



Report

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Greater Norwich Development Partnership CIL Viability Study:

CIL Charging Zones Schedule

August 2011

Greater Norwich
Development
Partnership

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For and on behalf of GVA Grimley Ltd

Foreword

This Report is to be read in conjunction with, and sequentially to, GVA's 'Viability Advice on CIL / Tariff for Broadland, Norwich and South Norfolk' Report of December 2010 (available on the GNDP website).

1. Introduction

- 1.1 Broadland District Council, Norwich City Council, South Norfolk Council and Norfolk County Council are working together as the Greater Norwich Development Partnership (GNDP) to plan for and assist in the delivery of significant new residential and economic growth in and around Norwich
- 1.2 GVA published its Viability Advice on CIL / Tariff for Broadland, Norwich and South Norfolk (The Viability Study) in December 2010 which identifies and assesses the implications for development viability of the introduction of a level of CIL across the area.
- 1.3 GVA has since been asked by GNDP to undertake a further piece of work to support the creation of the proposed CIL Charging Zone Boundaries, and to provide GNDP with a robust evidence base to support its proposals at a Public Examination. In setting out the Charging Zone Boundaries we have undertaken the following work:
 - Further, more extensive and specific market evidence research. This work includes analysing market evidence sources such as VOA data, PROMIS, Rightmove, EGi and Focus. The work also focuses on those areas of contention i.e. the geographical areas where a charging zone boundary might fall. As part of reviewing potential Charging Zone Boundaries we have sourced comparable Land Registry data sets which are not in the public domain from The Property Database Ltd.
 - The Land Registry data sets sourced from The Property Database Ltd. have been the focus of our extended research. The data shows the value of all property transactions across Broadland, Norwich and South Norfolk from 1st July 2005 to 31st January 2011, and is disseminated to 6 digit postcode level and type of unit (flat, terraced, semi-detached and detached). The data also includes additional information such as exact date of sale and whether the sale was a freehold or leasehold transaction. This historical data, in tandem with our previous discussions with agents in the area, has enabled us to determine at a much more local level where any Charging Zones should be delineated.

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- We have used Ordnance Survey mapping, comparable data sets and previously produced policy documentation to map out a red line delineating 'growth' boundaries at street level, as supported by market evidence. This work has been synthesised with the circumstances of individual growth locations;
- 1.4 We have also considered a number of further options following from queries which GNPD has put to us and changes in policy, for example the creation of the Affordable Rent model, and the inclusion of garage space within the residential CIL charge. We have also been asked to test the viability of a CIL charge on three additional Use Classes – C1 (hotel), C2 (residential care home) and D2 (leisure centre), and to set out our thoughts on the treatment of Sui Generis uses.

2. Principal Findings of The Viability Advice of a CIL / Tariff for Broadland, Norwich & South Norfolk (GVA, December 2010)

- 2.1 The Viability Advice of a CIL / Tariff for Broadland, Norwich and South Norfolk (GVA, December 2010), looked at what CIL charge is viable for different uses across Broadland, Norwich and South Norfolk (The Area), and whether the CIL should be charged as a single Levy across the whole of the Area, by differential rates for each local authority, or with reference to different Market Value Zones.
- 2.2 The analysis suggests that a CIL is affordable/viable for residential development under normal market conditions, assuming no NAHP grant and assuming that at least a 20% affordable housing contribution on all sites is provided.
- 2.3 For commercial developments, the viability findings are more varied. Office and industrial schemes are able to make a modest contribution.
- 2.4 Convenience retail, and to a lesser extent retail warehousing can afford to make a more significant CIL contribution. The total number of such schemes coming forward in the area will limit the ultimate financial contribution raised from this land use when CIL is applied, however the individual schemes can bear a substantial level of contribution. It should also be noted that such land uses may well occur as part of a larger scheme and any viability generated from such uses may be required to cross-subsidise other less profitable commercial land uses.

2.5 The Tables below set out the CIL rates per sq m for residential, commercial and retail uses suggested by the Viability Study and also how we recommended these be grouped geographically at that stage. We have also set out our main recommendations from the Viability Report, which are as follows:

- Adopt a CIL based on normal market conditions without NAHP Grant;
- Adopt and operate the CIL based on the defined Market Value Areas;
- Establish an early CIL charges review in 2014/15; and
- Provide clarity and certainty over in-kind contributions in lieu of CIL.

Suggested Residential CIL from Viability Study (based on average dwelling size of 90 sq m)

Market Value Area	Per Private Dwelling	Per Sq M
Central	£20,000	£225
Inner	£15,000	£170
A11	£17,500	£195
Outer	£7,500	£85

Suggested Commercial and Industrial CIL

Market Value Area	Office per Sq M (GIA)	Industrial/ Warehousing per Sq M (GIA)
Norwich City Centre	£5	£5
South Area	£5	£10
North Area	£5	£10

Suggested Retail CIL

Market Value Area	Retail Warehousing per Sq M (GIA)	Convenience Retail per Sq M (GIA)
Norwich City Centre	£25	£25
Rackheath Urban Extension Area	£25	£25
Rest of Area	£10	£25

3. Deciding the Rate of CIL

POLICY CONTEXT

DCLG Community Infrastructure Levy Guidance, March 2010

Setting an Appropriate Balance

- 3.1 Guidance for setting a CIL charging rate and Charging Schedule is set out in Department for Communities and Local Government (DCLG) Guidance. The Guidance states that in deciding on a rate of CIL a Charging Authority must provide evidence on economic viability and infrastructure planning, alongside a declaration confirming that it has:
- (a) Complied with the requirements under Regulation 14 of Part 11 of the Planning Act (2008) in aiming to strike what appears to the Charging Authority to be an appropriate balance between the desirability of funding infrastructure from CIL and the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area; and
 - (b) Used appropriate available evidence to inform the Draft Charging Schedule.
- 3.2 The Guidance sets out that by 'appropriate balance' it means that a CIL, by providing additional infrastructure to support development, is anticipated to have a positive economic effect on development in the medium to long term. In essence the balance between securing funding for infrastructure investment and the impact of a CIL on development viability is crucial.
- 3.3 In summary the Draft Charging Schedule needs to be:
- In keeping with the CIL Regulations;
 - Supported by background documents containing appropriate available evidence;
 - Show that the proposed rate or rates are informed by and consistent with, the evidence on economic viability across the Charging Authority's area; and
 - Show that the proposed CIL rate would not put at serious risk overall development of the area.

Area Based Approach

- 3.4 The Guidance also sets out that Charging Authorities should use an ‘area-based approach’ – which involves a broad test of viability across the area as an evidence base, and that Charging Authorities should take a strategic view across their area and should not focus on the potential implications of setting a CIL for individual development sites.

Appropriate & Available Evidence

- 3.5 In compiling this report we have, following the DCLG Guidance, used appropriate and available evidence, which we believe to be consistent with value evidence across the Area. The Guidance states that evidence should consider a range of data including VOA Property Market Reports and house price indices (i.e. Land Registry data).

GNDP CIL Market Value Area Context

- 3.6 It is evident from market analysis and local stakeholder discussions that different land and sale values apply in different locations throughout the Area. The viability testing we undertook in our Viability Study took account of this variation by dividing the area into four different Market Value Areas for residential development, and three Market Value Areas for retail, commercial and industrial development.
- 3.7 We would note, as we did in the Viability Study, that not all schemes within a given Market Value Area will be equally viable, and the figures used for viability assessment are effectively averages. It must be anticipated that there will be schemes, even within higher value areas that are marginal due to site specific circumstances (e.g. abnormal costs).

What is GVA Aiming to Provide to Support GNDP's Charging Schedule?

- 3.8 This further piece of work, therefore, aims to expand on the Market Value Area work undertaken in the preliminary study, and seeks to define the Market Value Areas, and more specifically the CIL Charging Areas, in more detail, and eventually to an Ordnance Survey Map level. This work will form part of the ‘background evidence’ on the economic viability of development.
- 3.9 We have set out overleaf, following the format in our Viability Study, the further work we have undertaken for residential, followed by commercial (office and industrial) and then retail uses in respect of providing advice on the economic viability of different CIL Charging Levels across the Area, and the rationale behind recommending these levels.

4. Residential Analysis

Introduction

4.1 The methodology used in our Viability Study of December 2010 is outlined in Chapter 3 of that Report. Our principal objective was to determine what level of CIL may be viable for the area covered by the Joint Core Strategy. The objectives in assessing CIL contributions were therefore:

- Undertake a high level appraisal of developer contributions, rather than a detailed analysis of individual sites or schemes;
- Examine viability for the Area as a whole and distinguish differential impacts that may arise due to the range of values and costs within each authority area or sub-area;
- Reflect both current, recessionary market values as at mid-2009 and the potential for higher near-future values in accordance with the approach adopted for the Affordable Housing Viability study for Greater Norwich undertaken by Drivers Jonas Deloitte in July 2010;
- Reflect the character and scale of current and future developments in the area;
- Consider the cost implications of CIL on the assumption that proposed schemes should comply with existing required development standards, as well examining alternative cost scenarios;
- Assess the potential overall level of contributions by testing the varying of a number of underlying assumptions, particularly where there is uncertainty (for example the availability of grant for affordable housing);

4.2 We reviewed sale and rental values across the Area in order to determine the Market Value Areas, and then cross-checked this data with both current and historic values. We also took into account discussions with local residential sales agents operating in Norfolk. To determine development viability we used a Residual Development Appraisal Model. The Model assumes that land value is the difference between Gross Development Value and the build costs, once an element of developer profit has been taken into account.

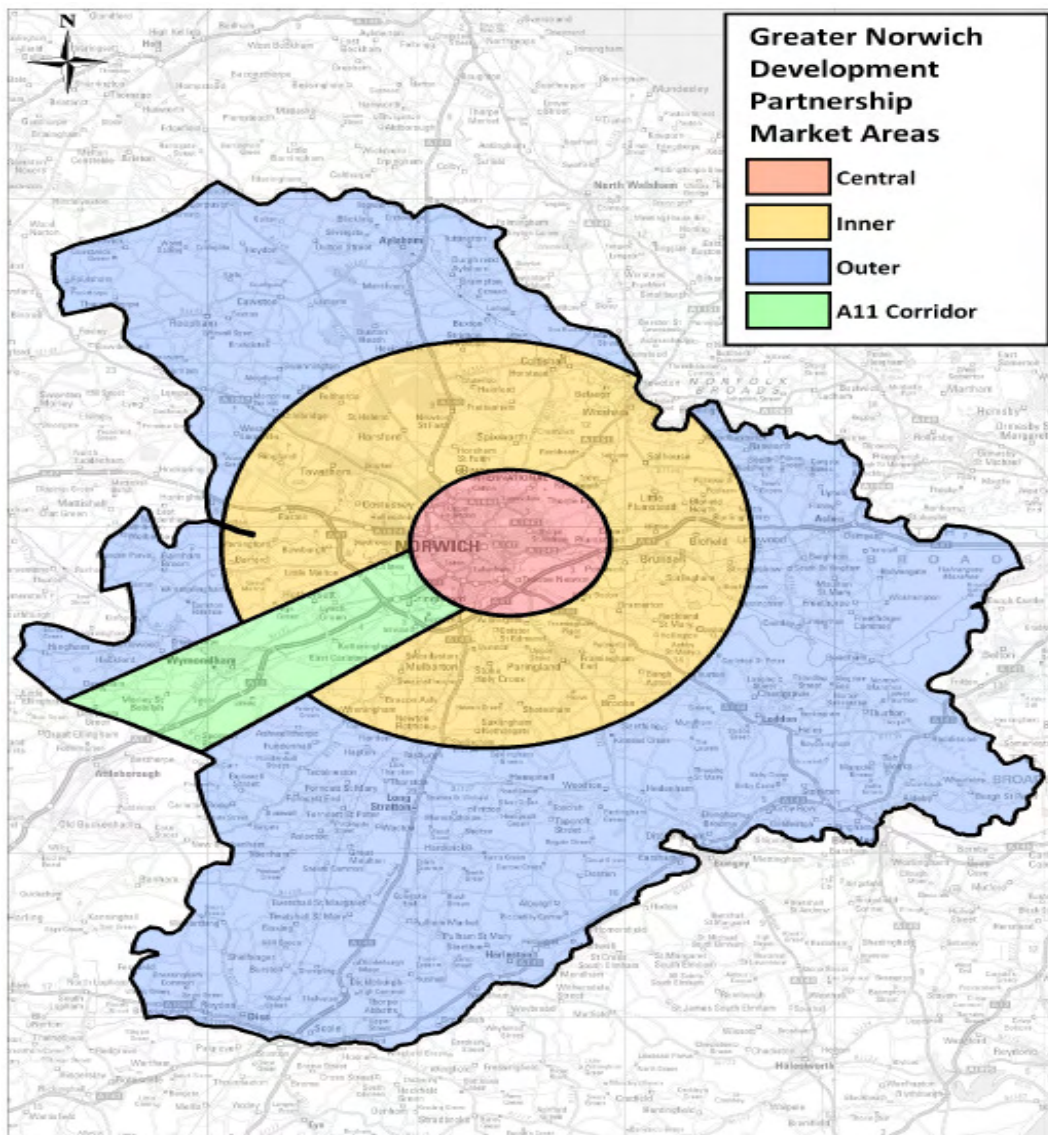
4.3 Further details of our methodology and development assumptions can be found in Chapter 3 and in Appendices A2, A3 and A4 of our December 2010 Report.

Viability Study - Market Value Areas Review

- 4.4 The Viability Study set out the results of our discussions with local agents and a review of the limited sales evidence available. On the basis of this market research we compiled the following, high level Value Areas Map for residential use across the Area. A detailed review of the residential property market is included in Appendix 4 of our Viability Study.

Value Area 1.	Central (Norwich City Centre)
Value Area 2.	A11 Corridor
Value Area 3.	Inner Area (suburbs of Norwich and surrounding villages)
Value Area 4.	Outer (remainder of the Area)

Map 1: Market Value Areas, Broadland, Norwich and South Norfolk



Setting the Charging Schedule – The Use of Additional Land Registry Data

- 4.5 In order to set out an appropriate Charging Schedule in line with DCLG Guidance, we have obtained further data sets from the Land Registry, which set out historical unit values by area for each of the Charging Authorities from July 2005 to January 2011. The purpose of this data is to further give weight to the four Market Value Areas set out in the Viability Report from discussions with local agents.
- 4.6 The Land Registry data which has been purchased shows house sale price information per unit, as well as the following:
- Type of Unit (Detached / Semi-Detached / Terraced / Flat)
 - Date of Sale
 - Locality (Village / Town / Postcode)
 - New Build / Second Hand Stock
 - Freehold / Leasehold
- 4.7 We have analysed the Land Registry data and considered it in tandem with our conversations with local agents. In doing so, we have drawn the following conclusions:
1. More detailed evidence supports a more simplified Charging Zone system than the one suggested in the Viability Report. The data illustrates that there is not enough of a consistent differential in price across the area to justify the Central, Inner and A11 Corridor Market Value Areas applying separate charges.
 2. When taking both second hand and new build historical evidence, there is little to differentiate in terms of values between the two proposed Charging Zones. However, when looking at just the new build unit sales, there is significant evidence to support two charging zones – proposed to be Zones A and B - with Charging Zone A approximately reflecting the Central, Inner and A11 Market Value Areas, and Charging Zone B reflecting the Outer Market Value Area.
- 4.8 We have also, after further consideration, drawn the following conclusion:
3. Where there is ambiguity over the placement of a growth location in either charging zone, that location's growth status will secure a future increase in values that justifies its inclusion within Charging Zone A due to the results of developer "place making" and other economic factors.
- 4.9 In the section below we show the evidence that supports the above three conclusions.

1). Simplifying the Four Market Value Areas to Two Charging Zones – Charging Zone A and Charging Zone B

- 4.10 As our December 2010 Report was intentionally a 'high level viability analysis' in line with policy requirements, for this further, more detailed Report we have used the extrapolated data discussed above to look at individual towns / settlements within each market value area to determine exactly where that location should sit within the Charging Boundaries.
- 4.11 We have considered Land Registry data in each case, together with our original investigations, including conversations with local agents, for the Viability Report. This helps provide a 'sense check' in order to reflect both the historical and to some extent the future values across the Area.
- 4.12 In carrying out the analysis it has become evident that, once the detailed historical data has been geographically plotted, for some Market Value Areas there is not a clear and consistent enough boundary to differentiate between areas.
- 4.13 In order to illustrate this point we have identified three examples of settlement/location analysis which we believe supports the rationale for a reduced number of charging zones.

Justification for Inclusion of Settlements in Charging Zone A

- 4.14 The Table below shows the average sale price of a semi-detached and detached unit in each location in the Central Market Value Area, the A11 Corridor Market Value Area and the Inner Market Value Area.

Table 1. Values for Central (Norwich City Centre), the A11 Corridor Market Value Area and the Inner Market Value Area

	Semi-Detached	Detached	Average
CENTRAL			
Norwich City Centre	£165,000	£256,000	£210,500
A11 CORRIDOR			
Cringleford	£195,922	£313,979	£254,950
Hethersett	£174,186	£245,014	£209,600
Wymondham	£171,000	£248,000	£210,000

	Semi-Detached	Detached	Average
INNER AREA			
Costessey	£170,665	£253,000	£211,833
Rackheath	£167,500	£253,750	£210,625
Wroxham	£155,000	£270,000	£212,500

Source: The Property Database Ltd / Land Registry

- 4.15 Cringleford, Hethersett and Wymondham are situated in the A11 Corridor Market Value Area. Table 1 shows average values for Hethersett and Wymondham are very close to the 'Central' Market Value Area. Cringleford is an anomaly, but is known to be a desirable location with many older, large high-value houses achieving over the average sales value (over 40% of sales were above £300,000). This is not the case when considering new build only as shown later in this section.
- 4.16 Costessey, Wroxham and Rackheath fall in the Inner Market Value Area. We have looked at the value pattern of these settlements to determine whether these should be grouped together with the Central Market Value Area and the A11 Corridor Market Value Area, or whether the values between them were different enough as to warrant any of the areas being potentially grouped with the Outer Market Value Area. Table 1 shows the average values are close to the 'Central' Market Value Area.
- 4.17 We consider that the Market Value Areas in Table 1 fall comfortably within a £10,000 range and would therefore recommend combining the Inner, Central and A11 Corridor areas in the same singular Charging Zone 'A'.

Justification for Inclusion of Settlements in Charging Zone B

- 4.18 We have also undertaken analysis looking at the positioning of locations / settlements in the proposed 'Outer Market Value Area'.
- 4.19 Our analysis, set out in Table 2, is based upon Land Registry actual sales data.

Table 2. Values for Outer Value Areas: Charging Zone B

	Semi-Detached	Detached	Average
Acle	£155,000	£187,500	£171,250
Aylsham	£185,250	£228,000	£206,625
Diss	£163,000	£245,000	£204,000
Long Stratton	£196,000	£204,000	£200,000
Harleston	£163,000	£237,500	£200,250
Reepham	£178,000	£237,000	£207,500

Source: The Property Database Ltd / Land Registry

- 4.20 Table 2 shows again that there is no immediately discernable pattern in values between these towns and villages, and that it could not be said that one location is continually more or less valuable than another across all unit types. The exception to this appears to be Acle, where we were able to find little transactional evidence over the last 5 years.

2). Evidence to Support the Grouping of Settlements in Charging Zones 'A' or 'B'

- 4.21 Further to the above analysis, we set out below data which we believe shows that there is a justification for settlements to be banded into higher ('A') and lower ('B') charging zones.
- 4.22 The CIL Charge will relate to new build homes. We have therefore analysed the Land Registry data further and extrapolated data for new build units only. We have looked at Broadland and South Norfolk separately, and discuss the two Authority areas below. Our review of the data leads us to conclude that it further supports two charging zones and the definition of the boundary.

South Norfolk

- 4.23 The evidence for new build units shows that in South Norfolk there is a clear pattern of higher unit prices within the Central / Inner / A11 Corridor Market Value Areas when compared to the Outer Market Value Area. We have analysed the data by unit type as well as by average value across all unit types. The data shows that settlements such as Wymondham, Hethersett, Cringleford, Poringland and Costessey are consistently more valuable than settlements such as Diss and Harleston. To illustrate this we have shown on the map below the position in terms of value for each location, with a dotted line indicating where we would subsequently propose that the CIL Charging Zones boundary would fall. We have also shown the figures in detail on the following page.

Map 2; South Norfolk Settlements by Proposed Charging Zone Boundary

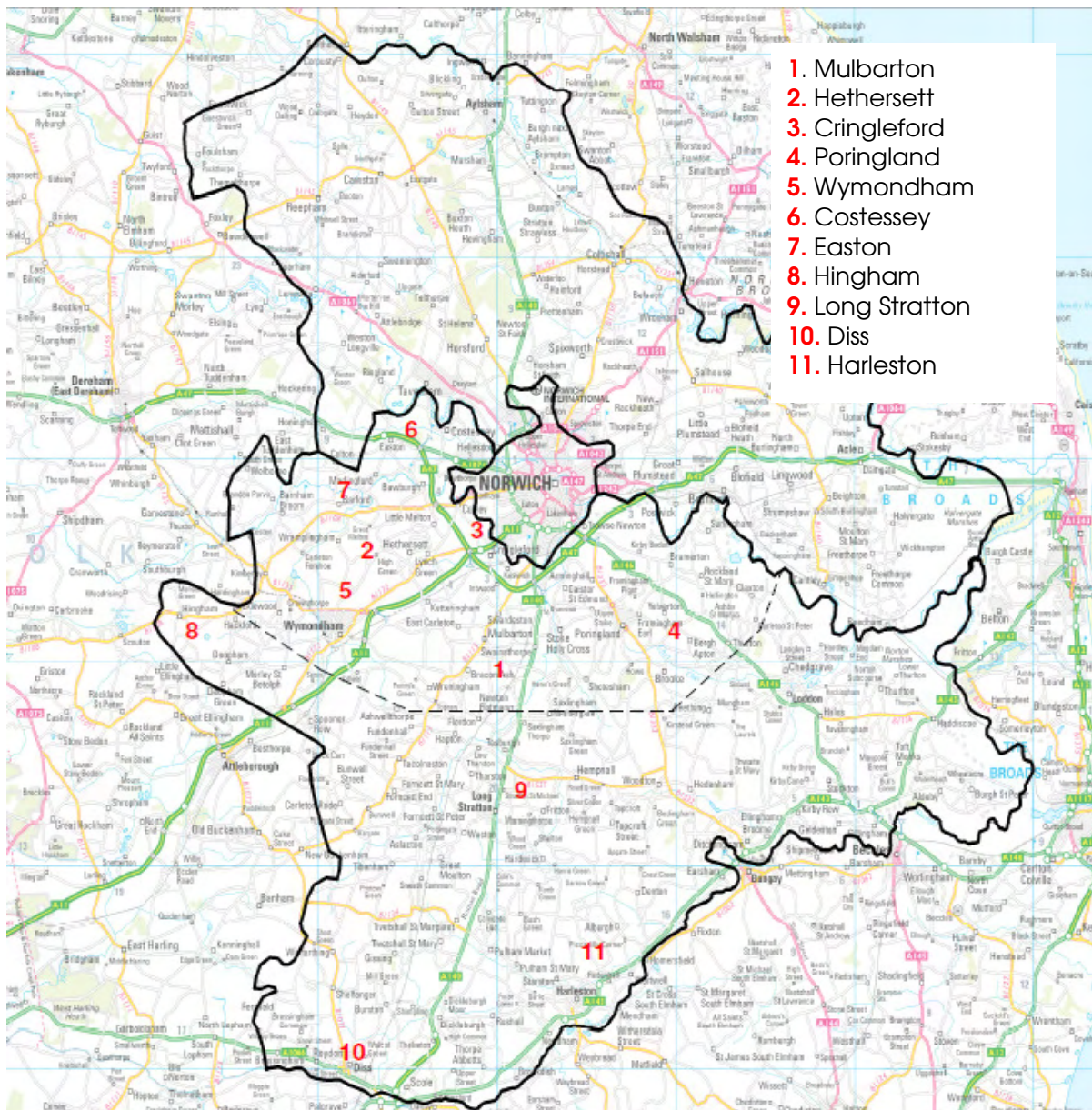


Table 3 South Norfolk Settlements: New Build Zone A & B

	Semi-Detached	*	Detached	*	Average	ZONE
ZONE A						
Cringleford	£182,721	52	£274,444	95	£228,583	A
Costessey	£173,618	129	£213,812	152	£193,715	A
Easton	£179,575	12	£251,636	37	£215,606	A
Hethersett	£241,087	14	£252,344	51	£246,716	A
Mulbarton	£208,950	35	£304,325	51	£256,638	A
Poringland	£194,100	6	£263,160	4	£228,630	A
Wymondham	£180,956	58	£225,040	62	£202,998	A
ZONE B.						

	Semi-Detached	*	Detached	*	Average	ZONE
Diss	£160,182	38	£196,350	39	£178,266	B
Harleston	£159,750	20	£197,876	53	£178,813	B
Hingham	£176,575	6	£221,656	8	£199,116	B
Long Stratton	No Sales Data	0	£221,106	16	n/a	B

Source: The Property Database Ltd / Land Registry. New Build Data

* Volume of Sales

- 4.24 The table shows an anomaly for the sales values for Costessey, however having considered that Easton / Costessey is one growth location our recommendation is that the growth location is included in Charging Zone A.

Broadland

- 4.25 The evidence for new build units in Broadland shows a similar story to that in South Norfolk, although the pattern is perhaps less clear, particularly around the Rackheath area – which we will talk about in more detail in the following section. Again we have analysed the data by unit type as well as by average value across all unit types and the data provides evidence to support the setting of a CIL Charging Zone Boundary as shown by the dotted line on Map 3 overleaf. The map also shows each location's position in terms of value. We have again also shown the figures in detail on the following page.

Map 3; Broadland Settlements by Value & Proposed Charging Zone Boundary

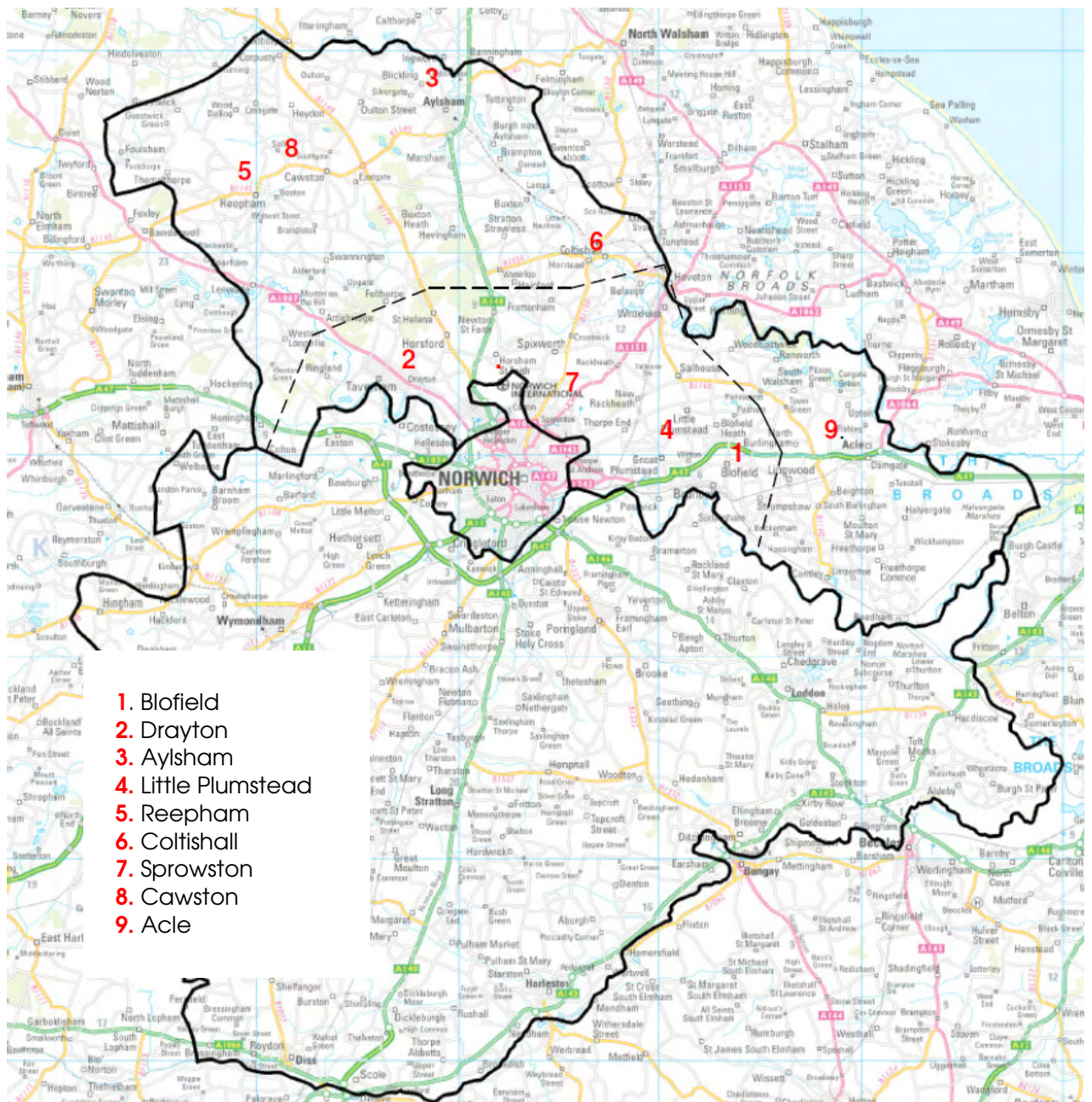


Table 4 Broadland Settlements: New Build Zone A and B

	Semi-Detached	*	Detached	*	Average	ZONE
Drayton	£250,000	3	£401,091	16	£325,546	A
Little Plumstead	£184,220	58	£235,731	44	£209,976	A
Sprowston	£162,025	14	£228,904	9	£195,465	A
Acle	£161,150	5	£197,874	2	£179,512	B
Aylsham	£191,276	35	£264,403	33	£227,840	B
Cawston	£160,374	6	£221,936	20	£191,155	B
Coltishall	£159,163	10	£231,604	16	£195,384	B
Reepham	£189,950	2	£228,904	14	£209,427	B

Source: The Property Database Ltd / Land Registry. New Build Data

* Volume of Sales

- 4.26 As is shown by the Tables 3 and 4 and Maps 2 and 3 above, there is a clear pattern which shows those units which can afford a higher CIL Charge are located within the Inner / Central and A11 Corridor Market Value Areas, which we would propose would loosely translate into Charging Zone 'A'. Less valuable units sit within the Outer Market Value Area, or what we would propose as Charging Zone 'B'.
- 4.27 It can be argued, that benchmark land values, i.e. the yardstick against which these values are judged in terms of viability are higher in the Inner, Central and A11 Corridor Market Value Areas, rather in the Outer Value Area. We have taken the Inner, Central and A11 Corridor Market Value Areas together, which would logically result in the use of the lowest benchmark land value for these areas – which we set out in our Viability Report is £520,000 per hectare (£210,000 per acre). The benchmark land value we used for the Outer Value Area in the Viability Report is £495,000 per hectare (£200,000 per acre), which we do not believe to be so different from a £520,000 per hectare land value that it will impact on the picture emerging from house prices across the Area.

3). The Impact of Developer 'Place Making' and Planning Policy Growth Agendas on Residential Values.

- 4.28 The Settlement which does not appear to entirely fit into the pattern outlined above is the area surrounding Sprowston, which is part of the Old Catton, Sprowston, Rackheath and Thorpe St Andrew Growth Triangle as identified in the Joint Core Strategy for Broadland, Norwich and South Norfolk. With regard to Sprowston we would advise, particularly drawing on our past experience reporting on funding infrastructure through development

for Councils and developers, that one would expect to account for some uplift in values that would arise from 'place making', that is the creation of a neighbourhood with associated amenities, and to reflect the proposed quality of the development, which should enhance returns. We would also note the substantial evidence for Little Plumstead, which is just outside the Growth Triangle and the higher values in the similar area of Drayton support the inclusion of Sprowston in Zone A.

4. Flats and Terraces

4.29 We also reviewed the new build data for flats and terraces. The values are detailed in Table 5 below. This sales data further supports the justification for two charging zones.

Table 5 Flats & Terraces: Zone A and B (Limited Data)

	Flats	*	Terraces	*	ZONE
Costessey	£122,336	157	£169,843	193	A
Cringleford	£128,222	12	£171,835	51	A
Hethersett	£134,044	20	£180,901	11	A
Poringland	£115,328	50	£153,436	20	A
Wymondham	£138,200	36	£165,836	73	A
Aylsham	£130,544	11	£172,674	34	B
Diss	£112,688	30	£159,203	53	B
Harleston	£104,462	19	£144,488	71	B

Source: The Property Database Ltd / Land Registry, New Build Data

* Volume of Sales

Further Residential CIL Charge Considerations

The Inclusion of Garage Allowance within the CIL Charge

4.30 There remains an outstanding question with regard to garages associated with residential properties. In planning terms these are residential development, and as part of a dwelling or as part of a development of greater than 100m² they will be subject to the CIL. However our analysis has not included the garage element as part of the average size of a dwelling and, consequently, if residential garages are to be subject to the residential rate of CIL an adjustment to the rates will be required. We would recommend that GNDP re-consider this stance should the situation become clearer further to additional advice from CLG.

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- 4.31 We have not specifically modelled underground or decked parking spaces attached to residential accommodation in the same way as we have garages, however, should underground or decked parking spaces attract a CIL charge in the same way as other development, we would recommend a de minimis CIL charge of £5 per sq m.

Affordable Rent Model Implications

- 4.32 We understand that no decisions have yet been made by each of the Authorities on their approach to the new affordable rent model, however we are aware that several of the Registered Provider's (RPs) active in the Area are amenable to moving forward with the approach.
- 4.33 It should be noted that the requirements of HCA are that any additional value that is generated through the use of affordable rents as opposed to social rents should be applied by the RPs to help cross subsidise the delivery of units. In other words HCA does not intend that higher values feed through to an enhanced land value. At the time of writing it is unknown which RPs that operate within the Area will receive funding from the HCA and what the implications therefore maybe for land values.
- 4.34 If the use of affordable rent does proceed then there may be a case for an increase in the level of CIL contribution which could viably be afforded by residential development. We have undertaken a very high level analysis of current social rent levels and the potential increase to 80% of market rent. We consider that in the GNDP policy area overall viability could increase by c. 5-15%, depending on the size of the scheme and proportion of affordable housing (this is particularly the case for the larger development typologies). We would note that this is an analysis based on potential future scenarios, and has not formed part of our current advice.

5. Commercial Analysis

OFFICE AND INDUSTRIAL

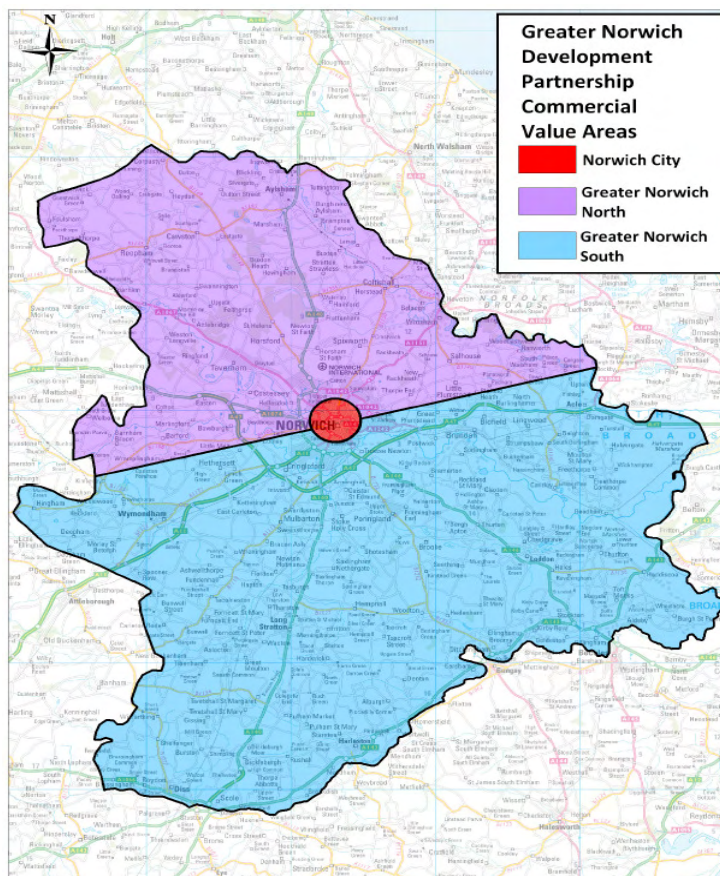
Introduction

- 5.1 We have not been able to obtain further, more detailed commercial data to calculate the commercial CIL Charging Zones in the same way as we have for forthcoming residential development in the Area.
- 5.2 We have, however, looked at the commercial data we reviewed in the Viability Study in more detail, and have come to the following conclusions regarding the rate of a commercial CIL. For ease of reference a summary of the commercial data reviewed in the Viability Study can be found at Appendix 2.

Market Area Review Summary

- 5.3 In terms of office use, the Viability Study concluded that there are three Market Value Areas for office developments across the study area. These are Norwich City Centre, North of the City Centre, and South of the City Centre. The City Centre represents the most desirable location for businesses, explaining the higher values achieved there. Rental values are higher in the South of the City Centre than they are to the North of the City Centre. This is largely due to the relative levels of accessibility to the A11.
- 5.4 In terms of industrial uses, the study also concluded that with regard to current rental values there are three distinct Market Value Areas. These are again Norwich City Centre, North of the City Centre, and South of the City Centre. Values are highest to the South of the City Centre as the availability of new industrial stock in the area is greatest and due to the close proximity of the A11. Values are lowest in the North of the City Centre, as the majority of stock is older and of lower quality. In this way this stock is not really comparable to any proposals for new industrial development coming forward.
- 5.5 For the purposes of reporting, the Viability Study therefore grouped office and industrial sectors together as 'commercial' development when reviewing the geography of viability. This is shown in the map overleaf.

Map 4: Office and Industrial Market Value Areas, Broadland, Norwich and South Norfolk



Establishing Charging Zones

- 5.6 Whilst the Viability Report concluded that there were three market value areas, examination of development completions and pipeline activity in the study area shows a lack of speculative development activity across commercial uses at present. This is not untypical of any out-of-London market location at present, whereby downward pressure on rental values, combined with prevailing economic pressures including constrained development finance mean that speculative commercial development is almost entirely unviable.
- 5.7 The Viability Study supported this assertion, showing that the sample office and industrial schemes were only able to make very modest CIL contributions at best, this being highly dependent upon their proposed location. The study also suggested in areas where new commercial space is rarely developed, the CIL would need to be minimal in order to support viability.
- 5.8 These points on viability suggest that a minimal CIL charge should be used across the study area to ensure that the majority of commercial development in the area is viable. Whilst

the local authorities have advised that they have previously secured commercial office developer contributions of up to £100 per sqm, these tended to be one-off schemes (particularly where pre-lets had already been secured). We would also note that, due to the restricted development pipeline and lack of commercial stock across the Area, there is little evidence relating to rental values for new developments making the definition of commercial Charging Zones difficult. This would support the promotion of a single Charging Zone.

- 5.9 Should the commercial market improve, the Community Infrastructure Levy Regulations (2010) allow for pooling of planning obligations (from no more than 5 developments) alongside CIL to fund specific items. The client authorities then retain the right, should market conditions improve, to update the CIL at any time by way of capturing additional community infrastructure contributions through improved viability (Regulation 123 requires the authorities to amend and publish the infrastructure projects that will be, or may be, wholly or partly funded by CIL under regulation 123.
- 5.10 We are aware that the logic of imposing any level of CIL at all on commercial development could be questioned, particularly with the viability of commercial development across the Area being so challenged. It would be unadvisable to implement a nil CIL charge as the infrastructure needed to support new development could not be provided, and in essence the new development would be unsupported by the market (as its baseline viability would have to be questioned if it could not afford to pay a minimal CIL charge), the infrastructure network and the planning system.

Office & Industrial	£5 per sq m
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6. Retail Analysis

Introduction

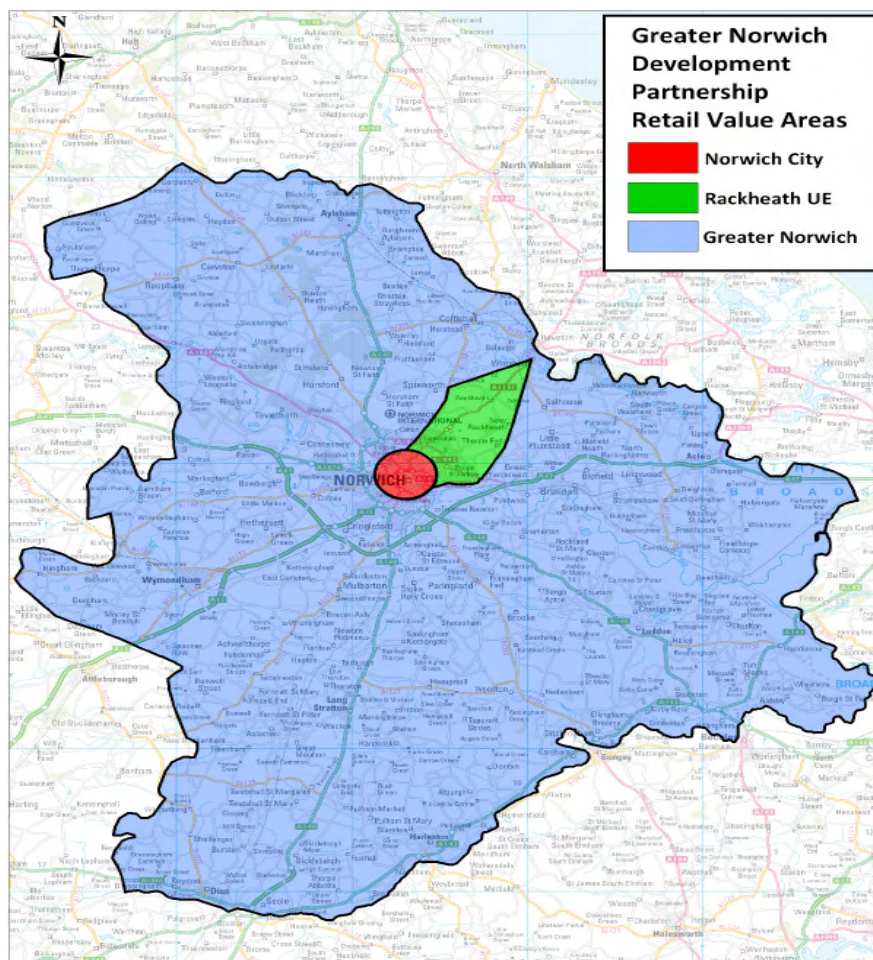
6.1 We have not been able to obtain further, more detailed commercial data to calculate the commercial CIL Charging Zones in the same way as we have for forthcoming residential development in the Area.

6.2 We have, however, looked at the commercial data we reviewed in the Viability Study in more detail, and have come to the following conclusions regarding the rate of a commercial CIL. For ease of reference a summary of the retail warehouse and convenience retail data reviewed in the Viability Study can be found at Appendix 2.

Market Area Review Summary

6.3 Our high level research for the Viability Study concluded that there were three Market Value Areas for retail development. These are set out in Map 5 below.

Map 5: Retail Value Areas, Broadland, Norwich and South Norfolk



Establishing Charging Zones

Standard Retail Development

- 6.4 A more in-depth examination of the retail market in the Area shows that the rental value of any given retail development is highly dependent upon its location, and as such it is difficult to set CIL Charging 'Zones', where within one settlement, for example Norwich City Centre, rental values can differ significantly from street to street depending on frontage and footfall, etc.
- 6.5 We therefore suggest that a single, minimal CIL charge should be used across the study area to encourage delivery of retail development, again bearing in mind that the Regulations allow for pooling of planning obligations (from no more than 5 developments) alongside CIL to fund specific items. As previously discussed, the client authorities do still retain the right, should market conditions improve, to update the CIL at any time by way of capturing additional community infrastructure contributions through improved viability (Regulation 123 requires the authorities to amend and publish the infrastructure projects that will be, or may be, wholly or partly funded by CIL under Regulation 123).

Grouping of 'A' Class Retail Uses (A1, A2, A3, A4 & A5)

- 6.6 We set out below examples of the types of uses which fall under the definition of 'A' Class Uses for clarification:

Table 6: 'A' Use Classes Order

TCPA Use Classes Order 2006	Use / Description of Development	Permitted Change
A1: Shops	The retail sale of goods to the public: Shops, post offices, travel agencies, hairdressers, funeral directors, domestic hire shops, dry cleaners, internet cafes, sandwich bars (food consumed off premises) etc...	No permitted change
A2: Financial & Professional Services	Financial Services: Banks, building societies & bureau de change, estate agencies and employment agencies, betting shops.	A1 (where there is a ground floor display window)
A3: Restaurants & Cafes	Restaurants & Cafes:	A1 or A2
A4: Drinking	Public House, Wine Bar or other drinking	A1, A2 or A3

TCPA Use Classes Order 2006	Use / Description of Development	Permitted Change
Establishments	establishments (primary purpose being the sale of alcohol)	
A5: Hot Food Takeaway	Take-aways - hot food taken off premises.	A1, A2 or A3

- 6.7 We have spoken to our in house retail agency and development team regarding the 'grouping together' of these uses for the purpose of setting a CIL charge. From our discussions with the retail team and our own experience at modelling retail and mixed-use development schemes, we conclude that, in development terms at least, and despite its closeness in use to B1(a), A2 uses should be classed in the same value bracket as A1 uses. This is because, although rents for A2 uses are often lower than A1 uses and could be considered more akin to B1(a) uses, planning permission for a change of use is not required to convert premises from an A2 to an A1 use. This means that an A2 occupier could convert to an A1 use without having to consult the planning system, effectively giving A2 units the same value in development terms as A1.
- 6.8 We would therefore advise that all 'A' class uses be grouped together under the same CIL Charge level of £25 per sq m.

Supermarket / Large Food store Retail Development

- 6.9 We have undertaken additional work around the CIL Charging Zones Schedule relating to large food stores and supermarkets, and the potential there may be for these particular types of retail to contribute more to a CIL than other, smaller retail units.
- 6.10 We have assumed that a large food store would occupy an area of at least 6,500 sq m (circa 70,000 sq ft), and have space for circa 350 – 400 car parking spaces. We have assumed an average rent of £188 per sq m (£17.50 per sq ft) and a yield of circa 5%. We have also assumed that there are two models of land purchase for supermarket stores:
- 1) A developer purchases the land and then sells it on to a supermarket operator; and
 - 2) The operator purchases the land directly. In order to determine a residual land value on an operator-led basis one can remove the cost of taking a development profit.

6.11 The appraisals we have undertaken show that large food stores can afford, when compared to residential land value benchmarks, to contribute high levels of CIL. For example on an operator-led basis our appraisals show that a large food store could contribute circa £1,500 per sq m, assuming that all additional value above base land value is converted to CIL.

6.12 We do, however, strongly caveat the above with the following:

- The supermarket appraisals we have undertaken are for a hypothetical scheme in the Area, and therefore the appraisals are not geographically specific;
- As such the appraisals are high level and cannot be used as an example of what an individual supermarket operator would be prepared to pay for land at any given location.
- The appraisals do not account for sunk costs or abnormal costs, but assume a single storey development with surface level parking.
- The majority of assumptions within the appraisals are generic based on market comparables - the specifics of any scheme could have a significant impact on residual value (e.g. net:gross ratio).
- If an operator was to deliver a supermarket then it could potentially produce significantly more value from the site than a developer based on its own business model (we have seen recent examples in the east where an operator has offered more than double the bids from developers).

6.13 Further to the above, many large food stores and supermarkets are developed as 'anchors' to larger mixed used developments, and as such the value created by these food stores is effectively used to support additional development; for example residential and commercial uses, particularly in low value areas. Therefore to impose a very high CIL charge on these food stores would in effect lessen the financial support they could provide to other uses within a scheme as a whole. We would also note that the number of large food stores that are going to be developed across the Area over the Joint Core Strategy period is most likely to be de minimis.

Further Foodstore CIL Charge Testing

6.14 Further to instruction from GNDP we have re-run our appraisals to reflect the viability of a 2,000 sq m Gross Internal Area (GIA) foodstore, based on both of the models outlined above. GNDP has asked us to test whether a CIL charge of £135 per sq m is viable for foodstores of this size. Our appraisals show that this level of CIL charge is viable.

Retail	£25 per sq m
Retail <2,000 sq m G.I.A.	£135 per sq m

7. C1, C2 & D2 CIL Analysis

C1: Hotel

Market Overview

- 7.1 At present the hotel market nationally is characterised by a low level of new build development. This is mainly due to the recent challenging economic conditions, which makes it more financially viable for operators to buy or lease existing hotel facilities which have, for example, been repossessed by banks, than to build new facilities. The cost of building new hotel space is similar to that of building residential units, and in the current market many hotel development values are not at a level to support the cost of new build development.
- 7.2 We have spoken to our in house hotel agency team, who confirm that, reflecting the above, it is unlikely that the hotel industry will see significant quantities of new build development in Norfolk in the near future. They also comment that this situation is the same for both the lower and higher ends of the local hotel market – for example companies such as Travelodge and Holiday Inn, as well as higher value 4 and 5 star operators, will be impacted in a similar way. Indeed it can be argued that viability decreases as the price / calibre of a hotel increases.

Viability Appraisals

- 7.3 We have run viability appraisals on both a 2/3 star hotel development (similar to a Travelodge / Premier Inn) and a 4/5 star development. In undertaking these appraisals we have made reference to the size (number of bedrooms and Net Internal Area / Gross Internal Area) characteristics and facilities (e.g. number of car parking spaces) of existing hotels in the Area. We have assumed a 100 bed hotel, and that units rent for upwards of £5,500 per room per annum. We have allowed for the possibility of hotel development coming forward across the Area by looking at rural options, but have assumed that most development would be likely to come forward within the Norwich City area and surrounding towns and villages.
- 7.4 Our appraisals show that, in line with the above, there is little to suggest that new build hotel development will (a) come forward in considerable quantity, and (b) be able to provide significant levels of CIL contribution. We have taken employment existing use land values from the Viability Study as the benchmark land values for these appraisals,

but note that it is possible that lower existing use land values could be applicable subject to planning – for example land with a previous use of ‘community’ or industrial land (although we consider this unlikely).

- 7.5 In summary our appraisals show that, for the majority of new build hotel development across the Area, land values are not high enough to support any significant level of CIL contribution – except where development occurs in areas with very low existing use values. We would therefore recommend a nominal hotel CIL charge of £5 per sq m.

Hotel	£5 per sq m
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C2: Residential Care Homes

- 7.6 We understand that across the GNDP policy area the majority of residential care homes (C2) will be provided through public sector funding, rather than through private development, such as C3 use class units provided by specialist care developers such as McCarthy and Stone.
- 7.7 Due to the stringent nature of public sector finances, not just within the GNDP policy area but nationally, the charging of a material level of CIL on these types of development is likely to hinder their construction, potentially to a point where their development is threatened. In order to counteract this potential situation, we would recommend a de minimis CIL charge of £5 per sq m for such developments.

Residential Care Homes	£5 per sq m
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D2: Leisure Centre

Market Overview

- 7.8 The national leisure industry has continued to grow, with 2010 its 10th consecutive year of growth (*source: the Leisure Database Company*). The ‘2010 Fitness Industry Association (FIA) State of the UK Fitness Industry’ Report produced by the industry’s trade body set out that 122 new health and fitness centres opened across the country in the financial year ending 31 March 2010, taking the total number of centres to 5,885, and that 12% of the population is now a member of a public or private leisure centre / health and fitness club.

- 7.9 The FIA report sets out that in 2010 the region with the most new fitness facility openings was the North West, whilst the region with the fewest new fitness facility openings was the North East. The report also sets out that single site operators account for 38% of new private sector openings.
- 7.10 We have spoken to our in house leisure agency team, who comment that the health and fitness club market is currently cautiously positive, with expansion in the Area possible over the life of the Joint Core Strategy.
- 7.11 We would therefore anticipate that Norfolk, and the GNDP policy area in particular, could expect a small number of new fitness centre openings over the timescale of the Joint Core Strategy.

Viability Appraisals

- 7.12 We have run a number of viability appraisals based on sports leisure and fitness facilities already located within the GNDP policy area (such as Greens Gyms and Bannatynes Health Club). Our appraisals are based on a new build fitness club of circa 3,251 sq m (35,000 sq ft), and rental values of £118 - £140 per sq m (£11 - £13 per sq ft). Our appraisals show that, depending on the Existing Use Value / Alternative Use Value of the land, health clubs could viably provide a CIL contribution of £30 per sq m.

Leisure Centre	£30 per sq m
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Sui Generis

- 7.13 We have also been asked by GNDP to consider Sui Generis uses. We have consulted with our in house agency teams, and consider that any CIL applied to sui generis uses should be akin to the use class which most accurately reflects that use. For example, the construction of a petrol station would be subject to a CIL charge reflective of an A-class retail use etc.

8. Setting the CIL Charge Level: RESULTS

8.1 Below we set out a summary of the results of our CIL Charging Zones work, and our further work on the CIL viability of hotels, residential care homes and leisure facilities.

RESIDENTIAL

8.2 Having undertaken this work we are of the opinion that new residential development across the Area can afford the following CIL charges, split into two zones – the ‘Inner’ and ‘Outer’ Charging zones:

- Inner Charging Zone: **£170 per sq m**
- Outer Charging Zone: **£85 per sq m**

8.3 These charges relate to all developer ‘planning contributions’ and include not only any proposed CIL charge but also developer contributions such as those agreed through S.106 Agreements.

8.4 On site necessary ‘infrastructure’ build costs which a developer would be expected to build out such as green spaces and any necessary estate roads are excluded from these charges.

OFFICE AND INDUSTRIAL

8.5 Having undertaken this work we are of the opinion that new office and industrial development across the Area can afford the following CIL charge based on a ‘singular zone’ structure:

- **£5 per sq m**

A1, A2, A3, A4 & A5 RETAIL

8.6 Having undertaken this work we are of the opinion that new retail development across the Area can afford the following CIL charge based on a ‘singular zone’ structure:

- **£25 per sq m**
-

FOODSTORE RETAIL (LOWER THRESHOLD OF 2,000 SQ. M G.I.A.)

8.7 Having undertaken this work we are of the opinion that foodstore development of 2,000 sq m Gross Internal Area or larger across the Area can afford the following CIL charge based on a 'singular zone' structure:

- **£135 per sq m**
-

C1 HOTEL

8.8 Having undertaken this work we are of the opinion that new hotel development across the Area, be it for a low or high value development, can afford the following CIL charge based on a 'singular zone' structure:

- **£5 per sq m**
-

C2 RESIDENTIAL CARE HOMES

8.9 Having undertaken this work we are of the opinion that new residential care home development across the Area can afford the following CIL charge:

- **£5 per sq m**
-

D2 LEISURE CENTRE

8.10 Having undertaken this work we are of the opinion that leisure centre development across the Area can afford the following CIL charge based on a 'singular zone' structure:

- **£30 per sq m**
-

SUI GENERIS

8.11 We are of the opinion that Sui Generis uses across the Area should pay a charge reflective of an appropriate use as set out in the Use Classes Schedule.

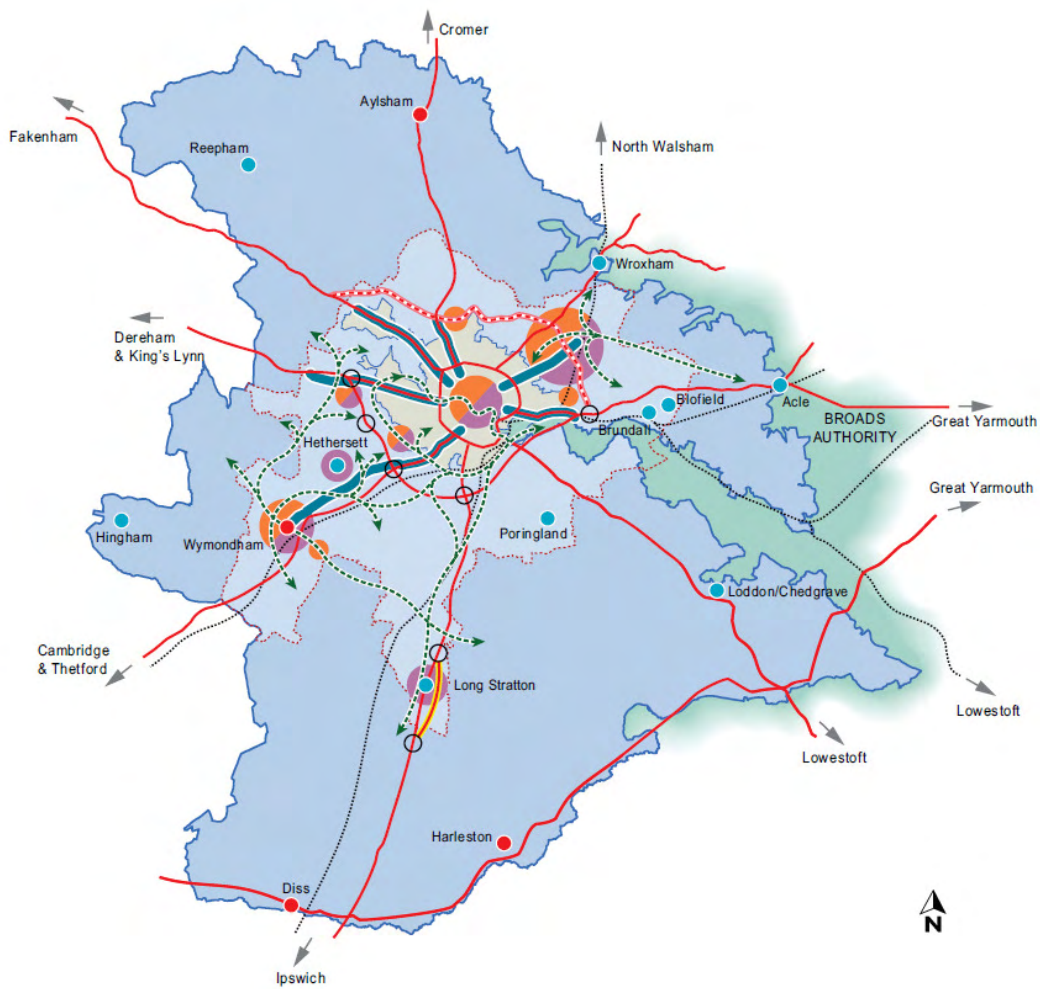
9. Conclusions

- 9.1 We have undertaken this further set of evidence testing as an addition to our Viability Advice of a CIL / Tariff for Broadland, Norwich and South Norfolk. This Addendum Report sets out our rationale for the recommendation to have two Charging Zones for residential development, and a single Charging Zone for commercial and retail development
- 9.2 In order for any CIL Charge not to inhibit development, we also recommend that a minimal CIL charge should be applied across both Charging Zones for residential / residential care homes, and across the whole Area for commercial, C1 and D2 uses. We note that the Authorities retain the right, should market conditions improve, to update the CIL at any time and thereby obtain a greater contribution.
- 9.3 We have also been asked to comment on the appropriateness of basing viability work on 'normal' market conditions, rather than 'recession' market conditions. Although it can be argued that the current market is more reflective of 'recession' market conditions, the appraisals have been undertaken assuming a development landscape which has recovered somewhat to normal market conditions. This is because any CIL, in keeping with GNDP's timetable, would not be implemented for another 1 to 2 years. In this time, we expect the development market to continue to improve, and that values will reflect this. Further, in accordance with DCLG advice, it is necessary to strike an appropriate balance between the impact of CIL and the need to fund essential infrastructure without which much of the development would not be able to proceed.

Growth Areas

- 9.4 We have shown on the map below the location of the main Growth Areas as set out in the Joint Core Strategy for Broadland, Norwich and South Norfolk. From our analysis we consider that all major residential growth locations other than Long Stratton sit within the inner Charging Zone, where we have recommended a CIL of £170 per sq m. We recommend that the Growth Point of Long Stratton sit within the Outer Charging Zone, and that residential development here be subject to a CIL Charge of £85 per sq m.

Map 6 GNDP Joint Core Strategy Growth Locations Map



Source: Joint Core Strategy for Broadland, Norwich and South Norfolk: Growth Locations Key Diagram

Summary

9.5 We set out below our summary table for the proposed Charging Zones. We have included in the Appendix detailed Ordnance Survey level maps of our suggested Residential Charging Zone areas.

Table 7: Charging Zones Recommendation Summary (£ per sq m)

	Residential	Commercial	Retail	Retail <2,000 sq m G.I.A.	Hotel	Care Homes	Leisure
Charging Zone 'A'	£170	£5	£25	£135	£5	£5	£30
Charging Zone 'B'	£85	£5	£25	£135	£5	£5	£30