Epsom & Ewell Community Infrastructure Levy Viability Study

Final Report

On behalf of **Epsom & Ewell Borough Council**

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1 INTRODUCTION

1.1.1 Epsom & Ewell Borough Council is planning to introduce a Community Infrastructure Levy (CIL), and have appointed Peter Brett Associates to assess development viability in their areas and recommend CIL charging rates accordingly. This report provides our analysis and recommendations.

1.1.2 Following this introduction:

- In Chapter 2 we introduce the Community Infrastructure Levy and set out the legal requirements that a CIL charging schedule must comply with.
- Chapter 3 examines the planning and development context, in order to ensure that CIL supports development in the Borough as proposed in the Core Strategy.
- Chapters 4 and 5 set out the method and assumptions used in our viability assessments.
- Chapters 6-10 provide these assessments for different land uses and recommend CIL charges accordingly.
- Chapter 11 recommends a Standard Charge for uses not separately covered.
- Chapter 12 provides analysis of larger site testing.
- Chapter 13 pulls together the suggested charges and recommends a proposed CIL Charging Schedule.

2 LEGAL REQUIREMENTS

2.1 Introduction

2.1.1 The Community Infrastructure Levy (CIL) is a new planning charge that came into force on 6 April 2010. The levy allows local authorities in England and Wales to raise contributions from development to help pay for infrastructure that is needed to support planned development. Local authorities who wish to charge the levy must produce a draft charging schedule setting out CIL rates for their areas – which are to be expressed as pounds (£) per square metre, as CIL will be levied on the gross internal floorspace of the net additional liable development. Before it is approved by the Council, the draft schedule has to be tested by an independent examiner.

2.1.2 The requirements which a CIL charging schedule has to meet are set out in:

- The Planning Act 2008 as amended by the Localism Act 2011.
- The CIL Regulations 2010[1], as amended in 2011[2] , 2012[3] and 2013[4].
- The CIL Guidance issued under S221 of the Planning Act 2008, which is statutory guidance, i.e. it has the force of law and the authority must have regard to the guidance[5].

2.1.3 To help charging authorities meet these requirements, the government has also produced non-statutory information documents, comprising:

- CIL overview documents[6].
- Documents on CIL relief and on collection and enforcement[7].

2.1.4 Below, we summarise the key points from these various documents.

2.2 Striking the appropriate balance

2.2.1 Regulation 14 requires that a charging authority '*aim to strike what appears to the charging authority to be an appropriate balance*' between:

a) The desirability of funding from CIL (in whole or in part) the… cost of infrastructure required to support the development of its area… and

b) The potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

[1] http://www.legislation.gov.uk/ukdsi/2010/9780111492390/pdfs/ukdsi_9780111492390_en.pdf
[2] http://www.legislation.gov.uk/ukdsi/2011/9780111506301/pdfs/ukdsi_9780111506301_en.pdf
[3] http://www.legislation.gov.uk/uksi/2012/2975/pdfs/uksi_20122975_en.pdf
[4] http://www.legislation.gov.uk/uksi/2013/982/pdfs/uksi_20130982_en.pdf
[5] DCLG (April 2013) *Community Infrastructure Levy Guidance*
[6]http://www.communities.gov.uk/documents/planningandbuilding/pdf/1897278.pdf
[7]http://www.communities.gov.uk/documents/planningandbuilding/pdf/19021101.pdf; http://www.communities.gov.uk/documents/planningandbuilding/pdf/1995794.pdf

2.2.2 By itself, this statement is not easy to interpret. The statutory guidance explains its meaning. This explanation is important and worth quoting at length:

'By providing additional infrastructure to support development of an area, the levy is expected to have a positive economic effect on development across an area. In deciding the rate(s) of the levy for inclusion in its draft charging schedule, a key consideration is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing the levy upon development across their area. The Community Infrastructure Levy regulations place this balance of considerations at the centre of the charge-setting process. In meeting the requirements of regulation 14(1), charging authorities should show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant Plan and support the development of their area. As set out in the National Planning Policy Framework in England, the ability to develop viably the sites and the scale of development identified in the Local Plan should not be threatened'.

2.2.3 In other words, the 'appropriate balance' is the level of CIL which maximises the delivery of development in the area. If the CIL charging rate is above this appropriate level, there will be less development than planned, because CIL will make too many potential developments unviable. Conversely, if the charging rates are below the appropriate level, development will also be compromised, because it will be constrained by insufficient infrastructure.

2.2.4 Achieving an appropriate balance is a matter of judgement. It is not surprising, therefore, that charging authorities are allowed discretion in this matter. This is set out in the legislation and guidance. For example, Regulation 14 requires that in setting levy rates, the Charging Authority (our underlinings highlight the discretion):

'must aim to strike what appears to the charging authority to be an appropriate balance…'

and the statutory guidance says

'The legislation… requires a charging authority to use appropriate available evidence to 'inform the draft charging schedule'. A charging authority's proposed levy rate (or rates) should be reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence… there is room for some pragmatism.'[8]

2.2.5 The Statutory Guidance sets the delivery of development in the area firmly in the context of implementing the Core Strategy. This is linked to the plan viability requirements of the NPPF, particularly paragraphs 173 and 174. This point is given emphasis throughout the Guidance. For example, in guiding examiners, the Guidance makes it clear that the independent examiner should establish that:

'…..evidence has been provided that shows the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole.'

2.2.6 This also makes the point that viability is not simply a site specific issue but one for the plan as a whole.

2.2.7 Regulation 14 effectively recognises that the introduction of CIL may put some potential development sites at risk. The focus is on seeking to ensure development envisaged by the Core Strategy can be delivered. Accordingly, when considering evidence the guidance requires that charging authorities should '*use an area based approach, which involves a broad test of viability across their area*', supplemented by sampling *'…an appropriate range of sites across its area…'* with the focus *'...in particular on strategic sites on which the relevant Plan relies…'* [9]

[8] DCLG (April 2013) *Community Infrastructure Levy Guidance* (para 28)

[9] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Paras 23 and 27)

2.2.8 This reinforces the message that charging rates do not need to be so low that CIL does not make any individual development schemes unviable. The levy may put some schemes at risk in this way, so long as, in aiming strike an appropriate balance overall it avoids threatening the ability to develop viably the sites and scale of development identified in the Core Strategy.

2.3 Keeping clear of the ceiling

2.3.1 The guidance advises that CIL rates should not be set at the very margin of viability, partly in order that they may remain robust over time as circumstances change:

'Charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area. Charging authorities should show, using appropriate available evidence, including existing published data, that their proposed charging rates will contribute positively towards and not threaten delivery of the relevant Plan as a whole at the time of charge setting and throughout the economic cycle..'[10]

2.3.2 We would add two further reasons for a cautious approach to rate-setting, which stops short of the margin of viability:

- Values and costs vary widely between individual sites and over time, in ways that cannot be fully captured by the viability calculations in the CIL evidence base.
- A charge that aims to extract the absolute maximum would be strenuously opposed by landowners and developers, which would make CIL difficult to implement and put the overall development of the area at serious risk.

2.4 Varying the charge

2.4.1 CIL Regulations (Regulation 13) allows the charging authority to introduce charge variations by geographical zone in its area, by use of buildings, or both. (It is worth noting that the phrase 'use of buildings' indicates something distinct from 'land use').[11] As part of this, some rates may be set at zero. But variations must reflect differences in viability; they cannot be based on policy boundaries. Nor should differential rates be set by reference to the costs of infrastructure.

2.4.2 The guidance also points out that there are benefits in keeping a single rate, because that is simpler, and charging authorities should avoid 'undue complexity'.[12]

2.4.3 Moreover, generally speaking, '*it would not be appropriate to seek to differentiate in ways that 'impact disproportionately on particular sectors, or specialist forms of development'*; otherwise the CIL may fall foul of State Aid rules.[13]

2.4.4 It is worth noting, however, that the guidance is clear that '*In some cases, charging authorities could treat a major strategic site as a separate geographical zone where it is supported by robust evidence on economic viability*.'[14]

[10] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 30)

[11] The Regulations allow differentiation by "uses of development". "Development" is specially defined for CIL to include only 'buildings', it does not have the wider 'land use' meaning from TCPA 1990, except where the reference is to development of the area, in which case it does have the wider definition. See S 209(1) of PA 2008, Reg 2(2), and Reg 6.

[12] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 37)

[13] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 37)

[14] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 34)

2.5 Supporting evidence

2.5.1 The legislation requires a charging authority to use '*appropriate available evidence'* to inform their charging schedules[15]. The statutory guidance expands on this, explaining that the available data 'is unlikely to be fully comprehensive or exhaustive'.[16]

2.5.2 These statements are important, because they indicate that the evidence supporting CIL charging rates should be proportionate, avoiding excessive detail. One implication of this is that we should not waste time and cost analysing types of development that will not have significant impacts, either on total CIL receipts or on the overall development of the area as set out in the Core Strategy. This suggests that the viability calculations may leave aside geographical areas and types of development which are expected to see little or no development over the plan period.

2.6 Chargeable floorspace

2.6.1 CIL will be payable on '*most buildings that people normally use*'[17]. It will be levied on the net additional floorspace created by any given development scheme[18]. Any new build that replaces existing floorspace that has been in recent use on the same site will be exempt from CIL, even if the new floorspace belongs to a higher-value use than the old.

2.7 What the examiner will be looking for

2.7.1 According to statutory guidance, the independent examiner should check that:

- The charging authority has complied with the requirements set out in legislation
- The charging authority's draft charging schedule is supported by background documents containing appropriate available evidence.
- The proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority's area.
- Evidence has been provided that shows the proposed rate would not threaten delivery of the relevant Plan as a whole.19

2.8 Policy and other requirements

2.8.1 Above, we have dealt with legal and statutory guidance requirements which are specific to establishing a CIL. More broadly, the CIL Guidance says that charging authorities '*should consider relevant national planning policy (including the NPPF in England) when drawing up their charging schedules*'. In addition, where consideration of development viability is concerned, the CIL Guidance draws specific attention to paragraphs 173 to 177 of the NPPF.

[15] Section 211 (7A) of the Planning Act 2008
[16] Section (April 2013) *Community Infrastructure Levy Guidance* (Para25)
[17] DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (paragraph 37)
[18] DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (paragraph 38)
[19] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 9)

2.8.2 The only policy requirements which relate directly to CIL are set out at paragraph 175 of the NPPF, covering, firstly, working up CIL alongside the plan making where practical; and secondly placing control over a meaningful proportion of funds raised with neighbourhoods where development takes place. Since April 2013[20] this policy requirement has been complemented with a legal duty on charging authorities to pass a specified proportion of CIL receipts to local councils, to spend it on behalf of the neighbourhood if there is no local council for the area where development takes place. Whilst important considerations, these two points are outside the immediate remit of this study.

2.9 Summary

2.9.1 To meet legal requirements and satisfy the independent examiner, a CIL charging schedule should:

'*Aim to strike what appears to the charging authority to be an appropriate balance' between the need to fund infrastructure and the impact of CIL'*; and

'*Not threaten delivery of the relevant plan as a whole*'.

2.9.2 As explained in statutory guidance, this means that the net effect of the levy on total development across the area should be positive. CIL may reduce development by making certain schemes which are not plan priorities unviable. Conversely, it may increase development by funding infrastructure that would not otherwise be provided, which in turn supports development that otherwise would not happen. The law requires that, in the judgment of the local authority, the net outcome of these two impacts should be positive. This judgment is at the core of the charge-setting process.

2.9.3 Legislation and guidance also set out that:

- Authorities should avoid setting charges up to the margin of viability for the bulk of sites.
- CIL charging rates may vary across geographical zones and building uses (and only across these two factors). But there are restrictions on this differential charging. It must be justified by differences in development viability, not by policy or by varying infrastructure costs; it should not introduce undue complexity; and it should have regard to State Aid rules.
- Charging rates should be informed by 'appropriate available evidence', which need not be 'fully comprehensive or exhaustive'.

2.9.4 While charging rates should be consistent with the evidence, they are not required to 'mirror' the evidence[21]. In this, and other ways, charging authorities have discretion in setting charging rates.

2.9.5 In our analysis and recommendations, we aim both to meet these legal and statutory guidance requirements and to maximise achievement of the Councils' own priorities, using the discretion that the legislation and guidance allow.

[20] http://www.legislation.gov.uk/uksi/2013/982/pdfs/uksi_20130982_en.pdf
[21] Planning Act 2008 (Section 212 (4) (b))

3 PLANNING AND DEVELOPMENT CONTEXT

3.1 Introduction

3.1.1 We need to ensure that the CIL supports development in general, and delivery of the Council's priorities. In this chapter we therefore review recent patterns of development and the objectives and proposals of the Borough's Core Strategy.

3.1.2 At the end of this chapter, we look at the implications of this analysis for the charging schedule.

3.2 Development in Epsom & Ewell

3.2.1 Below we analyse land uses which are central to delivery of the Core Strategy or otherwise likely to be significant forms of development.

Residential

3.2.2 The Council's housing targets are set out within the Core Strategy (adopted 2007) in Policy CS7. This specifies that provision will be made for at least 2,715 homes within the period 2007 to 2022 based on the annual average of 181 new dwellings per annum. This has been extended to 2026 at the same annual rate, meaning an overall target of 3,620 dwellings between 2007 and 2026.

3.2.3 The Council has delivered 1,453 units during the period April 2006 to March 2012, an annual average of 242 dwellings. Clearly residential development is by far and away the dominant type of development in the borough.

3.2.4 In terms of the size of sites that are expected to come forward, this is informed by the Strategic Housing Land Availability Assessment (SHLAA) and allocations in the Epsom Town Centre Area Action Plan (AAP). The largest site is for 250 dwellings, being the Utilities Site in Epsom Town Centre.

3.2.5 Across the rest of the Borough there are three identified sites with a maximum potential yield of 100 dwellings or more. Beyond this, there are a small number of sites that could deliver between 50 and 100 dwellings. The large majority will deliver below 50 units.

3.2.6 On windfall sites, residential development that would attract CIL would most likely come from suburban intensification, e.g. following a recent trend of one or two dwellings being demolished and replaced by between five and six units. Most other types of windfall development being experienced would not result in a significant net addition in floorspace so would not attract much in the way of CIL.

3.2.7 The Council has a target, set out in Policy CS9, that 35% of new dwellings should be affordable. Sites of between five and fourteen dwellings gross (or on sites between 0.15ha and 0.49ha – irrespective of the number of dwellings proposed) should include at least 20% as affordable. Residential development of 15 or more dwellings gross (or on sites of 0.5ha or above) should include at least 40% of dwellings as affordable.

B-class commercial

3.2.8 The Core Strategy does not contain a policy setting a quantum for the amount of employment land to be delivered over the plan period. Policy CS11 principally seeks to restrict the loss of strategic employment sites, including Nonsuch and Longmead industrial estates and within Epsom Town Centre and Ewell Village Centre. Regeneration and intensification of these sites are encouraged. The policy also states that a cautious approach will be adopted to losses of employment land elsewhere. More so than housing, the supply of employment land is heavily constrained. The Council's strategy is to optimise use of existing employment sites through intensification of employment densities. Under such circumstances, there is little prospect of any CIL being raised because any new employment space will most likely be replacing existing space so will not represent a net addition.

3.2.9 Based on information provided by Epsom & Ewell Borough Council we understand that during 2011/12 there was only one office scheme providing new space, a conversion from residential use totalling 225 sq m. Furthermore, there was no provision of industrial or warehousing floorspace.

3.2.10 The Epsom Town Centre AAP has allocated the Utilities Site for the delivery of 6,000 sq m of employment floorspace. Whilst not expected to come forward in the short term, it is part of the Borough employment strategy and is expected to come forward during the plan period.

3.2.11 Whilst there are not expected to be significant levels of commercial employment floorspace provided over the plan period, it is still an important part of the Borough Council's strategy to encourage the growth of employment uses. It is therefore considered to be important that the viability of such uses are tested.

Retail

3.2.12 The Core Strategy does not identify any targets for the delivery of new retail floorspace. However, the Epsom Town Centre AAP identifies that there is capacity for an additional 2,466 sq m of convenience floorspace and 7,730 sq m of comparison floorspace by 2026.

3.2.13 A total of 2,000 sq m of retail floorspace is allocated on the Depot Road and Upper High Street town centre site in the Epsom Town Centre AAP through Policy E14. It is specified that this will allow for a mix of small retail units and a small-medium sized foodstore.

3.2.14 In the year 2011/12, only one site provided additional retail floorspace. This scheme totals 530 sq m of convenience floorspace in Ewell village, providing a Sainsburys Local store.

Student Accommodation

3.2.15 There has been no significant student accommodation development in the Borough over recent years. However, the expansion of higher education provision at the University and other colleges in the area has placed an increasing expectation on the provision of additional student accommodation and therefore it is considered prudent to test its viability. The University for the Creative Arts (UCA) in particular has aspirations to significantly expand its student accommodation offer.

Care Homes

3.2.16 There has been care home development over recent years. Furthermore, it is recognised as a growth sector and, with the ageing population, the Borough Council considers it likely that applications for care home schemes will be forthcoming over the next few years.

3.3 Summary

3.3.1 The land uses which are central to delivery of the Core Strategy or otherwise likely to be significant forms of development, comprise:

- Residential.
- Offices.
- Retail.
- Student Accommodation.
- Care Homes.

3.3.2 In our viability assessments and the resulting recommendations, we have focussed on these types of development, aiming to ensure that they remain broadly viable after the CIL charge is levied.

4 VIABILITY ASSESSMENT METHOD

4.1 Development appraisal

4.1.1 Viability assessment is at the core of the charge-setting process. The purpose of the assessment is to identify charging rates at which the bulk of the development proposed in the development plan is financially viable, in order to ensure that the CIL does not put at risk the overall level of development planned for the area.

4.1.2 Our viability assessments are based on development appraisals of hypothetical schemes, using the residual valuation method. This approach is in line with accepted practice and as recommended by RICS guidance[22] and the Harman report.[23] Residual valuation is applied to different land uses and where relevant to different parts of the Borough and district, aiming to show typical values for each. It is based on the following formula:

Value of completed development scheme

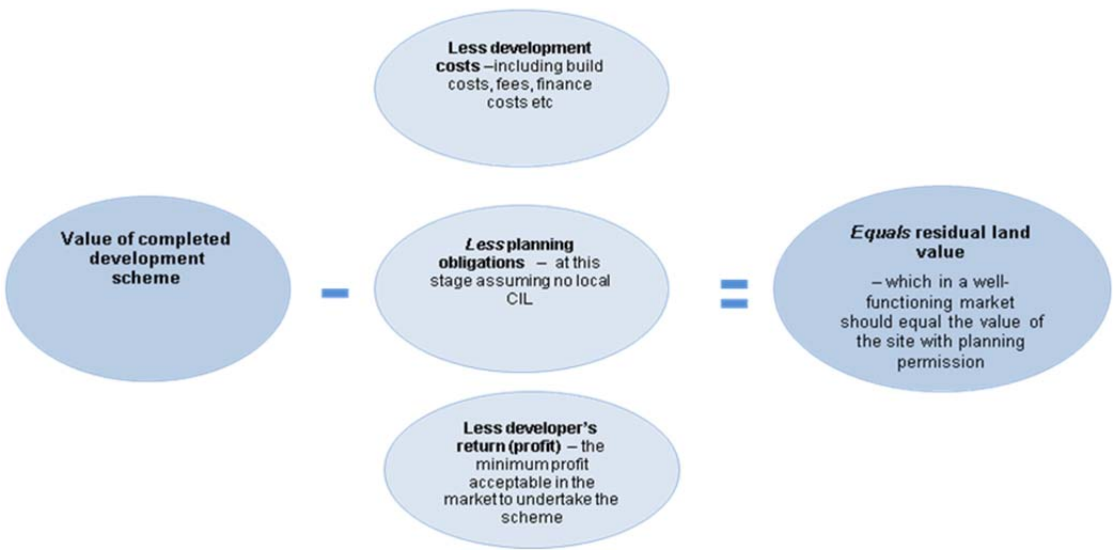
***Less* development costs -** including build costs, fees, finance costs etc

***Less* developer's return (profit)** – the minimum profit acceptable in the market to undertake the scheme

***Less* policy costs** – building in (for example) Section 106 costs and other policy requirements

***Equals* residual land value**
– which in a well-functioning market should equal the value of the site with planning permission

Figure 4.1 Method diagram



Source: PBA

[22] RICS (2012), *Financial Viability in Planning, RICS First Edition Guidance Note*

[23] Local Housing Delivery Group Chaired by Sir John Harman (2012) *Viability Testing Local Plans*

4.1.3 For each of the hypothetical schemes tested, we use this formula to estimate typical residual land values, which is what the site should be worth once it has full planning permission. The residual value calculation requires a wide range of inputs, or assumptions, including the costs of development, the required developer's return.

4.1.4 The arithmetic of residual appraisal is straightforward (we use a bespoke spreadsheet model for residential appraisals, and the popular Argus Developer software for most other building uses). However, the inputs for the calculation are hard to determine for a specific site (as demonstrated by the complexity of many S106 negotiations). The difficulties grow when we are required to make calculations that represent a typical or average site – which is what we need to do for CIL purposes. Therefore our viability assessments are necessarily broad approximations, subject to a margin of uncertainty.

4.1.5 Detailed individual appraisals are at Appendix A.

4.2 The summary tables

4.2.1 Having estimated the residual value, we compare this residual value with the 'benchmark land value' or 'land cost', which is the minimum land value the landowner is likely to accept to release their land for the development specified.

4.2.2 This process of comparison takes place in what we call the 'viability summary' table. These summary tables can be found in the relevant sections. The first example in this report is found at Table 6.2.

4.2.3 Benchmark values will vary to reflect the landowner's judgements, which might include the contextual nature of development, the site density achievable, the approach to the delivery of affordable housing (in the context of residential development) and so on. There are a wide range of permutations here. In order to make progress, we have to assume a central value, even though there could be a margin of error in practice. These values are discussed further in Chapter 5.

- If the residual land value shown by the appraisals is below the benchmark value, the development is not financially viable, even without CIL. That means that unless the circumstances change it will not happen.

- If the residual value and the benchmark values are equal, the development is just viable, but there is no surplus value available for CIL.

- If the residual land value shown by the appraisals is above the benchmark value, the development is viable. The excess of residual over benchmark value measures the maximum amount that may be potentially captured by CIL. The summary table then converts this amount available for CIL into a per square metre charge in the column at the far right.

4.2.4 It is important to bear in mind that these calculations are no more than approximations, surrounded by margins of uncertainty but are based on best available evidence and judgement. In drawing the implications for CIL, we take account of this uncertainty and use professional judgment to interpret the figures. We explain below.

4.3 Recommending a CIL charge

4.3.1 The summary table discussed above indicate that CIL charges of a given amount may be capable of being sustained in the area. However, we are likely to recommend that the charge is set well under this point. The principal reasons for this are that:

- Markets fluctuate over time. There must be sufficient latitude for fluctuations to happen without rendering the CIL charge unviable.

- Individual site costs and values vary. Developments should remain viable after CIL charge is paid in the bulk of cases.

4.3.2 It is conceivable that a simple, arithmetical approach could be used to take us from the 'overage' that the summary table suggests is available for CIL, to a recommended CIL Charge. For example, it would be possible to set a CIL at 50% of the overage indicated in the viability testing, and to mechanically apply this deflator.

4.3.3 However, we have intentionally avoided this approach, because the viability tests necessarily cannot take account of developers' market understanding of risk, or of institutional investors' willingness to invest. These are important components of the judgement on a sensible level of CIL charge, but they cannot emerge arithmetically from the viability model. Instead, we use our market judgement in arriving at a sensible charge.

5 VIABILITY ASSESSMENT ASSUMPTIONS

5.1.1 In this chapter we discuss the main assumptions used in our development appraisals. A number of these assumptions require detailed explanation and are discussed in the next section. Other assumptions will be set out briefly in Table 5.1 below.

5.2 Benchmark land values

5.2.1 Our estimates of benchmark values are based on both serviced land sales with consent and disposals of land (existing use) without the benefit of planning permission. We have examined a wide variety of land transactions in Epsom & Ewell, using three main sources:

- Land currently being marketed on the UK Land Directory website and EG Property Link.
- Consultations with local property agents and developers.
- Values reported in viability studies submitted to the council as part of recent S106 negotiations.

5.2.2 Our consultees are listed at Appendix B. The actual comparables we have used were provided in confidence and cannot be made public.

5.2.3 It is important to appreciate that assumptions on benchmark land values can only be broad approximations, subject to a wide margin of uncertainty. We take account of this uncertainty in drawing conclusions and recommendations from our analysis.

Residential

5.2.4 We have analysed a cross section of residential land comparables across Epsom & Ewell and the wider sub-region. These comparable transactions generally relate to urban and edge of urban infill sites, which were mainly serviced with roads and major utilities to the site boundary. We understand this is reflective of residential sites coming forward in the plan period.

5.2.5 A significant proportion of residential land transactions within Epsom & Ewell are for smaller sites capable of accommodating up to 14 apartments or houses. This figure is significant in that for 15 units and above, schemes are required to make a contribution of 40% affordable housing provision. For 14 units and under, the requirement for affordable housing is reduced to 20% and, for 4 units and under, there is no requirement towards affordable housing. From examining available market evidence we have therefore used three bands of land values, with smaller sites being higher value compared to sites capable of accommodating more units.

5.2.6 On the basis of our analysis detailed above, we have used the following benchmark land values in this report:

- For sites providing 4 units and below land values of £5,000,000 per ha for conventional housing development and £6,000,000 for flatted development.
- For sites providing 5-14 units land values of £4,500,000 per ha for housing development and £5,500,000 per ha for flatted development.
- For sites providing 15 units and above, values of £4,000,000 per ha for housing development and £5,000,000 per ha for flatted development.

Offices

5.2.7 There is a dearth of comparable evidence for land values within Epsom & Ewell, with the Borough seeing limited levels of transactions and development over recent years. We have therefore utilised our experience of land values across the wider region in deriving a suitable benchmark land value. We estimate that a serviced development plot suitable for office development would have a value of circa £3,000,000 per ha.

Retail

5.2.8 We have examined the convenience and comparison retail sector separately. While comparable evidence is scarce for both sectors we have concluded that benchmark values are as follows:

- Comparison - £5,000,000 per ha in Epsom Town Centre.
- Convenience - £5,000,000 across all of Epsom and Ewell.

5.2.9 We have arrived at these values following discussion with local agents, although the majority were unable to comment with respect to appropriate land values. There is a lack of transactional evidence to directly support these values, so we have collated our evidence from local agents, including information on local rent and yields, together with evidence from outside the Borough in arriving at these values.

Student Accommodation

5.2.10 Land values for student accommodation are broadly in line with residential development. We estimate that a serviced development plot for student accommodation would have a value of circa £3,000,000 per ha.

Care Home

5.2.11 Care home operators often compete with residential developers for the same sites; as such land values are broadly similar, albeit both uses have price ceilings that cannot be exceeded due to the economics of development. We estimate that a serviced development plot suitable for care home development would have a value of circa £3,000,000 per ha.

5.3 S106 contributions

5.3.1 In order to assess development viability, we need to make assumptions about the broader policy costs faced by development. S106 is one of these policy costs, and so these costs need to be allowed for in our viability calculations.

5.3.2 Section 106 will continue to exist after CIL begins to be charged. However, under the CIL Regulations (which also cover S106) the use of S106 will be scaled back. Under recent changes to the statutory CIL Guidance (which also cover the relationship between CIL and Section 106), the government now expects Section 106 to be solely targeted at mitigating the site specific impacts of individual developments.

5.3.3 In general, we expect that Section 106 agreements, together with Section 278 highways agreements and planning conditions, will still be used to secure the following elements:

- Site-specific mitigation. These might be local improvements/infrastructure necessary to enable the grant of planning permission such as access roads, on-site open space, archaeology, and some off-site requirements directly related to support individual sites.

- Development-specific infrastructure on large-scale major development sites (of around 200-300 or more dwellings). In these instances, developers frequently prefer the use of S106 agreements, because they provide comfort that key infrastructure (which is frequently essential to sales) will be delivered. There are very few sites of this scale proposed in Epsom & Ewell that will come forward during this Plan period.

- Affordable housing. Under the Regulations, Section 106 agreements will be used to secure affordable housing.

5.3.4 Based on the above, and in agreement with the client team, our residential appraisals allow £1,000 per housing unit for S106 and S278 contributions, excluding affordable housing. This is consistent with CIL viability appraisals done in other districts around the country.

5.3.5 Assumed S106 and S278 contributions for commercial appraisals are detailed within Appendix A.

5.3.6 This estimate is made for the sole purpose of the CIL viability assessment. It does not commit Epsom & Ewell Borough Council to allocating CIL receipts or S106 receipts to any infrastructure theme or stakeholder.

5.4 Other assumptions

5.4.1 The other assumptions underlying our residential development appraisals are in Table 5.1 below. Our other assumptions for the commercial development appraisals are detailed within the appraisals, contained within Appendix A.

5.4.2 Inevitably, these assumptions are broad estimates. We have aimed to model typical new build schemes, as opposed to high-specification or particularly complex schemes that require particular construction techniques or materials.

Table 5.1 Residential Viability testing assumptions

Assumption	Source	Notes
Revenue		
Sales value of completed scheme	Land Registry & Consultation	For housing, Land Registry data forms a basis for analysis. This provides a full record of all individual transactions.[24] This data is then supplemented following conversations with agents and house builders' sales representatives, which allows us to form a view on new build sales values. Values used are as follows: **Houses –** £4,000 sq m **Flats –** £4,200 sq m
Affordable housing	HCA policy, Core Strategy and	In all our residential appraisals we have assumed that affordable housing (comprising social rented, affordable rented and intermediate) are approximately 60% of

[24] Land Registry data is aggregated onto www.home.co.uk and mouseprice.co.uk. This is collated by postcode.

Assumption	Source	Notes
	consultation with RP's.	capital market value. In line with the Epsom & Ewell Core Strategy we have tested schemes with requirements for 40% (large sites of 15+ dwgs) and 20% (small sites of 5-14 dwgs) affordable housing.
Densities	Epsom & Ewell Borough Analysis & developer consultation	We have analysed data provided by Epsom & Ewell detailing densities achieved on schemes over the last three years. Based on this information and industry standards we have utilised the following densities: **Houses –** 30 dwellings per ha **Flats -** 100 Dwellings per ha
Construction costs		
Construction	BCIS Online	BCIS is published by RICS on a quarterly basis. BCIS offers a range of prices dependent on the final specification. The following build costs used are derived from recent data of actual prices in the marketplace, rebased for Epsom & Ewell.. We have utilised the following build costs: **Houses** – £893 sq m **Flats** - £1,036 sq m We believe these costs sufficient to meet Code for Sustainable Homes Level 4.
Floorspace size assumptions	Industry standards	We have assumed average floorspaces of: **Houses** – 96 sq m **Flats** - 65 sq m
Contingency	Industry standards	Contingency is an expression of risk relating to a specific scheme and will vary from site to site. We have adopted a generic average of 5% though in practice it will vary.
Plot external	Industry standards	On-site preparation for internal access roads and other external works. This will vary from site to site, but we have assumed the 10% of build costs.
Section 106/278	Epsom & Ewell Borough analysis	See text above this table in Section 5.3.
Fees		
Professional fees	Industry standards	We have assumed 8% of development costs based on accepted industry standards.
Sale costs	Industry standards	These rates are based on industry accepted scales at the following rates: Legals - £500 per unit

Assumption	Source	Notes
		Sales agents fee - 1.25% of private sale value Marketing cost - £1,000 per private unit
Finance costs	Industry standards	Finance costs assume an interest rate of 7%.
Stamp Duty on Land Purchase	HMRC	Stamp duty has been charged on the land purchase at the prevailing rate.
Professional fees on Land Purchase	Industry standards	Fees associated with the land purchase are based upon the following industry standards: Surveyor - 1.00% Legals - 0.75%
Profit		
Profit	Industry standards	Developers profit has been calculated as follows: Private - 20% of gross development value Affordable - 6% of gross development value

Source: PBA; various

6 RESIDENTIAL

6.1 Introduction

6.1.1 In this section, we review the potential for setting a CIL charge in Epsom & Ewell. We follow the following process:

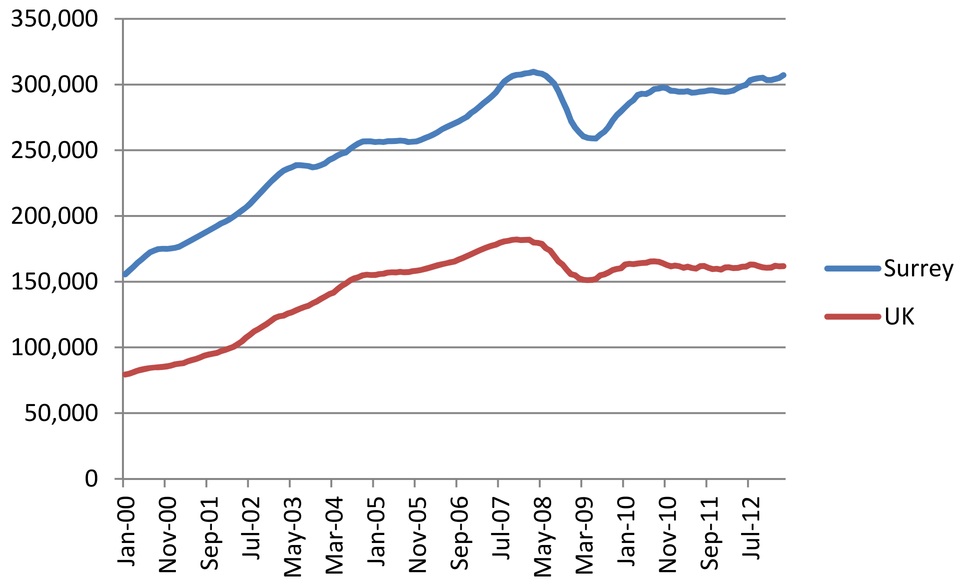
- We undertake a high level market review.
- We then deal with whether setting up different charging zones is worthwhile, given the CIL Regulations and legislation and the planning and market context. We use Land Registry data and analysis of plans for future development in this process.
- New build values and market evidence from agents and developers are then used to inform this working hypothesis.
- Formal viability testing is then undertaken in order to understand a level of CIL charge that will strike the balance between retaining development viability and raising money for local infrastructure.

6.2 Market overview

6.2.1 Figure 6.1 below illustrates the longer-term changes in house prices across the whole of Surrey. Average house prices in Surrey have generally fluctuated in line with the UK – though always out-performing the national average by some £100,000. The average house price in Surrey is currently £307,164 (March 2013) compared to the UK average of £153,687.

6.2.2 Average house prices in Surrey are now only slightly below their 2008 peak of £309,657; the graph below illustrates that house prices in Surrey appear to be steadily rising to their former levels.

Figure 6.1 Average House Prices in Surrey and the UK

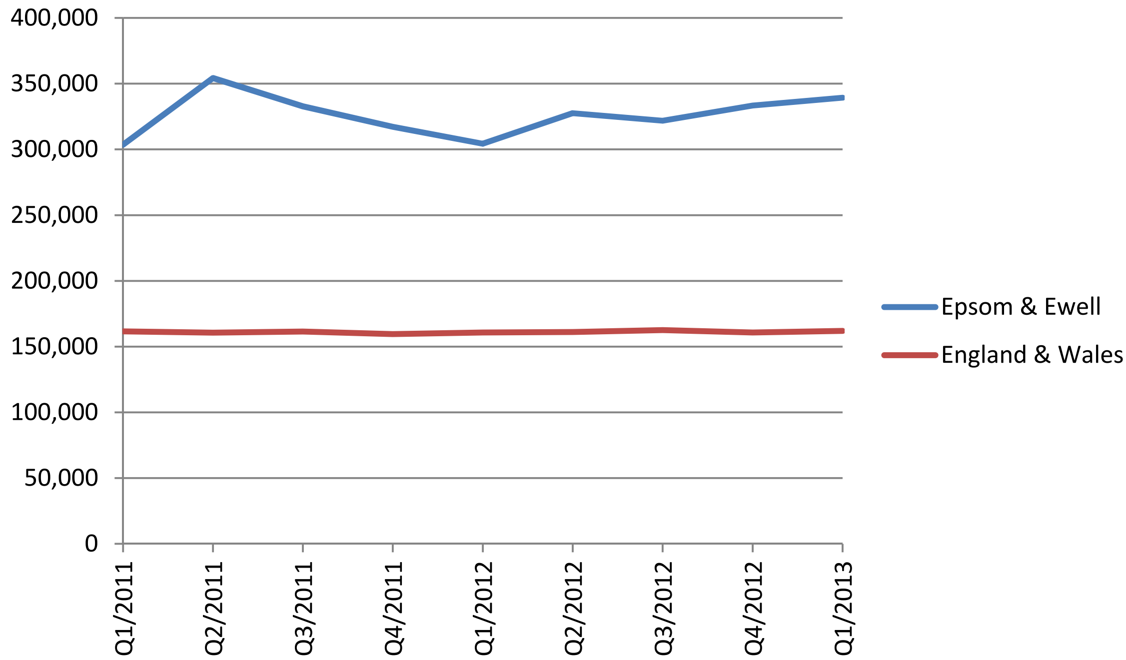


Source: PBA, Land Registry

6.2.3 Figure 6.2 below illustrates the price differential between Epsom & Ewell and England & Wales with the former generally being some £150,000 more expensive. The average house price in Epsom & Ewell during Q1 2013 was £339,381 in comparison to £161,869 for England & Wales.

6.2.4 Over the last 2 years house prices in both Epsom & Ewell and England & Wales have remained relatively constant, with average house prices in Epsom & Ewell typically ranging between £300,000 and £350,000.

Figure 6.2 Average House Prices in Epsom & Ewell and England & Wales



Source: PBA, Land Registry

6.2.5 The outlook is equally positive. Savills research suggests that residential values in the South East are expected to increase over the next five years. Savills forecast that values in London will rise by 19.5% in the five years to 2017, compared to an 11.5% rise for the UK as a whole.[25]

6.3 Charging zones

6.3.1 As we showed in Chapter 2 above, CIL Regulations (Regulation 13) allow the charging authority to introduce charge variations by geographical zone within its area, by intended use of buildings, or both. All differences in rates need to be justified by reference to the economic viability of development.

6.3.2 Setting up a CIL which levies different amounts on development in different places increases the complexity of the CIL, and is only worthwhile if the additional complexity generates significant additional revenues.

[25] Savills (2012) *Residential Property Focus*

Principles

6.3.3 Identifying different charging zones for CIL has inherent difficulties. One reason for this is that house prices are an imperfect indicator; we are not necessarily comparing like with like. Even within a given type of dwelling, such as terraced houses, there will be variations in, say, quality or size which will impact on price.

6.3.4 Another problem is that even a split that is correct 'on average' may produce anomalies when applied to individual houses – especially around the zone boundaries. Even between areas with very different average prices, the prices of similar houses in different areas may considerably overlap.

6.3.5 A further problem with setting charging area boundaries is that they depend on how the boundaries are defined, as well as the reality of actual house prices. Boundaries drawn in a different place might alter the average price of an area within the boundary, even with no change in individual house prices.

6.3.6 To avoid these statistical and boundary problems, it is our view that a robust set of differential charging zones should ideally meet two conditions:

- i The zones should be separated by substantial and clear-cut price differences.
- ii They should also be separated by substantial and clear-cut geographical boundaries – for example with zones defined as individual settlements or groups of settlements, as urban or rural parts of the authority. We avoid any charging boundaries which might bisect a strategic site or development area.

6.3.7 We have held to these principles in devising zone boundaries.

Method

6.3.8 Setting zones requires us to marshal the 'appropriate available evidence' from a range of sources in order to advise on the best way forward. We took the following steps.

- Our first step was to look at house prices. These are a good proxy for viability. We downloaded Land Registry data to do this. This was only a first step, and generated a range of options or hypotheses.
- Secondly, we talked to agents, developers and officers. Together with Land Registry data, this allowed us to generate a main hypothesis.
- Thirdly, we tested this main hypothesis through formal development appraisals.

6.3.9 We explain this process below.

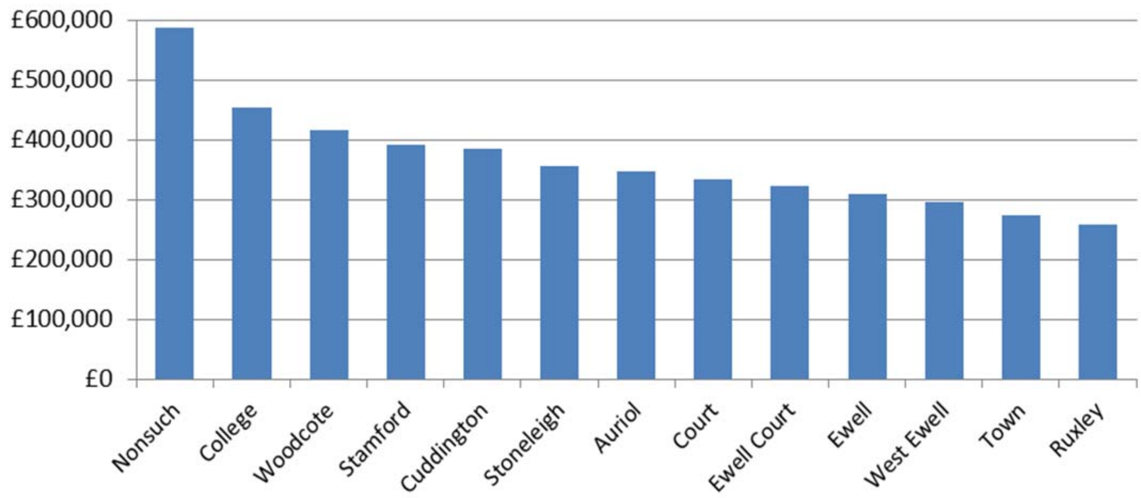
We looked at residential sales prices

6.3.10 In advising on charging zones, our first step was to look at average sales prices over a two year period. We looked at both house and flat prices separately; Epsom & Ewell has seen significant flatted development and therefore there is sufficient data to analyse both property types individually.

6.3.11 We used data on both new and second hand homes because, firstly, datasets on sales values for new homes only would be very much smaller, covering a small geographical area (and so more unstable), and secondly, because at this stage it is the differentials between areas that we are seeking to identify, not the absolute price levels[26]. There were therefore good reasons to look at both new and second hand data, and no compelling reasons to avoid it.

6.3.12 As detailed in Figure 6.3 average prices are shown for each Census Standard Table (ST) ward[27]. Outlier values are suppressed using an accepted statistical test.

Figure 6.3 Average house price by ward (February 2011 to January 2013)



Source: PBA, Land Registry

6.3.13 Figure 6.3 indicates that there are variances in average house prices achieved across the Borough. Nonsuch is significantly higher value that the other wards within the Borough with an average house price of £588,167; elsewhere, College ward is closest in terms of value with an average house price of £455,294, some £130,000 lower.

6.3.14 We have also presented this data on a map, with average prices for each ward broken into eight equal bands, because it allows us to understand the broad contours of residential prices in the area. Sales prices are a reasonable, though imperfect, proxy for development viability, so the map provides us with a broad idea of which areas would tend to have more viable housing developments, other things being equal.

We mapped sales prices

6.3.15 We have broken down average sales prices for houses and flats separately. Both Figure 6.4 and 6.5 suggest that values in the Borough break very broadly into two parts:

- High Value –The east and south of the Borough are the highest value areas (including East Ewell, Woodcote and Epsom Common). This is shown in Figure 6.4 by the red, yellow and blue colours, and shown in Figure 6.5 by the red and orange colours.

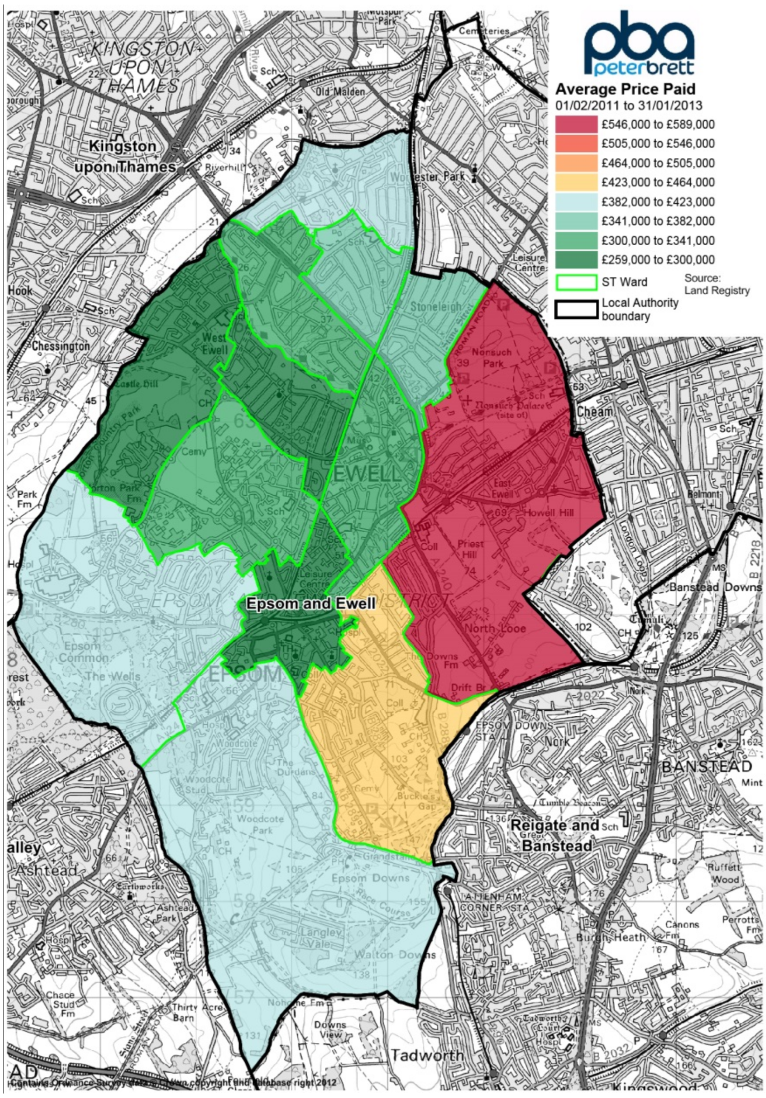
- Low Value – The north of the Borough is lowest value area (including the areas of Epsom town centre, central Ewell and West Ewell), albeit house prices are still significantly above national averages. This is shown in Figure 6.4 by the green colours, and shown in Figure 6.5 by the light blue, light orange/yellow colours.

[26] Note that the map we have produced here is sophisticated, in that shows the results after eliminating the outlier values which skew the average. We have removed these outlier values using an accepted Interquartile Range test.

[27] ST wards are used because very precise boundary mapping exists which shows ward boundaries, and is not subject to the degree of change that electoral wards or postcode boundaries are subject to.

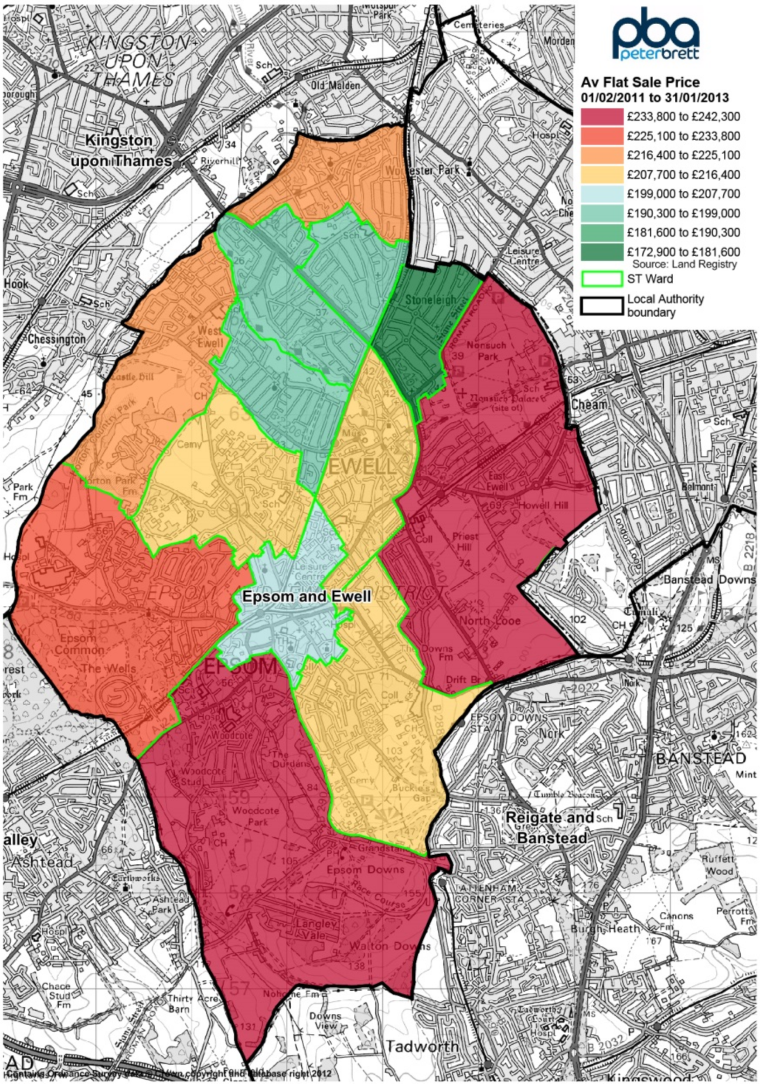
6.3.16 It was noted there was a greater variance in the average house price achieved in the low value and high value areas in comparison to average flat price. This is to be expected; housing can vary greatly in terms of type (terraced, semi-detached and detached) and number of bedrooms leading to larger variations in price.

Figure 6.4 Map: Average house prices across Epsom & Ewell



Source: Land Registry, PBA

Figure 6.5 Map: Average flat prices across Epsom & Ewell



Source: Land Registry, PBA

We looked at the likely location of new development

6.3.17 Understanding the patterns of development is the next stage in our analysis. We have assessed where the likely housing development is to go by ward. This is based on the sites with potential identified in the Strategic Housing Land Availability Assessment (SHLAA) and is shown in Table 6.1 below.

Table 6.1: Location of potential residential sites by ward

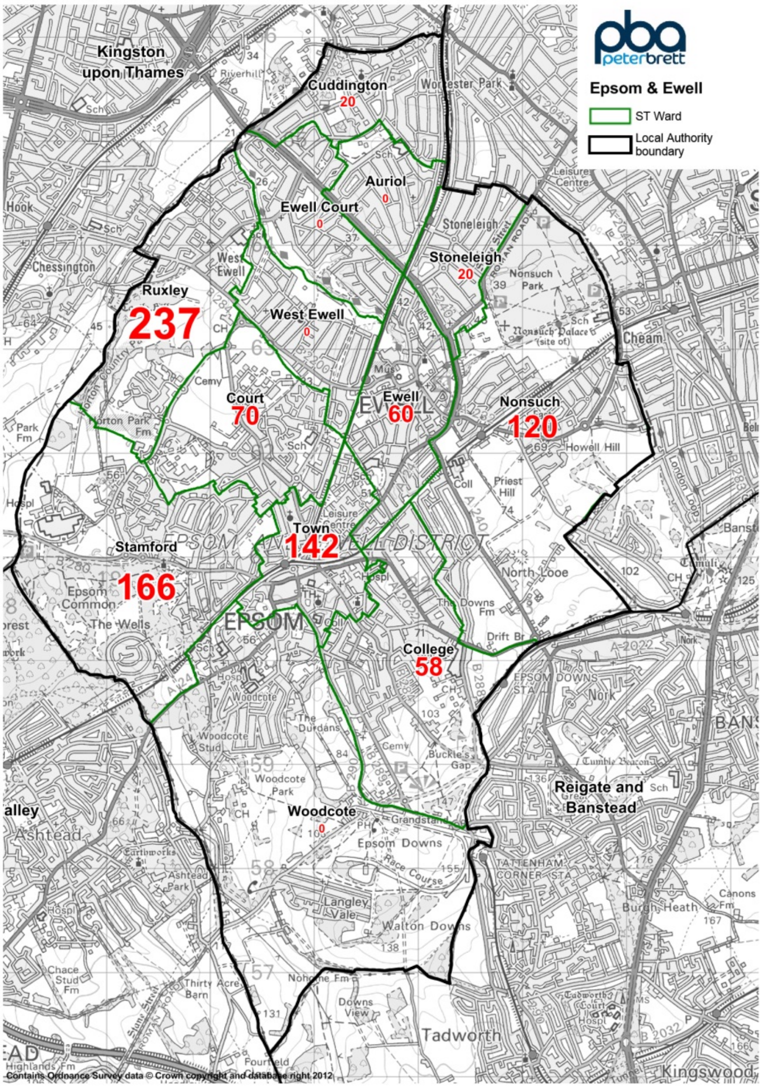
Ward	No of potential sites	No. of net additional dwellings
Cuddington	1	20
Auriol	0	0
Ewell Court	0	0
Ruxley	4	237
West Ewell	0	0
Ewell	1	60
Stoneleigh	1	20
Nonsuch	1	120
Court	2	70
Stamford	3	166
Town	3	142
Woodcote	0	0
College	3	58

Source: Housing Site Consultation Paper, October 2011

6.3.18 It is easier to see the pattern of potential development on a map, as shown in Figure 6.6. This shows that the bulk of development is expected to be in a 'central corridor' through the Borough, from east to west. There is comparatively less development expected in the north and the south of the borough.

6.3.19 The map also illustrates that potentially development is likely to be spread between lower value and high value wards within the Borough; as such there is potential for a two tier charge. However, such low overall housing numbers are unlikely – given the limited difference in likely CIL charge between a lower value and higher value band – to create sufficient additional CIL revenue to make the extra complexity worthwhile.

Figure 6.6 Location of potential development by ward



Source: SHLAA

The emerging working hypothesis: a simple single-band charging structure

6.3.20 At this stage, then, we had an initial emerging hypothesis on geographical charging bands. This hypothesis was that Epsom & Ewell should have a single CIL charge across the whole Borough.

We then used findings from interviews with developers and agents to test this hypothesis, to see if their views broadly agreed (we did not ask them to confirm the hypothesis directly). We were particularly interested in using the interview process to understand the values of new development, and how these values might fit with the bands suggested in our emerging hypothesis.

6.4 Consultation

We looked at the local market with agents and developers

6.4.1 We talked to a range of sources on residential markets, including local agents and local housebuilders active in the area. The consultation explored a number of issues, focussing on broad areas within the Borough. The general sentiment was that:

- The market appears buoyant across the Borough with an increase in sales rates during late 2012 and the first half 2013.
- Values in Nonsuch ward, specifically within the West Downs area, are the highest across the Borough. However, there has been little to no new build development over recent years with the majority of development comprising extensions to existing dwellings. Agents indicated a new build three bedroom semi-detached property would be expected to sell for £500,000 plus.
- Stoneleigh and West Ewell have a price ceiling below East Ewell albeit still at high levels in comparison to the UK. A three bedroom new build semi-detached property would be expected to sell for between £400,000 and £500,000.
- Epsom Common and Epsom Downs form a mid-point between values achieved in the West Downs area and Stoneleigh and West Ewell. A new build three bedroom semi-detached property would be expected to sell in the region of £500,000.

6.4.2 A copy of our consultees are detailed within Appendix B.

We looked at current developments

6.4.3 There are three major housing developments within Epsom & Ewell which are currently marketing units, with Persimmon, Linden Homes and Crest Nicholson the developers. We summarise each development as follows:

- Noble Park, Crest Nicholson – Phase 1 comprises refurbished flats and houses. Typically the properties have sold for asking price although some incentives have been offered. 3 bedroom detached units have sold for circa £465,000 (£5,080 per sq m), 3 bedroom terraced units for circa £365,000 (£3,990 per sq m) and 4 bedroom properties for circa £634,000 (£4,700 per sq m). The flats have sold for circa £4,000 per sq m; however, a number of units are very large in size resulting in a lower £ per sq m rate. With regards to sales rates we understand the 3 bedroom dwellings were most popular; the flats have sold at 10 units per month and houses at 1 unit per week.
- Noble Park, Linden Homes – Phase 1 comprises circa 20 private houses plus refurbished flats. We understand 1 bedroom flats have sold for £225,000 to £250,000, 2 bedroom units for £300,000 to £375,000, 3 bedroom units for £400,000 to £415,000 and 4 bedroom units for £550,000 to £600,000. Sales rates have fluctuated but have generally been in the region of 2 units per week.
- Willow Court - Persimmon – Development comprises 12 houses and 3 flats; we understand 9 houses are currently under offer having been actively marketed for 3 months. 3 bedroom townhouses on the development have sold for circa £360,000 to £380,000 (£3,400 per sq m to £3,300 per sq m), 3 bedroom terraced units for £330,000 (£4,000 per sq m) and a 2 bedroom terraced at £260,000 (£4,000 per sq m).

The working hypothesis following consultation

6.4.4 Discussions with agents and developers helped us arrive at a 'firmed up' working hypothesis regarding the geographical CIL charges in Epsom & Ewell.

6.4.5 There are price differences across the Borough: in particular East Ewell is the most expensive area and as such there is potential that different amounts of CIL could be charged across the Borough; however, as described in greater detail earlier, adding complexity to the CIL is only worthwhile if the additional complexity generates significant additional revenues.

6.4.6 Our analysis of potential residential allocations within the plan period indicates that having the additional complexity of a two tier strategy, in this circumstance, would not be worthwhile; as such, our approach is a single-banded charging structure across Epsom & Ewell.

6.5 Viability analysis

6.5.1 We then tested this approach by undertaking a viability analysis. Development appraisals are necessary to set a CIL, because the data used so far is only a proxy for viability testing, rather than a viability test in itself. Only development appraisals can properly combine the receipts and costs of development to arrive at an overall picture of viability.

- First, development appraisals use recent sales prices as a basis, and relate to new dwellings specifically. To arrive at these prices we consulted with developers and agents who have been selling new housing over the last six months. (By contrast, Land Registry prices presented cover the last two years and include second-hand as well as new houses).

- Secondly, the results of the development appraisal (which shows the price that a developer can afford to pay for land) can be compared with prevailing benchmark land values (in effect, what the landowner will accept in order to sell the land). Benchmark values have an important bearing on the amount of CIL assumed to be available.

Residential scenarios tested

6.5.2 To assess the capacity of different types of development to pay CIL in Epsom & Ewell, we have produced indicative development appraisal of hypothetical schemes, comprising the following:

- 1 house
- 5 houses
- 10 houses
- 25 houses
- 50 houses
- 3 flats
- 25 flats
- 50 flats

6.5.3 This mix of schemes was selected in discussion with the Council, making use of their local knowledge, to create a representative but focused profile of residential development likely to come forward in the area for the foreseeable future. The schemes selected will test the viability of development falling below and above affordable housing thresholds.

6.5.4 We expect that some sites which come forward will have a mixture of houses and flats. We have not modelled these mixed schemes separately because we are attempting to understand the viable CIL rates payable on individual components of the schemes. If we were to model a mixed house and flat scheme, one housing type might cross subsidise another, and provide a misleading result about the level of CIL which could be viably afforded.

Findings

6.5.5 Table 6.2 summarises the residential development appraisals; individual detailed appraisals are at contained within Appendix A.

6.5.6 Our objective in these summary tables is to show, for each notional development scenario, how much money might be theoretically available for a CIL charge. Reading Table 6.2 from left to right, successive columns are as follows:

a) Number and type of units

b) Net site area

c) Total Floorspace: this is the total floorspace created by the development, including both market and affordable housing.

d) CIL chargeable floorspace: the accommodation within the scheme liable to CIL, equal to the floorspace of market housing (affordable housing is not liable).

e) Residual value before after policy contributions - £ per hectare, and £ per sq m: the residual value is produced by an indicative appraisal after S106, affordable housing and all other policy costs have been taken into account. The method and assumptions used in this appraisal to arrive at this number are described in the report. Briefly, the residual site value is the difference between the value of the completed development and the cost of that development, and developer's profit.

f) Benchmark land value per ha and per sq m: the estimated minimum a developer would typically need to pay to secure a site of this kind, expressed in £ per ha or divided by its chargeable floorspace.

g) Overage per ha and per sq m: this column identified the amount of money which is, in theory, available for CIL. It is expressed per ha and per sq m of chargeable development. Note that this sum is derived from the difference between the residual value after policy contributions and the benchmark land value. As noted earlier, this overage is an estimate of the CIL 'ceiling' – the maximum CIL that could be charged consistent with the development being financially viable, expressed per ha. Given the uncertainties surrounding viability appraisal, it is of course an approximate indicator, which should be used cautiously.

6.5.7 **The theoretical maximum CIL charge per square metre for each development is therefore shown in the far right column of the summary table below. As we explain below, though, we do not recommend that this theoretical maximum be directly translated into a CIL charge.**

Table 6.2 Residential viability summary

	No of dwellings	Net site area ha	Total Floor Space per sq.m	CIL Chargeable Floor Space per sq.m	Residual land value after policy contributions		Benchmark		Overage	
					Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Houses –	1	0.03	96	96	£5,616,620	£1,950	£5,000,000	£1,736	£616,620	£214
Houses –	5	0.17	480	384	£5,011,349	£1,740	£4,500,000	£1,563	£511,349	£222
Houses –	10	0.33	960	768	£5,006,059	£1,738	£4,500,000	£1,563	£506,059	£220
Houses –	25	0.83	2,400	1,440	£4,482,599	£1,556	£4,000,000	£1,389	£482,599	£279
Houses –	50	1.67	4,800	2,880	£4,419,879	£1,535	£4,000,000	£1,389	£419,879	£243
Flats -	3	0.03	228	228	£10,677,480	£1,405	£6,000,000	£789	£4,677,480	£615
Flats -	10	0.10	760	456	£7,947,067	£1,046	£5,500,000	£724	£2,447,067	£537
Flats -	50	0.50	3,800	2,280	£6,811,218	£896	£5,000,000	£658	£1,811,218	£397

Source: PBA

6.6 The recommended residential CIL charge

6.6.1 Although the analysis suggests that in some development scenarios a high theoretical CIL charge might be levied, we strongly recommend that the charge be set under this viability ceiling. The principal reasons for this are that:

- Costs and values are likely to fluctuate over time and vary between different sites, which could make the charge unsustainable without a contingency margin.
- Site-specific issues will adversely affect costs or values in some cases. In particular, some sites developments may involve significant abnormal costs.

6.6.2 We suggest the following residential charges be adopted:

Table 6.3 Recommended residential charging rates

Development type	CIL charge per sq m
Residential development	£125

Source: PBA

6.6.3 We believe this charge to be reasonable given the current residential market within Epsom & Ewell. The recommended charge would, in our view, not put the majority of development at risk.

7 OFFICES

7.1 Market overview

7.1.1 Epsom is the dominant office location in the Borough. As with most market towns the existing supply comprises a mixture of converted period houses with some purpose built blocks (mostly over 10 years old). The Borough offers limited Grade A office accommodation although there are three higher quality refurbished developments in Epsom: Newplan House, Epsom Gateway and Global House.

7.1.2 In general the office sector within Epsom has seen low tenant demand and limited development activity; ultimately this has led to an increasing supply of poorer quality office stock and a scarcity of new Grade A office accommodation. In order to secure tenants landlords in the region are obliged to offer incentives in a numbers of forms including reduced rents, rent free periods, shorter lease terms and break options.

7.1.3 Headline rents for modern office accommodation in the Borough are between £215 and £237 per sq m. As expected secondary office units achieve lower rents of between £108 and £161 per sq m, plus incentives.

7.2 Viability analysis

Scenarios tested

7.2.1 We have produced indicative development appraisals of hypothetical development, comprising a 929 sq m scheme, typical 2-3 storey business park style scheme.

Findings

7.2.2 We have produced an outline development appraisal based on current values, yields and development costs and concluded that the speculative office development produces a negative land value. The development therefore does not generate an surplus that could be captured by CIL.

7.2.3 We have included a detailed appraisal within Appendix A.

Table 7.1 Viability summary offices

Zone	Site area	Floorspace sq m		Residual land value		Benchmark land value		Overage (CIL Ceiling)	
	Ha	Gross (GIA)	Net (NIA)	Per ha	Per sq m	Per ha	Per sq m (GIA)	Per ha	Per sq m
Epsom	0.40	929	929	£712,724	£307	£3,000,000	£1,292	-£2,287,276	-£229

7.3 The recommended CIL charge

7.3.1 Based on our research, office development is not viable. We therefore recommend that a nil CIL Charge should be set for office floorspace.

8 RETAIL

8.1 Defining retail categories

8.1.1 As shown above at paragraph 2.4.1 onwards, the Regulations allow charge distinctions to be made by use of buildings where there are distinct uses which can be clearly defined on the charging schedule.

8.1.2 In this analysis of retail viability, we are setting out the distinct retail building use categories we have used in this analysis: these are, firstly, convenience uses, and secondly, comparison uses.

8.1.3 These distinctions between convenience and comparison uses are based on the definitions provided at Annex B of PPS4[28], which we have slightly reworded to fit the present context (the Annex B definition discussion applies to goods, but we wish to define the sales units in which those goods are sold).

- A convenience unit is a shop or store where the planning permission allows selling wholly or mainly everyday essential items, including food, drinks, newspapers/magazines and confectionary

- A comparison unit is a shop or store selling wholly or mainly goods which are not everyday essential items. Such items include clothing, footwear, household and recreational goods.

8.1.4 In March 2012, PPS 4 was superseded by the National Planning Policy Framework (NPPF). The NPPF does not define different categories of retail goods. This does not cause difficulties for this study, because the definitions provided below do not rely on PPS4. We do not rely on PPS4 to support a particular policy stance, or use it to justify a particular definition. Instead, we use PPS4 as analytical support to help us clearly distinguish between particular types of retailing commonly observable in the marketplace, and to provide reassurance that these distinctions are not ours alone.

8.1.5 Some stores sell a mixture of convenience and comparison goods. In those instances, a store should be categorised as having convenience or comparison status according to its main use (our definition above defines convenience and comparison units as shops or stores selling *wholly or mainly* these types of items). We have used this phrasing carefully, and in this have taken the lead from the way that PPS4 defines superstores.[29]

8.1.6 Additional precision on the types of goods sold in convenience and comparison stores can be taken from Appendix A of the PPS4 companion document *Practice guidance on need, impact and the sequential approach*.[30] It is worth noting that this document remains in use following the March 2012 introduction of the NPPF.

[28] DCLG (2009) *Planning Policy Statement 4: Planning for Sustainable Economic Growth*

[29] DCLG (2009) *Planning Policy Statement 4: Planning for Sustainable Economic Growth* (27) Annex B provides the following definition. 'Superstores: Self-service stores selling mainly food, or food and non-food goods...'

[30] DCLG (2009) *Practice guidance on need, impact and the sequential approach.* Appendix A lists Convenience goods as follows: food and non-alcoholic beverages, Tobacco, Alcoholic beverages (off-trade), newspapers and periodicals, non-durable household goods. Appendix A lists Comparison goods as follows: Clothing materials & garments, Shoes & other footwear, Materials for maintenance & repair of dwellings, Furniture & furnishings; carpets & other floor coverings, Household textiles, Major household appliances, whether electric or not, Small electric household appliances, Tools & miscellaneous accessories, Glassware, tableware & household utensils, Medical goods & other pharmaceutical products, Therapeutic appliances & equipment, Bicycles, Recording media, Games, toys & hobbies; sport & camping equipment; musical instruments, Gardens, plants & flowers, Pets

8.2 Market overview

Comparison retailing

8.2.1 Work by Deloitte on the future for retailing is pessimistic, suggesting that 'reductions in store numbers of 30-40% are foreseeable over the next 3-5 years.'[31] The effects are seen to be increased vacancy rates, decreasing prime rents, and increasingly flexible rental terms, including shorter rental terms, lease free periods, shorter break clauses and monthly, as opposed to quarterly, rents. Other reports describe a similar picture.

8.2.2 Town centre (high street) comparison retailing in the UK is in a period of transition. The majority of comparison retail-led regeneration schemes have stalled due to a combination of weak consumer demand, constraints on investment capital and poor retail occupier demand and performance. There have been a number of insolvencies, and the traditional high-street operators are frequently struggling, particularly in more secondary retail locations.

8.2.3 Colliers retail market report (Autumn 2011) states that 'secondary retail locations will continue to suffer as a result of the growing consumer trend of fewer shopping trips and the focus on the large retail destinations and online. Furthermore, daily/weekly shopping that would once have taken place in the local town centre is increasingly shifting to supermarkets, which now provide a wide range of comparison goods and services alongside the traditional convenience offer'. Nonetheless, observations within Epsom & Ewell indicate that there are relatively low vacancy rates across the Borough; there is a good churn of tenants, with new occupiers for vacant premises being found relatively quickly.

Convenience retail

8.2.4 Despite the economic downturn the grocery market has been very resilient; it has seen growth where other aspects of the retail sector have seen contraction. Many foodstore operators have taken advantage of the gap created in the market, by the collapse of speculative development following the 'credit crunch' in 2007/08, and they have used this opportunity to increase expansion activity.

8.2.5 More recently major operators appear less focused on delivering non-food retail and are building fewer 'mega-stores' (stores over circa 9,290 sq m). Instead expansion strategies appear to be focused on the acquisition of smaller sites and the refurbishment/expansion of existing stores.

8.2.6 Nonetheless, research by CBRE indicates that the development pipeline remains robust with approximately 274,000 million sq m under construction in 2013; furthermore, the report states that 'Tesco's early 2012 announcement that they were paring back their ambitious hypermarket expansion programme has, to date, had little impact on the overall grocery pipeline figures'. [32]

8.2.7 According to the IPD & Briant Champion Long, 2012 saw more than £1.2 billion of supermarket assets changing hands last year, as predominantly institutional investors sought long-term, index-linked income accounting for 90% of investment purchases.[33]

& related products, Books & stationery, Audio-visual, photographic and information processing equipment, Appliances for personal care, Jewellery, watches & clocks, Other personal effects.

[31] Deloitte (2012) *The changing face of retail: The store of the future* (2) see *https://www.deloitte.com/view/en_GB/uk/industries/consumer-business/28098047f3685310VgnVCM3000001c56f00aRCRD.htm*

[32] CBRE (2013) *UK Grocery Outlets in the Pipeline - MarketView*

[33] IPD/Briant Champion (2012) *Long UK Supermarket Investment Report*

8.2.8 Within convenience retail, viability is remarkably insensitive to precise location. Data from CBRE shows that grocery viability is similar in locations throughout the UK with a premium being paid for schemes in London. There is very little investment adjustment (around 1% on yield) between major supermarket developments based on the transactional evidence for leases of similar length and terms. Leases to the main supermarket operators (often with fixed uplifts) command premiums with investment institutions.

8.3 Retail scenarios tested

8.3.1 It is difficult to model the viability of town centre comparison retail development, as values are usually much more sensitive to location, footfall patterns and sizes of unit than, say, office or residential development.

8.3.2 These variations may therefore make it necessary to carry out viability analysis for each retail centre within the Borough. However, as detailed in Chapter 3, comparison retail development is only planned within Epsom Town Centre; as such, we feel it appropriate to only test a CIL charge within this area.

8.3.3 As detailed earlier, convenience retail is less sensitive to precise location. As such we have not tested a variety of locations within the Borough. After discussions with Epsom & Ewell Borough Council we understand likely development of convenience retail is to comprise small format stores and one larger format store of circa 2,000 sq m; no significantly larger store is envisaged during the plan period.

8.3.4 We have produced indicative development appraisals of hypothetical schemes which are relevant to the Epsom & Ewell context, as follows:

- Comparison retailing:
    - a 465 sq m in-town high street scheme.
- Convenience retailing:
    - an in-town Metro-style grocery store of 465 sq m scheme gross;
    - a larger grocery store of 2,000 sq m gross;.

8.4 Viability Analysis

Retail assumptions

8.4.1 We have utilised the following assumptions in our appraisals:

Table 8.1 Retail testing assumptions

Assumption	Source	Notes
Revenue		
Sales value of completed scheme	EGI & Consultation	Comparison - £194 per sq m capitalised at 6.5%. Convenience (465 sq m) - £215 per sq m capitalised at 5.75%. Convenience (2,000 sq m) - £215 per sq m capitalised at 5.5%. Comparable evidence is detailed within Appendix C.

Construction costs		
Construction	BCIS Online	BCIS is published by RICS on a quarterly basis. BCIS offers a range of prices dependent on the final specification. The following build costs used are derived from recent data of actual prices in the marketplace, rebased for Epsom & Ewell: Comparison £735 per sq m Convenience (465 sq m) £1,072 per sq m Convenience (2,000 sq m) £1,223 per sq m
Contingency	Industry standard	Contingency is an expression of risk relating to a specific scheme and will vary from site to site. We have adopted a generic average of 5% though in practice it will vary.
Plot external	Industry standard	On-site preparation for internal access roads and other external works. This will vary from site to site, but we have assumed 10% of build costs, which we believe appropriate.
Section 106	Epsom & Ewell & PBA	For convenience retail we have allowed £5,000 for the 415 sq m scenario and £10,000 for the 2,000 sq m scenario. Changes in the legislation make clear that all future S106 costs are to be immediately related to development in question. As such, strategic infrastructure costs will be dealt with through CIL in future. Relatively modest amounts can therefore be allocated to S106 in future.
Fees		
Professional fees	Industry standards	We have assumed 10% of development costs based on accepted industry standards.
Sale costs/Letting Fees	Industry standards	With regards to comparison retail we have allowed 10% for marketing, 10% for letting agents' fees and 5% for sales agents' fees. We have not allowed for marketing or letting fees for the convenience retail scenarios as we have assumed the development would be pre-let. Fees associated with the investment salea are based upon the following industry standards: Surveyor - 1.00% Legals - 0.75% Stamp duty has been charged at the prevailing rate.
Finance costs	Industry standards	Finance costs assume an interest rate of 7%.
Stamp Duty on Land Purchase	HMRC	Stamp duty has been charged on the land purchase at the prevailing rate.
Professional fees on Land	Industry standards	Fees associated with the land purchase are based upon the following industry standards:

Purchase		Surveyor - 1.00% Legals - 0.75%
Profit		
Profit	Industry standards	A developer's profit of 20% on total development costs has been allowed in all retail appraisals.

Source: PBA; various

Findings

8.4.2 The results of our viability assessment are summarised in the table below. The theoretical maximum CIL charge is shown on the far right column of the table.

Table 8.2 Viability summary, comparison retail development (in-town high street scheme of 465 sq m)

Zone	Site area	Floorspace	Residual land value		Benchmark land value		Overage (CIL Ceiling)	
	Ha	Sq m	Per ha	Per sq m	Per ha	Per sq m	Per ha	Per sq m
Epsom	0.08	465	£4,982,506	£857	£5,000,000	£860	-£17,494	-£3

Table 8.3 Viability summary, convenience retail development (in-town Metro-style grocery store of 465 sq m)

Zone	Site area	Floorspace	Residual land value		Benchmark land value		Overage (CIL Ceiling)	
	Ha	Sq m	Per ha	Per sq m	Per ha	Per sq m	Per ha	Per sq m
Epsom & Ewell	0.10	465	£6,161,258	£1,325	£5,000,000	£1,075	£1,161,258	£250

Table 8.4 Viability summary, convenience retail development (out of town centre grocery store of 2,000 sq m)

Zone	Site area	Floorspace	Residual land value		Benchmark land value		Overage (CIL Ceiling)	
	Ha	Sq m	Per ha	Per sq m	Per ha	Per sq m	Per ha	Per sq m
Epsom & Ewell	0.40	2,000	£6,117,689	£1,224	£5,000,000	£1,000	£1,117,689	£224

8.4.3 We have included detailed appraisals within Appendix A.

8.5 The recommended CIL charge

8.5.1 Given the evidence above, we have therefore recommended the following rates for convenience and comparison retailing:

Table 8.3 Recommended retail charging rates

Development type	CIL charge per sq m
Wholly or mainly comparison retail (all areas)	£0
Wholly or mainly convenience retail (all areas)	£150

Source: PBA

8.5.2 It may be also helpful to clarify that where no particular form of retail use is conditioned, the LPA will assume that the 'intended use' for CIL charging purposes may encompass "wholly or mainly" convenience retail, since this is what the permission would allow, and that CIL will be charged accordingly.

8.5.3 Supporting text from the main viability report may be used in justification, should that be necessary.

9 STUDENT ACCOMMODATION

9.1 Market overview

9.1.1 Despite the effects of higher tuition fees and the recent administration of one student housing developer, Opal, the purpose built student accommodation market appears resilient. Research indicates that the market for student accommodation remains undersupplied, with strong demand and high occupancy rates, resulting in strengthening yields.[34]

9.1.2 CBRE indicate that the new development of halls has not kept pace with the growth in students, particularly in London.[35] Whilst there have been a number of developments in the major university towns, a shortage of viable sites, with increased competition from commercial and residential use, together with planning difficulties, has contributed to reduced levels of supply.

9.1.3 Investment demand in purpose built student housing remains strong; student accommodation is one of the few property sectors where long leases to a partner or occupiers is guaranteed, providing the investor with a stronger annuity-style investment.

9.1.4 Location, competition and quality play a vital role in the size of yield, as well as lease length and strength of covenant. Yields for direct let student accommodation vary between 6% and 7.5% with university let accommodation achieving between 5% and 6.5%.

9.1.5 Demand for student accommodation with the Borough is specifically generated from UCA, Laine Theatre Arts, North East Surrey College Of Technology and potentially Epsom College.

9.2 Viability analysis

Scenarios tested

9.2.1 We have produced indicative development appraisals for a hypothetical 60 bed scheme with no affordable housing requirement, in line with likely development coming forward within the Borough.

Findings

9.2.2 The results of our viability assessment are summarised in the table below. The theoretical maximum CIL charge is shown on the far right column of the table.

9.2.3 We have included detailed appraisals within Appendix A.

Table 9.1 Viability summary student accommodation

Zone	Site area	Floorspace	Residual land value		Benchmark land value		Overage (CIL Ceiling)	
	Ha	Sq m	Per ha	Per sq m	Per ha	Per sq m	Per ha	Per sq m
Epsom & Ewell	0.20	1,028	£3,445,803	£670	£3,000,000	£583	£445,803	£87

[34] GVA (2012), *Student housing market overview*

[35] CBRE (2012), *Student housing viewpoint*

9.3 The recommended CIL charge

9.3.1 Given the evidence above, we have therefore recommended the following rate for student accommodation development across the Borough:

Table 9.2 Recommended student accommodation charging rate

Development type	CIL charge per sq m
Student accommodation	£30

Source: PBA

10 CARE HOMES

10.1 Introduction

10.1.1 Over recent years there have been a number of planning applications for care homes within the Borough. Given projected growth in older population it is likely that more development of this nature will come forward in Epsom and Ewell in the future.

10.2 Defining the sector

10.2.1 We have defined this sector as follows[36]:

- Residential care homes (now generally referred to simply as care homes) are residential settings where a number of older people live, usually in single rooms, and have access to on-site care services. A home registered simply as a care home will provide personal care only - help with washing, dressing and giving medication. Some care homes are registered to meet a specific care need, for example dementia or terminal illness.

- What used to be called nursing homes are now called care homes with nursing. These settings will provide the same personal care but also have a qualified nurse on duty twenty-four hours a day to carry out nursing tasks. These homes are for people who are physically or mentally frail or people who need regular attention from a nurse.[37] Homes registered for nursing care may accept people who just have personal care needs but who may need nursing care in the future.

10.2.2 These uses fall under the C2 (residential institutions) Use Class.

10.2.3 We carefully distinguish this type of provision from retirement flats and quasi-retirement accommodation sometimes known as assisted living apartments. The term assisted living or 'extra care housing' is used to describe developments that comprise self-contained homes with design features and support services available to enable self- care and independent living. These types of development are included in the C3 category and are chargeable under the residential rate.

10.3 Market review

10.3.1 Research by Knight Frank in 2012 found that 'there remains strong appetite among several major operators to develop new care homes, albeit focused in relatively affluent areas offering strong demographics'. [38] However, the restricted availability of finance has slowed development, and operators are increasingly turning to pre-let arrangements to satisfy requirements.

10.3.2 Knight Frank also report that rental levels in the care home sector have become more polarised over the last 12 months. In London and the south-east, typical modern future-proofed care homes range from £9,000 to £10,000 per bed. [39] These rental levels are considerably higher than the UK's other regions.

[36] Definition derived from the Elderly Accommodation Counsel http://www.housingcare.org/jargon-residential-care-homes.aspx

[37] http://www.firststopcareadvice.org.uk/jargon-care-home.aspx

[38] Knight Frank (2012), *UK Healthcare – Development Opportunities*

[39] Knight Frank (2012), *Healthcare Investment*

10.3.3 In summary, then, the market is in flux. There appears to be appetite for development in particularly prosperous local markets, whereby higher rents can be achieved, but development within less affluent location appears limited.

10.4 Viability analysis

Scenarios tested

10.4.1 We have modelled a 60 bedroom 2,400 sq m (gross) care home development for the private market.

Findings

10.4.2 The results of our viability assessment are summarised in the table below. The theoretical maximum CIL charge is shown on the far right column of the table.

10.4.3 We have included detailed appraisals within Appendix A.

Table 10.1 Viability summary care home

Zone	Site area	Floorspace	Residual land value		Benchmark land value		Overage (CIL Ceiling)	
	Ha	Sq m	Per ha	Per sq m	Per ha	Per sq m	Per ha	Per sq m
Epsom & Ewell	0.40	465	£3,047,772	£2,622	£3,000,000	£2,581	£47,772	£41

10.5 The recommended CIL charge

10.5.1 Given the evidence above, we have therefore recommended the following rate for care home development across the Borough:

Table 10.2 Recommended care home charging rate

Development type	CIL charge per sq m
Care Home	£20

Source: PBA

11 THE STANDARD CHARGE

11.1 Introduction

11.1.1 In the earlier chapters above, we outlined the key development types that will be central to the delivery of the Core Strategy or otherwise likely to be significant forms of development. Where relevant, we have then undertaken viability testing of the principal types of development that will come forward in future, and have shown that CIL charges at the stated levels will not render the main components of growth unviable. We have therefore undertaken the tests required by the CIL Regulations.

11.1.2 The question now is how to use this analysis to help us to set a charge for development types that are *not* central to the delivery of the Core Strategy. These peripheral types of development might be as diverse as laundrettes, youth hostels, cinemas, health centres and so on.

11.1.3 We have not undertaken individual viability testing of this range of possible uses, for the following reasons.

i These uses are not critical to the delivery of the Core Strategy, and historical evidence suggests that they have not been particularly important in the past.

ii Because limited amounts of net new floorspace will be delivered in these categories, they would generate relatively little revenue if CIL were charged on them.

iii These uses will often move into second-hand rather than new build premises, so they would not be liable to CIL anyway.

iv A robust viability assessment of these uses would be complex, partly because there are many possible combinations of type of development (building) and type of use and these combinations are impossible to predict. This kind of assessment would need specialist valuation, involving disproportionate cost and effort, and the results would be inconclusive.

11.1.4 The CIL Regulations require us to use ‘appropriate available evidence’ in suggesting charges.

11.2 Recommendations

11.2.1 While we have not undertaken individual viability testing for these non-principal uses, we can use the work carried out in this report on the principal development types to indicate the level of values which might be achievable by sui generis uses and other development not specifically covered in our research.

11.2.2 Of the sui generis uses, for example:

- Laundrettes, nightclubs, taxi businesses and amusement centres are likely to be in the same type of premises as small comparison uses and covering similar purchase or rental costs. (We note that these types of development are not particularly prevalent in Epsom & Ewell now, nor are likely to be in the future, but we mention them here in order to cover unforeseen future scenarios). Mindful that the lowest of the recommended charges for comparison retail is zero, a precautionary approach here would suggest that a zero charging rate is appropriate.

- Scrapyards and the selling and/or displaying of motor vehicles are likely to occupy the same sorts of premises and locations as many B2 uses. However, it has already been established that B2 is not a significant use in Epsom & Ewell.

11.2.3 Based on the scale of charges assessed for the various peripheral uses we have looked at, and the general tone of value in the area, we recommend that zero CIL is charged on building uses not specifically dealt with on the charging schedule.

12 LARGER SITE TESTING

12.1 Introduction

12.1.1 CIL guidance emphasises the importance of ensuring that strategic sites remain viable after all policy costs (which includes CIL and affordable housing) are taken into account.[40] The guidance also clarifies the point that strategic site infrastructure may be delivered through S106, and that CIL rates charged may be altered on strategic sites to reflect this fact. [41]

12.1.2 This chapter aims to pick up these points. Our first objective here is to broadly understand whether development on strategic sites is compliant with the levels of CIL recommended with other policy costs (such as affordable housing) which fall on development.

12.1.3 It is not our objective to make a definitive statement of site viability. This is because there is currently a lack of information about how sites will be developed, and the economic conditions that will prevail at the time of development.

12.1.4 This testing is first and foremost a supporting, high level analysis to inform the drafting of the CIL evidence base and planning policy.

12.1.5 As per Valuation Standards 1 of the RICS Valuation Standards – Global and UK Edition[42], the advice expressly given in the preparation for, or during the course of negotiations or possible litigation does not form part of a formal "Red Book" valuation and should not be relied upon as such.

12.1.6 Furthermore, this testing does not substitute for detailed viability work for S106, affordable housing negotiation or other purposes. This work may be undertaken separately when sites come forward.

12.2 Sites Tested

12.2.1 As set out above, the April 2013 CIL Statutory Guidance states that additional viability testing should be undertaken 'in particular on strategic sites on which the relevant Plan relies and those sites (such as brownfield sites) where the impact of the levy on economic viability is likely to be most significant'.[43]

12.2.2 The guidance does not define 'strategic sites'. Although PPS12 is no longer current, it has a useful definition of strategic sites. It states that 'strategic sites…[are] those sites considered central to achievement of the strategy'.[44]

[40] DCLG (April 2013) *Community Infrastructure Levy Guidance* (para 27)

[41] DCLG (April 2013) *Community Infrastructure Levy Guidance* (para 34).

[42] RICS (March 2012) *Valuation – Professional Standards, VS1 Professional and Ethical Requirements*

[43] DCLG (April 2013) *Community Infrastructure Levy Guidance* (para 27)

[44] DCLG *Planning Policy Statement 12* (para 4.6)

12.2.3 Under this definition, Epsom's planning strategy sees no genuinely 'strategic sites' to be delivered. Nonetheless, in agreement with the Council, the three largest sites within the Borough were tested. The sites are as follows:

- NESCOT site (animal husbandry land adjacent to the College) - proposals for circa 600 bed student accommodation, 81 dwellings and 60 retirement flats.

- Former playing fields adjacent to Epsom & Ewell High School - potential for 175 dwellings.

- Upper High Street/Depot Road Site – allocation for up to 2,000sqm convenience retail and 21 flats

12.3 Findings

12.3.1 Below we detail the viability results for each site, analysing the residual land value (after policy contributions including CIL) against the benchmark land value, as detailed within Chapter 5. Ultimately, if the residual land value is greater than the benchmark land value development is shown to be viable.

12.3.2 We would stress again that this figure assumes the land is fully serviced and free of abnormal development costs. In practice however all these sites to a greater or lesser degree will have some abnormal development costs. We would expect a prudent purchaser of these sites to reflect these costs in the acquisition value from the current owner once detailed site investigations have been completed; and to take fully into account the planning policy context based on retention of employment floorspace or redevelopment maximising affordable housing.

12.3.3 It is assumed in our appraisals that the CIL payment is made on commencement of construction, although in reality this may be made later on in the development process which has a positive effect on viability.

12.3.4 Furthermore, no deduction has been made to the CIL payment to reflect the existing floorspace, where applicable. In fact, developers would be able to net CIL payments off against existing floorspace, assuming that that existing buildings had been in lawful use in six out of the previous 12 months. In this respect we are modelling a worst-case scenario.

12.3.5 We have included detailed appraisals within Appendix D.

NESCOT (Animal Husbandry Land)

12.3.6 The NESCOT Animal Husbandry Land is a mixed use site, comprising residential (standard and retirement) and student accommodation. Using densities detailed in Chapter 5 and 9 we have calculated a net developable area for the site of 4.3 ha.

12.3.7 With regard to retirement flats we have allowed a reduction of 10% on capital values and increased communal areas to 30%. Equally the benchmark land value for the retirement element has been reduced to £4,000,000 per ha, equating to an overall benchmark land value of £3,797,442.

12.3.8 As shown in the table below, the residual land value is greater than the benchmark; development is viable with the implementation of CIL.

Table 12.1 NESCOT Viability Results

Use	No.	Density per ha	Size (Ha)	Residual land value after policy contributions & CIL Per Ha	Benchmark Per Ha
Residential	81	30	2.70	£3,792,740	£3,767,442
Retirement	60	100	0.60		
Student	300	300	1.00		
Total	**441**	**NA**	**4.30**	**£16,308,784**	**£16,200,000**

Source: PBA

The Former Epsom & Ewell Playing Fields

12.3.9 The playing fields adjacent to Epsom & Ewell have a net developable area of 3 ha, with proposals for 175 dwellings, equating to a density of 58 dwellings per ha.

12.3.10 As shown in the table below, the residual land value is substantially greater than the benchmark land value; development is viable with the implementation of CIL. In particular, the high density of development is having a positive impact on viability, resulting in a residual land value significantly above the benchmark.

Table 12.2 Epsom & Ewell Playing Fields Viability Results

Use	No.	Density per ha	Size (Ha)	Residual land value after policy contributions & CIL Per Ha	Benchmark Per Ha
Residential	175	58	3.00	£6,667,671	£4,000,000
Total	**175**	**NA**	**3.00**	**£20,003,013**	**£12,000,000**

Source: PBA

Upper High Street/Depot Road Site, Epsom

12.3.11 Upper High Street and Depot Road are proposed to be extensively redeveloped. Discussions to finalise a scheme are still being undertaken; however, we understand a convenience retail unit (2,000sqm NIA) surmounted by 21 flats are likely to form a significant part of the scheme to be CIL chargeable. As such, this element of the wider scheme has been tested. The Development Brief for this site envisages other parts of the site delivering a further 100 dwellings.

12.3.12 We have assumed of a gross to net ratio of 85% and a site coverage ratio of 40:60 in calculating a net developable site area of 0.59 ha. Capital values have been assumed in line with Chapter 5 and 8.

12.3.13 As shown in the table below, the residual land value is greater than the benchmark; development is viable with the implementation of CIL. Both elements of the development are highly viable making effective use (from a viability perspective) of the existing site.

Table 12.3 Upper High Street Viability Results

Use	Size (Ha)	Residual land value after policy contributions & CIL Per Ha	Benchmark Per Ha
Residential/ Convenience Retail	0.59	£6,922,059	£5,000,000
Total	**0.59**	**£4,070,171**	**£2,95,000**

Source: PBA

12.4 Summary

12.4.1 Using the assumptions detailed above we have shown that development of these large sites is viable. The impact of the proposed CIL (and other policy costs) is not negatively affecting deliverability of the sites.

12.4.2 The findings help to demonstrate that the recommended CIL charges are affordable and deliverable.

13 RECOMMENDATIONS

13.1.1 We recommend the following CIL charging rates. As recommended by guidance, these rates reflect viability at the present time. If viability improves, a new CIL charge could be set, or higher levels of affordable housing could be negotiated.

Table 13.1 Proposed CIL charging rates

Development type	CIL charge per sq m
Residential development	£125
Offices	£0
Wholly or mainly comparison retail	£0
Wholly or mainly convenience retail	£150
Student accommodation	£30
Care home	£20
Public Service and Community Facilities	£0
Standard charge (all other uses not covered)	£0

Source: PBA

13.1.2 This may be simplified as follows.

Table 13.2 Proposed CIL charging rates

Development type	CIL charge per sq m
Residential development	£125
Wholly or mainly convenience retail	£150
Student accommodation	£30
Care home	£20
All other development	£0

Source: PBA