CIL charge by reference to sub markets, or, second, to set a CIL by reference to scheme size, taking into account the impact of the affordable housing threshold at 15 units.
- 6.9 As set out in Chapter 3, several options are justifiable based on a CIL which discounts for the effects of the affordable housing policy. A sensible

approach will reflect both the variance in housing markets and the fact that smaller sites are currently exempted from the affordable housing policy. In all events, policy should reflect the fact that the highest three value sub markets are the best candidates for a CIL. A range here between £40 and £120 per square metre would seem to be viable, dependent on site size.

- 6.10 For the weaker sub markets, much will depend on a site being located in a 'hotter spot' of the market since many schemes in these locations would seem unlikely to be able to support a CIL. In these respects a nominal CIL charge of between £5 and £10 per square metre might be envisaged, again dependent on site size.
- 6.11 Another (perhaps less positive) option is to accept that viability is tight and that a traditional, negotiated Section 106 approach is a more realistic way to taking development forward than a CIL approach which effectively ties land owners and developers into fixed contributions.

### **Commercial development**

- 6.11 The options relating to commercial developments with respect to CIL are somewhat easier to frame.
- 6.12 The evidence of the analysis suggests that only high street uses will be capable of attracting a CIL charge. Our analysis of mainstream new office and industrial units suggests that these are currently not viable, or at least only marginally viable, if an optimistic view is taken.
- 6.13 Given that CIL is a first 'port of call' on the viability of schemes, it would seem unwise to levy a charge on these uses.
- 6.14 The precise levy to charge on retail units in the high street is difficult to assess, as the land owner expectations for this type of development are not generally known. It is clear from the figures however (Table 5.2) that there is reasonably substantial residual value in this form of development.
- 6.15 The level of levy might best, in the absence of better information, be set in line with convention; in this case, studies elsewhere. On the basis of studies with a CIL adopted, and those currently going through the process of adoption, a range of between £70 to £100 per square metre would seem to be appropriate.
- 6.16 In the case of a 250 square metre unit, this would reduce residual value by around £17,500 (on the basis of a 70 square metre unit) which is a relatively low figure in relation to the likely residual value.

### **Final comments**

- 6.17 As with all CIL viability studies, the setting of the levy is not a precise science. The Council will need to taken into consideration practical issues such as the relative returns from the imposition of the levy.



- 6.18 The Council may also wish to consider in particular the analysis in Chapter 4 which shows the additional headroom for a CIL contribution where the affordable housing policy might be relaxed. In many locations, this may not make a significant difference, but in higher value sub markets this is not the case.

## **Appendix 1**

### **BARNSELEY MBC COMMUNITY INFRASTRUCTURE LEVY VIABILITY STUDY – WORKSHOP NOTES**

#### **1 Introduction**

A workshop was held on the morning of the 26<sup>th</sup> September 2011 at the Main Library in Barnsley. Representatives of the housing and property industry, landowners were in attendance. An attendance list is given below:

Robert Rusling	Ackroyd and Abbott
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Philip Roebuck	DTZ
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Neil Robertson	Bramhalls
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Dee Hiley	SYHA
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Joel Frank	Barratt Homes
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Joel Frank	Keepmoat Homes
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Lloyd Downer	Barnsley MBC
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Elaine Ward	Barnsley MBC
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Chairing the meeting:

Andrew Golland	Three Dragons
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Andrew Corbett	Smiths Chartered Surveyors
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Three Dragons and Barnsley MBC would like to thank all those in attendance for their inputs to the study.

At the workshop Three Dragons gave a presentation summarising the methodology and outlining the process of testing which would be carried out to determine viability where CIL might be applied.

It was agreed that the Powerpoint presentation (attached) would be made available to all Workshop participants in conjunction with these meeting notes.

## **2 Study overview**

Three Dragons and Smiths Chartered Surveyors have been commissioned to carry out a Community Infrastructure Levy (CIL) Viability Study in accordance with the CIL regulations.

It was explained that in setting a CIL, a local authority should balance the charge it decides to levy with the potential impacts on the viability of new development.

## **3 Initial discussion on the CIL regulatory framework**

An initial discussion on the process and framework highlighted that:

- CIL can be applied to all types of development- across residential and commercial uses;
- Local authorities (the pilot ones) are employing a range of approach with some levying a single charge and others varying the charge across and (in some instances) within a single development type;
- CIL is chargeable on a per square metre basis. It was pointed out that the Barnsley Affordable Housing Viability Study had tested viability assuming a planning gain total package of £5,000 per unit;
- Affordable housing is exempt from CIL, as are certain other uses; e.g. charity developments;
- CIL is but one source of funding by which a local authority might meet its infrastructure requirements.

A question was raised about the basis for a CIL charge and whether would be on gross or a net basis.

## **4 Key issues**

### **4.1 Basis for interpreting viability**

There was no objection in principle to the over-riding method for assessing viability proposed by Three Dragons. This measures viability by reference to residual scheme value less the existing or alternative use value of a site.

The challenge in assessing a reasonable land owner return was recognised. A figure of 20% to 30% above existing use value was suggested but this would relate mostly to brown field sites. With green field land a more general market may be appropriate.

One delegate suggested an alternative measure is to take the ratio of residual value to Gross Development Value (GDV) as a viability marker. This was stated as between 15% and 25% of GDV.

It was emphasised by Three Dragons that the study will need to be robust for the Plan period. In this respect it will be important to look at the viability of sites in the current market – against the context of the longer run.

## **4.2 Overall methodology**

Three Dragons explained that the approach to the study will be two stage with the first stage focusing on testing residential schemes and the second, commercial, across a range of use class orders.

The residential testing will focus on typical schemes, developed across the same range of sub markets adopted in the Affordable Housing Viability Study (AHVS). There will therefore be consistency of approach with the AHVS.

The full testing framework is set out in the Powerpoint Presentation. Consultees are requested to comment on this as an appropriate and comprehensive framework.

The commercial testing framework was also discussed. This is also set out in full in the Powerpoint presentation which accompanies this note. Please can consultees comment on the assumptions made on types of units to be tested.

Data sources (e.g. HMLR for house prices and BCIS for build costs) were explained to participants. The need for best primary data sources based on a large sample was understood and agreed.

## **4.3 Land values**

Delegates stated that land values will vary according to the scale of development.

One delegate suggested that £300,000 per acre (£741,000 per hectare) was a reasonable assumption to make about land values for residential schemes. This was on the basis of serviced land and takes into account the impact of affordable housing.

There was however no general consensus on land values for the MBCX area.

## **4.4 Density and development mix - housing**

The residential testing framework shows a range of densities – from 20 dph to 45 dph. It was commented that although policy looks to achieve 45 dph, in practice this will prove too high in many instances, particularly given the drive to deliver more family type housing and fewer flats.

It was stated that a high proportion of detached housing would not be deliverable at higher densities.

Consultees are asked to comment on the Powerpoint attached.

Delegates stated that housing schemes typically have a coverage of between 14,000 and 16,000 square feet per acre.

It was stated that for example 3 bed semis should be analysed at 850 sq feet; 3 bed detached at 950 sq ft to 100 sq ft and 4 bed detached at 120 sq ft.

## **4.5 Development costs**

### **Residential**

Three Dragons presented the proposed page that will be used for the testing framework. This is included in the Powerpoint presentation. It was explained that the base build costs per square metre will be calculated from the BCIS data source.

It was suggested that the costs adopted are fine when considering that they are a blended figure.

There was some discussion on reasonable developer profit margins. The need for consistency between the assumptions used for policy making and those used by the Council in site specific negotiations was emphasised.

It was generally agreed that a 15% net profit based on GDV is appropriate for the testing process.

There were no specific comments on the other developer costs.

### **Commercial**

The commercial framework was briefly discussed although only limited feedback was given.

Consultees are requested to feed back more fully on the commercial testing framework table in the Powerpoint presentation.

Likewise proposed costs to be used for the viability analysis are set out in the Powerpoint presentation for further feedback.

## **4.6 Affordable housing issues**

Delegates were shown the propose testing assumptions with respect to affordable housing revenue. They are set out in the associated Powerpoint presentation.

An important question that was raised in relation to the viability testing process is whether Intermediate Affordable housing will attract a CIL contribution. The regulations would appear to focus on 'Social Housing'.

## **5 Next steps**

These notes and the associated Powerpoint are an important milestone in the project.

Consultees are requested to feed back as fully as possible and with particular reference to the commercial aspects of CIL.

It is emphasised that this study has important implications for the delivery of both residential and commercial property development.

We thus look forward to your comments.

THANK YOU AGAIN FOR ATTENDING AND WE LOOK FORWARD TO YOUR  
FEEDBACK

Comments please to:

Andrew Golland     [drajg@btopenworld.com](mailto:drajg@btopenworld.com)

## **Appendix 2 Three Dragons model: Method statement**

The Toolkit provides the user with an assessment of the economics of residential development. It allows the user to test the economic implications of different types and amounts of planning obligation and, in particular, the amount and mix of affordable housing. It uses a residual development appraisal approach which is the industry accepted approach in valuation practice.

The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made. In estimating the potential revenue, the income from selling dwellings in the market and the income from producing specific forms of affordable housing are considered. The estimates involve (1) assumptions about how the development process and the subsidy system operate and (2) assumptions about the values for specific inputs such as house prices and building costs. These assumptions are made explicit in the guidance notes. If the user has reason to believe that reality in specific cases differs from the assumptions used, the user may either take account of this in interpreting the results or may use different assumptions.

The main output of the Toolkit is the residual value. In practice, as shown in the diagram below, there is a 'gross' residual value and a 'net' residual value. The gross residual value is that value that a scheme generates before Section 106 is required. Once Section 106 contributions have been taken into account, the scheme then has a net residual value, which is effectively the land owner's interest.

### Appendix 3 Commercial property appraisals

#### Town Centre Prime (Queen Street)

<b>Revenue</b>		
Unit Size (Square Metres)	ITZA	93
Rental Value (£ per Sq M)		£1,200
Initial Yield		7.5
Total Rental		£111,600
Years Purchase (YP)		13.33
<b>Capital Value</b>		<b>£1,488,000</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		250
Base Cost per Sq Metre		£736
Externals and Infrastructure	At 15% Base Construction	£110
Construction costs (sub total)		£846
Total Construction Costs		£211,600
Professional Fees	At 6% Base Construction	£12,696
Overheads	At 5% Base Construction	£10,580
Finance	At 7% Base Construction	£14,812
Marketing Fees	At 2% of Capital Value	£29,760
Developer return	At 15% Capital Value	£223,200
Other Development Costs (Total)		£291,048
<b>Total Development Costs</b>		<b>£502,648</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>£985,352</b>

### Town Centre Secondary (Peel Street)

<b>Revenue</b>		
Unit Size (Square Metres)	ITZA	85
Rental Value (£ per Sq M)		£575
Initial Yield		9.25
Total Rental		£48,875
Years Purchase (YP)		10.81
<b>Capital Value</b>		<b>£528,378</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		250
Base Cost per Sq Metre		£736
Externals and Infrastructure	At 15% Base Construction	£110
Construction costs (sub total)		£846
Total Construction Costs		£211,600
Professional Fees	At 6% Base Construction	£12,696
Overheads	At 5% Base Construction	£10,580
Finance	At 7% Base Construction	£14,812
Marketing Fees	At 2% of Capital Value	£10,568
Developer return	At 15% Capital Value	£79,257
Other Development Costs (Total)		£127,912
<b>Total Development Costs</b>		<b>£339,512</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>£188,866</b>



#### A4 Town Centre

<b>Revenue</b>		
Unit Size (Square Metres)		250
Rental Value (£ per Sq M)		£80
Initial Yield		10
Total Rental		£20,000
Years Purchase (YP)		10
<b>Capital Value</b>		<b>£200,000</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		250
Base Cost per Sq Metre		£1,431
Externals and Infrastructure	At 15% Base Construction	£215
Construction costs (sub total)		£1,646
Total Construction Costs		£411,413
Professional Fees	At 6% Base Construction	£24,685
Overheads	At 5% Base Construction	£20,571
Finance	At 7% Base Construction	£28,799
Marketing Fees	At 2% of Capital Value	£4,000
Developer return	At 15% Capital Value	£30,000
Other Development Costs (Total)		£108,054
<b>Total Development Costs</b>		<b>£519,467</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£319,467</b>

#### A4 Suburban

<b>Revenue</b>		
Unit Size (Square Metres)		250
Rental Value (£ per Sq M)		£50
Initial Yield		11
Total Rental		£12,500
Years Purchase (YP)		9.09
<b>Capital Value</b>		<b>£113,636</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		250
Base Cost per Sq Metre		£1,431
Externals and Infrastructure	At 15% Base Construction	£215
Construction costs (sub total)		£1,646
Total Construction Costs		£411,413
Professional Fees	At 6% Base Construction	£24,685
Overheads	At 5% Base Construction	£20,571
Finance	At 7% Base Construction	£28,799
Marketing Fees	At 2% of Capital Value	£2,273
Developer return	At 15% Capital Value	£17,045
Other Development Costs (Total)		£93,372
<b>Total Development Costs</b>		<b>£504,785</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£391,149</b>

**B1, B2, and B8 (excluding offices) – North East Barnsley – 500 sq m**

<b>Revenue</b>		
Unit Size (Square Metres)		500
Rental Value (£ per Sq M)		£35
Initial Yield		9.5
Total Rental		£17,500
Years Purchase (YP)		10.53
<b>Capital Value</b>		<b>£184,211</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		500
Base Cost per Sq Metre		£616
Externals and Infrastructure	At 15% Base Construction	£92
Construction costs (sub total)		£708
Total Construction Costs		£354,200
Professional Fees	At 6% Base Construction	£21,252
Overheads	At 5% Base Construction	£17,710
Finance	At 7% Base Construction	£24,794
Marketing Fees	At 2% of Capital Value	£3,684
Developer return	At 15% Capital Value	£27,632
Other Development Costs (Total)		£95,072
<b>Total Development Costs</b>		<b>£449,272</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£265,061</b>

### **B1, B2, and B8 (excluding offices) – North East Barnsley – 5000 sq m**

<b>Revenue</b>		
Unit Size (Square Metres)		5000
Rental Value (£ per Sq M)		£25
Initial Yield		9.5
Total Rental		£125,000
Years Purchase (YP)		10.53
<b>Capital Value</b>		<b>£1,315,789</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		5000
Base Cost per Sq Metre		£658
Externals and Infrastructure	At 15% Base Construction	£99
Construction costs (sub total)		£757
Total Construction Costs		£3,783,500
Professional Fees	At 6% Base Construction	£227,010
Overheads	At 5% Base Construction	£189,175
Finance	At 7% Base Construction	£264,845
Marketing Fees	At 2% of Capital Value	£26,316
Developer return	At 15% Capital Value	£197,368
Other Development Costs (Total)		£904,714
<b>Total Development Costs</b>		<b>£4,688,214</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£3,372,425</b>

# **B1, B2, and B8 (excluding offices) – M1 Corridor – 500 sq m**

<b>Revenue</b>		
Unit Size (Square Metres)		500
Rental Value (£ per Sq M)		£40
Initial Yield		9.5
Total Rental		£20,000
Years Purchase (YP)		10.53
<b>Capital Value</b>		<b>£210,526</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		500
Base Cost per Sq Metre		£616
Externals and Infrastructure	At 15% Base Construction	£92
Construction costs (sub total)		£708
Total Construction Costs		£354,200
Professional Fees	At 6% Base Construction	£21,252
Overheads	At 5% Base Construction	£17,710
Finance	At 7% Base Construction	£24,794
Marketing Fees	At 2% of Capital Value	£4,211
Developer return	At 15% Capital Value	£31,579
Other Development Costs (Total)		£99,545
<b>Total Development Costs</b>		<b>£453,745</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£243,219</b>

# **B1, B2, and B8 (excluding offices) – M1 Corridor – 5000 sq m**

<b>Revenue</b>		
Unit Size (Square Metres)		5000
Rental Value (£ per Sq M)		£30
Initial Yield		9.5
Total Rental		£150,000
Years Purchase (YP)		10.53
<b>Capital Value</b>		<b>£1,578,947</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		5000
Base Cost per Sq Metre		£658
Externals and Infrastructure	At 15% Base Construction	£99
Construction costs (sub total)		£757
Total Construction Costs		£3,783,500
Professional Fees	At 6% Base Construction	£227,010
Overheads	At 5% Base Construction	£189,175
Finance	At 7% Base Construction	£264,845
Marketing Fees	At 2% of Capital Value	£31,579
Developer return	At 15% Capital Value	£236,842
Other Development Costs (Total)		£949,451
<b>Total Development Costs</b>		<b>£4,732,951</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£3,154,004</b>

## B1 Offices – Town Centre

<b>Revenue</b>		
Unit Size (Square Metres)		200
Rental Value (£ per Sq M)		£90
Initial Yield		9.5
Total Rental		£18,000
Years Purchase (YP)		10.53
<b>Capital Value</b>		<b>£189,474</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		200
Base Cost per Sq Metre		£1,174
Externals and Infrastructure	At 15% Base Construction	£176
Construction costs (sub total)		£1,350
Total Construction Costs		£270,020
Professional Fees	At 6% Base Construction	£16,201
Overheads	At 5% Base Construction	£13,501
Finance	At 7% Base Construction	£18,901
Marketing Fees	At 2% of Capital Value	£3,789
Developer return	At 15% Capital Value	£28,421
Other Development Costs (Total)		£80,814
<b>Total Development Costs</b>		<b>£350,834</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£161,360</b>

## B1 Offices – Business Park North West Barnsley

<b>Revenue</b>		
Unit Size (Square Metres)		200
Rental Value (£ per Sq M)		£70
Initial Yield		9.5
Total Rental		£14,000
Years Purchase (YP)		10.53
<b>Capital Value</b>		<b>£147,368</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		200
Base Cost per Sq Metre		£1,174
Externals and Infrastructure	At 15% Base Construction	£176
Construction costs (sub total)		£1,350
Total Construction Costs		£270,020
Professional Fees	At 6% Base Construction	£16,201
Overheads	At 5% Base Construction	£13,501
Finance	At 7% Base Construction	£18,901
Marketing Fees	At 2% of Capital Value	£2,947
Developer return	At 15% Capital Value	£22,105
Other Development Costs (Total)		£73,656
<b>Total Development Costs</b>		<b>£343,676</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£196,308</b>



## B1 Offices – Business Park Eastern Fringe and Dearne Valley

<b>Revenue</b>		
Unit Size (Square Metres)		200
Rental Value (£ per Sq M)		£55
Initial Yield		10
Total Rental		£11,000
Years Purchase (YP)		10.00
<b>Capital Value</b>		<b>£110,000</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		200
Base Cost per Sq Metre		£1,174
Externals and Infrastructure	At 15% Base Construction	£176
Construction costs (sub total)		£1,350
Total Construction Costs		£270,020
Professional Fees	At 6% Base Construction	£16,201
Overheads	At 5% Base Construction	£13,501
Finance	At 7% Base Construction	£18,901
Marketing Fees	At 2% of Capital Value	£2,200
Developer return	At 15% Capital Value	£16,500
Other Development Costs (Total)		£67,304
<b>Total Development Costs</b>		<b>£337,324</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£227,324</b>

## Appendix 4

### Worked example: 8 Dwellings

1 - SITE IDENTIFICATION	
Site Details	<div></div>
Site Address	8 Dwellings Illustrative Scheme
Site Reference	<div></div>
Application Number	<div></div>
Scheme Description	<div></div>
<div>Next Page</div>	
<input checked="" type="checkbox"/> I have read, and accepted, the terms and conditions set out in the <a href="#">license agreement</a>	

## 2 - SITE LOCATION

Use the drop down lists to call up the relevant local authority and market area.  
Please ensure the market area is within the selected local authority

Local Authority

Barnsley

Market Area

Darton & Barugh



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### 3 - BASIC SITE INFORMATION

#### Site Area

Total Size of Site In Hectares  (You must enter a value in here)

#### Density / Number of Dwellings

Enter a number of dwellings  (You must enter a value in here)

Percentage Increase/Decrease in Density:

You may test the effect of a percentage increase/decrease in the site density by using the cell below

%

Resulting Number of Dwellings

Resulting Density  dph

#### 4 - CHARACTERISTICS OF DEVELOPMENT

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

You then have 2 options for entering information about the scheme

EITHER, enter information for up to 20 dwelling types – each row must be either fully complete or left blank (enter 1 if information not relevant e.g. size of affordable unit but is a market unit)

OR select the Toolkit default mix by depressing the button called Use Default Unit Types

Clear Table
Use Default Unit Types
View Default Mix ->

Ref.	Description of Dwelling	No of Bed-Rooms	Dwelling Type	No of Units	Size in sq.m Affordable	Size in sq.m Market	Parking (flats only)	No. of Storeys (1-99)
1	2 Bed Terraces	2	House	4.0	76	65	n/a	n/a
2	3 Bed Semis	3	House	2.0	86	90	n/a	n/a
3	4 Bed Detached	4	House	2.0	110	135	n/a	n/a
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
Total Number of units				8				

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## 5 - MARKET VALUES

This is a custom scheme, default values are not available.

ALWAYS DEPRESS THE CLEAR TABLE BUTTON FIRST

Clear Table

You can enter your own values for each dwelling type or select the Toolkit default market values by depressing the button called Default Market Values

Hide Default Values <-

You can adjust the market values by using the % increase/decrease arrows

92 %

Reset

Depress the Reset button to return to base market value

Ref.	Unit Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1	2 Bed Terraces	2	£130,000	£120,000
2	3 Bed Semis	3	£160,000	£147,000
3	4 Bed Detached	4	£245,000	£225,000
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

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## 6 - TENURE MIX

If you are using a default mix then you can distribute units across the tenures by percentage; enter the percentage of units to assign to each tenure in the top row. The percentages are applied equally across all unit types

If you are not using a default mix then you may either enter units by percentage or by the exact number of units of each type for each tenure; in the table enter the exact number of units of each type for each tenure in the table

Whichever method is selected, ensure that relevant information is entered in the boxes at the bottom of the table.

☒ Input by Percentages

☐ Input by Quantity

Clear Table

Ref.	Description	SALE	AFFORDABLE				Required No. of Units
			Social rent	New Build HomeBuy	Intermediate rent	Discount Market	
1	2 Bed Terraces	100%	4.0				4.0
2	3 Bed Semis	2.0					2.0
3	4 Bed Detached	2.0					2.0
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
Total		8.0					8.0

New Build HomeBuy	Percentage Purchased	40%
	Rental limit on unbought share	100%
Percentage purchased by purchaser for Discount Market		
Local Sale	Average Income	
	Income Multiplier	

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## 10 - DEVELOPMENT COSTS

ALWAYS DEPRESS THE CLEAR TABLES BUTTON FIRST

Clear Tables

### Build Costs per sq m

You can enter your own values in the white cells below.  
Where cells are left blank, the Toolkit value for that row will be used

	Toolkit Values	User Values
Bungalows	£955	£946
Flats (6+ storeys)	£1,500	£1,482
Flats (5 & less storeys)	£1,080	£1,037
Houses <= 75m2	£910	£897
Houses > 75m2	£870	£862

### Other Development Costs

You can enter your own values in the white cells below. Enter 0% for non-applicable items.  
Where cells are left blank, the Toolkit value for that row will be used.

	Toolkit Values	User Values	
Professional Fees %	12.00%		of build costs
Internal Overheads	5.00%		of build costs (Market and Discount Market units)
Interest Rate (Market)	7.00%		of build Costs (Market, Discount Market and Low Cost Sale units)
Interest Rate (Affordable Housing)	7.00%		of build costs (SR, HB, IR units)
Marketing Fees	3.00%		of market value (Market and Discount Market units)
Developers Return	15.00%		of market value (Market and Discount Market units)
Contractors Return	6.00%		of development costs (SR, HB, IR and LCS units)
Land financing costs	£ -		Please see the Guidance Notes for use of this value

### Exceptional Development Costs

You may enter SCHEME totals for exceptional costs. The first row is for Sustainable Homes costs. The other three rows are for user defined costs. You can enter the name of the cost in the left hand cells and SCHEME value in the right hand cell.

Sustainable Homes Standard	
Market Housing	Affordable Housing
None	None

Costs incurred for Sustainable Homes Levels None and None	£ -
<Enter Costs Description>	£ -
<Enter Costs Description>	£ -
<Enter Costs Description>	£ -

Scheme Total	£0
per dwelling	£0
per hectare	£0

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## 19 - Scheme Results

Site Reference Details	
Site Reference Number	
Application Number	
Site Location	Barnsley
Scheme Description	

Site Details	
Site	8 Units Illustrative Scheme
Address	
Site	
Details	

TOTAL NUMBER OF UNITS	
Dwellings	8
% Wheelchair Units	

DENSITY (per hectare)	
Dwellings	34.8

AFFORDABLE UNITS		
	Quantity	% of All Units
Total		
Social rent		
Intermediate		

REVENUE AND COSTS		
Total scheme revenue	£	1,224,000
Total scheme costs	£	991,000

RESIDUAL VALUE		
Whole scheme	£	233,000
Per hectare	£	1,013,000
Per dwelling	£	29,000
Per market dwelling	£	29,000

Contribution to revenue from:	
Market housing	£ 1,224,000
Affordable Housing	£ -
- Social rent	£ -
- New Build HomeBuy	£ -
- Intermediate Rent	£ -
- Discount Market	£ -
- Local Sale	£ -
Capital Contribution	£ -
Commercial Elements	£ -

PUBLIC SUBSIDY (GRANT)	
Whole Scheme	£ -
Per Social Rental dwelling	£ -
Per New Build HomeBuy dwelling	£ -
Per Intermediate Rent dwelling	£ -

Contribution to costs from:	
Market housing	£ 991,000
Affordable Housing	£ -
- Social rent	£ -
- New Build HomeBuy	£ -
- Intermediate Rent	£ -
- Discount Market	£ -
- Local Sale	£ -
Land Finance	£ -
Planning Obligations	£ -
Total Exceptional Costs	£ -
Commercial Elements	£ -

Alternative Site Values		Against residual
Existing Use Value	£ -	£ -
Acquisition Cost	£ -	£ -
Alternative Use Value 1	£ -	£ -
Alternative Use Value 2	£ -	£ -
Alternative Use Value 3	£ -	£ -

Save Results

View Results

Cost Components

View DCF Page

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## GLOSSARY OF TERMS

### A

Abnormal Development Costs: Costs associated with difficult ground conditions eg contamination.

Affordable Housing: As defined in PPS3 as housing that includes Social Rented and Intermediate Affordable housing.

Affordable Rented Housing: Housing let at above Social Rented levels and up to 80% of Open Market Rent

Appraisal: development calculation taking into account scheme revenue and scheme cost and accounting for key variables such as house prices, development costs and developer profit.

### B

Base Build Costs: including costs of construction: preliminaries, sub and superstructure; plus an allowance for external works.

### C

Commuted Sum: a sum of money paid by the applicant in lieu of providing affordable housing on site.

Community Infrastructure Levy: A levy raised by local authorities from developers and land owners in order to cover the costs of providing infrastructure, where the form of provision can include physical, social and environmental infrastructure. The levy is charged on a per square metre basis across a range of development uses.

### D

Developer's Profit or margin: a sum of money required by a developer to undertake the scheme in question. Profit or margin can be based on cost, development value; and be expressed in terms of net or gross level.

Developer Cost: all encompassing term including base build costs (see above) plus any additional costs incurred such as fees, finance and developer margin.

Development Economics: The assessment of key variables included within a development appraisal; principally items such as house prices, build costs and affordable housing revenue.

### E

Existing Use Value (EUV): The value of a site in its current use; for example, farmland, industrial or commercial land.

### F

Finance (developer): usually considered in two ways. Finance on the building process; and finance on the land. Relates to current market circumstances

### G

Gross Development Value (GDV): the total revenue from the scheme. This may include housing as well as commercial revenue (in a mixed use scheme). It should include revenue from the sale of open market housing as well as the value of affordable units reflected in any payment by a housing association(s) to the developer.

**I**

Intermediate Affordable Housing: PPS3 Housing defines intermediate affordable housing as housing at prices and rents above those of social rent, but below market price or rents, and which meet the criteria set out above. These can include shared equity products (e.g. HomeBuy), other low cost homes for sale and intermediate rent.

**L**

Land Value: the actual amount paid for land taking into account the competition for sites. It should be distinguished from Residual Value (RV) which is the figure that indicates how much should be paid for a site.

Local Development Framework (LDF): a folder of planning documents encompassing DPDs (Development Plan Documents) and SPDs (Supplementary Planning Documents)

**M**

Market Housing: residential units sold into the open market at full market price to owner occupiers, and in some instances, property investors. Usually financed through a mortgage or through cash purchase in less frequent cases.

**P**

Planning Obligation: a contribution, either in kind or in financial terms which is necessary to mitigate the impacts of the proposed development. Affordable housing is a planning obligation as are, for example, education and open space contributions. (See Section 106)

Proportion or percentage of Affordable Housing: the proportion of the scheme given over to affordable housing. This can be expressed in terms of units, habitable rooms or floorspace

**R**

Residual Valuation: a key valuation approach to assessing how much should be paid for a site. The process relies on the deduction of development costs from development value. The difference is the resulting 'residue'

Residual Value (RV): the difference between Gross Development Value (GDV) and total scheme costs. Residual value provides an indication to the developer and/or land owner of what should be paid for a site. Should not be confused with land value (see above)

Registered Provider (RP): a housing association or a not for profit company registered with the Homes and Communities Agency and which provides affordable housing

## **S**

Scheme: development proposed to be built. Can include a range of uses – housing, commercial or community, etc

Section 106 (of the Town and Country Planning Act 1990): This is a legally binding agreement between the parties to a development; typically the developer, housing association, local authority and/or land owner. The agreement runs with the land and binds subsequent purchasers. (See Planning Obligation)

Shared Ownership (SO): Also known as a product as 'New Build HomeBuy'. From a developer or land owner's perspective SO provides two revenue streams: to the housing association as a fixed purchase sum on part of the value of the unit; and on the rental stream. Rent charged on the rental element is normally lower than the prevailing interest rate, making this product more affordable than home ownership.

Social Rented Housing (SR): Rented housing owned and managed by local authorities and registered social landlords, for which guideline target rents are SET through the national rent regime.

Sub Markets: Areas defined in the Viability Study by reference to house price differentials. Areas defined by reference to postcode sectors, or amalgams thereof.

Supplementary Planning Document (SPD): planning documents that provide specific policy guidance on e.g. affordable housing, open space, planning obligations generally. These documents expand policies typically set out in Local Plans and LDFs.

## **T**

Target: Affordable housing target. Sets the requirement for the affordable housing contribution. If say 30% on a scheme of 100 units, 30 must be affordable (if viable).

Tenure Mix: development schemes usually comprise a range of housing tenures. These are described above including market and affordable housing.

Threshold: the trigger point which activates an affordable housing contribution. If a threshold is set at say 15 units, then no contribution is payable with a scheme of 14, but is payable with a scheme of 15. The appropriate affordable housing target is then applied at the 15 units, e.g. 20%, or 30%.

## **V**

Viability: financial variable that determines whether a scheme progresses or not. For a scheme to be viable, there must be a reasonable developer and land owner return. Scale of land owner return depends on the planning process itself.