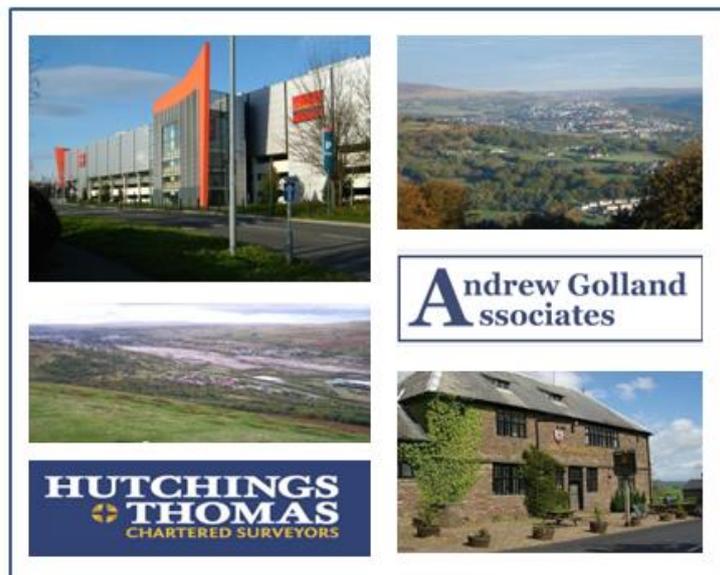


**Torfaen County Borough Council**  
**Community Infrastructure Levy**  
**Development Viability Assessment**

**Final Report**



**August 2016**

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## EXECUTIVE SUMMARY

### Review of Objectives and Report

- A. The main objective of this report is to use appropriate available evidence to provide a broad test of viability to justify the setting of an area-based Community Infrastructure Levy (CIL) Charge for Torfaen County Borough; that strikes an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across the areas, which does not threaten the ability to develop the sites and scale of development identified in the Torfaen Local Development Plan (LDP). The evidence has been prepared in consultation with landowners, agents and the development industry and in accordance with the relevant legislation, regulations and guidance. This study works within this framework to demonstrate the financial scope for a CIL Charge across a range of residential / commercial uses, locations and scales of development.

### Residential Recommendations

- B. Viability was assessed, using the nationally recognised Development Appraisal Toolkit by reference to the financial relationship between the Residual Value (RV) and the Benchmark Land Value (BLV) which reflects a competitive return for the landowner and developer; with in most instances, a large CIL 'viability cushion' of 60% uplift on an industrial Existing Use Value to set the CIL BLV and a minimum 30% CIL 'viability cushion' on the Residual Value before recommending a Residential CIL Charge.
- C. Two sets of residential analysis were undertaken. High Level Testing, of a notional one hectare housing site in every housing sub-market area (HSMA) identified in the LDP across a range of densities (from 25 dph to 40 dph), development mixes and affordable housing targets; and Scheme Specific Analysis that looked at the economics of a range of key sites in Torfaen as well. In addition, the assessment has taken account of all planning policy requirements and national standards (e.g. sprinklers) and the fact that Torfaen expect to retain a residual S106 system; which will be reflected in their future Section 123 CIL Infrastructure List.
- D. As may be expected, viability varies in line with location, noting that in Torfaen, affordable housing targets have already been adapted to local market circumstances by varying the targets (5% to 30%) depending on location.
- E. For the weaker housing sub-markets, i.e. North Torfaen and Pontypool West, Residual Values are negative or marginal at best, even with lower land values; meaning that a CIL Charge is not viable. Therefore, we recommend a **£0m<sup>2</sup> Residential (Class C3) CIL Charge in North Torfaen & Pontypool West.**
- F. For Torfaen's remaining housing sub-markets, the economics are stronger, even when higher affordable housing, residual S106 costs and the occasional primary school payments are taken into account. From the analysis (in Chapter 3) we recommend that the Council looks seriously at setting a **Residential (Class C3) CIL Charge** of:-
- **£50m<sup>2</sup> in Cwmbran North & West;**
  - **£75m<sup>2</sup> in Cwmbran South & East;** and

- **£100m<sup>2</sup> in Pontypool East;** with a specific **£50m<sup>2</sup> Charge** for the **Mamhilad Strategic Action Area** given the high S106 costs and potential further abnormal costs.

However, in order not to prejudice the delivery of small sites by small local builders, whilst the above recommended Residential CIL Charges would not threaten the delivery of the Torfaen LDP as a whole, following additional detailed analysis, it is further recommended that a **£0m<sup>2</sup> CIL Charge** is set for **sites of less than 10 dwellings, subject to the overall site area being under 0.33ha (net developable area) throughout Torfaen.**

### **Commercial Property Recommendations**

- G. Generally, the analysis (in Chapter 4) suggests that opportunities for setting a CIL Charge for the majority of commercial (non-residential) uses expected to come forward within the local authority areas are limited. Here a standard commercial residual value analysis (based on rental values and yields) has been used. We tested a range of typical developments within these non-residential use classes.
- H. Development in the range of ‘Employment’ (business, industrial & distribution) B1-B8 Use Classes looks challenging when revenues are compared with costs. This is not unsurprising when comparing the findings with other CIL viability studies. However, development of these types do proceed, although it is likely that they will be built for owner occupation, rather than on a speculative basis or where landowners sell for a lower price. Therefore, we recommend a **£0 CIL Charge for the ‘Employment’ B1-B8 Use Classes.**
- I. There is a similar poor viability picture for the range of A2 - Financial & Professional Services; A3 - Food & Drink; C1 - Hotels; C2 - Residential Institutions (boarding schools, care homes, etc.); D1 - Non-Residential Institutions (churches, health centres, nurseries, museums, schools, etc.); D2 - Assembly and Leisure (cinemas, sports facilities, halls, etc.) and other ‘Sui Generis’ Use Classes. Therefore, we also recommend a **£0 CIL Charge for the A2, A3, C1-C2; D1-D2 and the majority of ‘Sui Generis’ Use Classes.**
- J. However, some larger Class A1 Retail Shops uses are viable, although this sector is complex. The analysis (Chapter 4) suggests and a distinction should be made between High Street (town centre) shops and neighbourhood / local shops (mainly as smaller units) with larger retail units (400m<sup>2</sup> GIA and over) elsewhere, such as supermarkets and retail warehouses / factory outlet shops, where viability is significantly stronger. Therefore, we recommend a general **£0 CIL Charge for all A1 Retail Uses, with the exception of a £250m<sup>2</sup> CIL for A1 Use Supermarkets / Superstores over 800m<sup>2</sup> (net retail trading space) and for A1 Use Factory Outlet Shops / Retail Warehouses and ‘sui generis’ Retail Warehouse Clubs over 400m<sup>2</sup> (net retail trading space) outside of the designated Blaenavon, Cwmbran, and Pontypool Town Centre Boundaries.**

# 1. INTRODUCTION & STUDY CONTEXT

## Review of project aims and background to the project

- 1.1 Torfaen and Blaenau Gwent County Borough Councils appointed Andrew Golland Associates and Hutchings and Thomas to carry out a Joint Viability Study in relation to the development of a Community Infrastructure Levy (CIL) for each Council. The instruction was to assess the impact of the Councils' relevant LDP policies and future S106 Planning Obligations / CIL intentions on development viability. This Report covers Torfaen.
- 1.2 The specific aims of the project are to:-
- review the legislative and national policy background for the CIL (*see next sections*);
  - review the Council's adopted Local Development Plan and supporting Supplementary Planning Guidance to identify the types and levels of development proposed to be delivered during the Plan Period, including a review of progress so far and future prospects as well as the cumulative impact of plan policies on viability (*see the Torfaen 'Locality Information' section later in this Chapter, which also include information on the extent to which their LDP affordable housing and other targets have been met*);
  - based upon the above, provide robust evidence (based upon stakeholder engagement) and advice to the Council in considering the economic viability of setting an affordable CIL Charge across the range of different land use classes (including those sites proposed in their LDPs) and potentially different locations and thresholds within the County Borough (*see Chapters 2-4*); and finally
  - show how the proposed CIL levy rates would not threaten delivery of their LDP as a whole and would fund additional infrastructure which is needed in the area to support development (*see Chapters 3-4*).

## Policy background and the evidence base

### National Policy

- 1.3 Planning Policy Wales (Edition 8, January 2016) paragraph 9.2.16 states that:-  
*"Development plans must include an **authority-wide target for affordable housing** (expressed as numbers of homes) based on the LHMA (Local Housing Market Assessment) and identify the expected contributions that the policy approaches identified in the development plan (for example, site thresholds, site specific targets, commuted sums and affordable housing exception sites) will make to meeting this target. The target should take account of the anticipated levels of finance available for affordable housing, including public subsidy, and the level of developer contribution that can be realistically sought..."*
- <http://gov.wales/topics/planning/policy/ppw/?lang=en>
- 1.4 Viability is an important consideration at both a national and local level. In Wales, TAN 2 on 'Planning and Affordable Housing' (June 2006) paragraph 10.4 states that:-  
*"When setting site-capacity thresholds and site specific targets local planning authorities should balance the need for affordable housing against site viability... Local planning authorities should also take into account the impact on the delivery of the affordable*

*housing target and the objective of creating sustainable communities across the plan area and in the individual parts of the plan area.”*

<http://gov.wales/topics/planning/policy/tans/tan2/?lang=en>

1.5 The CIL is provided for by the following legislation, regulations and guidance in England and Wales; noting that the CIL is not devolved to Wales; and so guidance and regulations are prepared by the Department of Communities and Local Government (DCLG):-

- the Planning Act 2008 (as amended by the Localism Act 2011);
- the associated CIL Regulations 2010 (as amended by the CIL Regulations of 2011, 2012, 2013, 2014 and 2015);
- the latest (12<sup>th</sup> June 2014) web based CIL Statutory Guidance produced by DCLG; and

[http://www.pas.gov.uk/3-community-infrastructure-levy-cil/-/journal\\_content/56/332612/15149/ARTICLE](http://www.pas.gov.uk/3-community-infrastructure-levy-cil/-/journal_content/56/332612/15149/ARTICLE)

- as recognised by the above DCLG Statutory Guidance (paragraph 009), the principles of the National Planning Policy Framework (NPPF) in England, paragraphs 173 - 177 on ‘Ensuring viability and deliverability’, are considered to apply in Wales for the CIL.

<http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/rates/>

1.6 Also in 2011, the Welsh Government provided the “Community Infrastructure Levy (CIL): Preparation of a Charging Schedule Guidance for Wales” guidance, to sit alongside the previous DCLG Statutory Guidance and covers the devolved development plan system in Wales. However, this guidance has been considered with care as it has not been updated since to take account of the five subsequent annual amendments to the CIL Regulations or the subsequent updates to the DCLG Statutory Guidance.

<http://gov.wales/topics/planning/policy/guidanceandleaflets/cil/?lang=en>

### **What is the CIL?**

1.7 The Planning Act 2008 (as amended) makes provision for local planning authorities in England and Wales to prepare and implement a CIL; as it allows the Secretary of State for Communities and Local Government (CLG) in England, with the consent of Her Majesty’s Treasury, to make regulations providing for a CIL. Therefore, the CIL came into force on 6 April 2010 through the ‘Community Infrastructure Levy Regulations 2010’ (as subsequently amended).

1.8 The CIL is designed to be fairer, faster and more transparent than the previous system of agreeing planning obligations between local councils, landowners and developers under Section 106 of the Town and Country Planning Act 1990. Also, from the 6<sup>th</sup> April 2015 the use of Section 106 agreements to secure infrastructure from planning applications will be severely restricted to no more than five S106 contributions per infrastructure type or project; and infrastructure listed on the Council’s S123 Infrastructure List cannot also be secured through a S106 agreement. Therefore, S106 agreements can still be used alongside a CIL, but subject to these restrictions; noting that affordable housing cannot be funded through the CIL, but will remain to be sought through the S106 system. The Council has produced information about the amount of

S106 funding collected since 6<sup>th</sup> April 2010 in their separate ‘Torfaen Infrastructure Assessments Report’.

- 1.9 In areas where a CIL is in force, land owners and developers must pay the levy to the local council, albeit there are exemptions / reliefs from the levy for charitable organisations, affordable housing development, self-build housing and buildings into which people do not normally go; and in exceptional circumstances on application and subject to conditions. The charges are set by the local Council (the Charging Authority), based on the size and type of the new development. CIL is payable on a 'per square metre' of development floorspace but may be charged at variable rates depending on different uses and zones within a local authority area. The charge is levied on the net additional increase in floorspace created as a result of a development, provided the gross internal area of new build exceeds 100m<sup>2</sup>. That limit does not apply to new dwellings and a charge can be levied on a dwelling of any size.
- 1.10 Each Local Authority is required to prepare, and invite representations on, a ‘Preliminary Draft Charging Schedule and then a ‘Draft CIL Charging Schedule’ that will be scrutinised at a ‘CIL Hearing’, chaired by an independent ‘CIL Examiner’, prior to formal adoption. The CIL Charging Schedule will need to be tested by undertaking selected development appraisals to ensure proposed CIL rates do not make new development economically unviable. There is a requirement on the Charging Authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Therefore, viability will be a key factor; noting that a £0 CIL rate must be based on viability evidence, rather than a policy choice.
- 1.11 The money raised from the CIL must be used to support development by funding a range of infrastructure uses (physical, social and environmental) that the Council identifies in its Regulation 123 Infrastructure List. In addition, up to 5% of the CIL receipts can be used for administration and a further 15% must be passed to the relevant Town or Community Council where the development takes place to spend on infrastructure, like new or safer road schemes, park improvements or a new school. Thus the testing framework should aim to test ambitious CIL scenarios wherever practicable. The Council will produce a Regulation 123 List (first in Draft) of infrastructure projects that CIL can be used for.

### **Advice on setting a CIL**

- 1.12 The parameters for local authorities in setting CIL have evolved with the time. Generally the trend has been to allow councils to take a more fine grain approach. The latest amended CIL Regulations and associated DCLG Guidance allow local authorities to adopt differential CIL rates, which may be appropriate to:-
- Geographical zones within the charging authority’s boundary;
  - Types of development; and/or
  - Scales of development.

However, the DCLG Guidance also states that differential CIL rates should “seek to avoid undue complexity”; “not have a disproportionate impact on particular sectors or specialist forms of development”; and must not “constitute a notifiable state aid under European Commission regulations”, unless justified by “consistent economic viability evidence”. Therefore, it is considered that the differential CIL rates recommended in

this Study are not unduly complex; do not have a disproportionate impact; and are justified by the evidence, and thus do not constitute State Aid.

- 1.13 This means that a CIL Charge may vary by location, by type of development (principally Use Class), and by scale. It is therefore possible to have a relatively simplistic CIL Charging Schedule which for example just varies the levy by type of development.
- 1.14 It is also possible however then to vary the CIL Charge not only by development type but also by location (typically reflecting viability differences between residential sub markets).
- 1.15 In some instances the third variable, scale will come into play. Typically this issue has been significant within Use Class A1 (High Street Shops versus Super-markets/stores), but it is now more pertinent with respect to affordable housing thresholds as discussed below.
- 1.16 CIL is payable on floor area, not units. It is furthermore payable on net increases in floorspace. Since many developments involve demolition, only low payments may ensue. However, it would appear that studies completed so far have taken a 'worst case' scenario, being based on gross development areas.
- 1.17 There are exemptions to CIL. These relate to Affordable Housing and Charity projects. This does not mean that Affordable Housing does not have to be tested; just that where mixed tenure development scheme examples are tested, no CIL charge is applied to the Affordable Housing element.

### **Ensuring viability & deliverability**

- 1.18 The CIL also has to have strong regards for viability and deliverability. **Regulation 14** (as amended by the 2014 Regulations) states that:-

“In setting rates (including differential rates) in a charging schedule, a charging authority must strike an appropriate balance between: the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.”
- 1.19 The most recent (June 2014) DCLG Statutory Guidance states “This balance is at the centre of the charge-setting process. In meeting the regulatory requirements ..., charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area. As set out in the National Planning Policy Framework in England (paragraphs 173 - 177), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. The same principle applies in Wales.”
- 1.20 This DCLG guidance also states that “A charging authority should take development costs into account when setting its levy rate or rates, particularly those likely to be incurred on strategic sites or brownfield land. A realistic understanding of costs is

essential to the proper assessment of viability in an area. Development costs include costs arising from existing regulatory requirements, and any policies on planning obligations in the relevant Plan, such as policies on affordable housing and identified site-specific requirements for strategic sites.”

1.21 Therefore, in setting a CIL, the cumulative impacts of the Plan are to be taken into account. Indeed, as mentioned above, the National Planning Policy Framework states:-

*“173. ... the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.”*

*“174. Local planning authorities... should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence.”*

1.22 Whilst the scale of these ‘competitive returns’ are not specified, there is a range of further guidance that assists this process. This encompasses the RICS guidance note (Financial Viability in Planning: 1<sup>st</sup> Edition, 2012); and more importantly the Harman Review (Viability Testing Local Plans: Advice for planning practitioners, June 2012). The later document having been recommended to local planning authorities by the Planning Inspectorate for use in setting a CIL; and similarly defines viability and deliverability as follows:-

*“An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.”; and*

*“At Local Plan level, viability is very closely linked to the concept of deliverability. In the case of housing, a Local Plan can be said to be deliverable if sufficient sites are viable - as defined in the previous paragraph - to deliver the plan’s housing requirements over the plan period.”*

1.23 There is then a range of precedent and case law. Some of the more notable are:-

- Barnet & Chase Farm: APP/Q5300/A/07/2043798/NWF;
- Bath Road, Bristol: APP/P0119/A/08/2069226;
- Croydon Road, Beckenham: APP/G5180/A/08/2084559; and
- Oxford Street, Woodstock: APP/D3125/A/09/2104658.

1.24 The approach encompassed in the cases above has been very much bolstered in the report by Mr Keith Holland, the Examiner appointed by the Mayor of London to evaluate the London Community Infrastructure Levy.

- 1.25 Similarly, there is no detailed guidance on how CIL should be set, taking viability into account. The Harman Review, as recommended by the Planning Inspectorate, provides a helpful framework, but this 'step-by-step guide to carrying out plan viability assessment' does not provide specific values in relation to the level of landowner return / developer profit, or setting the CIL Rates themselves.
- 1.26 Generally however, an assessment of viability for CIL Charging purposes might have reference to a range of factors including: past and recent delivery of affordable housing, residual values, the relationship between residual values and existing use values, what have been found to be robust targets in similar authorities through the Local Plan / LDP/ CIL processes, the land supply equation and its relationship to the policy weight given to affordable housing delivery in the wider context of housing supply generally. To some extent, landowner expectations are also relevant. The experience of the consultant, working in conjunction with the local authority and through developer workshops helps to arrive at a robust policy stance.
- 1.27 Therefore, in the analysis carried out in this Report, it has been assumed that the developer generally obtains a total 'competitive return' of equivalent 20% on gross development value for residential schemes.
- 1.28 The difficult question then is what assumption should be made about the level of a 'competitive return' to the land owner. This question was raised at the Joint Viability Workshop, although there was no consensus about a figure, but is considered in detail in the next section of this Report.

### **Setting a residential Benchmark Land Value (BLV) and the 'Viability Cushion'**

- 1.29 As regards a 'competitive return' for the landowner, the Harman Review places emphasis on setting threshold (benchmark) land values in the local context and the use of a 'viability cushion' in the testing assumptions, as it recommends that:-
- *"... the Threshold Land Value is based upon a premium over current use values.";*
  - *"The precise figure that should be used as an appropriate premium over current use values should be determined locally. But it is important that there is evidence that it represents a sufficient premium to persuade landowners to sell.";* and
  - *"In setting out a Threshold Land Value, it is important to avoid assuming that land will come forward at the margins of viability. To guard against this, planning authorities should consider incorporating an appropriate 'viability cushion' in the testing in order to ensure that the sites upon which the Local Plan relies in the first five years will, on the balance of probability, come forward as required."*
- 1.30 For The Torfaen LDP, the Council previously (upon the advice of Andrew Golland Associates) generally tested LDP policy by uplifting an industrial EUV by around 25% to set the BLV, given that their LDP made 40% of their allocations on greenfield sites and 60% on brownfield sites; the majority of which were former 'employment' sites. This approach was also supported by the DCLG document 'Cumulative Impacts of Regulations on House Builders and Landowners', June 2011 which stated that "...we recommend that a premium hurdle rate uplift of 25% on Existing Use Value is assumed to realise development on 'brown land'..." For greenfield sites the Council used the same BLV on the assumption that landowners of lower value agricultural / amenity land have a similar market land value expectation for residential land. Such an approach has proved to be reasonable, as on this basis, housing sites are coming

forward to generally deliver the LDP housing strategy; the greater majority of which are fully compliant with LDP affordable housing and S106 policy - which has only been relaxed when both high abnormal infrastructure costs and high education contributions are required.

- 1.31 Therefore, as a starting point in setting a CIL 'Benchmark Land Value', Table 1.1 below shows the maximum serviced Industrial (Brownfield) and Agricultural (Greenfield) EUVs, which have been identified from local research (mainly from the Council and Hutchins & Thomas valuers) for each housing sub-market area. Albeit recent (2015/16) Welsh Government sales of employment sites at Kays & Kears in Blaenavon, North Torfaen (@ £6k ha); Uskvale, Mamhilad in Pontypool East (@ £75k ha); and Llanfrechfa Grange in Cwmbran S&E (@ £29k ha) have been for much less. It is noted that based upon the results of the viability testing later in this Report, we have recommended that the Torfaen LDP Pontypool HSMA should be split into two areas, i.e. Pontypool East based upon the NP4 0 New Inn / Mamhilad postcode; and Pontypool West based upon the NP4 5, NP4 6 and NP4 8 postcodes for the remainder of the Pontypool HSMA.

**Table 1.1: Existing Use Land Values per net Hectare (acre) for Torfaen**

Land Use	North Torfaen	Pontypool West	Pontypool East	Cwmbran N & W	Cwmbran S & E
Industrial	£123,550 (£50,000)	£185,325 (£75,000)	£247,100 (£100,000)	£247,100 (£100,000)	£308,875 (£125,000)
Agricultural	£6,177 (£2,500)	£9,884 (£4,000)	£12,355 (£5,000)	£12,355 (£5,000)	£12,355 (£5,000)

- 1.32 However, the Council is concerned that it does not have a continuing 5 year land supply; generally because permitted housing sites are not coming forward quick enough, even though by the time the CIL is introduced, in April 2018, enough sites are likely to have been permitted. Therefore, for this specific reason, we can support the Council's proposal to, in the higher value sales areas of Pontypool and Cwmbran, where the housing market is more buoyant, a 60% uplift on an industrial EUV for the CIL viability assessment. This should also aid the delivery of housing sites, especially within the Pontypool HSMA's which has been 'slow'.
- 1.33 As mentioned above, in lower sale value areas (with sales values of £1,700m<sup>2</sup> or less and with site market sales rates of less than 30 dwellings per annum) where the housing market is effectively depressed, i.e. North Torfaen, a different approach is required. The issue in this areas is generally not the lack of willing landowners, but the lack of willing developers, especially national housebuilders. The problem, as will be shown by this Study, is that with no affordable housing or S106 whatsoever, RVs are between 139k - £188k per ha on High Level Sites and either negative or £64k per ha at best on specific site allocations tested in this report. Furthermore, with only 5% affordable housing and basic open space and recreational requirements, RV's are only between £34k - £68k per ha on High Level Sites and negative on specific site allocations tested in this report. Therefore, a compromise £100k per ha CIL BLV is suggested for North Torfaen, which would provide a 16x uplift on greenfield land and a reasonable return to the landowner. It is noted that the recent WG sale of employment land in Blaenavon only achieved £6k per ha and the permitted and serviced New Road Farm, Blaenavon housing site was recently bought for only £31,250 per ha; and even then the developer is known to have viability issues. It is also understood that housing

sites have recently been marketed for £85k ha (0.82ha at Garn-yr-Erw); £250k ha (0.4ha at Rifle Street, Blaenavon); and £400k ha (1.7ha at Varteg Road) in North Torfaen; and not surprisingly none were sold.

- 1.34 Therefore, it is considered that after taking account of Residual Values in North Torfaen and a 60% uplift on an industrial EUV and LDP delivery requirements elsewhere, a reasonable approach to setting the BLV for the CIL within the five CIL Housing Sub-Market Areas is as follows:-

**Table 1.2: CIL Benchmark Land Values per net Hectare (acre) for Torfaen**

<b>Consideration</b>	<b>North Torfaen</b>	<b>Pontypool West</b>	<b>Pontypool East</b>	<b>Cwmbran N &amp; W</b>	<b>Cwmbran S &amp; E</b>
Industrial EUV	£123,550 (£50,000)	£185,325 (£75,000)	£247,100 (£100,000)	£247,100 (£100,000)	£308,875 (£125,000)
Industrial EUV +25% (LDP BLV)	£154,438 (£62,500)	£231,656 (£93,750)	£308,875 (£125,000)	£308,875 (£125,000)	£386,094 (£156,250)
Industrial EUV +60%	£197,680 (£80,000)	<b>£296,520</b> (£120,000)	<b>£395,360</b> (£160,000)	<b>£395,360</b> (£160,000)	<b>£494,200</b> (£200,000)
House Price Sales Values / m <sup>2</sup>	£1,650	£1,800 - £2,050	£2,150 - £2,250	£1,900 - £2,100	£2,100 - £2,300
<b>Recommended CIL BLV</b>	<b>£100,000</b> (£40,470)	<b>£300,000</b> (£121,410)	<b>£400,000</b> (£161,880)	<b>£400,000</b> (£161,880)	<b>£500,000</b> (£202,350)

**Dwelling Sales Values and CIL Benchmark Land Values for Notional 1ha site**

Torfaen Average (sales prices m<sup>2</sup> / BLV)

North Torfaen	£1,650m <sup>2</sup> @ £100,000 / net ha BLV
Pontypool West	£1,900m <sup>2</sup> @ £300,000 / net ha BLV
Pontypool East	£2,200m <sup>2</sup> @ £400,000 / net ha BLV
Cwmbran North and West	£2,000m <sup>2</sup> @ £400,000 / net ha BLV
Cwmbran South and East	£2,200m <sup>2</sup> @ £500,000 / net ha BLV

This CIL BLV would generate the following land owner returns assuming agricultural 'greenfield' existing use values:

Torfaen

North Torfaen	X 16
Pontypool West	X 30
Pontypool East and Cwmbran North & West	X 32
Cwmbran South & East	X 40

## **Torfaen Locality Information**

### **Adopted Torfaen LDP Policies**

- 1.35 The Council adopted its LDP in December 2013 following independent examination earlier in 2013. The Adopted Torfaen LDP guides development and use of land within the County Borough up until March 31<sup>st</sup> 2021; but excludes that area of Torfaen within the Brecon Beacons National Park, which is covered by the Adopted Brecon Beacons National Park LDP (December 2013).

Link to Adopted Torfaen LDP website page, including Inspector's Report:-

<http://www.torfaen.gov.uk/en/PlanningAndDevelopment/Planningpolicy/LocalDevelopmentPlan/Local-Development-Plan.aspx>

- 1.36 The LDP Strategy aims to provide sustainable growth and regeneration through a 'Network of Integrated Communities' focusing on the two key settlements of Cwmbran and Pontypool to ensure that they are successful and function as service hubs for the surrounding settlements. The level of proposed development reflects the role, scale and function of individual settlements; with each settlement building upon its particular opportunities for the benefit of the County Borough as a whole.

- 1.37 The following key policies of the Adopted Torfaen LDP have been reviewed as part of this Viability Assessment and, where appropriate, taken into account in the testing assumptions:-

#### **Strategic Policies:**

- **Policy S2** gives a set of 'Sustainable Development' criterion that should be taken into account in the design of development proposals.
  - The requirements of this Policy are considered to be standard design / development costs, which this Study takes into account within the normal allowances for build costs, design fees, etc.
- **Policy S3** on 'Climate Change' provides criterion that should be considered to seek to mitigate the causes of further climate change and adapt to the current and future effects of climate change such as promoting sustainable design.
  - The requirements of this Policy are considered to be standard design / development costs, which this Study takes into account within the normal allowances for build costs, design fees, etc.
- **Policy S4** on 'Place Making' seeks that new development must have full regard to the context of the local natural and built environment and its special features including criterion on sustainable design and promoting a mix of uses.
  - The requirements of this Policy are considered to be standard design / development costs, which this Study takes into account within the normal allowances for build costs, design fees, etc.
- **Policy S5** on 'Housing' makes 'provision for the development of 4,700 dwellings in Torfaen (by identifying sites for approximately 5,740 dwellings) during the Plan Period (2006-2021) broken down within the following Housing Sub-Market Areas (HSMAs): -
  - a) North Torfaen - approximately 550 dwellings;
  - b) Pontypool - approximately 1,875 dwellings; and

c) Cwmbran (south & east and north & west combined) - approximately 2,275 dwellings.

These figures include an allowance of 300 dwellings on 'small sites' (9 or less dwellings) and 289 dwellings on 'windfall' sites' (10 or more dwellings) over the Plan Period 2010-2021 remaining; with net demolitions being added to the dwelling requirement.'

- It is noted that paragraph 5.5.1 of the Adopted LDP identifies that Policy S5 provides for an approximate **22% over-allocation** of dwellings in the Plan; which effectively means that TCBC could theoretically set a CIL rate that makes 22% of the 5,740 allocated dwellings uneconomic and still deliver the 4,700 dwelling requirement of the Plan.
  - **Policy S6** on 'Employment and Economy' makes provision for 40.3ha of new land for employment and business purposes and 35.0ha for strategic regional employment opportunities across the County Borough during the period 2006-2021.
    - Such employment uses have been tested within this Study in Chapter 5 on 'Commercial Property Viability Analysis'.
  - **Policy S7** seeks to ensure that development proposals promote the 'Conservation and Enhancement of the Natural, Built and Historic Environment'.
    - The requirements of this Policy are seen as standard design / development costs, which this Study takes into account within the normal allowances for build costs, design fees, etc.
  - **Policy S8** on 'Planning Obligations' states:-  
"Planning obligations will be required on development proposals through S106 legal agreements where they are necessary to address the impacts of development and to make the proposal acceptable in land use planning terms. Based on evidence of local need and / or generation of need by the proposal, taking into account site specific circumstances, viability and LDP Objectives, planning obligations will be specifically targeted to achieve the key priorities of: -
    - a) Affordable housing;
    - b) Open space, children's play spaces and formal outdoor recreation facilities;
    - c) Investment in educational provision;
    - d) Highways and transport infrastructure management and improvements (including walking and cycling infrastructure and public transport facilities and services); and
    - e) Maintenance and enhancement of the environment, historic assets and biodiversity networks and resources.and may also include, but are not limited to:
    - f) Community facilities;
    - g) Employment and commercial opportunities;
    - h) Waste management facilities and services;
    - i) Public realm improvements and public art;
    - j) Renewable energy and energy efficiency;
    - k) Improvements to the Monmouthshire and Brecon Canal;
    - l) Incorporation of Sustainable Urban Drainage Schemes (SUDS); and
    - m) Flood defence measures to mitigate the risk of flooding."
- It is noted that whilst Policy S8 identifies both 'key priorities' for S106 contributions and allows for flexibility in their provision subject to 'site specific circumstances' and 'viability', for the purpose of this Study it has been assumed

that for specific site testing all relevant S106 requirements would be sought. It is also noted that not all sites would be asked to make a S106 contribution, therefore, these Policy S8 requirements have, where relevant, been taken into account as either abnormals (if they are required to make a scheme acceptable for highway safety or capacity reasons under a Section 278 Agreement) or S106 costs (if provision is more flexible) within this Study as follows:-

Affordable Housing - the actual affordable housing % sought under LDP Policy H4 (see below) for the five relevant housing sub-market areas have been used in this Study.

Standard S106 costs - the standard S106 SPG costs (see below) for open space, children's play spaces and formal outdoor recreation facilities have been used in this Study for all relevant sites.

Site specific abnormals / S106 costs - noting that this Study uses the BCIS costs for construction in Torfaen plus 15% for 'external costs' (which includes an element for 'standard' abnormal costs prevalent in the area), the costs of additional educational provision; highways / transport infrastructure management & improvements; the maintenance and enhancement of the environment, historic assets and biodiversity networks & resources; community facilities; employment and commercial opportunities; waste management facilities & services; public realm improvements and public art; improvements to the Monmouthshire and Brecon Canal; and flood defence measures to mitigate the risk of flooding have been used in this Study for site specific testing where they are known to apply.

Standard Design Development Costs - the costs of renewable energy / energy efficiency measures and SUDS are considered to be standard design / development costs, which this Study takes into account within the normal allowances for build costs, design fees, etc.

#### Boroughwide 'Development Management' Policy:

- **Policy BW1** provides a detailed Boroughwide 'General Policy' on Development Proposals; with criterion covering 'Amenity & Design', the 'Natural Environment', the 'Built Environment', 'Utilities Provision' and 'Design & Transport', against which all planning applications will be determined in conjunction with other relevant policies of the Local Development Plan.
  - The requirements of this Policy are generally considered to be standard design / development costs, which this Study takes into account within the normal allowances for build costs, design fees, etc. However, relevant 'additional' abnormal costs have been used in this Study for site specific testing where they are known.

#### Site Allocations and Other Policies:

- **Policy SAA1** on Eastern Strip Central SAA, Cwmbran, allocates a 13ha employment led scheme; 2.7ha for B1 uses (light industrial and offices) and a hotel; 5.6ha for B2 uses (general industrial) a foodstore (Morrisons), leisure uses and public open space.
  - This brownfield strategic mixed use site has not been tested in this Study as it has already received planning permission; the Morrisons store is now built; the 5.6ha B2 Meritor factory has been reduced in size and retained; and the residual 2.7ha B1 / Hotel site is now likely to be used for Torfaen's Post 16 Further Education Campus.

- **Policy SAA2** on Canalside SAA, Cwmbran, allocates a 6.2ha housing led scheme of approx. 150 dwellings in total (100 dwellings to be delivered within the Plan Period), Canalside uses and public open space.

  - This brownfield strategic mixed use site has been tested within this Study; noting that whilst it lies within the 30% affordable housing area of Cwmbran S&E, the site has been tested at 10% affordable housing provision, given that the LDP priority for this site is the restoration of the Canal and 10% provision was used for this site in setting the overall Affordable Housing Target in LDP Policy H4. In addition, whilst the site is allocated for 150 dwellings, the associated draft Masterplan and current detailed site capacity / development work has suggesting that 200 dwellings on the site is more appropriate; therefore, this revised number and associated house types has been tested within this Study.
  
- **Policy SAA3** on Llantarnam SAA, Cwmbran, allocates a 29.13ha housing led scheme for the construction of approx. 450 dwellings, 8ha of B1 employment uses, a neighbourhood centre, open space and recreation provision, aided by strategic highway infrastructure improvements.

  - This greenfield site has not been tested in this Study as it is has recently obtained outline planning permission (July 2015) for up to 450 dwellings, B1 employment uses, a neighbourhood centre, etc.; and the reserved matters application for the 1<sup>st</sup> Phase of 103 dwellings has also been approved.
  
- **Policy SAA4** on Mamhilad SAA, Pontypool, allocates a 72.65ha mixed use scheme for the construction of a sustainable urban village of 1,700 dwellings (690 dwellings to be delivered within the Plan Period), employment uses, the re-use of the Grade II\* Listed Building (former British Nylon Spinners(BNS)), neighbourhood centre, primary school, open space and recreation facilities.

  - This strategic brownfield / greenfield site, within the Pontypool Housing Sub-Market Area, has not yet obtained planning permission and has therefore been tested in this Study. Current work with the landowner is showing that the site is more likely to deliver a minimum of 1,100 dwellings; as 380 flats are not likely to be provided within the BNS building. This reduced number of dwellings has also been tested.
  
- **Policy SAA5** on The British SAA, Pontypool, allocates a 72ha land reclamation scheme, in preparation for a mixed use (residential, employment, education, community, open space and recreation facilities, etc.) regeneration scheme beyond the end of the Plan Period.

  - This brownfield land reclamation site, within the Pontypool Housing Sub-Market Area, is not likely to involve new built development within the Plan Period, therefore, it has not been tested within this Study.
  
- **Policy SAA6** on South Sebastopol SAA, Cwmbran, allocates a 103.5ha sustainable urban village of 1,200 dwellings (690 dwellings to be delivered within the Plan Period) and ancillary uses including education provision, community facilities, neighbourhood centre, playing pitch provision and public open space.

  - This large greenfield strategic site obtained outline planning permission in January 2014 and again in October 2014; and the reserved matter applications for the 1<sup>st</sup> Phase (210 dwellings) was approved (August 2015). However, it has been tested within this Study as an example of a large site within the Cwmbran N&W Housing Sub-Market Area, as no other large LDP housing allocations have been made within this Housing Sub-Market Area. In addition, extensive,

publically available, independent viability information was submitted by the developers as part of the planning applications, which has also been used in this Study.

- **Policy SAA7** on Llanfrechfa Grange SAA, Cwmbran, allocates a 44ha mixed used scheme for the construction of a large (400+ beds) regional Specialist & Critical Care Centre Hospital, 8.4ha (4.8ha to be delivered within the Plan Period) of related employment land, approx. 300 dwellings, community & recreation facilities and public open space.
  - as each of the land use elements are considered to be stand alone, only the residential element of this mixed used strategic site has been tested in this Study; noting that B1 employment uses have been tested under the commercial analysis of Chapter 4; and outline permission was granted for the Hospital element in October 2012 and reserved matters were approved in May 2015, with construction now expected to commence in 2017.
- **Policies H1, H2 & H3** on housing within the 'Cwmbran, Pontypool and North Torfaen Housing (Sub) Market Areas' respectively and **Policy H7** on 'Gypsy & Traveller Sites' allocate the following Housing Sites within Torfaen:-

**Table 1.3: Torfaen LDP Residential Allocations**

LDP Ref	Site Name	No.s	Planning Permission	Status	Tested
<b>Cwmbran</b>					
H1/1	County Hall and Police HQ, Llanyravon	220	No ( <i>current pre-app on County Hall</i> )	N/S	Yes
H1/2	Former Police College & Adjacent Land, St. Dials	350	Yes ( <i>Police College Phase 1 for 219 units</i> )	Ph.1 U/C	Yes
H1/3	Former Belle Vue Nursery, St. Dials	16	No ( <i>current pre-app</i> )	N/S	No
H1/4	Ty'r-ywen Farm, Fairwater	25	No	N/S	No
<b>Pontypool</b>					
H2/1	Former Trevethin School, Penygarn	115	Yes ( <i>124+ dwellings</i> )	U/C	No
H2/2	Animal Pound & Adjacent Land, Wainfelin	135	No	N/S	Yes
H2/3	Pontypool College, Cwmyrnyscoy	140	No	N/S	No
H2/4	Coal Yard, Station Road, Panteg	15	Yes on Part ( <i>for 8 units - 7 remaining</i> )	N/S	No
<b>North Torfaen</b>					
H3/1	Garn-yr-Erw Terrace, Near Blaenavon	26	No ( <i>approved subject to S106</i> )	N/S	Yes
H3/2	Blaenavon Health Centre, Blaenavon	17	Yes ( <i>but B1 Office</i> )	B1 Office	No
H3/3	St Peters School, Blaenavon	18	No	N/S	No
H3/4	Hillside School, Blaenavon	64	Yes ( <i>54 dwellings</i> )	U/C	Yes
H3/5	Land off Giles Road, Blaenavon	25	No	N/S	No

H3/6	Old Co-op, 39-43 High Street, Abersychan	24	No	N/S	Yes
<b>Gypsy &amp; Traveller Sites</b>					
H7/1	Rose Cottage, Cwmynyscoy	10	No <i>(invalid application)</i>	N/S	No
H7/2	Former Race AFC Sports Pitch, Cwmynyscoy	32	Yes <i>(31 Pitches)</i>	10 built	No

- This study has tested a range of site sizes and has included a cross section of greenfield and brownfield sites from the different market areas listed above.

▪ **Policy H4** on 'Affordable Housing' states that:-

"In order to achieve a target of approximately 1,132 affordable homes within Torfaen over the period 2006-2021, the Council will, on all residential sites of 3 or more dwellings or over 0.1ha (including if it forms part of a more substantial site over this size), seek to negotiate the on-site provision of up to the following percentage of affordable housing and / or a payment in lieu of on-site provision, by Housing Sub-Market Area, as follows:

1. North Torfaen - 10%;
2. Pontypool - 25%;
3. Cwmbran West & North - 20%; and
4. Cwmbran East & South - 30%.

These percentages will change upwards if Social Housing Grant is to be used.

These percentages may change by 5% increments (increase or decrease), via Supplementary Planning Guidance, if house prices or construction costs change (up or down) as a result of annual monitoring and an update of the Affordable Housing Viability Study.

The dwelling size and tenure of the affordable housing should contribute to balanced & sustainable communities, reflect local need and normally be designed to the principles of the Welsh Government Development Quality Requirements."

- It is noted that Policy H4 sets a site size / dwelling threshold for affordable housing to be sought as well as different % of affordable housing for the four relevant housing sub-market areas across the County Borough which have been used in this Study. Of interest for setting an affordable 'future proofed' CIL, Policy H4 provides for the level of affordable housing sought to be changed via SPG *"by 5% increments (increase or decrease), via Supplementary Planning Guidance, if house prices or construction costs change (up or down) as a result of annual monitoring"*.
- Indeed the Council, based upon the annual review of viability as part of the 2015 LDP Annual Monitoring Report, resolved to reduce the amount of affordable housing sought within the North Torfaen HSMA to 'up to 5%' rather than 'up to 10%' and the Planning Obligations (S106) SPG has been updated accordingly. This change has also been analysed within this Report.

▪ **Policy H5** sets the standards for the 'Provision for Recreation, Open Space, Leisure Facilities and Allotments' which will be sought in conjunction with new residential developments of 3 or more dwellings.

- In accordance with the Council's Adopted Planning Obligations SPG (see below), a standard cost per dwelling for the provision and maintenance of open space and recreation facilities (children's' play and adult recreation) has been used in

this study for the specific site testing; with an additional sum for allotments on the largest sites where appropriate.

- **Policies EET1, EET2, EET3, EET4, SAA1, SAA3, SAA4 & SAA7** allocate 19 listed Employment Sites across Torfaen.
  - Such Class B1 (Business), B2 (General Industrial) and B8 (Warehousing) employment uses have been tested within this Study in Chapter 4 on 'Commercial Property Viability Analysis'.
- **Policy RLT2** identifies land on the eastern side of the existing Cwmbran Town Centre (broadly the area to the east of North Walk and The Mall and including land between Glyndwr Road and St Davids Road - **RLT2/1**) as having the potential for redevelopment for retail and other town centre uses.
  - Whilst the full scheme details are not yet finalised, we have used the Prudential Assurance Co Ltd's preliminary option, including a viability assessment (August 2012), of a new build element of part of this allocation within this Study in Chapter 4 on 'Commercial Property Viability Analysis' of A1 uses.
- **Policy T1** safeguards land and makes provision (from developments that would require any of the schemes to be implemented) for the construction of the following proposed 'Transport Improvement Schemes': -
  1. North Torfaen Highway and Public Transport Improvements (mainly A4043 & B4246 corridors);
  2. Pontypool & New Inn Park and Ride / Share Facility;
  3. Cwmbran Town Centre Improvements; and
  4. Llanfrechfa Grange Link Road, Llanfrechfa.
- Similarly, **Policy T2** safeguards the Monmouthshire and Brecon Canal and makes provision for its improvement from adjacent developments.
- Finally, **Policy T3** safeguards 6 listed schemes to improve the cycle route network within Torfaen.
  - The requirements for relevant sites to fund or make contributions to these **Policy T1 - T3** transport schemes depends on whether TCBC adds them to their CIL S123 Infrastructure List or seeks their provision through S106 Obligations / Section 278 Agreements. Also, as not all sites would be asked to make such provision, they have, where relevant, been taken into account as either abnormal (if they are required to make a scheme acceptable for highway safety or capacity reasons under a Section 278 Agreement) or S106 costs (if provision is more flexible) in specific site testing. For example, at Llanfrechfa Grange SAA, the site specific additional Policy T1 Link Road costs may be an abnormal cost if required by a Traffic Impact Assessment. Similarly, at the Mamhilad SAA, a £2m S106 contribution has been assumed towards the Policy T1 Pontypool & New Inn Park and Ride / Share Facility.
- **Policy CF1** safeguards land at the former Blaenavon Leisure Centre for the provision of a Primary Care Resource Centre.
  - The new Blaenavon Primary Care Resource Centre opened on 3<sup>rd</sup> October 2014. However, such Class D1 healthcare uses have been tested within this Study in Chapter 4 on 'Commercial Property Viability Analysis'.
- **Policy CF2** safeguards land at the former Panteg Steelworks for a Primary School.
  - This site was recently permitted for a 420 place TCBC Welsh medium primary school and is currently under construction; with completion in December 2016.

## Previous Affordable Housing Evidence

1.38 As part of the LDP evidence base, the Council established both the housing markets in the area and the levels of housing requirement in terms of the split between market, social rented and intermediate housing from a South East Wales Regional Study in 2005, which was followed up by a Sub-Regional Local Housing Market Assessment with a Locality Report for Torfaen in 2007 (which was updated in 2010):-

- South East Wales Regional Housing Market Study, December 2005-  
<http://www.torfaen.gov.uk/en/Related-Documents/Forward-Planning/SD57-SouthEastWalesRegionalHousingMarketStudy.pdf>
- Newport, Torfaen and Monmouthshire Local Housing Market Assessment: Report of Findings, August 2007 -  
<http://www.torfaen.gov.uk/en/Related-Documents/Forward-Planning/SD51-LocalHousingMarketAssessment-ReportofFindingsforTorfaen,MonmouthshireandNewportAugust2007.pdf>
- Newport, Torfaen and Monmouthshire Local Housing Market Assessment: Local Authority Report for Torfaen, November 2007 -  
<http://www.torfaen.gov.uk/en/Related-Documents/Forward-Planning/SD51b-LocalHousingMarketAssessment-LocalAuthorityReportforTorfaen.pdf>
- Newport, Torfaen and Monmouthshire Local Housing Market Assessment: Local Authority Report for Torfaen 2010 Update, June 2010 -  
<http://www.torfaen.gov.uk/en/Related-Documents/Forward-Planning/SD51c-LocalHousingMarketAssessmentLocalAuthorityReportforTorfaen2010Update.pdf>

This work was accepted by the Inspector at Examination and critically provides the evidence for the previous affordable housing requirement tenure split of 2/3 socially rented and 1/3 intermediate dwellings.

1.39 Based upon the above Local Housing Market Assessment evidence and further, mainly house price research (which effectively split the Cwmbran Housing Market Area into the Cwmbran South & East and Cwmbran North & West Housing Sub-Market Areas) the Council and Three Dragons (Andrew Golland Associates) initially carried out extensive viability assessment work during March 2011, looking at 'high level' viability, as well as smaller sites to inform the affordable housing and 'S106' policies of the Deposit LDP:-

- Affordable Housing Viability Study, March 2011 -  
<http://www.torfaen.gov.uk/en/Related-Documents/Forward-Planning/SD31-AffordableHousingViabilityStudy.pdf>

The Affordable Housing Viability Study was updated in April 2013 as part of the independent Examination of the Deposit LDP:-

- TCBC Examination Statement - Housing / Affordable Housing, April 2013 (App 2 refers to 'CIL & Site Delivery' and App 3 contains the 'Affordable Housing Viability Study Update - March 2013') -  
<http://www.torfaen.gov.uk/en/Related-Documents/Forward-Planning/LDP-Hearing-Sessions/ED21-TCBC-Examination-Statement-WK1-Session-2-Housing-Affordable-Housing.pdf>
- TCBC - Further Examination Statement - Housing and Affordable Housing, June 2013 -

<http://www.torfaen.gov.uk/en/Related-Documents/Forward-Planning/LDP-Hearing-Sessions/ED108---TCBC-Further-Examination-Statement-Session-2-Housing-Affordable-Housing.pdf>

This work provided a number of options for Affordable Housing policy setting included a split approach for the affordable housing requirement across Torfaen's four housing sub-market areas; which was accepted by the Inspector at Examination.

### **Adopted Planning Obligations Supplementary Planning Guidance (SPG) - June 2011 (as Updated)**

1.40 The Council's Planning Obligations (S106) SPG was first adopted in June 2011 and was based upon the Policies of the Gwent Structure Plan (1996); Torfaen Local Plan (2000); the emerging LDP policies; the adopted Torfaen Affordable Housing Delivery Statement SPG (2010); and the adopted 'Development and its Incorporation within the Landscape: A Guide for Developers' SPG.

<http://www.torfaen.gov.uk/en/Related-Documents/Forward-Planning/SD84-AdoptedPlanningObligationsSupplementaryPlanningGuidance.pdf>

1.41 Given the many changes to national and local policy / guidance; the results of the latest 2015 Torfaen Local Housing Market Assessment; the recommendations of the 2015 LDP AMR; and changes the WG ACG values since 2011, the Council consulted on an Update of the S106 SPG in April-June 2016. This Updated S106 SPG has been taken into account in this Study, in anticipation of its adoption in September 2016.

1.42 In detail the Updated S106 SPG has two parts:-

Part 1- contains sections on: Introduction; Legislation, Guidance and Policy Context; Principles of Use of Planning Obligations; Procedural Considerations; Further Information; and five Appendices; and

Part 2 - contains six Annexes on: Affordable Housing; Highways & Transport; Education Facilities; Community Facilities & Regeneration; Biodiversity & Geodiversity; and Recreation and Public Open Space.

1.43 The Updated S106 SPG - 'Table 1: Summary of Common Requirements', sets the following site 'Thresholds' for seeking planning obligations; which are in conformity with LDP Policies S8 (planning obligations), BW1 (general policy), H4 (affordable housing), H5 (provision for recreation, open space, leisure facilities and allotments); T1-T3 (transport) and CF5 (protection of allotments and recreation & amenity open space):-

**Table 1.4: Torfaen S106 SPG - Requirements Thresholds**

<b>Type of Obligation</b>	<b>Residential development</b>	<b>Commercial development</b>	<b>Obligation</b>
Affordable Housing	3 dwellings or 0.1 ha (10 dwellings or 0.33 ha) <sup>1</sup>	N/A	Site Specific - On site provision for an RSL and / or commuted sum:- <ul style="list-style-type: none"> <li>▪ up to 5% North Torfaen HSMA <sup>2</sup></li> <li>▪ up to 25% Pontypool HSMA</li> <li>▪ up to 20% Cwmbran West &amp; North HSMA</li> <li>▪ up to 30% Cwmbran South &amp; East HSMA</li> </ul>
Highways &	No Threshold	No Threshold	Site Specific - Highways Infrastructure

Transport			Works and / or Sustainable Transport Works according to need
Educational Facilities	10 dwellings	N/A	Site Specific - Provision for additional capacity according to need
Community Facilities & Regeneration	25 dwellings	1 ha or 1,000 m <sup>2</sup>	Site Specific - Provision for additional capacity according to need
Biodiversity & Geodiversity	No Threshold	No Threshold	Site Specific - Mitigation and / or compensation according to impact
Recreation, Open Space & Allotments	3 dwellings or 0.1 ha (10 dwellings or 0.33 ha) <sup>1</sup> or loss of such facility	Loss of such facility	Site Specific - Provision of additional capacity and / or compensatory provision according to need (adopted FiT, Council, NRW and allotments Standards and / or LDP Policy)

**\* Notes:**

1. Following a viability review (in the 2015 Torfaen LDP AMR) of the LDP residential development thresholds above which S106 obligations are sought (of 3 (0.1ha) or more dwellings in both Policies H4 (affordable housing) and H5 (Provision for Recreation, Open Space, Leisure Facilities and Allotments)), as these policies can only be changed via a review of the LDP, Council on 15th December 2015 *“Noted, as a matter of ‘planning practice’, that until viability improves, officers will only seek public open space & recreation provision within Torfaen and affordable housing provision within the Torfaen LDP North Torfaen, Pontypool and Cwmbran North & West Housing Sub-Market Areas within planning applications for 10 or more dwellings or where the site area is 0.33ha or above.”*
2. As LDP Policy H4 provides for the % of affordable housing sought in each Housing Sub-Market Area (HSMA) to be changed in 5% increments via SPG following an annual review of viability, Torfaen Council on 15th December 2015 also resolved to reduce the amount of affordable housing sought with the North Torfaen HSMA from up to 10% to up to 5%.

Viability matters will be reviewed annually as part of the Torfaen LDP AMR; so these thresholds and affordable housing % sought may change again.

- 1.44 Annex 1 of the SPG on ‘Affordable Housing’ sets the price to be paid for socially rented affordable dwellings as 37% of the respective ACG Value for the size / type of dwelling and the price to be paid for intermediate affordable dwellings as 50% of Market Value (MV). The latest April 2015 WG ACG Values and affordable housing prices have been used within this Study. The SPG is expected to be updated shortly (September 2016) to reflect the latest **Torfaen Local Housing Market Assessment, June 2015**; which now identifies a need for 177 affordable dwellings per annum over the next five years, 80% of which should be social rented dwellings and 20% should be intermediate dwellings (see Table 1.5 below). This compared to a need for 220 affordable dwellings per annum and a 70% social rented / 30% intermediate tenure split in the previous 2010 LHMA. This latest June 2015 Torfaen affordable housing tenure split has been used within this Study.

<http://www.torfaen.gov.uk/en/News/2015/December/03-Local-Housing-Market-Assessment.aspx>

**Table 1.5 Breakdown of Total Affordable Housing Need per annum**

Area	Social Rented Housing	Intermediate Housing		Total
		Low Cost Home Ownership	Intermediate Rent	
North Torfaen	6.95	3.59	0	11
Pontypool	14.9	9.44	0	24
Cwmbran N&W	14.79	5.27	3	23
Cwmbran S&E	115.65	7.7	10	133
<b>Torfaen</b>	<b>138</b>	<b>26</b>	<b>13</b>	<b>177</b>
Percentage	<b>78%</b>	<b>15%</b>	<b>7%</b>	

Source: Torfaen Local Housing Market Assessment, June 2015

- 1.45 Annex 3 on 'Education Facilities' provides, based upon local Torfaen research, pupil generation yields of 0.29 primary school and 0.16 secondary school pupils per dwelling. It also sets the following per pupil charges if there is a shortage of school places within the relevant school catchment area to serve the site:-

**Table 1.6: Torfaen S106 SPG - Education Payments (per pupil)**

School Type	New Build Cost per Pupil	Refurbishment Cost per Pupil
Primary	£9,300	£4,650
Secondary	£15,300	£7,650

Therefore, using information provided by the Council's Education Service, as there is a surplus of Secondary School places within Torfaen (even when taking LDP numbers into account) only the new build primary school charge has been taken into account on relevant site specific housing allocations tested within this Study where there is insufficient capacity within the local catchment primary school.

- 1.46 Annex 6 on 'Recreation on Public Open Space' contains the following S106 values for the provision and maintenance by the Council of such facilities, which have been used within this Study; noting that on larger sites developers often choose to maintain these facilities through a management company rather than making a S106 payment:-

**Table 1.7: Torfaen S106 SPG - Open Space, Recreation & Allotments Areas and Costs (per dwelling)**

Item	Area	Provision	Maintenance
Public Open Space	9.16 m <sup>2</sup>	£123	£101
Children's Play Areas	18.3 m <sup>2</sup>	£393	£115
Adult Recreation	36.6 m <sup>2</sup>	£366	£770
Allotments	5.88 m <sup>2</sup>	£35	£18
<b>Total</b>	<b>69.94m<sup>2</sup></b>	<b>£917</b>	<b>£1,004</b>

Note: Allotments costs provided separately by the Council for sites of 500+ dwellings

- 1.47 Annex 6 also contains the following thresholds table for the 'on-site' provision of recreation facilities, which has been used within this Study:-

**Table 1.8: Torfaen S106 SPG - Recreation On-Site Provision Thresholds**

Site Size Threshold	On-Site Recreational Requirement
Site capable of accommodating 25 dwellings	Local Area of Play (LAP)
Site capable of accommodating 63 dwellings	Local Equipped Area of Play (LEAP)
Site capable of accommodating 100 dwellings plus an area of 0.18ha	Local Area of Play / Local Equipped Area of Play
Site capable of accommodating 520 dwellings plus an area of 0.95ha	Local Equipped Area of Play / Neighbourhood Equipped Area of Play (NEAP)
Site capable of accommodating 600 dwellings plus an area of 1.1ha	Local Equipped Area of Play / Neighbourhood Equipped Area of Play & 4 x Local Areas of Play
Site capable of accommodating 273 dwellings plus an area of 1ha	Football pitch
Site capable of accommodating 218 dwellings plus an area of 0.8 ha	Multi Use Games Area (MUGA)

**Housing Delivery in Torfaen**

<b>Table 1.9: Housing Completions in Torfaen</b>			
Year	Large Sites	Small Sites	Total
2006/07	241	44	285
2007/08	184	58	242
2008/09	96	37	133
2009/10	116	27	143
2010/11	145	41	186
2011/12	154	13	167
2012/13	143	20	163
2013/14	223	17	240
2014/15	133	32	165
2015/16	134	30	164
<b>TOTAL</b>	<b>1,569</b>	<b>319</b>	<b>1,888</b>

Source - Torfaen Joint Housing Land Availability Studies

- 1.48 The Torfaen LDP identifies, in Policy S5, the need for the provision of **4,700** new dwellings between 2006-2021. To date (April 1<sup>st</sup> 2016) **1,888** dwellings have been completed leaving a remaining requirement for the 5 years of the plan period of **2,865** dwellings (including 53 demolitions accrued since 2006). Table 1.9 above outlines the actual completions in the previous 10 years of the plan period. The completions rate shows the impact of the recession after 2007/8 with delivery rates only returned to 2007/8 levels in 2013/14, before falling away again. However, it is considered that build rates will start to see a shift upwards with a number of strategic sites recently gaining planning permission, with construction now commenced. Table 1.10 below shows the spatial location of these completions across the three Torfaen Housing Market Areas at April 2016 and progress against the associated LDP Housing Sub-Targets of LDP Policy S5.

<b>Table 1.10: Torfaen LDP Housing Table at April 2016</b>			
	Housing Market Area (HMA)		
	<b>North Torfaen</b>	<b>Pontypool</b>	<b>Cwmbran</b>
<b>LDP HOUSING SUB-TARGET</b>	<b>550</b>	<b>1,875</b>	<b>2,275</b>
Dwellings built: January 2006 - April 2016 (A)	323	820	745
Permitted large sites (10+ dwellings) at April 2016 (B)	203	415	1,240
LDP allocations on large (10+) sites (at April 2016)	110	982	792
Small sites (<9 dwellings) remaining 2016 - 2021 (C)	50	60	37
Windfall large (10+) sites remaining 2016 - 2021	5	13	23
<b>SUB-TOTAL</b>	<b>691</b>	<b>2,290</b>	<b>2,837</b>
Dwellings demolished January 2006 - April 2016 (D)	10	6	37
Estimated dwelling demolitions 2016 - 2021 (E)	5	3	17
<b>TOTAL IDENTIFIED</b> (including demolitions)	<b>676</b>	<b>2,281</b>	<b>2,783</b>
<b>OVER ALLOCATION</b> (including demolitions) when compared to LDP Housing Target	126 dwellings (23% over allocation)	406 dwellings (22% over allocation)	511 dwellings (22% over allocation)
<b>Large Sites Remaining to be Permitted (April 2016) to Deliver LDP Target</b> (LDP Target - ((A+B+C)-(D+E)))	<b>-11</b>	<b>580</b>	<b>307</b>

Source - Table 1.10 is based upon the Housing Sites Table at Appendix 6 of the Torfaen LDP, which provides more detail on how the future small sites, windfall and demolitions calculations are made and lists the sites themselves.

### **Housing Land Supply in Torfaen**

1.49 The latest 2016 Torfaen Joint Housing Land Availability Study (JHLAS) forecasts, using the residual method, 2,075 dwellings to be delivered in the 5 years to 2021. Therefore, at 1<sup>st</sup> April 2016, Torfaen had a **3.6 years housing land supply**, which is below the 5 years land supply required by National Policy. Delays to the bringing forward of key strategic sites following adoption has led to a shortfall in the current land supply with build rates lower than anticipated. The Council continue to promote appropriate new housing development in the County Borough; and with regards to the above Housing Table, the number of windfall site dwellings is now expected to be higher than that forecast in the LDP. In addition, residential demolitions (which are netted-off the completion figures) are also expected to be lower than forecast in the LDP; with small site housing completions as per the LDP forecast.

1.50 In summary, delivery rates are currently below required levels to meet the LDP Housing Target of **4,700** dwellings by 2021; and in recognition of the need for a higher level of housing delivery this should be considered in setting a CIL. However, from the

above Housing Table, it can also be noted that of the identified **2,865** dwellings left to be delivered over the next 5 years:-

- **1,858** dwellings have already received planning permission on large sites (including those subject to a S106);
- an additional **147** dwellings are expected to be delivered on small sites up to 2021 where a £0m<sup>2</sup> CIL Charge is proposed;
- the 2016 Torfaen JHLAS considers that of the 1,884 (110 North Torfaen + 982 Pontypool + 792 Cwmbran) LDP large site allocations remaining to be permitted, an additional **378** dwellings:- Giles Road (25) in Blaenavon; Animal Pound (135), Rose Cottage (10) & Coal Yard (7) in Pontypool; and County Hall (160), Belle Vue Nursery (16) & Ty'r ywen Farm (25) in Cwmbran should, without prejudice, also be permitted before the CIL Charge is introduced;
- at the current time, the Council estimate that a further **364** additional dwellings are, without prejudice, likely to be permitted before the CIL Charge is introduced on 'acceptable' known windfall sites (from either current applications / pre-applications) at the former Kemys Fawr School (30 est) & Pontypool Hospital (34) in Pontypool; and the former Llantarnam Comprehensive School (220 est) & former Llantarnam Primary School (80 est) in Cwmbran; and
- finally, the Council also consider that a further **50** allocated dwellings could, without prejudice, also be permitted before the CIL Charge is introduced on Phase 2 of the former Police College in Cwmbran.

This accounts for (1,858 + 147 + 378 + 364 + 50) **2,797** dwellings likely to have be permitted before a CIL Charge is introduced, against a residual LDP housing target of **2,865** dwellings (notwithstanding any further 'acceptable' windfall sites / demolitions permitted before the CIL Charge is introduced). Therefore, it is likely that only **68** dwellings (2,865 - 2,797 = 68) need to be permitted under a CIL regime in order to deliver the 4,700 dwelling LDP Housing Target; which should also be considered when setting the CIL.

1.51 In addition, taking Table 1.10, all of the above and the small sites allowance into account:-

- permissions have already exceeded the LDP housing sub-target for **North Torfaen HSMA** (Housing Sub-Market Area) by **+16** dwellings;
- in the **Pontypool HSMA**, permissions are likely to be short of the LDP housing sub-target by **-352** dwellings (586 remaining sub-target - (152 JHLAS + 64 known windfall = 216) = 352) if the Mamhilad site is not permitted before the CIL charge is introduced; and
- in the **Cwmbran HSMA**, permissions are likely to have exceeded the LDP housing sub-target by **+261** dwellings before the CIL charge is introduced (290 remaining sub-target - (201 JHLAS + 300 known windfall + 50 allocations = 551) = 261).

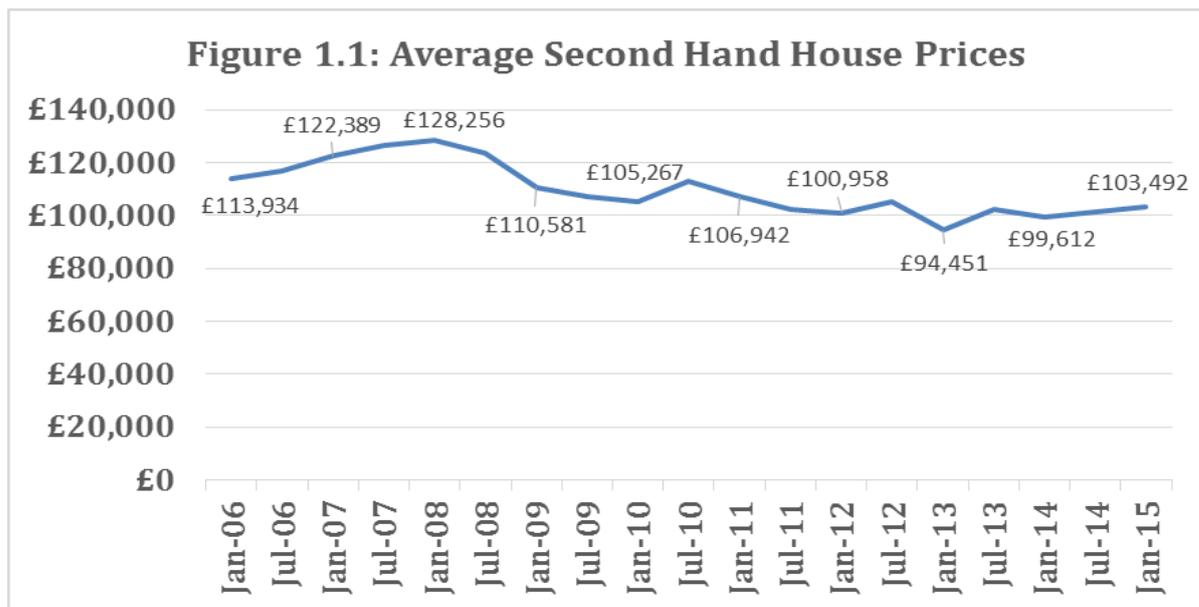
1.52 The Council have stated that, the five year land supply shortfall is not due to the overall supply of planning permissions, but rather it is an issue of timely housing delivery. Indeed, it is now clear that the LDP target of 4,700 dwellings over the Plan Period to 2021 is no longer achievable; as that would require a build rate of (2,812 dwellings / 5 years) 563 dwellings per annum which, as can be seen in Table 1.9 above, has never been achieved.

## Delivery of Affordable Housing in Torfaen

- 1.53 The Torfaen LDP (Policy H4) seeks to achieve approximately **1,132** affordable homes out of the 4,700 new dwellings expected to be built over the plan period to 2021. This equates to a **24.1%** provision of affordable housing or the delivery of 75 affordable homes per year. As of April 2016, **563** affordable units have been delivered and a further **508** have already been permitted until 2021. Therefore, only a further **61** affordable dwellings (1,132 target - (563 built + 508 permitted = 1,071) = 61) need to be secured from the 860 dwellings left to be permitted (i.e. 7% provision) to achieve the LDP affordable housing target; which based upon past performance, appears eminently achievable. It is also noted that Welsh Government affordable housing grants for Torfaen are expected to quadruple over the next four years with a combination of Social Housing Grant and the new Housing Finance Grant 2 in order to meet the current Welsh Government 20,000 affordable housing target for Wales.

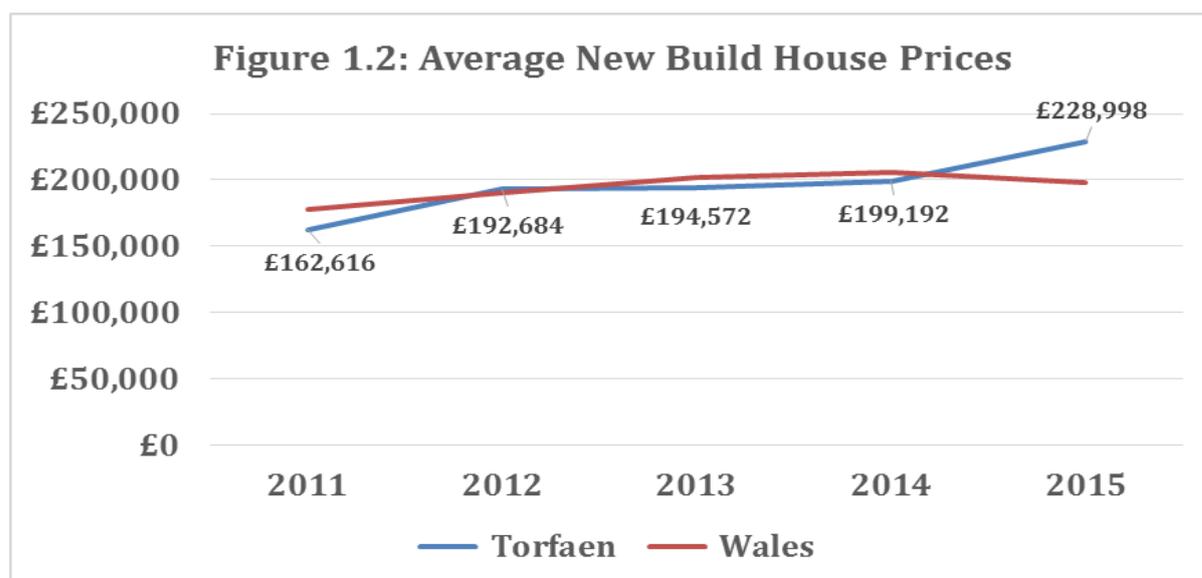
## Torfaen Housing Market Overview

- 1.54 Figure 1.1 below (from the Land Registry House Price Index (HPI) information - which excludes first time sales) shows that since the beginning of the LDP Plan Period average second hand house prices in Torfaen have not yet returned to their 'pre-credit crunch' high point of January 2008.



Source: Land Registry data (Torfaen January figures shown)

- 1.55 However, using the Hometrack house price analysis software, there is approximately a 50% uplift on sales values between second hand and new houses in Torfaen. Indeed, Figure 1.2 below shows that this is the case and that average new house prices in Torfaen have been steadily rising over the past few years; and that they generally match the average new house prices for Wales.



Source: Hometrack using Land Registry data (Torfaen figures shown; noting that the 2015 data does not represent a full year's sales and should thus be treated as such)

- 1.56 As to the future, given the number of housing sites/dwellings now permitted and general market undersupply, it can safely be assumed that house prices and number of sales will continue to rise in Torfaen. Increases in people's real earnings and spending power; as well as a national housing shortage; and now even lower mortgage rates; a depressed pound; with the Government's 'Help to Buy' (NewBuy Cymru) equity loan scheme are also helping to drive this market growth. Jones Lang LaSalle (JLL) (property advisers) in their publication entitled 'South Wales Report 2016' (March) "anticipate a continuation of the improvement in the residential market in the next five years with house price growth in Wales in the range of 2.0% to 4.0% per annum."
- 1.57 As to the future, development proposals, such as the new Post 16 Education Facility, Cwmbran Regional Town Centre redevelopment and the new Regional SCCC Hospital in Cwmbran should also drive economic and housing growth; as well as Torfaen's strategic location just north of the M4 Motorway (with completion expected by 2022) and other existing strategic road (A4042T (Newport to Shrewsbury) and A472 (Mid-Valleys Link)) and rail (Marches Railwayline (Newport to Shrewsbury) and electrification of the South Wales Mainline by 2018) transport networks and proposed 'South East Wales Metro' proposals (such as the Pontypool Park & Ride facility and improved rail service frequencies on this line) under the estimated £1.2 billion of benefits from the 'City Deal' for the Cardiff City Region.

### **Torfaen Commercial Market Overview**

- 1.58 **Overview** - A good summary of the current state of the commercial property market in the region can be found in the JLL publication entitled 'South Wales Report 2016' (March), which states that:-
- "The past year has seen a continued improvement in the UK economy, notwithstanding the occasional headwinds. In South Wales we have experienced a welcome increase in occupational demand, accompanied by an extraordinary performance in the capital markets. We have seen rental and capital growth across South Wales although with a focus upon Cardiff and the M4 corridor. Cardiff has become the driver of economic activity for the wider city region; the challenge is to now harness this growth. This will require the more strategic focus afforded by the

governance envisaged by the Cardiff Capital Region and the long term investment funding afforded by the City Deal. We can achieve this through delivering the key infrastructure projects of the M4 Black Route and Metro. In addition, further strategic planning work is required to create an updated network of key employment sites; whilst Welsh Government must incentivise investment in new development to address the shortage of Grade A employment buildings.”

- 1.59 **Industrial** - JLL consider that, across both office and industrial markets there has been steady demand from Grade A occupiers, with 2015 being a year characterised by quality over quantity. At the end of December 2015, industrial floorspace available across Wales, had decreased 9.7% over 12 months, continuing the downward trend since 2012. The available stock of units over 100,000 ft<sup>2</sup> was also 11% down on 2014; which reflected continued demand, combined with little additional stock coming to the market. The available stock of units between 1,000 and 99,999 ft<sup>2</sup> also fell 9.75% on 2014. Lack of Grade A space is causing a rise in headline rents and a reduction in incentives; and 2015 activity in the energy sector, trade counter and urban logistics is providing a driver for growth and new development. JLL also consider that the Valleys are a complex market with significant variations in market conditions, sometimes even within the same valley. However, demand has improved leading to increased rental and capital values.
- 1.60 As regards Torfaen, the Council has stated that there is a similar picture within the County as vacancies within existing industrial estates have been reducing, more so within the last year. In addition the County has a similar shortage of larger units, with 2 large manufactures leaving the County due to lack of suitable, readily available, land / accommodation; and they currently have similar issues with several existing manufacturers who require either larger or more modern facilities. Indeed when such site or premises are brought to the market they are quickly taken up, for example the dilapidated former 103,000sqft Ontario building on Pontyfelin Industrial Estate, Pontypool was recently brought back into use by Morgan’s of Usk (structural steel buildings) and the modern 70,000+ sqft former Loseley’s ice cream factory on Llantarnam Park was taken up by other food manufactures almost immediately.
- 1.61 In addition, as regards the Torfaen LDP allocations, the Welsh Government has recently (June 2015) sold (for £500,000 (i.e. £75k per ha / £30,201 per acre)) the 6.7ha Uskvale site near Pontypool (LDP Policy EET2/6) to Formation/Starburst (an industrial estate developer who recently invested in the Springvale Industrial Estate in Cwmbran); who intend to build the first phase of 2 x 20,000sqft units (which could be let as a whole or in units of 2,000sqft upwards) this year. The Welsh Government have also recently sold (for £380,000 i.e. £29,231 per ha / £11,875 per acre)) the employment element and other land (totalling 13ha (32 acres)) on the Llanfrechfa Grange SAA mainly to the Aneurin Bevan University Health Board, for the construction of the new regional SCCC Hospital and associated facilities. Also, Torfaen is the first County into Wales, when coming from England / the M4 Motorway, with Tier 1 (Category A) Assisted Area status (between 2014-2020); and thus benefits from the availability of the highest level of business aid from the Welsh Government and certain tax allowances from HMRC. Also, the potential for tolls on the Severn Bridges to be reduced or removed following the expiry of the concession in 2018 may also improve growth prospects, especially for logistics companies.

- 1.62 **Offices** - JLL state that in the South Wales market, there has been increased office take-up across all three cities (Cardiff, Newport & Swansea) with key pre-lets in Cardiff and headline rents are on the increase and incentives contracting. The commercial balance is shifting towards a landlord driven market; and occupier demand remains strong and there is a notable increase in new companies targeting South Wales.
- 1.63 As regards Torfaen and LDP office sites, there is currently interest to develop of the last three remaining smaller LDP Policy EET1 sites on Llantarnam 'Business' Park in Cwmbran, including proposals for offices. On the same Business Park, 2.96ha of the Llantarnam SAA has recently obtained outline planning permission for B1 uses (up to 14,500m<sup>2</sup> and the site is currently being marketed and should be serviced within a year as part of the S106 for the adjacent housing site. On a smaller scale, in Blaenavon a local manufacturer has recently converted the former Blaenavon Hospital (LDP housing allocation H3/2) for associated office space; and there is a recent permission to convert the former Blaenavon Library to offices.
- 1.64 **Retail & Leisure** - JLL consider that 2015 was a strong year for the retail market, with over 80% of UK retailers and leisure operators registering positive annual growth. Online shopping continues to grow as retailers benefit from providing customers with an 'integrated, seamless offer' both online and in-store. In the supermarket grocery sector, Aldi and especially Lidl, continue to grow their market share; with Tesco, Morrisons and Sainsbury's also seeing limited improvements.
- 1.65 As regards Torfaen, the (34,472sqft) former Homebase retail warehouse in Cwmbran was sold to Prego Estates for £3.8m at a yield of 7.98% in September 2010 and let to B&M Bargains (opened in December 2014). However, yields have improved since, as the (136,000sqft) Cwmbran Retail Park was sold to UBS Asset Management in April 2014 for £32.3m at a yield of 6.41%, and is now fully let. Also, M&G Real Estates are expected to submit their application for the redevelopment of the eastern side of Cwmbran Town Centre (LDP Policy RLT2/1) shortly. Similarly, the large modern 'Leisure@Cwmbran' complex is now almost fully let (with currently only 1 vacant unit) and is performing well.

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

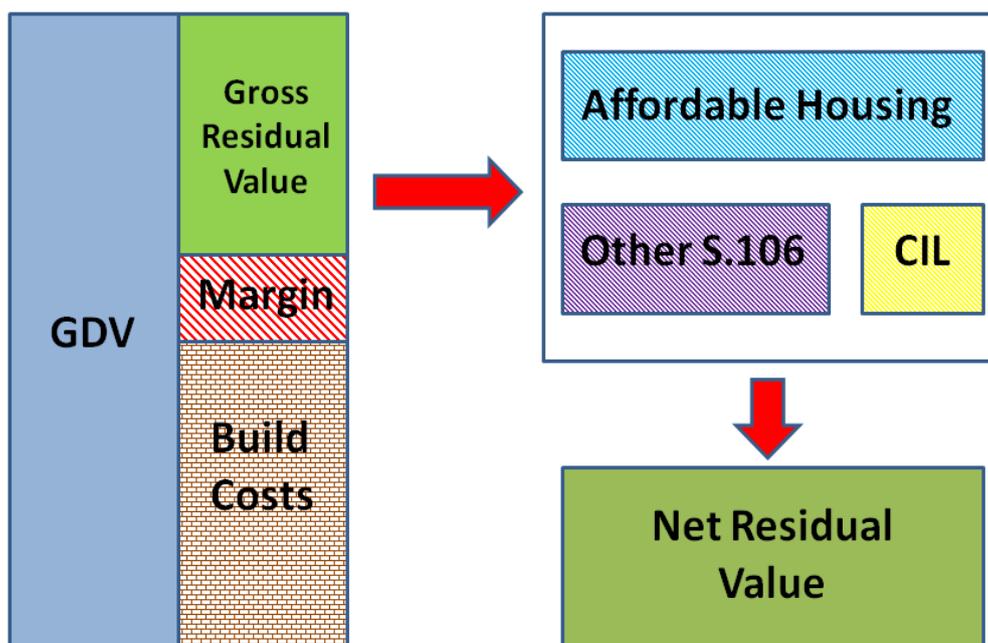
- 1.66 There were four main strands to the research undertaken to complete this study:-
- Discussions with a project group of officers from the Councils to help inform the structure of the research approach;
  - Analysis of information held by the authorities, including that which described the types of sites coming forward;
  - Use of the Wales DAT to carry out High Level Testing and to analyse scheme viability;
  - Workshops held with developers, land owners, their agents and representatives from a selection of Registered Social Landlords active in the Borough. The feedback notes from the Workshops are shown at Appendix 1 of this report.

## 2 RESIDENTIAL METHODOLOGY AND TESTING ASSUMPTIONS

### Viability - starting points

- 2.1 A Microsoft Excel based residual development appraisal model, known as the Development Appraisal Toolkit (DAT) is used to assess development viability (see Appendix 2 for detailed method statement). This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates (scheme revenue) and what it costs to develop (build costs and developer margin). The model can take into account the impact on scheme residual value of affordable housing and residual Section 106 contributions and the CIL.
- 2.2 Figure 2.1 below shows diagrammatically the underlying principles of the approach. Scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme costs assume a profit margin to the developer and the 'build costs' as shown in the diagram include such items as professional fees, finance costs, marketing fees and any overheads borne by the development company.

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

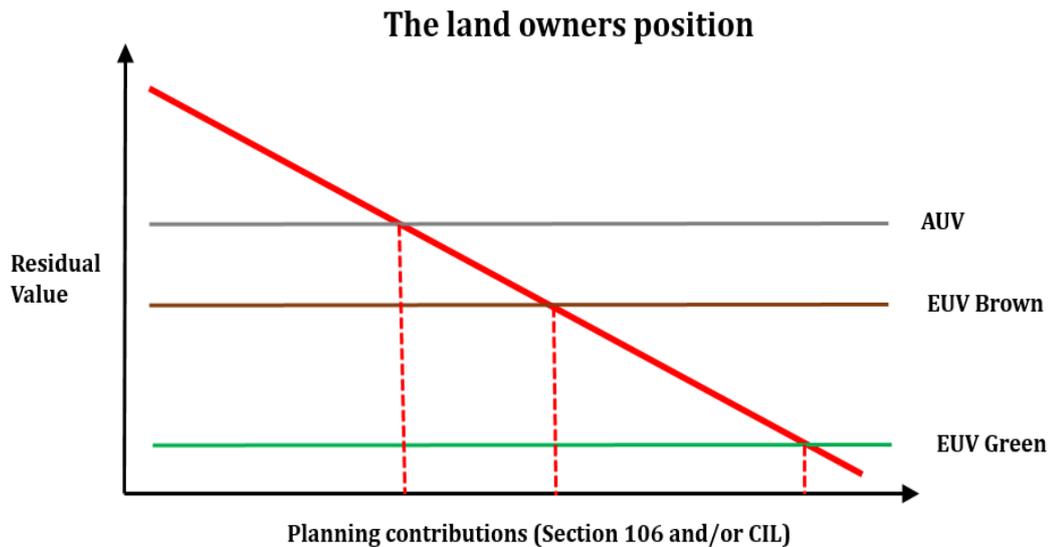


- 2.3 The gross residual value is the starting point for negotiations about the level and scope of Section 106 and/or CIL contribution. The contribution will normally be greatest in the form of affordable housing, but other Section 106 items and/or CIL will also reduce the gross residual value of the site. Once the affordable housing and other Section 106 contributions and/or CIL have been deducted, this leaves a net residual value.
- 2.4 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.
- 2.5 A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will not guarantee that development happens. The Existing Use Value (EUV) of the site, or indeed a realistic

alternative use value for a site will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing.

- 2.6 Figure 2.2 shows how this operates in theory. Residual Value (RV) falls as planning contributions increase. The issue for the land owner will be the point at which RV is less than or equal to the benchmark land value.

**Figure 2.2 Residual Value (RV) and the land owner's position**



- 2.7 Above this point there will be a land owner return. The extent of this return depends on the existing use value of the site (EUV). Some sites will be green field and some brown field. Normally brownfield sites will have a higher EUV than green field but this does not always follow; for example, where brown field land is heavily contaminated.
- 2.8 In some instances, an Alternative Use Value (AUV) will be appropriate to use. The conditions where this is the case are discussed in the Harman Review (2012) which looks at how local authorities may take viability on board when making plans.
- 2.9 The quantum of land owner return has been the subject of much discussion over the past few years. Paragraph 173 of the NPPF, governing planning and viability in England (and Wales for the CIL under the DCLG Statutory Guidance, June 2014) requires local authorities to allow land owners a 'competitive' return, but it does not state what this is.
- 2.10 How CIL charges are set will be a function of a number of factors including the nature of land supply, residual value, comparable authority policies and the broader land supply situation. There is no specific 'equation' which specifies how a CIL Charge should be derived.

### **Residential viability testing assumptions**

- 2.11 The following residential testing assumptions used in this Report were agreed as part of the CIL Workshop held in June 2014, being updated as appropriate since:-

## Housing Sub-Market Areas and House Prices / Sales Values

- 2.12 A housing sub-market area approach has been adopted with respect to the analysis. In the case of Torfaen, a consistent framework has been adopted in line with the previous Affordable Housing Viability Study, based upon a good range of comparable new house sales price data from a variety of sites. However, based upon the viability analysis of this Study the Pontypool HSMA has been split into Pontypool West and Pontypool East.
- 2.13 This general approach has been supported by Inspectors across Wales at LDP examinations and in England at Core Strategy examinations. The approach was further supported by delegates who attended the Stakeholder Workshop. The approach involves the use of postcode sector aggregated data and house price sales; more specifically, an analysis of house prices using HM Land Registry data to identify the sub-markets.
- 2.14 Based upon local research, Sales Values (on a £/m<sup>2</sup> basis) for every Torfaen Housing Sub-Market Area are contained in the Table 2.1 below. However, from the range of comparable new house sales price data from a variety of sites within Torfaen, there are 'hot spots' of sales values within most housing sub-market areas. Therefore, for the Torfaen housing sites, site specific sales prices have been used based upon this local research; with the average sales values for all allocated sites within each housing sub-market area being used in the High Level Testing (1ha site). Finally, based upon these sales values, Table 2.3 below sets out the house prices in each housing sub-market area for the dwelling types used in the High Level Testing.

**Table 2.1: Sales Values (£/m<sup>2</sup>) in Torfaen**

	<b>North Torfaen</b>	<b>Pontypool West</b>	<b>Pontypool East</b>	<b>Cwmbran N &amp; W</b>	<b>Cwmbran S &amp; E</b>
<b>Specific Sites - Sales Values m<sup>2</sup></b>	£1,650	£1,800 - £2,050	£2,150 - £2,250	£1,900 - £2,100	£2,000 - £2,300
<b>HLT - Average Sales Value m<sup>2</sup></b>	£1,650	£1,900	£2,200	£2,000	£2,200

- 2.15 **Benchmark Land Value (BLV)** - as already considered in Chapter 1, the following average maximum CIL BLVs have been used in this Report:-

**Table 2.2 Torfaen CIL Benchmark Land Values**

<b>Torfaen Housing Sub-Market Area</b>	<b>Benchmark Land Value (per net Ha)</b>
North Torfaen	£100,000
Pontypool West	£300,000
Pontypool East	£400,000
Cwmbran North & West	£400,000
Cwmbran South & East	£500,000

**Table 2.3 - High Level Testing: Market House Prices for Torfaen**

Dwelling Type	Size (m <sup>2</sup> )	Housing Sub-Market Area				
		North Torfaen	Pontypool West	Pontypool East	Cwmbran North & West	Cwmbran South & East
1 Bed Bungalow	45	£74,250	£85,500	£99,000	£90,000	£99,000
2 Bed Bungalow	58	£95,700	£110,200	£127,600	£116,000	£127,600
1 Bed Flat	46	£75,900	£87,400	£101,200	£92,000	£101,200
2 Bed Flat	65	£107,250	£123,500	£143,000	£130,000	£143,000
2 Bed Terrace	67	£110,550	£127,300	£147,400	£134,000	£147,400
3 Bed Terrace	78	£128,700	£148,200	£171,600	£156,000	£171,600
4 Bed Terrace	110	£181,500	£209,000	£242,000	£220,000	£242,000
3 Bed Semi	82	£135,300	£155,800	£180,400	£164,000	£180,400
4 Bed Semi	110	£181,500	£209,000	£242,000	£220,000	£242,000
3 Bed Detached	94	£155,100	£178,600	£206,800	£188,000	£206,800
4 Bed Detached	120	£198,000	£228,000	£264,000	£240,000	£264,000
5 Bed Detached	135	£222,750	£256,500	£297,000	£270,000	£297,000

- 2.16 **Affordable Housing %** - In accordance with the Torfaen LDP and latest Updated Planning Obligations (S106) SPG, the following (see Table 2.4) affordable housing % have been tested for each Housing Sub-Market Area:-

**Table 2.4 - Affordable Housing % Targets by Housing Sub-Market Area**

Torfaen	%
North Torfaen	5%
Pontypool West	25%
Pontypool East	25%
Cwmbran North and West	20%
Cwmbran South and East	30%

- 2.17 **Affordable Housing Tenure and Values** - In accordance with the Torfaen LDP, associated Planning Obligation (S106) SPG and the latest Torfaen Local Housing Market Assessment, the Council seeks 80% Social Rented (SR) and 20% Intermediate (for Low Cost Home Ownership - LCHO) Affordable Housing; for which an RSL pays the developer 37% of the relevant ACG (for the Social Rented units) and 50% of Market Value (for the Low Cost Home Ownership units) respectively.
- 2.18 **Dwelling Mixes at Different Development Densities** - It is noted that within Torfaen the Council, based upon its latest Local Housing Market Assessment and Common Housing Register (which includes the 'Home-seeker' (choice based social rented) and 'Help2Own' (LCHO) waiting lists); and in response to the Government's housing benefit 'under occupancy charge' (which is commonly known as the 'bedroom tax') generally seeks a mix of smaller dwellings at the relevant affordable housing percentage for the respective housing sub-market.
- 2.19 Therefore, for the notional 1ha net housing site and the specific housing sites, where the housing mix is unknown (but the allocated dwelling numbers are) the following (see Table 2.5) default dwelling mixes have been used as a starting point across all densities:-

**Table 2.5 - Default Net Site Density and Housing Mixes**

Dwelling Type	Net Density			
	25 DPH	30 DPH	35 DPH	40 DPH
2 Bed Flats				5%
2 Bed Terrace	5%	15%	20%	20%
3 Bed Terrace	10%	10%	15%	10%
4 Bed Terrace				5%
3 Bed Semi	25%	20%	25%	15%
4 Bed Semi	15%	10%	10%	10%
3 Bed Detached	20%	20%	15%	20%
4 Bed Detached	20%	20%	15%	15%
5 Bed Detached	5%	5%		

Notes:

1. These housing mixes will change as the % of affordable houses increases, given the Council's preference for smaller affordable units (see Tables 2.6 & 2.7 below); and
2. In addition, for specific housing sites, where the net site area is also unknown, we have assumed the net site area to be 90% of the gross site area in order to work out which density mix is appropriate.

2.20 However, when the 1ha site is tested, at the relevant affordable housing percentage for each housing sub-market area, the above default mixes have been amended to reflect the following standard affordable housing unit types requested by the Council (see Table 2.6). It is also noted that, in accordance with the Council's Planning Obligations (S106) SPG, the LCHO dwellings will be provided at the relevant market sizes and the socially rented (SR) dwellings will be provided at the relevant affordable housing (DQR) sizes; in addition, where part of an affordable dwelling is required, the Study has used Torfaen's Planning Obligations (S106) SPG methodology for calculating the appropriate 'Commuted Sum'.

**Table 2.6 - Torfaen affordable housing mixes & tenures at different 1ha site densities**

Density	Housing Sub Market Areas			
	North Torfaen 5% AH	Pontypool West & East 25% AH	Cwmbran N&W 20% AH	Cwmbran S&E 30% AH
<b>25 dph</b>	SR 1 x 1 bed flat CS £23,271 for 1/4 house	LCHO 1 x 2 bed house SR 4 x 1 bed flat 1 x 2 bed house CS 1/4 house = £24,478 - West £25,931 - East	LCHO 1 x 2 bed house SR 2 x 1 bed flat 2 x 2 bed house	LCHO 1 x 2 bed house SR 4 x 1 bed flat 2 x 2 bed house CS £54,734 for 1/2 house
<b>30 dph</b>	SR 1 x 1 bed flat CS £45,270 for 1/2 house	LCHO 1 x 2 bed house SR 4 x 1 bed flat 2 x 2 bed house CS 1/2 house =	LCHO 1 x 2 bed house SR 2 x 1 bed flat 2 x 2 bed house 1 x 3 bed house	LCHO 1 x 2 bed house 1 x 3 bed house SR 2 x 1 bed flat 3 x 2 bed house 2 x 3 bed house

		£47,070 - West £49,832 - East		
<b>35 dph</b>	SR 1 x 1 bed flat CS £62,051 for 3/4 house	LCHO 1 x 3 bed house SR 4 x 1 bed flat 3 x 2 bed house CS 3/4 house = £66,544 - West £69,387 - East	LCHO 1 x 3 bed house SR 4 x 1 bed flat 2 x 2 bed house	LCHO 1 x 2 bed house 1 x 3 bed house SR 2 x 1 bed flat 4 x 2 bed house 2 x 3 bed house CS £54,552 for ½ house
<b>40 dph</b>	SR 2 x 1 bed flat	LCHO 2 x 2 bed house SR 4 x 1 bed flat 2 x 2 bed house 2 x 3 bed house	LCHO 1 x 2 bed house 1 x 3 bed house SR 4 x 1 bed flat 2 x 2 bed house	LCHO 1 x 2 bed house 1 x 3 bed house SR 2 x 1 bed flat 2 x 2 bed flat 3 x 2 bed house 3 x 3 bed house

Notes: LCHO (Low Cost Home Ownership), SR (Socially Rented) & CS (Commuted Sum).

- 2.21 Similarly, for the Specific Housing Sites, the Council's Housing Team have requested that the following Affordable Housing mixes and tenures (see Table 2.7) be used for sites tested within this Study:-

**Table 2.7 - Torfaen affordable housing mixes & tenures for specific housing sites**

Site	Affordable Housing Mix @ Relevant Affordable Housing % for Housing Sub-Market		
	Low Cost Home Ownership	Socially Rented	Commuted Sum
<b>Garn-yr-Erw</b>	N/A	N/A	£111,221
<b>Hillside School</b>	None	2 x 1 bed flat	£37,673 for 0.7 house
<b>The Old Co-op</b>	None	2 x 2 bed flat	£10,951 for 0.15 house
<b>Animal Pound &amp; Adj. Land</b>	4 x 2 bed terrace 2 x 3 bed terrace	9 x 1 bed flat 5 x 2 bed flat 7 x 2 bed terrace 5 x 3 bed terrace 1 x 4 bed terrace	£73,815 for 0.75 house
<b>Mamhilad 1,700</b>	50 x 2 bed terrace 35 x 3 bed terrace	11 x 1 bed bungalow 11 x 2 bed bungalow 114 x 1 bed flat 34 x 2 bed flat 91 x 2 bed terrace 70 x 3 bed terrace 9 x 4 bed terrace	N/A

<b>Mamhilad 1,100</b>	32 x 2 bed terrace 23 x 3 bed terrace	7 x 1 bed bungalow 7 x 2 bed bungalow 74 x 1 bed flat 22 x 2 bed flat 59 x 2 bed terrace 45 x 3 bed terrace 6 x 4 bed terrace	N/A
<b>South Sebastopol</b>	32 x 2 bed terrace 16 x 3 bed terrace	72 x 1 bed flat 36 x 2 bed flat 36 x 2 bed terrace 19 x 3 bed terrace 29 x 4 bed terrace	N/A
<b>Police College &amp; Adj. Land</b>	16 x 2 bed terrace 5 x 3 bed terrace	26 x 1 bed flat 12 x 2 bed flat 26 x 2 bed terrace 16 x 3 bed terrace 4 x 4 bed terrace	N/A
<b>Llanfrechfa Grange</b>	12 x 2 bed terrace 6 x 3 bed terrace	23 x 1 bed flat 13 x 2 bed flat 22 x 2 bed terrace 11 x 3 bed terrace 3 x 4 bed terrace	N/A
<b>County Hall &amp; Police HQ</b>	9 x 2 bed terrace 4 x 3 bed terrace	2 x 2 bed bungalow 19 x 1 bed flat 9 x 2 bed flat 11 x 2 bed terrace 6 x 3 bed terrace 6 x 4 bed terrace	N/A
<b>Canalside</b>	3 x 2 bed terrace 1 x 3 bed terrace	2 x 1 bed flat 4 x 2 bed flat 7 x 2 bed terrace 3 x 3 bed terrace	N/A

2.22 **Dwelling Sizes** - For the notional 1ha housing site and the specific housing sites where dwelling sizes are not known the following (see Table 2.8) default dwelling sizes have been used (noting that in Torfaen the Low Cost Home Ownership (LCHO) affordable dwellings are the market sizes and the Social Rented (SR) dwellings are the affordable sizes):-

**Table 2.8 - Default Market & Affordable Housing Dwelling Sizes**

<b>Dwelling Type</b>	<b>Size</b>	
	<b>Market</b>	<b>Affordable</b>
1 Bed Bungalow	45m <sup>2</sup>	45m <sup>2</sup>
2 Bed Bungalow	58m <sup>2</sup>	58m <sup>2</sup>
1 Bed Flat	46m <sup>2</sup>	46m <sup>2</sup>
2 Bed Flat	65m <sup>2</sup>	59m <sup>2</sup>
2 Bed Terrace	67m <sup>2</sup>	83m <sup>2</sup>
3 Bed Terrace	78m <sup>2</sup>	88m <sup>2</sup>

4 Bed Terrace	110m <sup>2</sup>	110m <sup>2</sup>
3 Bed Semi	82m <sup>2</sup>	88m <sup>2</sup>
4 Bed Semi	110m <sup>2</sup>	110m <sup>2</sup>
3 Bed Detached	94m <sup>2</sup>	94m <sup>2</sup>
4 Bed Detached	120m <sup>2</sup>	114m <sup>2</sup>
5 Bed Detached	135m <sup>2</sup>	120m <sup>2</sup>

2.23 **Latest Welsh Government Acceptable Cost Guidance (ACG)** - The DAT has been updated to include the latest ACG Band Values published by the Welsh Government in April 2015 for Torfaen (see Tables 2.9 & 2.10 below):-

**Table 2.9 - WG Local Authority ACG Bands for Torfaen**

ACG Band	Community Council Area
1	Abersychan; Blaenavon; and Trevechin
2	Panteg; Pentranth; and Pontymoile
3	Cwmbran Central; Fairwater; New Inn; and Pontnewydd
4	Croesyceiliog; Henllys; Llantarnam; Llanyravon; Ponthir; and Upper Cwmbran

**Table 2.10 - WG ACG Values for Self Contained Units: General Needs & Elderly**  
(April 2015 - Annex A: Table 1)

Unit Type	Size m <sup>2</sup>	ACG Value			
		Band 1	Band 2	Band 3	Band 4
2 Person 1 Bed Flat	46	£86,600	£91,200	£95,800	£101,900
3 Person 2 Bed Flat	59	£109,400	£114,500	£119,700	£126,600
3 Person 2 Bed Bungalow	58	£115,200	£128,000	£140,700	£157,700
4 Person 2 Bed House	83	£127,100	£137,500	£147,800	£161,600
4 Person 3 Bed House	88	£133,500	£143,900	£154,200	£168,000
5 Person 3 Bed House	94	£142,600	£153,600	£164,700	£179,400
6 Person 4 bed House	110	£166,500	£179,200	£192,000	£209,000
7 Person 4 Bed House	114	£176,300	£191,300	£206,400	£226,500

2.24 **Other 'Residual Section 106' Costs** - Torfaen expect that open space & recreation provision will remain to be provided under S106 as part of a combined S106 / CIL regime. Therefore, for the site specific housing sites we have modelled all known applicable 'Residual S106 Costs'; and for the notional 1ha housing site we have taken account of the following 'Residual Recreation & Open Space S106 Costs' (total of **£1,868** per dwelling (based upon the Torfaen CBC Planning Obligations (S106) SPG):

- Public Open Space - £224 per dwelling
- Children's Play Areas - £508 per dwelling
- Adult Outdoor Recreation - £1,136 per dwelling

2.25 **Build Costs** - The August 2016 RICS BCIS 'all-in tender price studies' residential construction base build costs for Torfaen (which include preliminaries, base build costs; the 'normal' levels of abnormal development costs prevalent in the area and the contractor return) have been used (see Table 2.11) which includes a 15% uplift to cover 'external works' such as gardens, drives, fences, roads, etc., in the DAT testing of sites.

**Table 2.11 - Torfaen BCIS Residential Build Costs with 15% External**

<b>Dwelling Type</b>	<b>Cost</b>
Flats (5 or less storeys)	<b>£1,142m<sup>2</sup></b>
Houses <= 75m <sup>2</sup>	<b>£984m<sup>2</sup></b>
Houses > 75m <sup>2</sup>	<b>£984m<sup>2</sup></b>

- 2.26 **Abnormal Development Costs** - With regard to abnormal development costs, paragraph 174 of the NPPF (which under the DCLG Statutory Guidance applies in Wales for the CIL) requires the 'normal' cost of development to be taken account of in viability. However, the above BCIS build cost does not provide detailed information on what these 'normal' development costs are; which by definition should include the 'normal' level of abnormal plot costs prevalent within Torfaen. Therefore, there is a danger of double counting abnormal costs in the site specific testing if **all** known abnormal costs are added to the base build costs (for the substructure, superstructure, internal finishes, fitting & furnishings and services) plus a 15% allowance for externals. For example, Torfaen have previously (in July and October 2014) received independent 'confidential' open book viability assessments for two large sites (by three different national house builders) which details their base build costs. From this information (and after adding an allowance for build cost inflation since that time), we can identify base build costs (excluding sprinklers) of **£657m<sup>2</sup>** to **£682m<sup>2</sup>** for each site; with an average overall cost of **£677m<sup>2</sup>** for both sites. If we add 15% for externals to this average base build costs, we arrive at a figure of **£779m<sup>2</sup>**; which when compared to the corresponding current Torfaen BCIS plus 15% for externals of **£984m<sup>2</sup>** for houses, suggests that the BCIS includes provision for approximately **£205m<sup>2</sup>** for national housebuilders abnormal costs. Indeed for one of those sites abnormal costs were £210m<sup>2</sup> with a claimed 26% for externals; and for the other they were £241m<sup>2</sup> with only 7% externals.
- 2.27 The treatment of abnormal costs was considered in Gedling Borough Council's Examination Report; paragraph 20 of which states:-  
*"... Demolition, abnormal costs and off site works are excluded from the Viability Assessment, as the threshold land values assume sites are ready to develop, with no significant off site secondary infrastructure required. While there may be some sites where there are significant abnormal construction costs, these are unlikely to be typical and this would, in any case, be reflected in a lower threshold land value for a specific site..."*
- 2.28 Therefore, it is appropriate for high abnormal costs to be built into CIL viability through adjusting the benchmark land value accordingly, noting that the additional 30% minimum CIL buffer may be able to absorb these abnormal costs in any event. For example, if two similar sites were offered to the market and one has high abnormal costs (due to high design requirements, contamination, land instability, extensive demolition or infrastructure costs, etc.) and the other didn't, then the landowner of the high abnormal cost site would have to take a lower land receipt for the same form of development due to the condition of the land. Otherwise the Council would have to cover these costs through a reduced S106 package; given that the developer's costs / return and the CIL Charge are effectively 'fixed' costs. Indeed, the owners of the permitted, greenfield, serviced, but sloping 4ha (10 acre) New Road Farm housing site in Blaenavon, recently sold for £125,000 in total. However, such adjustments have not

been made in this Study given the nature of the remaining allocated sites; albeit the principle is supported.

- 2.29 Therefore, for site specific testing, where we use the BCIS build cost plus 15% for externals, we have generally added the costs of all known abnormalities when they are, in total, in excess of £100m<sup>2</sup>; which still allows approx. £105m<sup>2</sup> for other unidentified abnormal or higher external costs for the site.
- 2.30 **Fire Suppression Systems** - The Welsh Government Domestic Fire Safety Regulations 2013 make automatic fire suppression systems compulsory in all new and converted domestic properties from 1<sup>st</sup> January 2016. The Building Research Establishment (BRE) have estimated the average cost of compliant sprinkler systems to be **£3,075** for a house and **£879** for a flat; and these costs have been used in this Study. However, sprinklers, as a 'current' development cost, could already be included in the BCIS value, but for the purposes of this Study, based upon the evidence of their limited implementation to date by RSLs (see next paragraph), it has been assumed that they are not fully included in BCIS at the current time.
- 2.31 However, it is noted that, as happened with the recent changes to Part L of the Welsh Building Regulations on energy efficiency requirements, national house builders who are likely commence development on sites before 1<sup>st</sup> January 2017, have pre-registered several sites under the transitional arrangements to avoid the costs of this requirement. Also, the above compliance costs are not yet fully tested; and the results of the Welsh Government pilot 'sprinklers' programme with RSLs have not been published.
- 2.32 **Other Development Costs** - As agreed by the CIL Workshop in June 2014, the following (see Table 2.12) standard DAT allowances have been used in this Study:-

**Table 2.12 - Other Development Costs used in the DAT**

Professional Fees	12% of build costs
Internal Overheads	6% of build costs
Finance	6% of build costs
Marketing Fees	3% of market housing value
Developer Return	17% of market housing value
Contractor Return	5% of development costs of affordable housing

### 3 RESIDENTIAL VIABILITY ANALYSIS

#### Introduction

- 3.1 This section of the report looks at the viability of residential schemes including affordable housing and any residual S106 costs as required by the CIL Guidance. It provides an understanding of how residual value varies under different housing market circumstances, policy impacts and development densities and mixes.
- 3.2 The site testing used to assess residential viability involves the high level testing a notional 1.0 ha housing site across the Council's different housing sub-market areas and at different densities to provide a general overview of the impact of these parameters; and the testing of a sample of specific key and strategic housing sites allocated in the Torfaen LDP, with scheme costs, to provide a more fine grain 'real life' analysis.

**Disclaimer** - It must be noted that the specific site testing should not be used for the consideration of the viability of future planning applications on these sites; which may have different dwelling numbers, mixes, sales values, etc. and probably more detailed information on site costs. Similarly, the CIL Benchmark Land Values (BLV) generally represent a 'worst case scenario' in terms of the uplift on the Existing Use Value (EUV) and the Councils generally use a lower uplift on EUV for setting LDP policy / planning application purposes.

#### Analysis of Notional 1ha (net) Housing Site

- 3.3 This analysis is based on a range of policy tests. Specifically, affordable housing targets of 5% through to 30% depending on the LDP Policy H4 housing sub-market area. In addition, 0% affordable housing has been tested to indicate the maximum residual value that could be achieved without any affordable housing or residual S106 contributions.
- 3.4 It should be emphasised that residual values are gross of any other (than affordable housing) contributions. If there are therefore contributions to cover items included within CIL or conventional Section 106, these will have to come from the residual generated after the affordable housing has impacted on the scheme.
- 3.5 A traditional 'traffic light' system has been employed to indicate scenarios that are viable (green), marginal (orange) and unviable (red) when the CIL Benchmark Land Value is taken into account for each housing sub-market; which also considers the effect of the additional cost of the open space / recreation residual S106 requirements.
- 3.6 A full range of schemes are tested here. Densities of 25 Dwellings per Hectare (dph), 30 dph, 35 dph and 40 dph have been tested for all housing sub-markets. Noting that the average net density of large housing sites in Torfaen is 34 dph.
- 3.7 The results are shown in the tables below at the relevant affordable housing percentage for all housing sub-markets; and each density is looked at in turn. The results factor in the impacts of sprinklers, required under the 'Welsh' Building Regulations from January 2016.

## Residual values at 25 dph

**Table 3.1 - Residual values (£ million per hectare) at 25 Dwellings per Hectare**

25 DPH						
Torfaen Housing Sub-Market Area	Affordable Housing Percentage					CIL Benchmark Land Value
	0%	5%	20%	25%	30%	
North Torfaen	£0.139	£0.081				£0.100
Pontypool West	£0.638			£0.313		£0.300
Pontypool East	£1.233			£0.831		£0.400
Cwmbran N & W	£0.837		£0.537			£0.400
Cwmbran S & E	£1.236				£0.653	£0.500

Note: the BLV 'traffic light' assessment also considers the effect of the additional cost of the open space / recreation residual S106 requirements (25 dwellings x £1,868 = £46,700).

- 3.8 Table 3.1 shows residual values for all sub markets at a density of 25 dwellings per hectare. As would be expected, it shows that Residual Value declines when the costs of affordable housing is added; and RV's are proportionate to house price levels.
- 3.9 The table shows Residual Values on a per hectare basis; noting that there is a significant range of values between the top and the bottom of the market. RV in Cwmbran South and East at 30% Affordable Housing is over four times that in North Torfaen with no Affordable Housing; mainly due to the house price differentials.
- 3.10 At this low density, the majority of the sub-markets within Torfaen (with the exceptions of North Torfaen due to 'low' sales values; and Pontypool West due to a 'higher' Benchmark Land Value, despite a good Residual Value) are able to meet their LDP affordable housing requirements and additional residual S106 requirements when compared against their Benchmark Land Value.

## Residual values at 30 dph

- 3.11 Tables 3.2 show residual values at 30 dph.

**Table 3.2 - Residual values (£ million per hectare) at 30 Dwellings per Hectare**

30 DPH						
Torfaen Housing Sub-Market Area	Affordable Housing Percentage					CIL Benchmark Land Value
	0%	5%	20%	25%	30%	
North Torfaen	£0.165	£0.083				£0.100
Pontypool West	£0.741			£0.352		£0.300
Pontypool East	£1.432			£0.944		£0.400
Cwmbran N & W	£0.971		£0.615			£0.400
Cwmbran S & E	£1.432				£0.737	£0.500

Note: the BLV 'traffic light' assessment also considers the effect of the additional cost of the open space / recreation residual S106 requirements (30 dwellings x £1,868 = £56,040).

- 3.12 If the affordable housing targets (by sub-market) are focused on, this shows Residual Values which are substantial in the higher value areas or Torfaen. At 30% Affordable Housing, RV is £737,000 per hectare at Cwmbran S&E. At Pontypool East (25%

affordable housing target), RV is £944,000 per hectare due to a 'low' affordable housing percentage against high sales values.

- 3.13 As to be expected, RVs improve from 25 to 30 dph; and all sub-markets, with the exception of North Torfaen and Pontypool West, are able to meet their full LDP affordable housing and residual S106 requirements at this density.
- 3.14 The general impact in increasing density from 25 - 30 dph will be to raise residual values, and hence the potential to deliver Section 106 contributions / CIL.

### Residual values at 35 dph

- 3.15 Residual values at 35 dph are shown in Table 3.3 below. Residual values generally increase between 30 - 35 dph in the higher value areas. This is to the benefit of viability and the delivery of community benefits since there is more likely to be an increasing potential return to land owners.

**Table 3.3 - Residual values (£ million per hectare) at 35 Dwellings per Hectare**

35 DPH						
Torfaen Housing Sub-Market Area	Affordable Housing Percentage					CIL Benchmark Land Value
	0%	5%	20%	25%	30%	
Torfaen						
North Torfaen	£0.187	£0.078				£0.100
Pontypool West	£0.807			£0.295		£0.300
Pontypool East	£1.553			£0.939		£0.400
Cwmbran N & W	£1.056		£0.685			£0.400
Cwmbran S & E	£1.553				£0.822	£0.500

Note: the BLV 'traffic light' assessment also considers the effect of the additional cost of the open space / recreation residual S106 requirements (35 dwellings x £1,868 = £65,380).

- 3.16 Again, with the exception of North Torfaen and Pontypool West, all sub-markets within Torfaen are able to meet their full LDP affordable housing and residual S106 requirements at this density.

### Residual values at 40 dph

- 3.17 Table 3.4 below shows residual values per hectare for all Torfaen sub-markets at 40 dph. As with previous densities, the pattern or spread of values remain significant. Between 35 - 40 dph RVs continue to rise. At this density North Torfaen and Pontypool West still remain uneconomic. However, all of the remaining three Torfaen sub-markets are viable and able to meet their LDP affordable housing and residual S106 requirements.

**Table 3.4 - Residual values (£ million per hectare) at 40 Dwellings per Hectare**

40 DPH						
Torfaen Housing Sub-Market Area	Affordable Housing Percentage					CIL Benchmark Land Value
	0%	5%	20%	25%	30%	
North Torfaen	£0.188	£0.143				£0.100
Pontypool West	£0.909			£0.369		£0.300

<b>Pontypool East</b>	<b>£1.773</b>			<b>£1.116</b>		<b>£0.400</b>
<b>Cwmbran N &amp; W</b>	<b>£1.197</b>		<b>£0.798</b>			<b>£0.400</b>
<b>Cwmbran S &amp; E</b>	<b>£1.773</b>				<b>£0.980</b>	<b>£0.500</b>

Note: the BLV 'traffic light' assessment also considers the effect of the additional cost of the open space / recreation residual S106 requirements (40 dwellings x £1,868 = £74,720).

### **Notional 1ha (net) Housing Site Conclusions**

3.18 The analysis in this section shows that:

- Location and thus the sales values of new housing is key in determining residual value and hence the capacity for sites to deliver CIL and Section 106 contributions.
- The Council's ability to deliver affordable housing, other Section 106 contributions and CIL is limited or unachievable in the weaker sub-markets.
- Torfaen, with the exception of the North Torfaen and Pontypool West sub-markets, even though it has ambitious affordable housing targets, should deliver some surplus in the form of residual Section 106 contributions / CIL because those housing markets are relatively strong.
- Density and housing mix are key in determining differences in residual value. Generally, an increase in density generates an increase in RV. However, there is a 'tipping' point which appears to be between 35 dph and 40 dph.
- This generally means that landowner returns from most types of sites, but particularly green fields, will be significant, especially within Torfaen.
- Conclusions and recommendations on how these high level testing results affect the ability to set a CIL Charge are made at the end of this Chapter once they have been considered in conjunction with the results of the Specific Housing Site testing (detailed in the next section).

### **Analysis of Specific Housing Sites**

#### **Overview**

3.19 The analysis in the preceding section provides the basis for setting CIL for residential use. That analysis is high level and covers most eventualities with respect to viability.

3.20 It is important however to look in some detail at specific housing sites to gauge whether the High Level Testing findings are reflected in site specific analysis. This next section looks at several specific housing sites allocated in the LDP and draws conclusion on viability. In doing so, it has to be accepted that these sites are being delivered over the longer terms and hence viability will need to be monitored. The results also factor in the impacts of sprinklers, introduced in January 2016; with up to a 1 year transitional period for implementation.

#### **Torfaen Housing Sites**

3.21 Sites have been analysed across all five housing sub-markets of Torfaen; the sample of sites included and the results are shown in Table 3.5 below. As well as modelling the impacts of sprinklers, the results also factor in the Residual S106 Costs applicable in Torfaen on a site by site basis.

**Table 3.5 Viability Analysis: Specific Housing Sites in Torfaen**

Site	Location	Units	BLV	net ha (1)	CIL BLV per net ha	Residual Value @ Relevant Affordable Housing %					Sales Value (Sq M)	Abnormals (Per Unit)	S 106 (Per Unit)	Comments	Owner
						0%	5%	20%	25%	30%					
Garn-yr-Erw	Blaenavon	26	£82,000	0.82	£100,000	-£97,000	-£208,000	N/A	N/A	N/A	£1,650	£6,918	£2,636	Roadside lay-by £=design	Mixed
Hillside School	Blaenavon	54	£165,000	1.65	£100,000	£5,000	-£118,916	N/A	N/A	N/A	£1,650	£0	£1,868	Surplus school	TCBC
The Old Co-op	Abersychan	23	£20,000	0.20	£100,000	-£103,000	-£158,522	N/A	N/A	N/A	£1,650	£0	£1,868	Former Co-op	Private
Animal Pound	Pontypool West	135	£1,554,000	5.18	£300,000	£3,364,000	N/A	N/A	£1,262,910	N/A	£1,900	£0	£1,868	Fields & allotments	Mixed
Mamhilad	Pontypool East	1,700	£10,328,000	25.82	£400,000	£57,381,000	N/A	N/A	£28,296,182	N/A	£2,200	£0	£9,592	Green/brown field	Private
Mamhilad	Pontypool East	1,100	£10,800,000	27.0	£400,000	£37,747,000	N/A	N/A	£19,262,453	N/A	£2,200	£0	£11,530	Green/brown field	Private
South Sebastopol	Cwmbran North & West	1,200	£18,800,000	47.0	£400,000	£44,641,000	N/A	£29,250,397	N/A	N/A	£2,100	£16,545	£3,318	Greenfield site	Mixed
Police College & Adj Land	Cwmbran South & East	350	£4,250,000	8.50	£500,000	£12,778,000	N/A	N/A	N/A	£6,066,024	£2,100	£0	£1,977	Green/brown field	Mixed
Llanfrechfa Grange	Cwmbran South & East	300	£4,875,000	9.75	£500,000	£15,744,000	N/A	N/A	N/A	£8,902,487	£2,300	£0	£3,945	Green/brown field	WG
County Hall & Police HQ	Cwmbran South & East	220	£2,810,000	5.62	£500,000	£10,616,000	N/A	N/A	N/A	£6,125,785	£2,300	£0	£4,565	Brownfield - £=demolition	Public
Canalside (10% AH)	Cwmbran South & East	200	£2,760,000	5.52	£500,000	£8,034,000	£6,651,067	N/A	N/A	N/A	£2,100	£1,980	£2,946	Canal regeneration £=brownfield	Mixed

**Notes:**

1. Where the net developable area is not known it has been assumed that 90% of the gross ha is developable

- 3.22 The format of Table 3.5 above shows the sites, their location by settlement, the proposed number of units and the CIL Benchmark Land Values (BLV). These are derived from market research, from workshop feedback, from comparative studies and from extensive Steering Group discussion.
- 3.23 Again a traditional 'traffic light' system has been employed to indicate scenarios that are viable (green), marginal (orange) and unviable (red). The figures shown in the coloured cells are the site residual values at a range of relevant LDP affordable housing scenarios. To the right of the table are shown the working sales values estimated on a price per square metre basis. The next column to the right shows any 'abnormal' development costs (above that already taken account in the BCIS plus 15% for externals development cost); and the next column again shows the Residual Section 106 per unit contribution. There are then further comments in relation to the sites and the land ownership is also noted.
- 3.24 Inevitably in analysing sites, particularly the larger ones, there is a degree of uncertainty about actual viability, since the development mix is sometimes not finalised and actual viability will depend on the performance of the housing market over the longer term.
- 3.25 Some sites, notably South Sebastopol, already have a planning consent; whilst others, such as Mamhilad, are regeneration sites where the development proposal is as yet not firmed up and the allocated 1,700 dwellings and the potential for a minimum of 1,100 dwellings have been tested for this key site.
- 3.26 The Cwmbran Canalside site is subject to a master planning exercise; where the LDP affordable housing target (at 10%) is bespoke to the scheme to fund canal regeneration at that location. Also, for the Garn-yr-Erw site, near Blaenavon, on the request of an RSL and Council's Strategic Housing Team, a financial payment in lieu of on-site provision is required. On all other sites, on-site provision at the relevant LDP affordable housing percentage have been tested.
- 3.27 Table 3.5 above shows that no sites in **North Torfaen** (Garn-yr-Erw, Hillside School and the Old Co-op sites) are viable with affordable housing at 5% and the Residual S106 requirements. All three sites are projected to deliver mainly smaller housing units, which probably underestimates viability.
- 3.28 However, Hillside School is currently being developed by an RSL for 100% affordable housing with WG Social Housing Grant (SHG).
- 3.29 Similarly, the Old Co-op site may also be developed by an RSL, probably requiring the maximum 120% WG SHG, so that scheme is somewhat free standing; albeit as a current building, the existing / alternative use value is likely to be higher than the £20,000 BLV shown.
- 3.30 There are significant abnormalities at the Garn-yr-Erw site making this site uneconomic even without any affordable housing or residual S106 costs; mainly due to the high design / materials requirements of its gateway location within the Blaenavon Industrial Landscape World Heritage Site, as well as the need for footway / lighting

improvements. However, the developer already owns this site and is currently looking to bring it forward despite these viability issues,

- 3.31 As regards the site within **Pontypool West**, the former Animal Pound & adjacent land site at the Tranch, appears unviable with affordable housing at the required 25%, along with the standard £1,868 per unit Section 106 contributions; despite a £1,900m<sup>2</sup> sales value per unit. Furthermore, abnormal costs may be higher than modelled, as the site lies within the Coal Authority Referral Area and expensive remediation of underground workings / mine entrances may thus be required; and there are also localised flooding issues to be mitigated. However, these costs are expected to still be within the substantial BCIS plus 15% for externals allowance for abnormals. Finally, the density of 26 dph appears low compared to the average for Torfaen of 34 dph; so there is potential for the site to accommodate more than the 135 allocated dwellings to the benefit of overall site viability.
- 3.32 As regards the site within **Pontypool East**, the allocated 1,700 dwelling (690 dwellings within the Plan Period) site at Mamhilad, near Pontypool, should generate strong residual values as it is a well-connected location and particularly so, if developed in a comprehensive manner; sales values may even be more than the £2,200m<sup>2</sup> modelled within this Study, given its edge of Monmouthshire / National Park / Canal / countryside location - but a conservative approach has been taken. However, there are major infrastructure requirements on this mixed brownfield / greenfield site, including a new primary school and community hall; new access points; etc. There is also likely to be commercial development on the site, although the nature of this is not yet known; but to this end, costs and values have been considered to equal each other out. The scheme should generate 25% Affordable Housing, even when taking account of the high Residual Section 106 contributions, which are currently estimated at around £9,592 per unit (mainly for open space, recreational, educational and highway / public transport purposes).
- 3.33 However, whilst it is modelled that there is a healthy £17,968,182 RV surplus available for the CIL at Mamhilad, a cautious approach is recommended. This is because the costs of converting the massive (1.2 million square feet) former British Nylon Spinners Listed Building are not yet known and there are other 'potential' abnormal costs associated with the whole site, including demolition, asbestos removal, ground preparation / contamination issues, canal stabilisation, ecology mitigation, strategic landscaping, water management, general infrastructure, etc.; which have not been taken into account within this analysis. Albeit, there is a considerable headroom within the BCIS plus 15% for externals to also cover many abnormals in any event, especially on larger sites where these costs are spread over more dwellings. It can also be assumed that the developer of this site will choose to maintain the open space / recreational facilities through a management company (with an annual charge on residents) rather than a S106 maintenance payment.
- 3.34 Finally, it is currently considered that the site is unlikely to provide 1,700 dwellings in total; as the 380 flats previously proposed for the BNS building seem unlikely to be marketable and there are doubts that developers would build at a high density throughout the whole site - with 1,100 dwellings being considered the worst case scenario to support a sustainable settlement with its own primary school. If 1,100 dwellings are tested, then the RV surplus available for the CIL reduces to £8,462,453; noting that S106 costs also rise to £11,530 per dwelling.

- 3.35 The 1,200 dwelling (690 dwellings within the Plan Period) South Sebastopol site, which lies mainly within a high value location within **Cwmbran North & West**, is already permitted and hence this analysis is somewhat retrospective; but it has been used as an example of an actual site within this housing sub-market area as no other large sites are allocated within this area. Viability information was submitted as part of the planning application process, which shows extensive abnormal costs for the site. This is however a greenfield site and land value uplift will be significant. On the basis of the BLV and current expected sales values, the required 20% Affordable Housing provision would be viable. Other Residual Section 106 contributions are currently set at around £3,318 per unit (mainly for open space, recreation and educational purposes); noting that on this site the developer chose to maintain the open space / recreation facilities through a management company (with an annual charge on residents), thus negating the need for the maintenance element of the associated S106 costs. It is calculated that there would be a healthy £10,450,397 RV surplus available from this site for the CIL, if it was not already permitted.
- 3.36 As regards sites with **Cwmbran South and East**, The 350 dwelling former Police College & Adjacent Land site is approximately 2/3 brownfield and 1/3 greenfield land. It is calculated that there is a healthy £1,816,024 RV surplus available for the CIL from this site, which should deliver to policy at 30% Affordable Housing; the open space, recreation, traffic calming and grassland mitigation (@ £1,977 per unit); noting that the developer of the former Police College part of the site is going to maintain the open space / recreation facilities through a management company under the S106, thus saving the maintenance commuted sum element of the associated S106 costs. The same developer has also saved the costs of sprinklers by pre-registering the former Police College part of the site under the Building Regulations. In any event, Phase 1 of the site has already received planning permission for 219 dwellings and is currently under construction; and Phase 2 (est. 50 dwellings based upon the LDP Masterplan) is likely to also receive planning permission for the same developer before a CIL is introduced. Leaving only an estimated 81 dwellings on the greenfield 'Adjacent Land' Phase 3 to be permitted under a CIL / sprinklers regime.
- 3.37 The brownfield / greenfield Llanfrechfa Grange site is complex; but the proposals include a Specialist & Critical Care Centre Hospital (which has been permitted and should start construction shortly), 8.4ha of related employment land (4.8ha to be delivered within the Plan Period) and approx. 300 dwellings. For the purpose of this Study, these three elements are considered to be self-contained and self-financing; albeit the construction of the hospital will effectively provide the new roundabout access for the other two elements. Therefore, as regards the housing site, whilst there are likely to be some abnormal costs associated with demolition and the possible provision of a new Link Road (under Policy T1) if required by a Traffic Impact Assessment; these costs are considered to still be well within the standard BCIS plus 15% for externals allowances used within this Study. However, given that this is a high value location within the sub-market, despite the relatively high residual Section 106 costs (for open space, recreation & education), amounting to some £3,945 per unit, this site should deliver to policy at 30% Affordable Housing and still have a healthy £4,027,487 RV surplus available for the CIL.
- 3.38 The brownfield, 220 dwelling, County Hall and Police HQ site is also complex. There are expensive demolition costs (£1.6 million) associated with the former County Hall

building. Therefore, whilst some of these abnormal costs for the whole site will be within the standard BCIS values, an additional allowance for 'abnormal' (£1,336 per unit) has been used within this Study. However, given that this is a high value location within the sub-market, despite these 'abnormal' costs and the relatively high residual Section 106 costs (for open space, recreation & education), amounting to some £4,565 per unit, this site should deliver to policy at 30% Affordable Housing and still have a healthy £3,315,785 RV surplus for the CIL. In any event, given the current pre-application, the County Hall part of the site (estimated at 160 dwellings) is likely to obtain planning permission before a CIL is introduced. Leaving only an estimated 60 dwellings on the adjacent Police HQ part of the site to be permitted under a CIL / sprinklers regime.

- 3.39 The Cwmbran Canalside regeneration scheme is also complex and subject to a master planning exercise. This involves major waterfront and canal works and the development of around 200 houses (100 dwellings within the Plan Period). The Affordable Housing requirement for this scheme has been set at 10% in the LDP; given the site's location within a lower sales value area within the sub-market and in recognition of the regeneration priority & the high abnormal costs (an allowance of £1,980 per unit has been made in this Study for abnormals (for site clearance/remediation and a new access)). The analysis suggests that 10% affordable housing is feasible, even with the above abnormals and the residual S106 requirements (for recreation & education) of £2,946 per unit. However, this is not a vacant site, as there are a plethora of existing, mainly employment uses / tenants (e.g. three small industrial estates, a few community buildings and a funeral home), which the developer would need to relocate with, as recognised by the Harman Review, the associated costs of compensation, disturbance & loss payments and fees, on top of the land value itself. This site is also grant aid (Welsh Government, European and Lottery) dependant which is also not certain. Therefore, albeit there is a sizeable £3,891,067 RV surplus available for the CIL from this site, a cautious approach to CIL is still recommended.

### **Conclusions on specific housing sites analysis**

- 3.40 It should be emphasized that this analysis supports the High Level Testing and in so far as setting a CIL Charge might be applicable, both sets of evidence are important.
- 3.41 The specific sites testing analysis carried out in this section reflects, in the case of Torfaen, other (than affordable housing) S106 contributions.
- 3.42 Viability is generally more reliably predicted on the smaller sites, because there is greater certainty on the development mix, levels of abnormals and the short time frame for delivery. On the other hand, viability generally improves as housing densities increase and as sites get bigger; probably because the fixed costs of abnormals are spread over more dwellings and the proportion (in terms of overall floorspace) of the larger market dwellings increases over the smaller affordable housing units, thus improving the overall RV.
- 3.43 The sites in Torfaen, particularly the schemes planned in Cwmbran South & East and Pontypool East, are likely to generate residual values which should deliver affordable housing and the associated Residual S106 requirements at the policy targets; with the exception of sites in North Torfaen and Pontypool East; where the lower sales values

make such provision uneconomic or marginal at best. It is also noted that there are no strategic site allocations within Cwmbran North & West.

- 3.44 The Council will need to monitor viability on these sites going forward, as the market changes.

### **Residential CIL Rate Recommendations**

- 3.45 The next section of this Study make recommendations on setting a CIL in each of the Council's Housing Sub-Market Areas, taking into account the Residual Values (RVs) and the Benchmark Land Values (BLVs). The analysis, and scope for a CIL Charge is based on the affordable housing targets set out in the adopted Local Development Plan; and any Residual S106 Costs.
- 3.46 For each Housing Sub-Market Area, the figures in the higher table are based on the High Level Testing results and the figures in the lower table are based upon the Site Specific Testing results.
- 3.47 In all of the tables below, the pre-penultimate column shows the 'Surplus available for the CIL'; which is the difference between the Residual Value (RV), at the relevant affordable housing percentage, less the Benchmark Land Value (BLV) and any Residual S106 Costs if applicable; noting that for Torfaen, these S106 costs have already been added to the RV results for the site specific testing. The final column shows the 'Maximum CIL Charge' on a square metre basis; which is worked out by dividing the 'Surplus available for the CIL' by the total square metres of the market dwellings for each site (penultimate column) on which CIL can be charged after taking account of the relevant affordable housing percentage (as CIL is not chargeable on the affordable units). Finally, a minimum 30% CIL 'viability cushion' has generally been deducted from the resultant RVs (especially those at the average density of 35 dph) before recommending a 'Maximum' Residential CIL Charge.
- 3.48 In addition, in recommending these Residential CIL Charges, attention has also being paid to ensuring the deliverability of the LDP housing numbers as a whole and of the viability of the allocated housing sites which are being relied upon to deliver these numbers, especially where a cautious approach has been recommended on some of these sites.
- 3.49 In general terms, the Site Specific Testing of the specific sites fit the broad pattern of viability as shown in the High Level Testing; although the viability of larger site specific sites, whose sales values are higher than the average sub-market sales value, is better. The site specific tests show, in particular, how abnormal, residual S106 costs and high and low sales values across a sub-market affect viability.

### **Torfaen Residential CIL Charge Recommendations**

- 3.50 **North Torfaen** - given the results of both the high level and specific sites testing in Tables 3.6 to 3.7 below, it is clear that a **£0m<sup>2</sup>** Residential CIL Charge should be set in North Torfaen; even when considering viability at 5% affordable housing as set by the Torfaen LDP 2015 AMR / Update of the Planning Obligations SPG. This conclusion is mainly due to the costs of sprinklers and lack of house price growth; with the new 80/20 affordable housing tenure split also contributing to a lesser extent.

Density dph	Residual Value	CIL Benchmark Land Value	Surplus for CIL	Total Market M <sup>2</sup>	Max CIL Charge M <sup>2</sup>	Max CIL Charge -30%	Recommended CIL Charge M <sup>2</sup>
25	£34,342	£100,000	-£65,658	2,453	-£27	£0	£0
30	£27,002	£100,000	-£72,998	2,876	-£25	£0	£0
35	£12,662	£100,000	-£87,338	3,073	-£28	£0	£0
40	£68,364	£100,000	-£31,636	3,502	-£9	£0	£0

Site	Residual Value	CIL Benchmark Land Value	Surplus for CIL	Total Market M <sup>2</sup>	Max CIL Charge M <sup>2</sup>	Max CIL Charge -30%	Recommended CIL Charge M <sup>2</sup>
Garn-yr-Erw	-£208,000	£82,000	-£290,000	2,401	-£121	£0	£0
Hillside School	-£118,916	£165,000	-£283,916	4,190	-£68	£0	£0
The Old Co-op	-£158,552	£20,000	-£178,552	1,562	-£114	£0	£0

3.51 **Pontypool** - given the large variations in results from both the high level and specific sites testing, it was clear that the Pontypool HSMA should be split into two zones: Pontypool East based upon the higher sales value NP4 0 New Inn / Mamhilad postcode; and Pontypool West HSMA based upon the lower sales value NP4 5, NP4 6 and NP4 8 postcodes for the remainder of Pontypool.

3.52 **Pontypool West** - Given the results of both the high level and specific sites testing in Tables 3.8 and 3.9 below, it is recommended that a **£0m<sup>2</sup>** Residential CIL Charge should be set in Pontypool West. Again, this conclusion is mainly due to the costs of sprinklers, low house price growth and lower house prices in this part of Pontypool; with the new 80/20 affordable housing tenure split also contributing to a lesser extent.

Density dph	Residual Value	CIL Benchmark Land Value	Surplus for CIL	Total Market M <sup>2</sup>	Max CIL Charge M <sup>2</sup>	Max CIL Charge -30%	Recommended CIL Charge M <sup>2</sup>
25	£265,801	£300,000	-£34,199	2,079	-£16	£0	£0
30	£296,336	£300,000	-£3,664	2,376	-£2	£0	£0
35	£229,321	£300,000	-£70,679	2,572	-£27	£0	£0
40	£293,970	£300,000	-£6,030	2,936	-£2	£0	£0

Site	Residual Value	CIL Benchmark Land Value	Surplus for CIL	Total Market M <sup>2</sup>	Max CIL Charge M <sup>2</sup>	Max CIL Charge -30%	Recommended CIL Charge M <sup>2</sup>
Animal Pound	£1,262,910	£1,554,000	-£291,090	10,874	-£27	£0	£0

3.53 **Pontypool East** - Given the results of both the high level and specific sites testing in Tables 3.10 and 3.11 below, it is recommended that a **£100m<sup>2</sup>** Residential CIL Charge could be set in Pontypool East. The potential CIL charge in the Pontypool East HSMA is higher than that of the Cwmbran S&E HSMA below; as whilst they have similar house price sales values, up to 25% affordable housing is sought in Pontypool compared to up to

30% in Cwmbran S&E, and it is this difference in S106 costs that has resulted in a higher recommended CIL charge in Pontypool East.

- 3.54 However, it is recommended that a site specific CIL Charge of **£50m<sup>2</sup>** is set for the **Mamhilad SAA**, given the high residual section 106 costs, the potential for only 1,100 dwellings being provided and the potential for higher abnormal costs than have been allowed for in this analysis. As regards ‘state-aid’ rules, this lower charge for Mamhilad SAA is, in accordance with the DCLG Statutory Guidance, justified by “consistent economic viability evidence”, and reflects many CIL charging schedules throughout Wales (for example in Monmouthshire and Cardiff) and England, especially for large strategic sites.

Density dph	Residual Value	CIL Benchmark Land Value	Surplus for CIL	Total Market M <sup>2</sup>	Max CIL Charge M <sup>2</sup>	Max CIL Charge -30%	Recommended CIL Charge M <sup>2</sup>
25	£784,470	£400,000	£384,470	2,079	£185	£129	<b>£100</b>
30	£887,816	£400,000	£487,816	2,376	£205	£144	<b>£100</b>
35	£873,262	£400,000	£473,262	2,572	£184	£129	<b>£100</b>
40	£1,041,714	£400,000	£641,714	2,936	£219	£153	<b>£100</b>

Site	Residual Value	CIL Benchmark Land Value	Surplus for CIL	Total Market M <sup>2</sup>	Max CIL Charge M <sup>2</sup>	Max CIL Charge -30%	Recommended CIL Charge M <sup>2</sup>
<b>Mamhilad 1700</b>	£28,296,182	£10,328,000	£17,968,182	128,273	£140	£98	<b>£50</b>
<b>Mamhilad 1,100</b>	£19,262,453	£10,800,000	£8,462,453	80,890	£105	£73	<b>£50</b>

- 3.55 **Cwmbran North & West** - given the results of both the high level and specific sites testing in Tables 3.12 and 3.13 below, it is recommended that a **£50m<sup>2</sup>** Residential CIL Charge could be set in Cwmbran North & West. Noting that the only site expected to come forward within this area is the greenfield 25 dwelling (25dph) Ty'r-ywen Farm LDP allocation, which lies within a high value area (£2,100m<sup>2</sup>) of this HSMA, but is expected to be permitted before the CIL Charge is introduced in any event.

Density dph	Residual Value	CIL Benchmark Land Value	Surplus for CIL	Total Market M <sup>2</sup>	Max CIL Charge M <sup>2</sup>	Max CIL Charge -30%	Recommended CIL Charge M <sup>2</sup>
25	£490,564	£400,000	£90,564	2,108	£43	£30	<b>£50</b>
30	£559,163	£400,000	£159,163	2,486	£64	£45	<b>£50</b>
35	£619,776	£400,000	£219,776	2,700	£81	£57	<b>£50</b>
40	£723,436	£400,000	£323,436	3,092	£105	£73	<b>£50</b>

<b>Table 3.13: Specific Site in Cwmbran in N&amp;W Housing Sub-Market Area @£2,100m<sup>2</sup></b>							
Site	Residual Value	CIL Benchmark Land Value	Surplus for CIL	Total Market M <sup>2</sup>	Max CIL Charge M <sup>2</sup>	Max CIL Charge -30%	Recommended CIL Charge M <sup>2</sup>
<b>South Sebastopol</b>	£29,250,397	£18,800,000	£10,450,397	118,009	£89	£62	<b>£50</b>

3.56 **Cwmbran South & East** - given the results of both the high level and specific sites testing in Tables 3.14 and 3.15 below, it is recommended that a **£75m<sup>2</sup>** Residential CIL Charge could be set in Cwmbran South & East.

<b>Table 3.14: High Level Sites in Cwmbran S&amp;E Housing Sub-Market Area @£2,200m<sup>2</sup></b>							
Density dph	Residual Value	CIL Benchmark Land Value	Surplus for CIL	Total Market M <sup>2</sup>	Max CIL Charge M <sup>2</sup>	Max CIL Charge -30%	Recommended CIL Charge M <sup>2</sup>
25	£606,396	£500,000	£106,396	1,888	£56	£39	<b>£75</b>
30	£680,998	£500,000	£180,998	2,172	£83	£58	<b>£75</b>
35	£756,450	£500,000	£256,450	2,506	£102	£72	<b>£75</b>
40	£905,380	£500,000	£405,380	2,780	£146	£102	<b>£75</b>

<b>Table 3.15: Specific Sites in Cwmbran S&amp;E Housing Sub-Market Area</b>							
Site	Residual Value	CIL Benchmark Land Value	Surplus for CIL	Total Market M <sup>2</sup>	Max CIL Charge M <sup>2</sup>	Max CIL Charge -30%	Recommended CIL Charge M <sup>2</sup>
<b>Police College &amp; Adj. Land (£2,100m<sup>2</sup>)</b>	£6,066,024	£4,250,000	£1,816,024	24,646	£167	£117	<b>£75</b>
<b>Llanfrechfa Grange (£2,300m<sup>2</sup>)</b>	£8,902,487	£4,875,000	£4,027,487	21,855	£159	£111	<b>£75</b>
<b>County Hall &amp; Police HQ (£2,300m<sup>2</sup>)</b>	£6,125,785	£2,810,000	£3,315,785	15,657	£180	£126	<b>£75</b>
<b>Canalside (10% AH &amp; £2,100m<sup>2</sup>)</b>	£6,651,067	£2,760,000	£3,891,067	20,620	£129	£90	<b>£75</b>

3.57 **Residential CIL Threshold for Torfaen** - Given the above recommendations, Torfaen requested further research on the potential of setting a threshold for the application of the residential CIL Charge. The Council was concerned that the above CIL Charges, whilst not threatening the delivery of the LDP as a whole, may prejudice small local builders who generally build on smaller, more expensive, sites and have higher build costs (than the average BCIS costs) and sell dwellings at lower values than national or regional house builders who benefit from economies of scale, standard house types, bulk purchase rates & discounts, building regulations type approval, better access to & cheaper finance, better cash flow, etc.

3.58 It is noted that Torfaen's residual S106 requirements apply at 3 or more dwellings or 0.1ha; and from the Council's JHLAS evidence that:-

- most sites of 2 or less dwellings are generally large self-build properties and thus exempt from the CIL; or would be uneconomic as they have individual plot values

of between £50,000 to £75,000 (equivalent to a £1,250,000 to £1,875,000 BLV per ha @ 25 dph);

- small local builders generally develop market sites of no more than 8 dwellings;
- regional house builders generally develop market sites starting from just under 25 dwellings (which has already been assessed in this Study's high level testing);
- national house builders generally develop market sites starting from around 50 dwellings (again a range of these sites have been tested within this Study); and
- regional house builders, as the contractor, generally build 100% affordable housing sites for, CIL exempt, RSL's on sites of between 3 and 75 dwellings.

3.59 Therefore, we considered that setting a CIL threshold on 'large sites' of '10 or more dwellings on sites of 0.33 net ha or more' warranted further research (at a density of 30 dwellings per ha, 10 dwelling would be provided on a 0.33ha site; and the Council is concerned that developers would build at lower densities to avoid the CIL Charge). In Table 3.14 below, we have assessed the Council's annual Torfaen Joint Housing Land Availability Studies of planning permissions & house building. In addition, the Council has undertaken several affordable housing & S106 viability assessments for new build small site planning applications using the Development Appraisal Toolkit (DAT).

**Table 3.14: Completed / Permitted New Build Sites in Torfaen of 3 - 24 Dwellings since 2006**

<b>Housing Sub-Market Area and Developer Type (number of sites and dwelling numbers range)</b>	<b>Total Units</b>
<b>North Torfaen</b>	
Small Builder (9 sites of 3-5 dwellings)	33
Registered Social Landlord (7 sites of 3-16 dwellings)	59
<b>North Torfaen sub-total</b>	<b>92</b>
<b>Pontypool</b>	
Small Builder (12 sites of 3-8 dwellings)	57
Regional House Builder (1 site of 23 dwellings)	23
Self-Build Development (2 sites of 19 & 22 dwellings)	41
Registered Social Landlord (7 sites of 8-22 units)	103
<b>Pontypool sub-total</b>	<b>224</b>
<b>Cwmbran</b>	
Small Builder (4 sites of 3-8 dwellings)	20
Regional House Builder (1 site of 20 dwellings)	20
Registered Social Landlord (3 sites of 12-18 units)	46
Cwmbran sub-total	86
<b>TORFAEN TOTAL</b>	<b>402</b>
<b>Torfaen - Small Builder Sub-Total</b>	<b>110 (27%)</b>
<b>Torfaen - Regional Builder Sub-Total</b>	<b>43 (11%)</b>
<b>Torfaen - Self-Build Sub-Total</b>	<b>41 (10%)</b>
<b>Torfaen - RSL Sub-Total</b>	<b>208 (52%)</b>

Source: Torfaen Joint Housing Land Availability Studies (JHLAS) data

3.60 From Table 3.14 above it can be seen that, within Torfaen, small builders are currently expected to secure 110 dwellings (27% of the total) over 9 years within the sampled site size range; so over the expected 5 years of the remaining LDP period (up to 2021)

within a CIL regime, we can estimate that small builders would secure approximately a further 50 dwellings. Interestingly, CIL exempt RSL and self-build sites are expected to currently secure 249 dwellings (62% of the total); plus any further dwellings until the end of the Plan period. Only Regional House-builders are also likely to be liable for the CIL within the sampled range (representing 11% of the total or 43 dwellings), but it is estimated that approximately a further 20 dwellings would be liable within the last 5 years of the LDP period in any event.

- 3.61 Given a £0m<sup>2</sup> Residential CIL Charge has been recommended for North Torfaen and Pontypool West, no further detailed research was considered necessary for those housing sub-market.
- 3.62 As regards the Pontypool housing sub-market area, four new build S106 viability DATs have been carried out (for sites of 2, 2, 3 & 4 dwellings). In all four cases it was found that, on viability grounds, none of the sites could provide for their full affordable housing and residual S106 contributions.
- 3.63 As regards Cwmbran, no new build S106 viability DATs have been carried out within Cwmbran N&E; but within Cwmbran S&E, five DATs have been carried out (three in Cwmbran (for sites of 2, 5 & 8 dwellings) and two in the village of Ponthir (for sites of 2 & 5 dwellings). In all five cases it was found that, on viability grounds, none of the sites could provide for their full affordable housing and residual S106 contributions.
- 3.64 These Council DAT results are supported by the BCIS, who recently published their research for the Federation of Small Businesses on 'Housing development: the economics of small sites - the effect of project size on the cost of housing construction' in August 2015. This BCIS research concluded "*that the build cost (£/m<sup>2</sup>) for all residential schemes of 10 units or less is on average 6% higher than on large developments*"; which equates to about an additional £10,000 per dwelling on a typical housing scheme.
- 3.65 Conclusion, from the above evidence it is clear that small builders are unlikely to be able, on viability grounds, to pay their full S106 liabilities in addition to the above CIL Charges. Therefore, whilst this would not threaten the delivery of the Plan as a whole, it is still recommended that a **£0m<sup>2</sup> CIL Charge is set for sites of less than 10 dwellings, subject to the overall site area being under 0.33ha (net developable area) throughout Torfaen.**

## 4 COMMERCIAL PROPERTY VIABILITY ANALYSIS

- 4.1 **Overview** - The CIL legislation requires that where a local authority decides to adopt a CIL, it should be applied to both residential property (Use Class C3) and commercial (non-residential) development. This development, as defined by the Town and Country Planning (Use Classes) Order 1987, falls mainly under the Use Classes A1-A3 (retail); B1-B8 (employment); C1-C2 (hotels and residential institutions); D1-D2 (non-residential institutions and assembly & leisure); 'Sui Generis'; and agricultural uses.
- 4.2 **Methodology** - The assessment of viability with respect to commercial development is the same in principle as for residential. That is say, the total scheme revenue should be calculated and the total costs of development (build / land costs and finance & fees) taken off the revenue to see if there is any residual value which may then provide the basis for a Section 106 or CIL payment.
- 4.3 However, unlike residential schemes where the scheme revenue is easily quantified as the Gross Development Value (GDV) when the dwellings are sold just after they are built; for commercial developments, which are generally rented to tenants and owned by investors rather than sold, the scheme revenue normally has to be calculated as a Capital Value (CV) which is a product of the scheme rents and the 'all risks yield'. Whilst rents are straightforward to understand, yields reflect the level of risk and future growth prospects (in terms of both income and capital growth); the higher the risk, the higher the yield but the higher the future growth prospects, the lower the yield. Very simply, the "yield" is the rent as a proportion (%) of the Capital Value as per the following equation:-
- **Yield (%) = Rent / Capital Value**
- Furthermore, as the rents and yield for a development normally reflect the type, location and quality of the development (as well as the 'quality' of the tenant and the terms of the lease itself) the Capital Value will also differ. For example, if an identical commercial scheme was built in two locations, but one area had higher rents and a lower yield it would have a higher Capital Value; i.e. an investor would be willing to pay more for the same scheme. Thus, there is an inverse relationship between yields and capital values, i.e. a higher yield means a lower capital value and a lower yield means a higher capital value.
- 4.4 **Developer Return** - In summary, commercial developers will want to ensure that the Capital Value of a building covers its costs and provides them with a competitive return on their investment. Therefore, as most commercial schemes are now built with pre-lets/sales rather than speculatively, we consider that, as the risks are reduced, a 17% return on the Capital Value represents a competitive return to a developer.
- 4.5 **Schemes, Rent & Yields** - Table 4.2 below sets out the full range of information relating to the commercial schemes tested. The sample of schemes to test has been agreed with the Steering Group and with particular assistance of David Pugsley of Hutchings and Thomas, Chartered Surveyors based in Newport. The rents and yields have been estimated from a range of sources including agent feedback, property market survey report and from an extensive search of local property market websites. It shows the locations, unit sizes, indicative annual rents and yields, capital values and development costs, and the residual value resulting.

4.6 **Construction / S106 Costs** - These have been taken from the RICS Build Cost Information Service (BCIS) median values. These will include all items up to a level where the building is handed over to the occupier who will be responsible for their own specific fitting-out costs. This source of information shows '**base build costs**' for a variety of commercial development types. The information is bespoke, as with the residential analysis, to the local authority area; the detailed costs are contained in the viability appraisals for each development type in Appendix 3. To this 'base build cost' we have added a 10% uplift for site **externals** (including infrastructure provision) and 5% for **contingencies** (to reflect uncertainties in the build costs) and **S106 contributions**.

4.7 It is noted, from an analysis of all commercial S106 Agreements in Torfaen (see Table 4.1 below), that these are generally for low cost landscaping, ecological / recreation mitigation and footway works; with only the larger sites or high value superstores being required to pay for more expensive public realm and highway works.

**Table 4.1 Analysis of Commercial S106 Agreements in Torfaen**

<b>Commercial Development</b>	<b>S106 Item</b>
<b>Employment Sites</b>	
Fencing - Cwmbran Stagecoach Depot	£6,000 for landscaping
Industrial Units - Woodside Way, Springvale Industrial Estate, Cwmbran	£9,000 for relocation of slow worms £1,000 promotion of adjacent LNR
Office - Lakeside House, Llantarnam Park, Cwmbran	£4,000 biodiversity mitigation towards Henllys Bog SSSI
Industrial Units - Former Uskvale Bowling Green, Mamhilad, Pontypool	£12,000 recreation compensation
Vehicle Depot - Excel Logistics, Lower Mill, Pontypool	£3,000 footpath improvements
Evron Foods, Pontyfelin Industrial Estate, Pontypool	Ecological translocation
<b>Retail Sites</b>	
Morrisons Superstore, Cwmbran (6,860m <sup>2</sup> )	£100,000 public realm works Construction of pedestrian links
Sainsbury's Superstore Extension, Cwmbran (3,848m <sup>2</sup> net)	£20,000 highways works £5,000 traffic management study
Asda, Cwmbran (8,997m <sup>2</sup> )	£5,000 pedestrian movement study
Tesco's Superstore, Pontypool	landscaping and highways works
B&M Bargains, Tudor Road, Cwmbran (3,203m <sup>2</sup> )	Pedestrian link to town centre - lighting columns & signage £5,000 traffic management study
Cwmbran Retail Park (12,623m <sup>2</sup> )	£20,000 footpath links
Tesco Metro, Greenmeadow, Cwmbran	Footpath - surfacing and pedestrian island
Harvester Inn, Lower Mill, Pontypool	£7,200 footpath improvements
<b>Leisure Sites</b>	
'Leisure @ Cwmbran', Glyndwr Road (approx. 9,290m <sup>2</sup> )	Footpath and walkway improvements

- 4.8 **Other Costs** - In addition, other costs used in the appraisals include:-
- **Professional Fees** - 10% of build costs (planning, architects, surveying and management fees; and includes agents / legal fees and Stamp Duty Land Tax associated with land purchase);
  - **Finance** - 6% of total development costs, including construction and other fees; and
  - **Marketing & Legal Fees** - 3% of capital value.
- 4.9 The detailed appraisals for the commercial development are set out in full in Appendix 3. The Appendix shows the baseline spreadsheet used and the key assumptions made.
- 4.10 The summary of commercial schemes tested in Torfaen are shown in Table 4.2 below, and provide the starting point for setting CIL. The figures show that in some (limited) instances, there is some positive residual value, from which a CIL might be taken.
- 4.11 The main conclusion, however, is that it will not be as easy to set a CIL for commercial as it is for residential.

**Table 4.2 Summary of Commercial schemes tested in Torfaen**

Use Class	Location	Unit Size (m <sup>2</sup> )	Rental (£/m <sup>2</sup> )	Yield %	Capital Value	Development Costs	Residual Value
<b>A1 High Street Shop</b>	Cwmbran	150	£183	6	£457,500	£465,075	<b>-£7,575</b>
<b>A1 High Street Shop</b>	Pontypool	150	£80	7	£171,429	£237,717	<b>-£66,289</b>
<b>A1 Supermarket</b>	Torfaen	800	£160	5.5	£2,327,273	£1,822,441	£504,832
<b>A1 Superstore</b>	Torfaen	2,500	£190	5.5	£8,636,364	£5,923,683	£2,712,681
<b>A1 Retail Warehouse / Factory Outlet Shop</b>	Cwmbran	400	£150	6.5	£923,077	£549,079	£373,998
<b>A1 Retail Warehouse / Factory Outlet Shop</b>	North Torfaen & Pontypool	400	£150	7.5	£800,000	£524,464	£275,536
<b>A2 Financial Service</b>	Cwmbran	150	£110	9	£183,333	£259,491	<b>-£76,158</b>
<b>A3 Food &amp; Drink</b>	Torfaen	100	£160	7	£228,571	£332,471	<b>-£103,899</b>
<b>B1 Business</b>	Cwmbran	200	£110	9	£244,444	£312,115	<b>-£67,671</b>
<b>B1 Business</b>	Pontypool	200	£55	9	£122,222	£287,671	<b>-£165,449</b>
<b>B2 General Industry</b>	Llantarnam	1,000	£45	9	£500,000	£1,060,596	<b>-£560,596</b>
<b>B8 Warehouse</b>	Torfaen	2,000	£35	10	£700,000	£2,061,191	<b>-£1,361,191</b>
<b>C1 Hotels</b>	Torfaen	8 Bedrooms @ £40,000 per Bedroom			£320,000	£538,945	<b>-£218,945</b>
<b>C2 Residential Institutions</b>	Torfaen	20 Bedrooms @ £50,000 per Bedroom			£1,000,000	£1,141,927	<b>-£141,927</b>
<b>D1 Non-Residential Institutions</b>	Torfaen	250	-	-	£250,000	£608,839	<b>-£358,839</b>
<b>D2 Assembly &amp; Leisure</b>	Torfaen	2,000	£90	8	£2,250,000	£2,784,907	<b>-£534,907</b>

4.12 The following comments relate to specific sectors.

### **A1 Shops**

- 4.13 The A1 use encompasses most types of shops (including supermarkets / superstores and retail warehouses / factory outlet centres) as well as post offices, travel and ticket agencies, hairdressers, funeral directors, domestic hire shops, dry cleaners, pet shops, sandwich bars (cold food) and showrooms (where the sale, display or service is provided principally to visiting members of the public).
- 4.14 Typically, this use is the best 'candidate' for a CIL contribution, based on the findings of other studies. Whether CIL is set for this type of use depends in large measure on plans for new retail development as traditional High Street shops are unlikely to generate much CIL unless the site is developed much more intensively (the new area is offset against the existing area under CIL regulations). In addition, the existing retail use land values in town centres are generally high in any event and land assembly for larger redevelopments can also be complex and costly; both reducing viability. As may be expected, the economics of developing retail, particularly in higher value locations are significantly better than for other uses due to higher rents and lower yields.
- 4.15 We have tested High Street shops (150 square metres Gross Internal Area (GIA)) at the two main town centre locations of Cwmbran and Pontypool; part of the site specific Cwmbran Town Centre LDP retail allocation; an out of town Supermarket (of 800 square metres GIA of mainly convenience goods); an out of town Superstore (of 2,500 square metres GIA of mainly convenience goods); and an out of town Retail Warehouses / Factory Shops (of 400 square metres GIA of mainly comparison goods).
- 4.16 High Street Shop rents in these locations vary, with Pontypool appearing to have the lowest rents (£80 per sq m indicative) and, as would be expected for a regional shopping centre, Cwmbran having the highest (£185 per sq m indicative). Table 4.2 sets out the residual values and the full results are set out in Appendix 3.
- 4.17 Residual values for Pontypool are -£66,289 for a shop of 150 square metres GIA. This would normally not be sufficient to cover the existing use value of a High Street shop, even one in poor condition, let alone a CIL Charge.
- 4.18 For Cwmbran, we have, for comparison purposes, examined a 150 square metre GIA shop based upon the site specific Torfaen LDP retail allocation, at Policy RLT2/1, which identifies land on the eastern side of Cwmbran Town Centre (broadly the area to the east of North Walk and The Mall and including land between Glyndwr Road and St Davids Road) as having the potential for redevelopment for retail and other town centre uses to meet the identified need for 4,822m<sup>2</sup> - 8,404m<sup>2</sup> net additional comparison (A1) retail floorspace up to 2021.
- 4.19 Whilst the full scheme details are not yet finalised, we used the Prudential Assurance Co Ltd (now known as M&G Real Estate, who are the owners of the majority of the Town Centre) preliminary option, including a viability assessment (August 2012), of a new build element of this allocation on their current surface level Town Centre car park between Glyndwr Road and St Davids Road (from a public document submitted as part of their evidence to the 2012 'Homebase' appeal). This option showed a three storey (including a mezzanine floor) scheme of 5 retail units totaling 3,115m<sup>2</sup> GIA

(ranging from 500-690m<sup>2</sup> GIA in size), with decked parking, basement servicing and a new surface pedestrian link (across a traffic calmed Glyndwr Road) to the main Town Centre.

- 4.20 The associated viability assessment shows rental values of £183 per m<sup>2</sup> (with a 6% yield); a total cost of £7,963,667 (including construction & externals, fees, incentives and finance costs) against a net Residual Value of £8,876,810; and thus a developer return of £913,143 or 10.3%, but also excluding any land costs. As such this scheme is uneconomic given we consider that the competitive developer return should be 17%. Even though rental values are healthy, this viability issue is caused by the high construction costs which at £2,065m<sup>2</sup> are almost double the £1,049m<sup>2</sup> (A1 use) norm for Torfaen; mainly due to the costs of replacing a surface car park with a larger capacity decked one and the three storey / basement servicing layout. However, the total costs of redeveloping within the main town centre itself are likely to be even higher; as additional demolition, public realm, highway works (under LDP Policy T1/3 for Cwmbran Town Centre Improvements), existing tenant costs (who would need to be relocated with the associated compensation, disturbance & loss payments and fees), etc. costs are added in, notwithstanding the consideration of the land value itself. But, in any event, if a CIL Charge was economic, it would only be liable on any additional net floorspace.
- 4.21 However, we understand that M&G are still likely to bring a scheme forward, as they consider that “whilst developments are financially appraised on their own merits, the Fund does take account of the benefits an integrated development can have on the town as a whole” and “By looking at the wider picture the fund has undertaken development within such environments where the developments in their own merits show only marginal returns, but it is seen that the added benefits to the wider scheme do make them viable”.
- 4.22 Our analysis of a larger A1 use supermarkets / superstores (as defined by Annex A of WG TAN4 on ‘Retailing and Town Centres’, Nov 1996) in the area (which range from about a 800m<sup>2</sup> supermarket (Lidl / Aldi) to a 9,000m<sup>2</sup> superstore (Cwmbran Asda)) suggests higher rents and lower yields of around 5.5%. For this area, an indicative rent for a 800m<sup>2</sup> supermarket is around £160 per m<sup>2</sup> with a BLV of £800,000/ha; and for a 2,500m<sup>2</sup> superstore an indicative rent is around £190 per m<sup>2</sup> with a slightly higher BLV of £1,000,000/ha. These figures are consistent with other CIL Viability studies across South Wales. In both cases, it is assumed that the building itself covers about 40% of the site and the remainder being car parking, landscaping and access & servicing space.
- 4.23 Table 4.3 (below) provides a summary analysis of the smallest 800m<sup>2</sup> Supermarket and the smallest 2,500m<sup>2</sup> Superstore (from Appendix 3) and suggests that this type of development could attract a CIL Charge as follows:-

**Table 4.3: Potential Maximum Torfaen CIL Charge for Out of Town Supermarket / Superstore**

Supermarket					
Unit Size (m <sup>2</sup> )	Site Area (ha)	Benchmark Land Value (£800k/ha)	Site Residual Value (RV)	RV Surplus (RV - BLV)	Max CIL Charge / m <sup>2</sup> (RV Surplus / Unit Size)
800	0.2	£160,000	£504,832	£344,832	<b>£431</b>

<b>Superstore</b>					
Unit Size (m <sup>2</sup> )	Site Area (ha)	Benchmark Land Value (£1m/ha)	Site Residual Value (RV)	RV Surplus (RV - BLV)	Max CIL Charge / m <sup>2</sup> (RV Surplus / Unit Size)
2,500	0.625	£625,000	£2,712,681	£2,087,681	<b>£835</b>

4.24 Similarly, our analysis of larger A1 use Retail Warehouses (including 'sui generis' retail warehouse clubs) and Factory Outlet Shops (as generally defined by Annex A of WG TAN4 on 'Retailing and Town Centres', Nov 1996) which are normally located within retail parks (which start from about 1,200m<sup>2</sup> in total with individual units ranging from 400m<sup>2</sup> to 3,400m<sup>2</sup>) suggests lower rents and higher yields than a supermarket. An indicative rent for a smaller (400m<sup>2</sup>) retail warehouse / factory outlet shop unit in the area is around £150 per m<sup>2</sup> with a yield of around 7.5% or less (6.5% in Cwmbran). These figures are consistent with other CIL Viability studies across South Wales. Here it is assumed that the retail warehouse / factory outlet shop building itself covers about 40% of the site and the remainder being car parking, landscaping and access & servicing space; so a 400m<sup>2</sup> retail warehouse / factory outlet shop would require a 0.1ha site.

4.25 Table 4.4 (below) provides a summary analysis of the smallest 400m<sup>2</sup> Retail Warehouse / Factory Outlet Shop (from Appendix 3) and suggests that this type of development could attract a CIL Charge as follows:-

**Table 4.4: Potential Maximum CIL Charge for Out of Town Retail Warehouse / Factory Outlet Shop**

<b>Retail Warehouse / Factory Outlet Shop</b>						
Location	Unit Size (m <sup>2</sup> )	Site Area (ha)	Benchmark Land Value (£800k/ha)	Site Residual Value (RV)	RV Surplus (RV - BLV)	Max CIL Charge / m <sup>2</sup> (RV Surplus / Unit Size)
<b>Cwmbran</b>	400	0.1	£80,000	£373,998	£293,998	<b>£735</b>
<b>North Torfaen &amp; Pontypool</b>	400	0.1	£80,000	£275,536	£195,536	<b>£489</b>

4.26 Finally, this only leaves smaller A1, mainly convenience shops, outside the two main town centres assessed above, to be considered; i.e. in the lower ranked / lower rental value location of Blaenavon; and the multitude of neighbourhood centres and local shops throughout the County Borough. Therefore, from a detailed assessment of typical neighbourhood / local shops in Cwmbran leased by the Council, as rents range from £35 - £126m<sup>2</sup> and sizes range from 18m<sup>2</sup> - 300m<sup>2</sup> (with an average shop having a rent of £72m<sup>2</sup> and being 79m<sup>2</sup> in size); it follows, given the analysis of small (150m<sup>2</sup>) high street shops above, that a CIL Charge would also be uneconomic in all of these other areas.

4.27 Therefore, with a 'viability cushion' of over 42%, we recommend a general £0 CIL Charge for A1 Retail Uses, with the exception of a £250m<sup>2</sup> CIL Charge in Torfaen for A1 Use Supermarkets / Superstores over 800m<sup>2</sup> and for A1 Use Retail Warehouses / Factory Outlet Shops and 'sui generis' Retail Warehouse Clubs over 400m<sup>2</sup> outside of the designated Blaenavon, Cwmbran and Pontypool Town Centre Boundaries. At £250m<sup>2</sup> this actually represents the following viability cushions:-

**Table 4.5: Recommended CIL Charge for A1 ‘Out of Town’ Supermarkets / Superstores, Retail Warehouses / Factory Outlet Shops and ‘sui generis’ Retail Warehouse Clubs**

Location	Max CIL Charge £/m <sup>2</sup> (RV Surplus / Unit Size)	Recommended CIL Charge £/m <sup>2</sup>	Viability Cushion (%)
<b>Supermarket</b>			
Torfaen	£431	<b>£250</b>	<b>42%</b>
<b>Superstore</b>			
Torfaen	£835	<b>£250</b>	<b>70%</b>
<b>Retail Warehouse / Club &amp; Factory Outlet Shops</b>			
Cwmbran	£735	<b>£250</b>	<b>66%</b>
North Torfaen & Pontypool	£489	<b>£250</b>	<b>49%</b>

## **A2 Financial & Professional Services**

- 4.28 These types of uses are generally ‘town centre offices’ (where the service is provided principally to visiting members of the public) and include financial services such as banks and building societies; or professional services (other than health and medical services) such as estate and employment agencies.
- 4.29 Rents for this type of use appears to be relatively low and the analysis (in full at Appendix 4) suggests that this type of development is unlikely to generate a positive residual value and hence no opportunity for CIL.

## **A3 Food & Drink**

- 4.30 In Wales this use class encompasses a range of end users including: cafes, restaurants, pubs & wine bars; and hot food shops & take-aways.
- 4.31 As a general figure, these uses generate rents of around £160 per square metre. With a low yield this type of development might generate a positive residual value. However, our analysis, using a yield of 7% suggests that A3 uses will in most instances not be viable. In particular, the costs of development for this type of scheme are very high. BCIS figures suggest that baseline construction costs are around £2,200 per square metre with additional costs (externals) rising to £2,500 per square metre. As these costs are net of fees, finance and margin, this makes it difficult to make a case for a CIL for this type of use.

## **B1-8 ‘Employment’**

- 4.32 These ‘employment’ classes include B1 Business (offices not within A2 and light industry compatible with residential uses), B2 General Industrial and B8 Storage & Distribution (warehouses) uses. Rents for industrial and office uses are significantly lower than for retail uses. For industrial units between £35 and £50 per square metre and for offices between £55 and £110 per square metre.
- 4.33 The analysis shows that that this type of development is generally not currently economic to develop. At present there does not appear to be a great disparity for

rentals paid for those uses throughout Torfaen with rentals still remaining subdued. Residual values for B2 and B8 uses are significantly negative, particularly in the case of warehouses. The relationship between end value and costs are such that this type of scheme looks unlikely to be developed at least on a speculative basis.

- 4.34 Small starter work shop units would command a higher rental per sq metre but would also include a service charge e.g. industrial units at the Llantarnam Park, in Cwmbran, may command rentals in the order of £50 per square metre depending on the relevant size of the accommodation. Whilst base rentals for units around 1,000 square metres for better properties such as the units at Llantarnam Park may command rentals around £45 per square metre and tenants would expect to receive some sort of incentive from the landlord as a fitting out period or rent free period to encourage them to take occupation of the same.
- 4.35 B1 Business schemes are more difficult to assess because they can include high end (High Tech) uses as well as lower 'shed' type schemes. However, it is unlikely that high value will be combined in any scheme with low costs and hence the general conclusion is that this use should not attract a CIL contribution.
- 4.36 Whilst it may be the case that new developments of this type are carried out over the Plan period, it is likely that they will be done on the basis of owner occupied schemes rather than as speculative developments or where landowners sell at lower values. On this basis, the case for a CIL on this type of development looks unjustified.

## **C1 Hotels**

- 4.37 These uses include hotels, boarding and guest houses where no significant element of care is provided (excludes hostels).
- 4.38 There are some examples of hotels in the area, although limited. On average the value per room is at around £40,000. We have modelled here a scheme of 8 bedrooms, giving a GDV of £320,000. The costs of constructing hotel accommodation is however high: the BCIS figures suggest around £1,640 per square metre, and that is before fees, finance and margin are added. The example run suggests a negative residual value of -£218,945; and hence a recommendation for £0 CIL for this use.
- 4.39 The analysis suggests that development value would have to reach around £80,000 per room before any CIL contributions were viable. This may be possible with very high quality schemes; but we understand that such proposals are unlikely to come forward with the County Borough in any event.

## **C2 Residential Institutions**

- 4.40 These uses include residential care homes, hospitals, nursing homes, boarding schools, residential colleges and training centres.
- 4.41 Nursing homes for sale in the area appear to generate values on a per room basis higher than those for hotels. The appraisal for this type of use suggests that this type of development will provide a marginal or near to zero residual value. This makes it likely that a CIL charge will not be viable on this type of scheme.

## **D1 Non-residential Institutions**

- 4.42 These uses include clinics, health centres, crèches, day nurseries, day centres, schools, art galleries (other than for sale or hire), museums, libraries, halls, places of worship, church halls, law courts and non-residential education and training centres.
- 4.43 The assessment of health centres is always difficult since comparables are based on notional rents and are not extensive in either of the local authority areas. Rental values for these uses are similar to office rentals or industrial rentals if an industrial unit has been leased and adapted for a particular use. The appraisal suggests that these types of uses, even though they may benefit from external funding, will not cover the costs of development.
- 4.44 A number of churches and places of worship have come up for sale and have been sold. Normally the purchase price reflects the fact that the accommodation is normally redundant, surplus to requirements and in need of significant refurbishment works; as such lower purchase prices have been obtained.

## **D2 Assembly & Leisure**

- 4.45 These uses include cinemas, music and concert halls, bingo and dance halls (but not night clubs), swimming baths, skating rinks, gymnasiums or area for indoor or outdoor sports and recreations (except for motor sports, or where firearms are used).
- 4.46 Torfaen has not allocated any of these types of uses. Generally, where these facilities are provided by local authorities or trusts, they are 'uneconomic'; otherwise they would be provided and traded as investments by the commercial sector. In addition, as the more commercial of these facilities (e.g. cinemas, bingo halls and gymnasiums) are generally already represented in Torfaen or nearby (given the large 'hinterland' required in some instances), no new build commercial applications are expected for these uses. They also now tend to be provided as part of a bigger leisure or retail scheme in any event; whilst small 'local' gyms tend to re-occupy existing community or industrial buildings. Although, for completeness, we have tested a 2,000m<sup>2</sup> commercial bingo hall with an annual rent of £90m<sup>2</sup> and a yield of 8%, which was unviable and thus unable to justify a CIL Charge.

### **'Sui Generis' Uses**

- 4.47 Under the Town and Country Planning (Use Classes) Order 1987, a diverse variety of uses which require planning permission, do not fall within any use class and are thus considered 'sui generis' (a Latin phrase meaning 'in a class by itself'), see the list of these types of uses in the next paragraph.
- 4.48 Torfaen has not allocated sites for these specific uses; and no 'sui generis' viability assessments has been undertaken, given the diverse variety of uses within this category have generally been covered by other assessments already undertaken for similar types of locations, uses, costs and values. For example, it is considered that:-
- A1 town centre / local shop uses cover a 'sui generis' amusement arcade / centre, or a launderette, or a night-club - so a CIL is considered unviable;

- B1 office (estate location) or A2 office (town centre location) uses cover a 'sui generis' taxi business or business for the hire of motor vehicles - so a CIL is considered unviable;
- B2 industrial uses cover 'sui generis' scrapyards, or a yard for the storage or distribution of minerals or the breaking of motor vehicles, buildings selling and/or displaying motor vehicles, or certain chemical (alkali) & waste disposal (incineration and chemical treatment) works or landfill sites - so a CIL is considered unviable;
- D1 non-residential institutions or D2 assembly and leisure uses cover sui generic theatres and C1 hotel uses cover 'sui generis' hostels (refuges and youth hostels) - in addition, these are generally non-commercial or low cost enterprises either run by the community, charities, registered social landlords or the public sector and are therefore unlikely to generate a significant financial return to justify a CIL Charge or would be exempt in any event;
- petrol filling stations are generally part of larger super-market/store applications (as the trend has been for smaller, independent petrol filling stations or one's in 'poor locations' to close) where the fuel is generally low price and often considered a 'loss leader' to enhance the super-market/store's overall attractiveness. Also, they usually include a small shop which is covered by the A1 local shops analyses. Therefore, they are unlikely to generate a significant financial return to justify a CIL Charge; and
- finally, the A1 retail warehouse use analysis above is considered to also cover 'sui generis' retail warehouse clubs (e.g. Costco, Makro, Bookers), who are often in the same retail park locations, and should thus pay the same CIL Charge.

### **Agricultural and forestry buildings**

- 4.49 Section 55(2) of the Town and Country Planning Act 1990 excludes the use of land for agriculture or forestry from the definition of "development". However, in accordance with the Town and Country Planning (General Permitted Development) Order (GDPO) 1995 (as amended) depending on the size of the agricultural unit (which effects permitted development rights), certain agricultural buildings may need planning permission in their own right; and others may be subject to the 'agricultural notification / prior approval' system, where the Council has control over the siting, design and external appearance of the building.
- 4.50 Therefore, these agricultural buildings, which come under the control of the Council, could be subject to a CIL Charge (noting that CIL appeals determined by Valuation Office Agency have considered that they can be buildings into which people do normally go - see CIL Regulation 6). However, as agricultural buildings normally form part of a larger agricultural business unit, rather than being let individually on a commercial investment basis, it is difficult to assess viability. Therefore, it is considered that their capital value is simply the cost of their construction, noting that given the limited and small scale nature of the agricultural industry within Torfaen, it is considered that agricultural buildings are unlikely to generate a commercial return to justify a CIL Charge. This is also consistent with the results of other viability assessments that have assessed agricultural buildings.

## **Appendix 1 Workshop Notes**

### **TORFAEN AND BLAENAU GWENT - COMMUNITY INFRASTRUCTURE LEVY JOINT VIABILITY STUDY WORKSHOP**

#### **Pontypool Active Living Centre - Thursday 26<sup>th</sup> June 2014**

##### **Delegates**

Andrew Golland - Andrew Golland Associates (AGA)  
David Pugsley - Hutchings & Thomas  
Adrian Wilcock - Planning, Torfaen CBC  
Lesley Groves - Housing, Torfaen CBC  
Stephen Thomas - Planning, Torfaen CBC  
Victor Mbvundula - Valuer, Torfaen CBC  
Alexandra Smith - Housing, Torfaen CBC  
Lynda Healy - Planning, Blaenau Gwent CBC  
Nicola Summerville - Housing, Blaenau Gwent CBC  
Jeff Morgan - Valuer, Blaenau Gwent CBC  
Rhian Kyte - Planning, Caerphilly CBC  
Ryan Greaney - Planning, Brecon Beacons National Park Authority  
Gareth Carter - Savills (for HBF)  
Peter Downes - Johnsey Estates UK Ltd  
?? - Aneurin Bevan University Health Board  
?? - Aneurin Bevan University Health Board

##### **Apologies**

Robert Bates - Coleg Gwent  
Catherine Ashby - Blaenau Gwent CBC  
Shirley Wiggam - Monmouthshire CC  
Alun Lowe - Newport City Council  
Peter Morris - Powys County Council  
Lyndon Thomas - Welsh Government  
Ryan Norman - Welsh Water / Dwr Cymru  
Ross Murray - Llanover Estates  
Derek Ball - RPS Group  
Guilia Bunting - GL Hearne Ltd  
Damien Barry - Lambert Smith Hampton  
Catherine Baddeley - Jones Lang Lasalle  
Chris Rabaiotti - Local Builder  
Heather Robinson - Cooke and Arkwright  
Jack Hanbury - Pontypool Park Estates  
Jeff Jones - Pendragon Design & Build Ltd  
John Payne - Local Builder  
Mark Richards - Persimmon Homes  
Mike Joyce - Sennybridge Ltd  
Nick Jenkins - Leadbitter Homes  
Owain Griffiths - GVA  
Miles Thomas - Redrow Homes  
Meurig Jones - Lovell  
Richard Kelso - Edenstone Homes  
Tom Parry - Butler Wall Homes

Patrick Jenkins - Bellway Homes  
Gareth Hawke - Taylor Wimpey  
Mark Harris - Home Builders Federation  
Dave Sharman - Bron Afon  
Andrew Myatt - Tai Calon  
Peter Davies - Melin Homes  
Neil Barber - Fairlake / Seren Group  
Richard Mann - United Welsh Housing  
Robert Smith - Linc Cymru  
Peter Ballantyne - Barratt Homes

## **Workshop Notes**

A workshop was held on Thursday 26<sup>th</sup> June 2014 in Pontypool. Representatives of the development industry, landowners and RSLs were in attendance. In addition local housing and planning officers as well as planning consultants attended.

Torfaen CBC and Blaenau Gwent CBC would very much like to thank all those in attendance for their inputs to the study.

At the workshop Adrian Wilcock (TCBC), Andrew Golland (AGA) and David Pugsley (Hutchings and Thomas) gave a presentation summarising the methodology and outlining the process of higher level and detailed testing which would be carried out to determine viability targets.

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

### **1 Introduction**

Andrew Golland Associates (AGA) and Hutchings and Thomas (H&T) has been commissioned to carry out a Community Infrastructure Levy Viability Assessment in accordance with the requirements of TAN2 and DCLG Guidance in order to establish a robust evidence base to support a CIL Charging Schedule for both authorities.

The purpose of the Workshop was to introduce the principles of CIL, to discuss viability issues and to propose an overall methodology. The purpose of the study is to provide evidence for a realistic CIL Charging Schedule.

### **2 Basis for interpreting viability**

AGA outlined the methodology of the viability model which is based upon scheme revenue versus development costs (including developer margin and S106 agreements). Both authorities are currently using the DAT for their site specific negotiations.

Delegates agreed in principle to the general approach for assessing viability. This is by reference to residual scheme value and the existing use value of a site or another appropriate benchmark land value (BLV).

Important in deciding where to set the BLV are a number of factors:

- Land owner return should be competitive and realistic;

- Land supply is important. Local authorities who are short of development land are in a weaker position with respect to viability and may have to set the BLV at a relatively high rate;
- On this (previous) point, both Torfaen and Blaenau Gwent are over allocated with respect to housing supply;
- Industrial land values are appropriate in some instances but you need to look at the balance of sites (between green and brown field) when deciding;
- Sales of Council owned land can be significant in helping to set a BLV;

One delegate suggested that the BLV should be set by reference to option agreements between developers and land owners, but recognised that this often confidential information may be difficult to obtain. The potential problem with this (Andrew Golland commented) is that often we don't know what policy requirement the options reflect.

Information on BLVs is scarce and at the Workshop there was no specific benchmarks offered.

Existing use value will form the underlying benchmark for assessing what is viable. Respondents are requested to provide systematic evidence on benchmark land values.

### **3 Overall methodology**

AGA explained that the approach to the study will be two stage with the first stage focusing on testing a notional one hectare site, assuming different development mixes and different percentages of affordable housing, with the second stage looking at a range of generic site types, ranging from large green field through to small and large brown field sites.

It was emphasised that the approach will not preclude the rights of developers to negotiate on a scheme by scheme basis. Developers can demonstrate that where costs for example, are higher than those tested, and can be justified, policy might be relaxed.

Participants at the workshops did not express any particularly strong comments about the approach set out (see also PowerPoint which explains the approach diagrammatically). AGA explained that this was an approach which has been accepted elsewhere at Core Strategy Examinations and is also adopted in the SEWSPEG Good Practice Guide.

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

### **4 Sub markets and market values**

A key part of the study will involve the analysis of viability at a sub market level. Sub markets will be defined primarily by house prices. The PowerPoint presentation shows a table of areas. Participants were invited to submit comments on submarkets, as well as other aspects of the study, by email to AGA.

It was explained by Three Dragons that prices were derived from three years' worth of (second hand) HM Land Registry data and then adjusted to new build values by looking at new schemes.

The prices are indicative new build for June 2014.

The following points are relevant:

- There were no specific objections to the sub market area definitions. In the case of Torfaen changing these would be problematic as they have already been agreed at the LDP examination. Are there further comments on the Blaenau Gwent sub markets?
- The task of providing indicative new build process is made difficult by the fact that in some locations there are very few schemes or transactions. This is particularly the case in Blaenau Gwent, although the scheme at Tredegar does provide a marker;
- The main point raised on prices related to the larger units in Blaenau. Further work (subsequent to the Workshop) does show lower prices and these are presented in the updated PowerPoint presentation;
- It was stated that there are no national developers in Blaenau Gwent (however Taylor Wimpey are in Tredegar). It was suggested by one delegate that the notorious Persimmon letter (placing parts of South Wales as a no go area) should be overlooked as developers will look at sites where gross development values are robust.

It was commented that prices in Caerphilly seem to be stabilising and in some locations falling.

## **5 Density and development mix**

AGA set out the suggested range of schemes which the DAT will test. These are set out in the PowerPoint Presentation.

It was stated that this will vary by location.

One delegate considered that Help to Buy has driven development towards smaller units.

Another considered that only RSLs build flats as house builders do not generally provide them for sale on the open market.

Four bed terraces are only found in some limited situations.

Stakeholders - please comment on the development mix.

## **6 Development costs**

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

It was stated that AGA will test the analysis at a 17% return rate on gross development value for the market element of a scheme and at 6% for the affordable element of a scheme. These figures have been agreed by the Home Builders Federation as fair and reasonable.

Sprinklers were discussed. The additional cost of sprinklers was not included in the baseline test at Caerphilly and this principle was accepted by the Inspector of the CIL Examination.

Construction costs for Caerphilly (including external works) were believed to be around £850 per square metre.

Revised costs are provided in the updated PowerPoint. These are based for consistency on the Torfaen AHVS costs, but with a (13%) uplift reflecting (BCIS) tender price increases. For Blaenau Gwent the costs have been uplifted by a factor of x 99/96 (the local authority location difference between the two authorities.

## **7 Section 106 (in addition to affordable housing) and CIL**

Key points in relation to this area were:

- It is important to get the balance between CIL and the affordable housing policy. CIL should not overturn the current policy position.
- The analysis will be carried out in a neutral manner focusing on the 'headroom' between the residual generated after affordable housing policy impacts and the benchmark land value;
- Thereafter it is critical how the local authorities decide what to include within their Regulation 123.

## **8 Affordable housing tests and issues**

AGA suggested a range of policy scenarios which should be tested and questioned whether they were reasonable. These are set out in the PowerPoint Presentation and reflect the policy positions.

Tenure:-

- Torfaen test 70% Social Rent and 30% Intermediate; and
- Blaenau Gwent test 50% Social Rent and 50% Intermediate.

Revenue - A key issue for the testing process is the quantum of revenue that affordable housing will generate:-

- Torfaen - For Social Rent this is set at 37% of ACG which takes into account RSL on costs; and for Intermediate this is set at 50% of open market value;
- Blaenau Gwent - For Social Rent, prices are set between the Authority and housing associations which, like Torfaen, reflect 37% of ACG including on costs; and for Intermediate this is set at 60% of open market value.

It was noted by one delegate that CIL is usually only charged on market housing, as 'social housing relief' is normally applicable on RSL properties subject to detailed criteria in the CIL Regulations which relate to the maximum % paid for the affordable housing; and suggested that we examine the details afterwards.

*(after note: the CIL Regulations state that for 'social housing relief' to apply properties must be owned by an RSL and rented at no more than 80% of market rent; and Intermediate properties sold for 75% or less of open market value and where any additional annual rent payable is not more than 3% of the value of the unsold interest; and in any given year the annual rent payable does not increase by more than the retail price index plus 0.5 per cent (see 2014 CIL Regulation 49 - which also covers 'discretionary social housing relief' and 'communal development'). The Regulations also state that dwellings no longer meeting these requirements must pay the levy and there is also an Exemption for self-build housing (see 2014 CIL Regulation 54)).*

## **9 Commercial property and CIL**

David Pugsley from Hutchings and Thomas explained that the study will assess the potential of a range of commercial property types to viably deliver CIL.

The PowerPoint presentation sets indicative or 'tone' rents and yields for different types of property in Torfaen and Blaenau Gwent. These are broad working figures and comments are invited with further figures or examples.

Feedback suggested that industrial and office (B1) type development would prove difficult to deliver in a viable way. This is because revenue would be likely to be less than costs in many instances.

However there is an important owner occupier or 'trading' market in the two local authorities' areas. This means that development will take place where companies wish to manufacture or provide services over the longer term. This means that there will be land value for these types of sites, albeit little or no residual value if a development appraisal is run.

Caerphilly reported that only A1 and A3 uses proved viable in their CIL Viability Study.

The Joint Study will test, as a scenario, the WG assessed capital costs of recent changes to Part L of the Building Regulations which, from 31<sup>st</sup> July 2014, require a 20% improvement in carbon emissions for new non-domestic buildings.

## **10 Next Steps**

If you could direct your comments to Andrew Golland at the email address below this would greatly assist in finalising the Joint Study.

Thank you

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

## **Appendix 2 Method statement and assumptions**

### **A2.1 Development Appraisal Toolkit (DAT)**

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

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

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

## Appendix 3 Commercial Property Appraisals

### A1 High Street Shops

<b>A1 High Street Shops - Cwmbran</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		150
Rental Value (£ per Sq M)		£183
All Risks Yield		6
Total Rental		£27,450
Years Purchase (YP)		16.67
<b>Capital Value</b>		<b>£457,500</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		150
Base Cost per Sq Metre	scheme specific	
Externals and Infrastructure		
Contingency & S106		
Torfaen BCIS Adjustment		
Professional Fees		
Finance		
Marketing & Legal Fees		
Sub Total Costs (1) £ per m <sup>2</sup>		£2,582
Costs	(1) x 150m <sup>2</sup>	£387,300
Developer return	At 17% of Capital Value	£77,775
<b>Total Development Costs</b>		<b>£465,075</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£7,575</b>

Notes: This appraisal is based upon M&G's viability appraisal of the 3,084m<sup>2</sup> part LDP Policy RLT2/1 Cwmbran Town Centre proposals, which at a total cost (excluding developer return) of £7,963,667 equates to £2,582 per m<sup>2</sup>.

<b>A1 High Street Shops - Pontypool</b>	<b>Notes</b>	<b>Rates</b>
<b>Revenue</b>		
Unit Size (Square Metres)		150
Rental Value (£ per Sq M)		£80
All Risks Yield		7
Total Rental		£12,000
Years Purchase (YP)		14.29
<b>Capital Value</b>		<b>£171,429</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		150
Base Cost per Sq Metre	Shops Generally'	£1,049
Externals and Infrastructure	At 10% Base Construction	£105
Contingency & S106	At 5% Base & Externals	£58
Sub Total Costs (1)		£1,212
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£48</b>
Sub Total Costs (2)		£1,163
Professional Fees	At 10% (2)	£116
Finance	At 6% (2) & Fees	£77
Sub Total Costs (3)		£1,356
Costs	(3) x 150m <sup>2</sup>	£203,432
Marketing & Legal Fees	At 3% of Capital Value	£5,143
Developer return	At 17% of Capital Value	£29,143
<b>Total Development Costs</b>		<b>£237,717</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£66,289</b>

## A1 Supermarket

<b>A1 Supermarket - Torfaen</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		800
Rental Value (£ per Sq M)		£160
All Risks Yield		5.5
Total Rental		£128,000
Years Purchase (YP)		18.18
<b>Capital Value</b>		<b>£2,327,273</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		800
Base Cost per Sq Metre	Supermarket	£1,312
Externals and Infrastructure	At 10% Base Construction	£131
Contingency & S106	At 5% Base & Externals	£72
Sub Total Costs (1)		£1,515
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£61</b>
Sub Total Costs (2)		£1,455
Professional Fees	At 10% (2)	£145
Finance	At 6% (2) & Fees	£96
Sub Total Costs (3)		£1,696
Costs	(3) x 800m <sup>2</sup>	£1,356,987
Marketing & Legal Fees	At 3% of Capital Value	£69,818
Developer return	At 17% Capital Value	£395,636
<b>Total Development Costs</b>		<b>£1,822,441</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>£504,831</b>

## A1 Superstore

<b>A1 Superstore - Torfaen</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		2500
Rental Value (£ per Sq M)		£190
All Risks Yield		5.5
Total Rental		£475,000
Years Purchase (YP)		18.18
<b>Capital Value</b>		<b>£8,636,364</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		2500
Base Cost per Sq Metre	Supermarket	£1,312
Externals and Infrastructure	At 10% Base Construction	£131
Contingency & S106	At 5% Base & Externals	£72
Sub Total Costs (1)		£1,515
Torfaen BCIS Adjustment	At -4% of (1)	-£61
Sub Total Costs (2)		£1,440
Professional Fees	At 10% (2)	£144
Finance	At 6% (2) & Fees	£95
Sub Total Costs (3)		£1,679
Costs	(3) x 2,500m <sup>2</sup>	£4,196,411
Marketing & Legal Fees	At 3% of Capital Value	£259,091
Developer return	At 17% Capital Value	£1,468,182
<b>Total Development Costs</b>		<b>£5,923,683</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>£2,712,680</b>

## A1 Retail Warehousing, etc.

<b>A1 Retail Warehousing, etc. - Cwmbran</b>	<b>Notes</b>	<b>Rates</b>
<b>Revenue</b>		
Unit Size (Square Metres)		400
Rental Value (£ per Sq M)		£150
All Risks Yield		6.5
Total Rental		£60,000
Years Purchase (YP)		15.38
<b>Capital Value</b>		<b>£923,077</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		400
Base Cost per Sq Metre	Retail Warehouses	£740
Externals and Infrastructure	At 10% Base Construction	£74
Contingency & S106	At 5% Base & Externals	£41
Sub Total Costs (1)		£814
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£33</b>
Sub Total Costs (2)		£781
Professional Fees	At 10% of (2)	£78
Finance	At 6% (2) & Fees	£52
Sub Total Costs (3)		£911
Costs	(3) x 400m <sup>2</sup>	£364,464
Marketing & Legal Fees	At 3% of Capital Value	£27,692
Developer return	At 17% Capital Value	£156,923
<b>Total Development Costs</b>		<b>£549,079</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>£373,998</b>

## A1 Retail Warehousing, etc.

<b>A1 Retail Warehousing, etc. - North Torfaen &amp; Pontypool</b>	<b>Notes</b>	<b>Rates</b>
<b>Revenue</b>		
Unit Size (Square Metres)		400
Rental Value (£ per Sq M)		£150
All Risks Yield		7.5
Total Rental		£60,000
Years Purchase (YP)		13.33
<b>Capital Value</b>		<b>£800,000</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		400
Base Cost per Sq Metre	Retail Warehouses	£740
Externals and Infrastructure	At 10% Base Construction	£74
Contingency & S106	At 5% Base & Externals	£41
Sub Total Costs (1)		£814
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£33</b>
Sub Total Costs (2)		£781
Professional Fees	At 10% of (2)	£78
Finance	At 6% (2) & Fees	£52
Sub Total Costs (3)		£911
Costs	(3) x 400m <sup>2</sup>	£364,464
Marketing & Legal Fees	At 3% of Capital Value	£24,000
Developer return	At 17% Capital Value	£136,000
<b>Total Development Costs</b>		<b>£524,464</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>£275,536</b>

## A2 Financial Services

<b>A2 Financial Services - Cwmbran</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		150
Rental Value (£ per Sq M)		£110
All Risks Yield		9
Total Rental		£16,500
Years Purchase (YP)		11.11
<b>Capital Value</b>		<b>£183,333</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		150
Base Cost per Sq Metre	Offices with shops, banks, flats (1-2 Storey)	£1,149
Externals and Infrastructure	At 10% Base Construction	£115
Contingency & S106	At 5% Base & Externals	£63
Sub Total Costs (1)		£1,327
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£53</b>
Sub Total Costs (2)		£1,274
Professional Fees	At 10% of (2)	£127
Finance	At 6% (2) & Fees	£84
Sub Total Costs (3)		£1,485
Costs	(3) x 150m <sup>2</sup>	£222,825
Marketing & Legal Fees	At 3% of Capital Value	£5,500
Developer return	At 17% Capital Value	£31,167
<b>Total Development Costs</b>		<b>£259,491</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£76,158</b>

### A3 Food & Drink

<b>A3 Food and Drink - Torfaen</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		100
Rental Value (£ per Sq M)		£160
All Risks Yield		7
Total Rental		£16,000
Years Purchase (YP)		14.29
<b>Capital Value</b>		<b>£228,571</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		100
Base Cost per Sq Metre	Restaurants	£2,218
Externals and Infrastructure	At 10% Base Construction	£222
Contingency & S106	At 5% Base & Externals	£122
Sub Total Costs (1)		£2,562
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£102</b>
Sub Total Costs (2)		£2,459
Professional Fees	At 10% of (2)	£246
Finance	At 6% (2) & Fees	£162
Sub Total Costs (3)		£2,868
Costs	(3) x 150m <sup>2</sup>	£286,757
Marketing & Legal Fees	At 3% of Capital Value	£6,857
Developer return	At 17% Capital Value	£38,857
<b>Total Development Costs</b>		<b>£332,471</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£103,899</b>

## B1 Business

<b>B1 Business Use - Cwmbran</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		200
Rental Value (£ per Sq M)		£110
All Risks Yield		9
Total Rental		£22,000
Years Purchase (YP)		11.11
<b>Capital Value</b>		<b>£244,444</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		200
Base Cost per Sq Metre	Advance Factories/Offices	£1,018
Externals and Infrastructure	At 10% Base Construction	£102
Contingency & S106	At 5% Base & Externals	£56
Sub Total Costs (1)		£1,176
Torfaen BCIS Adjustment	At -4% of (1)	-£47
Sub Total Costs (2)		£1,129
Professional Fees	At 10% of (2)	£113
Finance	At 6% (2) & Fees	£74
Sub Total Costs (3)		£1,316
Costs	(3) x 200m <sup>2</sup>	£263,226
Marketing & Legal Fees	At 3% of Capital Value	£7,333
Developer return	At 17% Capital Value	£41,556
<b>Total Development Costs</b>		<b>£312,115</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£67,671</b>

<b>B1 Business Use - Pontypool</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		200
Rental Value (£ per Sq M)		£55
All Risks Yield		9
Total Rental		£11,000
Years Purchase (YP)		11.11
<b>Capital Value</b>		<b>£122,222</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		200
Base Cost per Sq Metre	Advance Factories/Offices	£1,018
Externals and Infrastructure	At 10% Base Construction	£102
Contingency & S106	At 5% Base & Externals	£56
Sub Total Costs (1)		£1,176
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£47</b>
Sub Total Costs (2)		£1,129
Professional Fees	At 10% of (2)	£113
Finance	At 6% (2) & Fees	£74
Sub Total Costs (3)		£1,316
Costs	(3) x 200m <sup>2</sup>	£263,226
Marketing & Legal Fees	At 3% of Capital Value	£3,667
Developer return	At 17% Capital Value	£20,778
<b>Total Development Costs</b>		<b>£287,671</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£165,449</b>

## B2 General Industrial

<b>B2 General Industrial - Llantarnam (Cwmbran)</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		1000
Rental Value (£ per Sq M)		£45
All Risks Yield		9
Total Rental		£45,000
Years Purchase (YP)		11.11
<b>Capital Value</b>		<b>£500,000</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		1000
Base Cost per Sq Metre	Industrial	£743
Externals and Infrastructure	At 10% Base Construction	£74
Contingency & S106	At 5% Base & Externals	£41
Sub Total Costs (1)		£858
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£34</b>
Sub Total Costs (2)		£824
Professional Fees	At 10% of (2)	£82
Finance	At 6% (2) & Fees	£54
Sub Total Costs (3)		£961
Costs	(3) x 1,000m <sup>2</sup>	£960,596
Marketing & Legal Fees	At 3% of Capital Value	£15,000
Developer return	At 17% Capital Value	£85,000
<b>Total Development Costs</b>		<b>£1,060,596</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£560,596</b>

## B8 Warehouses

<b>B8 Warehouses - Torfaen</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		2000
Rental Value (£ per Sq M)		£35
All Risks Yield		10
Total Rental		£70,000
Years Purchase (YP)		10.00
<b>Capital Value</b>		<b>£700,000</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		2000
Base Cost per Sq Metre	Warehouses/Stores	£743
Externals and Infrastructure	At 10% Base Construction	£74
Contingency & S106	At 5% Base & Externals	£41
Sub Total Costs (1)		£858
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£34</b>
Sub Total Costs (2)		£824
Professional Fees	At 10% of (2)	£82
Finance	At 6% (2) & Fees	£54
Sub Total Costs (3)		£961
Costs	(3) x 2,000m <sup>2</sup>	£1,921,191
Marketing & Legal Fees	At 3% of Capital Value	£21,000
Developer return	At 17% Capital Value	£119,000
<b>Total Development Costs</b>		<b>£2,061,191</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£1,361,191</b>

## C1 Hotels

<b>C1 Hotels - Torfaen</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		
Rental Value (£ per Sq M)		
All Risks Yield		
Total Rental		
Years Purchase (YP)		
<b>Capital Value</b>	<b>8 Bedrooms @ £40,000/Bedroom</b>	<b>£320,000</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)	20m <sup>2</sup> per Room @ 60% Net to Gross	224
Base Cost per Sq Metre	Hotels	£1,640
Externals and Infrastructure	At 10% Base Construction	£164
Contingency & S106	At 5% Base & Externals	£90
Sub Total Costs (1)		£1,894
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£76</b>
Sub Total Costs (2)		£1,818
Professional Fees	At 10% of (2)	£182
Finance	At 6% (2) & Fees	£120
Sub Total Costs (3)		£2,120
Costs	(3) x 224m <sup>2</sup>	£474,945
Marketing & Legal Fees	At 3% of Capital Value	£9,600
Developer return	At 17% Capital Value	£54,400
<b>Total Development Costs</b>		<b>£538,945</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£218,945</b>

## C2 Residential Institutions (Care Homes)

<b>C2 Residential Institutions - Torfaen</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		
Rental Value (£ per Sq M)		
All Risks Yield		
Total Rental		
Years Purchase (YP)		
<b>Capital Value</b>	<b>20 Bedrooms @ £50,000/Bedroom</b>	<b>£1,000,000</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)	20m <sup>2</sup> per Room @ 60% Net to Gross	560
Base Cost per Sq Metre	Sheltered Accommodation (Generally)	£1,301
Externals and Infrastructure	At 10% Base Construction	£130
Contingency & S106	At 5% Base & Externals	£72
Sub Total Costs (1)		£1,503
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£60</b>
Sub Total Costs (2)		£1,443
Professional Fees	At 10% of (2)	£144
Finance	At 6% (2) & Fees	£95
Sub Total Costs (3)		£1,682
Costs	(3) x 560m <sup>2</sup>	£941,927
Marketing & Legal Fees	At 3% of Capital Value	£30,000
Developer return	At 17% Capital Value	£170,000
<b>Total Development Costs</b>		<b>£1,141,927</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£141,927</b>

## D1 Non- Residential Institutions (Health Centres)

<b>D1 Health Centre - Torfaen</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		
Rental Value (£ per Sq M)		
All Risks Yield		
Total Rental		
Years Purchase (YP)		
<b>Capital Value</b>	<b>250m<sup>2</sup> unit</b>	<b>£250,000</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		£250
Base Cost per Sq Metre	Health Centres	£1,729
Externals and Infrastructure	At 10% Base Construction	£173
Contingency & S106	At 5% Base & Externals	£95
Sub Total Costs (1)		£1,997
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£80</b>
Sub Total Costs (2)		£1,917
Professional Fees	At 10% of (2)	£192
Finance	At 6% (2) & Fees	£127
Sub Total Costs (3)		£2,235
Costs	(3) x 250m <sup>2</sup>	£558,839
Marketing Fees	At 3% of Capital Value	£7,500
Developer return	At 17% Capital Value	£42,500
<b>Total Development Costs</b>		<b>£608,839</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£358,839</b>

## D2 Assembly & Leisure

<b>D2 Assembly &amp; Leisure - Torfaen</b>	Notes	Rates
<b>Revenue</b>		
Unit Size (Square Metres)		2,000
Rental Value (£ per Sq M)		£90
All Risks Yield		8
Total Rental		£180,000
Years Purchase (YP)		12.50
<b>Capital Value</b>		<b>£2,250,000</b>
<b>Costs</b>		
Construction		
Unit Size (Square Metres)		2,000
Base Cost per Sq Metre	'Bingo Hall'	£903
Externals and Infrastructure	At 10% Base Construction	£90
Contingency & S106	At 5% Base & Externals	£50
Sub Total Costs (1)		£1,043
Torfaen BCIS Adjustment	At -4% of (1)	<b>-£42</b>
Sub Total Costs (2)		£1,001
Professional Fees	At 10% of (2)	£100
Finance	At 6% (2) & Fees	£66
Sub Total Costs (3)		£1,167
Costs	(3) x 2,000m <sup>2</sup>	£2,334,907
Marketing Fees	At 3% of Capital Value	£67,500
Developer return	At 17% Capital Value	£382,500
<b>Total Development Costs</b>		<b>£2,784,907</b>
<b>Residual Value (Total Rev less Total Cost)</b>		<b>-£534,907</b>

## Appendix 4

### Worked example: 35 dph - Cwmbran S&E Housing Sub-Market Area: 30% Affordable Housing (80% Social Rented / 20% Intermediate Affordable Housing)

**1 - SITE IDENTIFICATION**

Site Details

Site Address

Site Reference

Application Number

Scheme Description

I have read and accepted the terms and conditions set out in the [license agreement](#)

**2 - SITE LOCATION**

Please select the local authority, ACG band and market area from the drop down lists. If you subsequently change one of the three components in this sheet – remember to check that the other two components are still correct.

Local Authority

ACG Band

House Price Area

### 3 - BASIC SITE INFORMATION

Total Size of Site In Hectares

#### Density / Number of Dwellings

Specify either a number of dwellings or a density for this site. If a scheme already exists in the Toolkit then adjusting the density will result in clearance of the unit details on the next page.

Enter a Number of Dwellings (Density is then calculated)

Number of dwellings

Enter your own density

Enter density

Adjust density

Resulting Number of Dwellings

Resulting Density  dph

Is this a rural development?

#### Bedspaces

Specify the number of bedspaces:

Specify the number of habitable rooms:

### 4 - CHARACTERISTICS OF DEVELOPMENT

You can either enter the details for each unit type in the cells below or press the button 'Use default unit types' to call up the Toolkit values

Click this button to clear table contents

Press this button to automatically use the default units types and mix.

Ref.	Description of Dwelling	No of Bed-Rooms	Dwelling Type	No of Units	Size in sq.m Affordable	Size in sq.m Market	Parking (flats only)	No. of Storeys (1-99)
1	2 bed terrace - LCHO	2	House	1	67		Surface	n/a
2	3 bed terrace - LCHO	3	House	1	78		Surface	n/a
3	1 bed flat - SR	1	Flat	2	46		Surface	2
4	2 bed terrace - SR	2	House	4	83		Surface	n/a
5	3 bed terrace - SR	3	House	2	94		Surface	n/a
6	3 bed semi	3	House	8		82	Surface	n/a
7	4 bed semi	4	House	6		110	Surface	n/a
8	3 bed detached	3	House	5		94	Surface	n/a
9	4 bed detached	4	House	6		120	Surface	n/a
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
Total Number of units				35.00				

On the following pages of the Toolkit you must clear any values left in the Rents and Market Values tables; this information may no longer be relevant

## 5 - MARKET VALUES

This is a user entered scheme

There are no default unit prices available, please clear the table and enter your own values

Market Value price adjust (%)  %

Ref.	Dwelling Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1	2 bed terrace - LCHO	2	£147,400	£147,400
2	3 bed terrace - LCHO	3	£171,600	£171,600
3	1 bed flat - SR	1	£101,200	£101,200
4	2 bed terrace - SR	2	£182,600	£182,600
5	3 bed terrace - SR	3	£206,800	£206,800
6	3 bed semi	3	£180,400	£180,400
7	4 bed semi	4	£242,000	£242,000
8	3 bed detached	3	£206,800	£206,800
9	4 bed detached	4	£264,000	£264,000
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

## 6 - TENURE MIX

You may decide the distribution of the units across the tenures in two ways. By Percentage: In which case you enter a percentage of the total number of units to assign to each tenure. These percentages are applied equally across all unit types. By Quantity: In which case enter the exact number of units of each type to assign to each tenure in the table below.

Input by Percentages

Input by Quantity

Ref.	Description	SALE	AFFORDABLE				No of Units
			Social rent	Homebuy	Intermediate rent	Equity Share	
		71%	23%	6%			
1	2 bed terrace - LCHO			1.0			1.0
2	3 bed terrace - LCHO			1.0			1.0
3	1 bed flat - SR		2.0				2.0
4	2 bed terrace - SR		4.0				4.0
5	3 bed terrace - SR		2.0				2.0
6	3 bed semi	8.0					8.0
7	4 bed semi	6.0					6.0
8	3 bed detached	5.0					5.0
9	4 bed detached	6.0					6.0
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
Total		25.0	8.0	2.0			35.0

Percentage purchased by purchaser for Homebuy Default: 70% User: 50%

Percentage purchased by purchaser for Equity Share Default: 70% User: 50%

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## 11 - DEVELOPMENT COSTS

Depress this button to clear these tables

Clear Tables

### Build Costs per sq m

If you wish to use your own values then you can enter them in the white cells below. If you leave any blank the Toolkit Value for that row will be

	Toolkit Values	User Values
Bungalows	£1,198	
Flats (16+ storeys)	£2,124	
Flats (6-15 storeys)	£1,594	
Flats (5 & less storeys)	£1,162	£1,142
Houses <= 75m2	£1,011	£984
Houses > 75m2	£968	£984

### Other Development Costs

If you wish to use your own values then you can enter them in the white cells below. If you leave any blank the Toolkit Value for that row will be used

	Toolkit Values	User Values
Professional Fees %	12%	
Internal Overheads	5%	
Finance (Market)	6%	
Finance (Affordable Housing)	6%	
Marketing Fees	3%	
Developers Return	17%	
Contractors Return	5%	

Land Finance  Please see guidance notes

### Wheelchair Costs

	Toolkit Value	User Values
Unit size increase	25%	
Build cost increase	15%	

### Exceptional Development Costs

Costs for Code SH	£0
Abnormals	£0
Sprinklers	£103,233
	£0
<b>Scheme Total</b>	<b>£103,233</b>

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## 12 - PLANNING OBLIGATIONS

For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure).

To enter one total value for a row, tick the corresponding box in the "Enter Total?" column and enter a value in the "User Total" column : To enter the values by tenure leave the box un-ticked.

You have the option to enter a Planning Obligation package per unit. This value supercedes any values entered by unit or tenure.

Depress this button to clear the page

Clear Table

	Input by Total		Input by Unit				Calculated Total (Affordable and Sale)	
	Enter Total?	User Total	Sale	Affordable				
				Social rent	Homebuy	Intermediate rent	Equity share	
Education Contribution	<input type="checkbox"/>							£0
Highway Works	<input type="checkbox"/>							£0
Contribution to public transport	<input type="checkbox"/>							£0
Contribution to community facilities	<input type="checkbox"/>							£0
Provision for open space	<input type="checkbox"/>							£0
Contribution to public realm	<input type="checkbox"/>							£0
Contribution to public art	<input type="checkbox"/>							£0
Environmental improvements	<input type="checkbox"/>							£0
Town centre improvements	<input type="checkbox"/>							£0
Waterfront Improvements	<input type="checkbox"/>							£0
Support for employment development	<input type="checkbox"/>							£0
Flood Defence Strategy	<input type="checkbox"/>							£0
Employment related training	<input type="checkbox"/>							£0
Other	<input checked="" type="checkbox"/>	£54,552						£54,552

Obligations package per unit

Total for Scheme	£54,552
Total for Scheme per hectare	£54,552
Total for Scheme divided by total number of units	£1,559
Total for Scheme divided by number of sale units	£2,182

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## 14 - CAPITAL VALUE OF AFFORDABLE HOUSING

Please select the method by which the capital value of the scheme is generated

- Capital value is based on ACG - Grant is available
- Capital value is based on ACG - Grant is not available
- Capital value is based on income to the housing association - grant may be available
- Capital payment is agreed between the housing association and the developer

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## 18 - KNOWN REVENUE

Enter the known payments to be made by the RSL to the developer]

	Number Of Units	Known Revenue per unit	Revenue for the tenure
Social Rent	8		
Homebuy	2		
Intermediate Rent	0		
Equity Share	0		
Or enter a known revenue for the scheme			£ 606,830

Method of Calculation	Total Revenue
By Scheme Total	£ -
£ 606,830	

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## 20 - COMPARISON WITH OTHER SITE VALUES

You may enter a value that represents the site's alternative use value, its acquisition

(The Toolkit cannot calculate these values - they are inputs made by the user)

Existing Use Value	£ 500,000
Acquisition Cost	
Alternative Use Value 1	
Alternative Use Value 2	
Alternative Use Value 3	

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## 21 - SCHEME RESULTS

### Site Economics

<b>RESIDUAL VALUE</b>	<b>£ 821,830</b>
Total scheme revenue	£ 6,119,830
Total scheme costs	£ 5,298,000

<b>Residual</b>	Per hectare	£ 822,000
	Per dwelling	£ 23,000
	Per market dwelling	£ 33,000
	Per bedspace	No Info
	Per habitable room	No Info

<b>Revenue</b>	Market housing	£ 5,513,000
	Affordable Housing	£ 606,830
	- Social rent	£ -
	- Homebuy	£ -
	- Intermediate Rent	£ -
	- Equity Share	£ -
	Capital Contribution	£ -
	Commercial Elements	£ -

<b>Costs</b>	Market housing	£ 4,136,000
	Affordable Housing	£ 939,000
	- Social rent	£ 751,000
	- Homebuy	£ 188,000
	- Intermediate Rent	£ -
	- Equity Share	£ -
	Planning Obligations	£ 55,000
	Exceptional Development Costs	£ 103,000
	Commercial Elements	£ -
	Land Finance	£ -

Alternative Site Values		Against residual	
Existing Use Value	£ 500,000	£ 322,000	
Acquisition Cost	£ -	£ -	
Alternative Use Value 1	£ -	£ -	
Alternative Use Value 2	£ -	£ -	
Alternative Use Value 3	£ -	£ -	

### Site Details

Site	HLT Cwmbran S&E - 35 dph - 30% AH	
Address		
Site	0	
Details		

Site Reference	0
Application Number	0
Site Location	Torfaen
Scheme Description	0

<b>Total number of units</b>	Dwellings	35
	Bedrooms	No Info
	Bedspaces	No Info
	% Wheelchair Units	0%

<b>Density (per hectare)</b>	Dwellings	35.0
	Bedrooms	No Info
	Bedspaces	No Info

Affordable Units	Quantity	% of All Units
Total	10.0	29%
Social rent	8.0	23%
Intermediate	2.0	6%

<b>Grant</b>	Whole scheme	£ -
	Per Social Rental dwelling	£ -
	Per HomeBuy dwelling	£ -

Cost Components

Discounting Function

Save Results

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View Results

## **GLOSSARY OF TERMS**

### **A**

Abnormal Development Costs: Costs associated with difficult ground conditions e.g. contamination.

Affordable Housing: As defined by Welsh Government Technical Advice Note 2 on 'Planning & Affordable Housing', as "housing provided to those whose needs are not met by the open market". Affordable Housing includes 'Socially Rented' and 'Intermediate' housing both for sale or rent.

Acceptable Cost Guidance (ACG): The Welsh Government bi-annually publish Acceptable Cost Guidance on the total costs of providing 'general' affordable housing schemes built to their development standards (known as Development Quality Requirements (DQR)) for use with Social Housing Grant funded housing in Wales; the latest guidance was published in April 2015. ACG figures are area (Community Council) specific to one of five set 'band' values and also relate to the size of each affordable dwelling being provided. Most S106 Agreements relate the price that RSLs normally pay developers for affordable housing to the relevant ACG (for socially rented dwellings) or Market Value (for intermediate dwellings).

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

### **B**

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

Building Cost Information Service (BCIS): of the Royal Institution of Chartered Surveyors (RICS) produce detailed quarterly information on the Base Build Costs of all types of development (inc. dwellings, factories, schools, etc.), adjusted for each local authority area, based upon recent 'All-in Tender Prices'. These prices reflect the normal level of abnormalities prevalent in the area and are used for viability, S106 and CIL purposes.

Benchmark Rents: the 'Regulatory Code for Housing Associations in Wales', published by the Assembly Government, sets out the key expectations of the way in which Housing Associations (see Registered Social Landlords) are to operate. Compliance with the Assembly Government's rent benchmark guidance is a key expectation. The rent benchmark system requires Housing Associations to charge rents for key property types which, when averaged, are no greater than the benchmark rent.

### **C**

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

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

### **D**

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

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

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

## E

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

## F

Factory Outlet Shop: a shop, usually away from the town centre, specialising in selling seconds and end-of-line goods at discounted prices.

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

## G

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

## I

'Intermediate' Affordable Housing: As defined by Welsh Government Technical Advice Note 2 on 'Planning & Affordable Housing' as housing "where prices or rents are above those of social rented housing but below market housing prices or rents. This can include equity sharing schemes (for example Homebuy)." Therefore, Intermediate Housing can be rented by an Registered Social Landlord (RSL) at up to 80% of the Local Housing Allowance for the size of accommodation (by no. of bedrooms) for the area, OR sold by an RSL at up to 80% of Market Value where the remaining 20%+ equity is held by the RSL.

## J

Joint Housing Land Availability Study (JHLAS): Welsh Government policy (PPW and TAN1) states that local planning authorities (lpa's) must ensure that sufficient land is genuinely available or will become available to provide a 5 year supply of land for housing, judged against the housing target contained in their LDP. Therefore, each lpa with the development industry (as agreed by the Planning Inspectorate (if necessary) and the Welsh Government) annually produces a JHLAS to:

- monitor the provision of market housing and affordable housing;
- provide an agreed statement of residential land availability for development planning and management purposes; and
- identify the need for action in situations where an insufficient land supply is identified.

## L

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

Local Development Plan (LDP): A statutory land use plan in Wales, produced by each local planning authority for its area. LDP's allocate sites for development and, along with Welsh National Planning policy, are used to inform decisions on planning applications for the development or use of land.

Local Housing Allowance (LHA): For private rented properties (up to 4 bedrooms) or rooms in shared accommodation, the LHA is normally used to work out how much Housing Benefit tenants receive. The weekly / monthly LHA rent level rates are set annually by the Rent Officer Service Wales (part of the Welsh Government) for different types of accommodation in each local authority area. Therefore, for planning and CIL purposes, LHA's are used as the 'benchmark' open market rents for different sized (based upon the no. of bedrooms) properties for the area.

Local Housing Market Assessment (LHMA): are local authority assessments of the requirement for both market housing and affordable housing in their local housing market area(s). LHMA's should be carried out in accordance with the Welsh Government 'Local Housing Market Assessment Guide' (March 2006) and supplementary 'Getting Started With Your Local Housing Market Assessment: A Step by Step Guide' (November 2014).

## **M**

Market Housing: residential units sold into the open market at full market price to owner occupiers, and in some instances, property investors. Usually financed through a mortgage or through cash purchase in less frequent cases. Market housing also includes private rented housing where the rental value for tenants is set in the open market.

## **P**

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

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

## **R**

Registered Social Landlord (RSL): a housing association or a not for profit company registered with the Welsh Government who provide affordable housing and are able to bid for Welsh Government 'Social Housing Grant' funding.

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

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

Retail Warehouse: large single-level stores (sometimes with a mezzanine floor) specialising in the sale of household goods (such as carpets, furniture and electrical goods) and bulky DIY items, catering mainly for car-borne customers and often in out-of-centre locations.

Retail Warehouse Clubs: out-of-centre businesses specialising in bulk sales of reduced priced goods in unsophisticated buildings with large car parks. The operator may limit access to businesses, organisations or classes of individual, and may agree to limit the number of lines sold.

## **S**

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

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

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

Social Housing Grant (SHG): a capital grant provided by the Welsh Government to local authorities to fund Registered Social Landlords to fully or partially fund investment in social housing.

Social Rented (SR) Affordable Housing: As defined by Welsh Government Technical Advice Note 2 on 'Planning & Affordable Housing' as housing "provided by local authorities and registered social landlords where rent levels have regard to the Assembly Government's guideline rents and benchmark rents."

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

Supplementary Planning Guidance (SPG): planning documents that provide detailed guidance and expand upon national or LDP policies, e.g. on affordable housing, design, open space, planning obligations, etc. They also include site specific guidance / principles (e.g. masterplans, development frameworks / briefs) on how the local planning authority expects a site to be developed.

Supermarket: single level (sometimes with a mezzanine floor), self-service stores selling mainly food, with a trading floorspace less than 2,500 square metres, often with their own car parks.

Superstore: single-level (sometimes with a mezzanine floor), self-service stores selling mainly food, or food with some non-food goods, usually with at least 2,500 square metres trading floorspace with their own car parks, generally at surface level.

## **T**

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

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

Threshold: the trigger point which activates a S106 contribution. If a threshold is set at say 10 units, then no contribution is payable with a scheme of 9, but is payable with a scheme of 10. The appropriate S106 contribution is then applied at the 10 units.

## **V**

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