

# Torbay Local Plan Viability Testing

## Economic Viability Report

On behalf of **Torbay Council**

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## Executive Summary

This report has been prepared by Peter Brett Associates (PBA) to assess the viability of development in Torbay to provide evidence for the council's Plan making and Community Infrastructure Levy. It has been informed by policy within the National Planning Policy Framework, guidance on viability, including the Harman and RICs reports as well as the legislative context, set out in particular in the CIL regulations.

### Policy and infrastructure review

The draft policies set out in consultation documents and the work undertaken to identify sites as set out in the SHLAA have been assessed to determine whether they have a cost implication and the impacts these costs could have on delivery.

Policies that have a cost implication include those on sustainability standards, affordable housing and infrastructure. These have all been considered and tested within the viability assessments.

Work undertaken on the potential sites has identified general development costs and requirements, some of which will continue to be secured through S106 agreements. The cost of opening up and infrastructure is taken into account in the viability assessments of these potential locations and is reflected in the proposed CIL rates.

### Residential assessment

Assessments were undertaken on SHLAA sites (over 80) which amounted to different types of residential sites, varying in size, location and existing use – it was considered that these provide a representative sample of all known likely future supply in Torbay that could come forward over the plan period.

Development costs and values were derived from research and consultation with the local development industry. The assessment considered a number of scenarios with varying policy costs but concluded that the majority of the residential sites could realise a S106 contribution, including affordable housing at the policy target requirement. **Table ES1** shows the results of the scenarios tested:

Table ES 1 Scenario testing summary

| Scenario   | Assumed S106 per dwelling | Affordable housing                       | Potential Bay-wide CIL | Summary   |
|------------|---------------------------|--|------------------------|---|
| Scenario 1 | £0                        | Zero                                     | £120                   | All identified sites broadly viable with exception of Brixham where sites are more marginal on average  |
| Scenario 2 | £2,000                    | Zero                                     | £100                   | As above but Brixham moves from marginal to unviable with the attributed policy costs   |
| Scenario 3 | £4,000                    | Zero                                     | £80                    | As above  |
| Scenario 4 | £0                        | Policy H4 (up to 30% affordable housing) | £20                    | Impacts more on greenfield development due to higher affordable housing requirement. Suggests different charging zones may be justified on grounds of |

|  |  |  |  |                      |
|--|--|--|--|----------------------|
|  |  |  |  | differing viability. |
|--|--|--|--|----------------------|

On the assumption that the Council wishes to maintain its affordable housing policy in its current draft form and that an allowance for an assumed level of S106 should be maintained, two options have been presented to the Council in terms of the recommended CIL rates. These are set out below and as explained in detail in Section 5 of the report the approach depends on the Council's position in respect of its Plan making.

Table ES 2 Option 1 in respect of CIL setting

| Option 1 | CIL charge per sqm |
|----------|--------------------|
| Brixham  | £0                 |
| Paignton | £0                 |
| Torquay  | £60                |

Table ES 3 Option 2 in respect of CIL setting

| Option 2                                    | CIL charge per sqm |
|---|--------------------|
| Strategic greenfield sites (across the Bay) | £0                 |
| All other areas                             | £70                |

We have therefore recommended these rates as shown in **option 1 and 2** at a level that does not put the majority of planned development at risk of delivery. We consider that both approaches strike an appropriate balance. However, the council could potentially vary this based on its own strategic considerations.

### Other forms of development

The non residential assessments followed a similar format to the residential assumptions. As there are a wide range of potential non residential uses a pragmatic approach was taken in terms of testing whereby typologies were identified on the basis of what was likely to come forward in Torbay and what could potentially generate chargeable floorspace – this resulted in the testing of 10 types of development.

As the development of most of these uses is sensitive to the general state of the wider economy it is not surprising that the results of the assessment showed little scope to levy a charge, as the majority were seeing limited or negative residual land values. That's not to say that no development will come forward, as there is always potential for unforeseen bespoke sites coming forward, but in general on speculative terms the market is subdued and any further cost to development, such as the levy, would not assist with growth. The exception to this subdued market is in retail uses outside of Torbay's town centres, which have continued to perform and generate positive returns. The following rates are recommended:

Table ES4 Non residential recommendations in respect of CIL setting

| Development type                                    | CIL charge per sqm |
|---|--------------------|
| Employment uses (B1,B2, B8)                         | £0                 |
| All comparison retail outside of identified centres | £100               |
| All convenience development outside of town centres | £400               |
| Retail A1-A5 uses in identified centres             | £0                 |
| Care homes  | £0                 |
| Other uses  | £0                 |

It is recommended that the CIL rates are reviewed on a regular basis, especially when there are changes to the economy, such as substantial increases or decreases in house prices.

# 1 Introduction

- 1.1.1 Peter Brett Associates were commissioned to undertake an Economic Viability Assessment of proposals to be brought forward as part of the preparation of the 'Torbay Local Plan 2013-2032 and beyond, a Landscape for Success'.
- 1.1.2 Our objective in this study is to help inform the decisions by locally elected members about the risk and balance between the policy aspirations of achieving sustainable development and the realities of economic viability. In making their decision on the balance, members are seeking guidance on:
- The maximum level of development contributions, including potential for a Community Infrastructure Levy (CIL);
  - The recommended level of affordable housing in policy that will work with the recommended development contribution, including a potential CIL; and
  - The cumulative viability implications of these and other policy costs.
- 1.1.3 These factors need to be taken into account in order to ensure that development in Torbay remains deliverable and viable.
- 1.1.4 These are complex questions, and the only way to make the decision properly is to explicitly understand the trade-offs being made between those choices. We proceed by understanding total available development contributions, and then 'sharing out' the resulting viability pot between competing priorities.
- 1.1.5 This report is prepared within the context of the Council's position and consultation as at Summer/Autumn 2013 and the information available at this time. If this position changes, it is recommended that this report is revised at an appropriate time in advance of any Examination to update assumptions and provide further testing if necessary.
- 1.1.6 This report and the accompanying appraisals have been prepared in line with RICS valuation guidance and the Harman Report. However, it is first and foremost a supporting document to inform the drafting of the developer contributions/CIL evidence base and planning policy, in particular policy concerned with the planning, funding and delivery of infrastructure needed to support delivery of the plan.
- 1.1.7 As per Professional Standards 1 of the RICS Valuation Standards - Global and UK Edition<sup>1</sup>, the advice expressly given in the preparation for, or during the course of, negotiations or possible litigation does not form part of a formal "Red Book" valuation and should not be relied upon as such. No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report for such purposes.
- 1.1.8 The objectives of this report are to use the available evidence to assess whether Torbay's Local Plan (TLP) is broadly viable in terms of delivering the plans and policies set out in its strategy. The stages of the study are to:

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<sup>1</sup> RICS (January 2014) Valuation – Professional Standards, PS1 Compliance with standards and practice statements where a written valuation is provided.



- Review the types of development likely to come forward during the plan period, use this as a basis to generate some hypothetical development typologies;
- Consider the evidence relating to the costs and values of different residential development in Torbay and establish assumptions to inform the residential viability appraisals; and
- Provide evidence for the council in setting their affordable housing policies
- Provide evidence for the council in developing their strategy towards developer contributions including a CIL Charging Schedule
- In providing this evidence undertake a series of viability tests on the hypothetical development typologies and consider whether there is sufficient value to support policies including those on affordable housing and CIL.

1.1.9 It should be noted that this report builds on the previous viability work undertaken for the Council by PBA in support of CIL proposals in 2012. Although it is recognised that the Council's position in respect to policy has changed since this report was finalised. This Report is to assist the Council's decision making process in this regard and is written as an advisory document forming part of the Evidence Base for the TLP and wider policy making. The report should be considered as background evidence to emerging Local Plan and does not constitute policy in its own right.

1.1.10 This study assessed a draft version (dated September 2013) of the emerging Local Plan and this is reflected in **Table 3.1**. As such it necessarily represents a snapshot in time of the Plan's preparation. A number of amendments to policies have been made by the Council to reflect our initial observations. These changes are incorporated in the Proposed Submission Version, published for consultation on 24<sup>th</sup> February 2014. Revised Policy numbers from the February Draft have been included in **Table 3.1** for comparison.

## 2 Study Context and Viability

### 2.1 Introduction

- 2.1.1 The basis of viability testing in this Report is through a series of generic site appraisals, using the residual value (RV) approach. This needs to take account of a wide variety of inter-related factors which are explored below, which include various items of planning obligations and community gain expected to be delivered through the operation of the planning system.
- 2.1.2 The key question is whether a suggested level of development contributions, including the Community Infrastructure Levy (CIL), combined with other planning obligations, including affordable housing and other policy requirements will inhibit development generally, and conversely, what level of CIL, and continuing contributions through S.106 Agreements, can be delivered whilst maintaining economic viability?
- 2.1.3 It is important that policy relating to planning obligations is realistic and credible, taking into account the local housing and commercial market, the economics of development, including price, supply, demand, need and profit issues. Whilst this report is set within the known planning and economic context at the time of production, it will be important to update its assumptions and findings when there are significant changes to the market and economy or changes to the type of growth sought in the Bay. It will be noted that there are considerable grounds for optimism that the property market is improving after a long period of recession.
- 2.1.4 It is also of note that the importance of maintaining plan viability is a central theme of national planning policy and guidance in recent years. We explore this context in the following section.

### 2.2 Defining Viability: the Harman Report

- 2.2.1 The cross industry and CLG supported 'Viability Testing Local Plans' (June 2012) provides detailed guidance regarding viability testing and in particular provides practical advice for planning practitioners on developing viable Local Plans which limits delivery risk. This guidance forms the basis to our approach in this report.
- 2.2.2 The Harman Report usefully defines viability. 'Viability Testing Local Plans' (Local housing Delivery Group, June 2012), states that:  
  
*'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.'*
- 2.2.3 Sensibly, Harman encourages a high level approach to testing viability based on generic site typologies and assumptions. As the report states for whole plan viability:  
  
*'does not require a detailed viability appraisal of every site anticipated to come forward over the plan period... [we suggest] a more proportionate and practical approach in which local authorities create and test a range of appropriate site typologies reflecting the mix of sites upon which the plan relies'.*

### 2.3 National Planning Policy Framework

- 2.3.1 The NPPF reflects the Harman report, both in its approach to the concept of viability, and its concern to ensure that cumulative effects of policy do not combine to render plans unviable (our emphasis):

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

2.3.2 With regard to non-residential development, the NPPF states that local planning authorities *‘should have a clear understanding of business needs within the economic markets operating in and across their area. To achieve this, they should... understand their changing needs and identify and address barriers to investment, including a lack of housing, infrastructure or viability.’* (Para. 160.)

2.3.3 However, the NPPF never states that sites must be viable now in order to appear in the plan. The NPPF is most concerned to ensure that development is not rendered unviable by unrealistic policy costs. There is no indication that planners are held responsible for economic and market conditions. In a free market system, where development is undertaken for the most part by the private sector, the best a planning authority can perhaps do is to provide enough land to meet the needs of sustainable development (sustainable development as defined in the NPPF). Whether or not landowners, developers and occupiers choose to use this land is out of a planning authority’s control.

2.3.4 The NPPF also requires authorities to demonstrate that infrastructure will be available to support development:

*[...]‘It is equally important to ensure that there is a reasonable prospect that planned infrastructure is deliverable in a timely fashion. To facilitate this, it is important that local planning authorities understand district-wide development costs at the time Local Plans are drawn up.’* (Para. 177.)

2.3.5 It is not necessary to prove that all funding for infrastructure has been identified. The NPPF states that standards and policies in Local Plans should *‘facilitate development across the economic cycle’* (Para. 174.) suggesting that in some circumstances, it may be reasonable for a Local Authority to argue that viability is likely to improve over time, that policy costs may be revised, that some infrastructure is not required immediately, and that mainstream funding levels may recover.

2.3.6 In seeking to provide infrastructure to deliver the Plan, Torbay Council have already started consultation on introducing the community infrastructure levy (CIL). This study considers the impact of introducing a CIL on whole plan delivery (see below).

## 2.4 Community Infrastructure Levy (CIL) requirements

### Finding the balance

2.4.1 Regulation 14 requires that a charging authority should ‘aim to strike what appears to the charging authority to be an appropriate balance’ between

- The desirability of funding from CIL (in whole or in part) the... cost of infrastructure required to support the development of its area... and
- The potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

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

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

- 2.4.3 In other words, the 'appropriate balance' is the level of CIL which the authority judges will maximise the quantum of development in the area. If the CIL charging rate is above this appropriate level, there will be less development than there could be, because CIL will make too many potential developments unviable. Conversely, if the charging rates are below the appropriate level, development will also be less than it could be, because it will be constrained by insufficient infrastructure.

- 2.4.4 The above quote from the statutory Guidance sets the development of the area firmly in the context of delivering the Local Plan. This point is given emphasis throughout the Guidance. For example, in guiding examiners, the Guidance makes it clear that the independent examiner should establish that:

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

- 2.4.5 Common sense suggests that an appropriate balance is not easy to find, and must be a matter of judgment as much as rigorous calculation. It is not surprising, therefore, that charging authorities are allowed discretion in this matter. This is set out in the legislation and guidance. For example, Regulation 14 requires that in setting levy rates, the Charging Authority (our underlinings highlight the discretion):

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

- 2.4.6 The statutory guidance says

*'The legislation... requires a charging authority to use appropriate available evidence to 'inform the draft charging schedule'. A charging authority's proposed levy rate (or rates) should be reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence... there is room for some pragmatism.'*<sup>2</sup>

- 2.4.7 Regulation 14 effectively recognises that the introduction of CIL may put some potential development sites at risk. The focus is on seeking to ensure development envisaged by the LDP can be delivered. Accordingly, when considering evidence the guidance requires that charging authorities should 'use an area based approach, which involves a broad test of viability across their area', supplemented by sampling '...an appropriate range of sites across its area...' with the focus '...in particular on strategic sites on which the relevant Plan relies...' <sup>3</sup>

- 2.4.8 This reinforces the message that charging rates do not need to be so low that CIL does not make any individual development schemes unviable. The levy may put some schemes at risk

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<sup>2</sup> DCLG (December 2012) *Community Infrastructure Levy Guidance* (para 28)

<sup>3</sup> Ibid (Paras 23 and 27)

in this way, so long as, in aiming strike an appropriate balance overall it avoids threatening the ability to develop viably the sites and scale of development identified in the LDP.

### Keeping clear of the ceiling

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

*'Charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area. Charging authorities should show, using appropriate available evidence, including existing published data, that their proposed charging rates will contribute positively towards and not threaten delivery of the relevant Plan as a whole at the time of charge setting and throughout the economic cycle..'*<sup>4</sup>

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

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

### Varying the charge

- 2.4.11 CIL Regulations (Regulation 13) allows the charging authority to introduce charge variations by geographical zone in its area, by use of buildings, or both. (It is worth noting that the phrase 'use of buildings' indicates something distinct from 'land use'.<sup>5</sup> As part of this, some rates may be set at zero. But variations must reflect differences in viability; they cannot be based on policy considerations. Nor should differential rates be set by reference to the costs of infrastructure.
- 2.4.12 The guidance also points out that there are benefits in keeping a single rate, because that is simpler, and charging authorities should avoid *'undue complexity'*.<sup>6</sup>
- 2.4.13 Moreover, generally speaking, it would not be appropriate to seek to differentiate in ways that impact disproportionately on particular sectors, or specialist forms of development,<sup>7</sup> otherwise the CIL may fall foul of State Aid rules.
- 2.4.14 It is worth noting, however, that the guidance is clear that 'In some cases, charging authorities could treat a major strategic site as a separate geographical zone where it is supported by robust evidence on economic viability.'<sup>8</sup>

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<sup>4</sup> Ibid (Para 30)

<sup>5</sup> The Regulations allow differentiation by "uses of development". "Development" is specially defined for CIL to include only 'buildings', it does not have the wider 'land use' meaning from TCPA 1990, except where the reference is to development of the area, in which case it does have the wider definition. See S 209(1) of PA 2008, Reg 2(2), and Reg 6.

<sup>6</sup> DCLG (December 2012) Op Cit (Para 37)

<sup>7</sup> Ibid (Para 37)

<sup>8</sup> Ibid (paragraph 34)

### Supporting evidence

- 2.4.15 The legislation requires a charging authority to use ‘appropriate available evidence’<sup>9</sup> to inform their charging schedules. The statutory guidance expands on this, explaining that the available data ‘is unlikely to be fully comprehensive or exhaustive’<sup>10</sup>.
- 2.4.16 These statements are important, because they indicate that the evidence supporting CIL charging rates should be proportionate, avoiding excessive detail. One implication of this is that we should not waste time and effort analysing types of development that will not have significant impacts, either on total CIL receipts or on the overall development of the area as set out in the LDP. This suggests that the viability calculations may leave aside geographical areas and types of development which are expected to see little or no development over the plan period.

### Chargeable floorspace

- 2.4.17 CIL will be payable on ‘most buildings that people normally use’<sup>11</sup>. It will be levied on the net additional floorspace created by any given development scheme<sup>12</sup>. Any new build that replaces existing floorspace that has been in recent use on the same site will be exempt from CIL, even if the new floorspace belongs to a higher-value use than the old.

### What the examiner will be seeking

- 2.4.18 According to statutory guidance, ‘the independent examiner should check that:
- The charging authority has complied with the requirements set out in legislation
  - The charging authority’s draft charging schedule is supported by background documents containing appropriate available evidence
  - The proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority’s area; and
  - Evidence has been provided that shows the proposed rate would not threaten delivery of the relevant Plan as a whole.’<sup>13</sup>

### Policy requirements

- 2.4.19 Above, we have dealt with legal and statutory guidance requirements which are specific to CIL. More broadly, the CIL Guidance says that charging authorities ‘should consider relevant national planning policy (including the NPPF in England) when drawing up their charging schedules’. In addition, where consideration of development viability is concerned, the CIL Guidance draws specific attention to paragraphs 173 to 177 of the NPPF.
- 2.4.20 The only policy requirements which relate directly to CIL are set out at paragraph 175 of the NPPF, covering, firstly, working up CIL alongside the plan making where practical; and secondly placing control over a meaningful proportion of funds raised with neighbourhoods where development takes place).

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<sup>9</sup> Section 211 (7A) of the Planning Act 2008

<sup>10</sup> DCLG (December 2012) Op Cit (Para25)

<sup>11</sup> DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (paragraph 37)

<sup>12</sup> Ibid (paragraph 38)

<sup>13</sup> DCLG (December 2012) Op Cit (Para 9)



### Approach to Governance

- 2.4.21 Although not part of this commission the council should start to think about the governance of CIL. It could be considered that setting the CIL is the easy part: the hard part will be thinking about deciding which infrastructure providers and projects get CIL funding.
- 2.4.22 CIL Regulation 123 requires LPAs to specify a list of infrastructure projects intended to be funded from CIL. It restricts the use of planning obligations for infrastructure that will be funded in whole or in part by the CIL, to ensure no duplication between the two types of developer contributions.
- 2.4.23 Although Charging Authorities will not be examined on these issues – although this may change - it would be a very good idea for stakeholders to agree a common protocol about how these issues be dealt with once the CIL money starts flowing in. Although strictly speaking not within the remit of the examination, Examinations we have attended have seen long debates about how CIL funding would be shared out.
- 2.4.24 It is clear that there will be a number of different approaches to the governance of CIL funding as rates emerge around the country. Early discussions on principles will be valuable before the money arrives. That way, discussions can be usefully kept quite abstract, rather than turning into a zero-sum argument about which agency gets the limited funding available.

### CIL summary

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

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

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

- 2.4.26 As explained in statutory guidance, this means that the net effect of the levy on total development across the area should be positive. CIL may reduce development by making certain schemes which are not plan priorities unviable. Conversely, it may increase development by funding infrastructure that would not otherwise be provided, which in turn supports development that otherwise would not happen. The law requires that, in the judgment of the local authority, the net outcome of these two impacts should be positive. This judgment is at the core of the charge-setting process.
- 2.4.27 Legislation and guidance also set out that:
- Authorities should avoid setting charges up to the margin of viability for the bulk of sites;
  - CIL charging rates may vary across geographical zones and building uses (and only across these two factors). But there are restrictions on this differential charging. It must be justified by differences in development viability, not by policy or by varying infrastructure costs; it should not introduce undue complexity; and it should have regard to State Aid rules.
  - Charging rates should be informed by 'appropriate available evidence', which need not be 'fully comprehensive or exhaustive';
  - While charging rates should be consistent with the evidence, they are not required to 'mirror' the evidence. In this and other ways, charging authorities have discretion in setting charging rates.

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

## 2.5 Approach to Viability Testing

- 2.5.1 To assess whole plan viability, we have undertaken a traditional residual appraisal of development sites across Torbay. This approach is widely recognised as the preferred method to test viability<sup>14</sup>.

### The Residual Value Method Assessment of Viability

- 2.5.2 In simple terms, the residual value method works on the basis that a developer knows the end value of the scheme and knows the development costs (construction, interest and developer's profit). Through deducting the total costs from the end value the developer knows what it can bid for the land. If the resulting land value is at a level attractive to the landowner, the owner will be more likely to sell. In simple terms the formula is expressed as:

|            |   |  |
|------------|---|--|
|            |   | Net Development Value                        |
| Land Value | = | Minus  |
|            |   | Development Costs                            |
|            |   | (construction, interest, developer's profit) |

- 2.5.3 Since a large number of sites have been tested for this study, across a number of differing scenarios, the PBA toolkit uses Microsoft Excel to run the development appraisals. This approach provides sufficient flexibility to test various scenarios and immediately ascertain the impact it has on every site. The arithmetic of residual appraisal is straightforward when using spreadsheet models for the appraisals, however, the inputs to the calculation are hard to determine for a specific site (as demonstrated by the complexity of many S106 negotiations). Therefore our viability assessments are necessarily broad approximations, subject to a margin of uncertainty.
- 2.5.4 A number of generic assumptions are required in the viability appraisal process in order to identify residual site values. A site can be developed in a myriad of different ways, and the variables are so numerous that the valuation permutations are infinite. Each site viability appraisal considers the variables that affect the site value, to enable a site's market and physical characteristics, and costs, to be inputted into each appraisal to reach viability conclusions. This includes the site area and the total amount of saleable floorspace. Average sales values and build costs are then applied.
- 2.5.5 An example of a sites assessment is provided in [Appendix A](#).

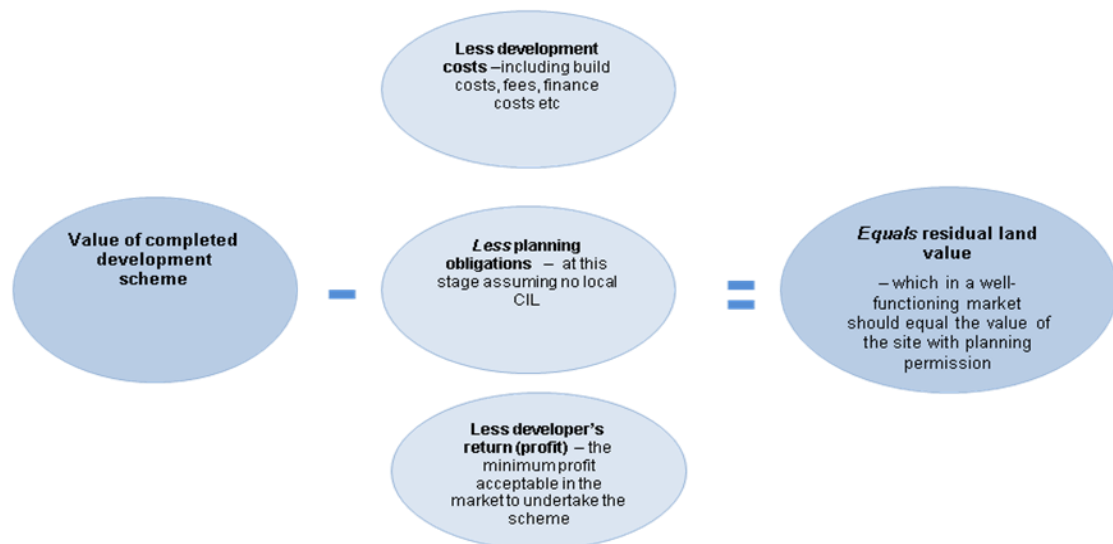
### Testing Policy Scenarios

- 2.5.6 The policy implications are tested as part of the above RV process, as set out in [Figure 2.1](#).

<sup>14</sup> Harman (June 2012), Viability Testing Local Plans – Advice for planning practitioners



Figure 2.1: Method diagram: value of completed development scheme



2.5.7 Given the emerging status of Torbay's Local Plan, a key question the study addresses is whether the level of proposed policies, affordable housing and planning obligations will inhibit development generally, and what level of planning obligation can be delivered whilst maintaining economic viability.

### Consultation

2.5.8 A key element of testing whole plan viability has been the involvement of the local development industry. In our experience, local agents and developers are always happy to explain where the market is at, what is going on, and why. The consultation with the development industry has helped to make our assumptions more robust, and these discussions also help us see where potential concerns may arise, so that the council can be better prepared to address concerns.

2.5.9 The key data discussed includes:

- Estimated market values of completed development;
- Existing use and open market land values;
- Basic build cost;
- External works (% of build cost);
- Professional fees (% of build cost);
- Marketing & sales costs (% of development value);
- Typical S106 costs;
- Finance costs (typical prevailing rates);
- Developer's margin (% of revenue);
- The density and mix of development.

- 2.5.10 We worked with the council to set up a Stakeholder meeting for the development industry active in the District. This took place on 13<sup>th</sup> November 2013, and in addition to the consultants, and Council officers, was attended by developers and agents. A copy of the meeting note can be found in **Appendix B**. Since viability is an ongoing process, we would encourage the Council to have further dialogue on the contents of this report.
- 2.5.11 We also consulted separately with Torbay Development Agency's Housing team, Registered Providers (RPs) of affordable housing operating in the Torbay area and the largest local housebuilder, to gather more detailed information about revenue and costs for affordable housing to assist in the analysis.

## 3 Review of Emerging Policy and Infrastructure

### 3.1 Introduction

- 3.1.1 In viability testing the site typologies set out in later chapters of this report, the approach used is to add gradually escalate the levels of policy costs in order to judge the point at which policy costs make development unviable. These policies are taken from the list developed in this chapter.

### 3.2 Scoping the Local Plan

- 3.2.1 In order to be able to identify the full implications of local policies on development viability, a scoping exercise has been undertaken to include a thorough consideration of the potential policy requirements within the emerging TLP.
- 3.2.2 At the time of undertaking, Torbay was preparing a revised Local Plan following consultation. We have assessed the policies that have been set out in the Draft Submission TLP (July 2013) to identify those that may have a cost implication and hence an impact on viability. Some of these policies are currently being reviewed and a revised list of policies and policy wording will be published in the Proposed Submission (February 2014) document.
- 3.2.3 The policies in the Draft Submission have been assessed, firstly to determine whether there is likely to be a cost implication over and above that required by the market to deliver the defined development. For those policies where there will be, or could be, a cost implication, a broad assessment of the nature of that cost has been undertaken, including whether the cost is likely to be Bay-wide or site specific, whether costs are related to specific timescales or apply for the entire life of the plan and whether costs are likely to be incurred directly by the developer through on site or off site development, or via financial contributions made by the developer to other agencies or developers towards wider schemes within Torbay.

#### Affordable housing

- 3.2.4 The emerging local plan identifies a “pressing need” for affordable housing and sets out the intended approach to delivery for the future.
- 3.2.5 Policy “H4 Affordable Housing” states an ambition to target the provision of affordable housing on a “sliding scale” dependent upon the amount of housing intended to be built. In addition to this, and in line with wider policy ambitions, policy “H4 Affordable Housing” includes separate rates for development on greenfield land than it does for brownfield land. Notably, the policy also states that the sites capacity to accommodate dwellings will be taken into account when calculating the affordable housing requirement. These are shown in following **table**:

| Development of Brownfield Sites            |                           |                          |
|--|---------------------------|--------------------------|
| Net new dwellings/ assessed site capacity* | Affordable Housing Target | Usual Method Of Delivery |
| 3-5 dwellings                              | Zero                      | N/A                      |
| 6-10 dwellings                             | Zero                      | N/A                      |
| 11-14 dwellings                            | Zero                      | N/A                      |

|  |     |   |
|--|-----|---|
| 15-19 dwellings                        | 15% | Usually through on site provision. Commuted payments will only be accepted where this would achieve more effective provision of affordable housing, or bring significant regeneration benefits. |
| 20+ dwellings                          | 20% | Usually on site. Commuted sums will only be accepted where this would achieve more effective provision of affordable housing or bring significant regeneration benefits.                        |
| <b>Development of Greenfield Sites</b> |     |   |
| 3-5 dwellings                          | 10% | Usually through commuted payment  |
| 6-10 dwellings                         | 15% | Usually through commuted payment  |
| 11-14 dwellings                        | 20% | Usually through on site provision. Commuted payments will only be accepted where this would achieve more effective provision of affordable housing, or bring significant regeneration benefits. |
| 15-29 dwellings                        | 25% | On site. Commuted sums will only be accepted in exceptional circumstances, where this would achieve more effective provision of affordable housing or bring significant regeneration benefits.  |
| 30+ dwellings                          | 30% | On site. 25% affordable housing and 5% self build plots in accordance with Policy H5.   |

3.2.6 This is clearly quite a complex policy in terms of all the different combinations. It was based on previous viability work undertaken for the council. This is a draft policy that has not been subject to the scrutiny of an Examination, therefore it is appropriate to reconsider the policy to help inform the latest stage in Plan making, especially given the variety of influences from a changing market, development costs and values; together with changes to national policy, including changes to the benefits system. This update therefore serves the purpose of checking the scope and options still suitable for affordable housing policy in viability terms, ensuring that the proposed policy is robust, and its evidence base on this aspect is kept up to date.

3.2.7 The proportion and type of affordable housing is one of the key determinants of residential viability. The dual effect of the imposition of both CIL and the affordable housing requirement could render some models unviable, or if it is on the borderline of viability, we refer to the concept of marginal viability. It is important that the council's policies do not deter development through unduly reducing the supply of land brought forward for residential development more widely. Any policy must balance delivery of affordable housing and planning obligations with maintaining sufficient incentive for landowners to release land – allowing developers to promote and bring forward schemes.

#### Other Plan Policies

3.2.8 **Table 3.1** sets out the results of the scoping exercise in relation to other plan policies.

Table 3.1 Policy review for viability implications

| Policy (at September 2013)                            | Policy in Feb 2014 (Proposed Submission) | Any cost implication ? | Application  | Nature of costs   | Policy page no. |
|---|--|------------------------|--|---|-----------------|
| SD1 Growth Strategy for a prosperous Torbay           | SS1                                      | No                     |  |   | 35              |
| SD2 Presumption in favour of sustainable development  | SS3                                      | No                     |  |   | 39              |
| SD3 Future Growth Areas                               | SS2                                      | Possibly               |  | See detailed assessments at SDT/SDP/SDB policies  |                 |
| E1 Employment   | SS4                                      | No                     |  |   | 41              |
| E2 Employment Space                                   | SS5                                      | Possibly               | Strategic sites (i.e. with more than 20 dwellings) | Employment development may be a requirement of strategic sites, thus reducing proportion of higher value residential uses and reducing net residential developable area. Further, the cost of the infrastructure for the larger sites could be borne by the higher value residential uses | 44              |
| E3 Marine economy                                     | TO3                                      | No                     |  |   | 48              |
| E4 Education, skills and local labour                 | SC3                                      | No                     |  |   | 49              |
| TC1 Town Centres and Retail                           | TC1                                      | No                     |  |   | 52              |
| TC2 Torbay Retail Hierarchy                           | TC2                                      | No                     |  |   | 53              |
| TC3 Retail development                                | TC3                                      | No                     |  |   | 55              |
| TC4 Change of retail use within Centres and elsewhere | TC4                                      | No                     |  |   | 57              |
| TC5 Evening and night time economy                    | TC5                                      | No                     |  |   | 58              |
| T1 Tourism, Events and Culture                        | TO1                                      | No                     |  |   | 61              |
| T2 Change of use of tourism accommodation             | TO2                                      | No                     |  |   | 63              |

| Policy (at September 2013)                              | Policy in Feb 2014 (Proposed Submission) | Any cost implication ? | Application  | Nature of costs  | Policy page no. |
|---|--|------------------------|--|--|-----------------|
| and facilities  |  |                        |  |  |                 |
| TA1 Transport and accessibility                         | TA1                                      | No                     |  |  | 67              |
| TA2 Strategic Transport Improvements                    | SS6                                      | Yes                    |  | Requires development to contribute to delivery of strategic transport improvements       | 68              |
| TA3 Development access                                  | TA2                                      | No                     |  |  | 70              |
| TA4 Parking Requirements                                | TA3                                      | No                     |  |  | 72              |
| IF1 Infrastructure, phasing and delivery of development | SS7                                      | Yes                    | All development  | Infrastructure requirements and phasing will need to be tested                           | 76              |
| IF2 Information and communications technology           | IF1                                      | No                     |  |  | 78              |
| EN1 Natural environment                                 | SS8                                      | Possibly               | All development  | Mitigation may be required to offset any impacts   | 80              |
| EN2 Green Infrastructure                                | SS9                                      | Yes                    | All major development (i.e. with more than 10 dwellings) | Expectation that development will contribute to strategic green infrastructure provision | 82              |
| EN3 Urban Landscape Protection Areas                    | C5                                       | No                     |  |  | 84              |
| C1 Countryside and the rural economy                    | C1                                       | No                     |  |  | 87              |
| C2 The Coastal Landscape                                | C2                                       | No                     |  |  | 90              |
| C3 Coastal Change Management                            | C3                                       | No                     |  |  | 91              |
| C4 Trees, Hedgerows and Natural Landscape Features      | C4                                       | Yes                    | Major development (i.e. with more than 10 dwellings)     | Expectation that development will contribute to new woodland provision                   | 92              |
| NC1 Biodiversity and Geodiversity                       | NC1                                      | Possibly               | All development (i.e. with more than 10 dwellings)       | Mitigation may be required to offset any impacts   | 94              |
| HE1 Conservation and                                    | HE1                                      | No                     |  |  | 96              |

| Policy (at September 2013)                          | Policy in Feb 2014 (Proposed Submission) | Any cost implication ? | Application  | Nature of costs  | Policy page no. |
|---|--|------------------------|--|--|-----------------|
| the historic environment                            |  |                        |  |  |                 |
| HE2 Listed Buildings                                | HE2                                      | No                     |  |  | 98              |
| ES1 Low Carbon Development                          | SS13                                     | Possibly               | Major developments of over 100 dwellings                 | Possibly an impact as requirement is a request rather than a demand - inclusion of at least 1 exemplar house or commercial building which is significantly above current building regulation standards in relation to low carbon design. | 100             |
| ES2 Energy  | ES1                                      | Possibly               | All development  | Possibly an impact as requirement is a request rather than a demand – development should seek to reduce energy consumption   | 101             |
| ES3 Resilience and adaptation to a changing climate | SS13                                     | No                     |  |  | 103             |
| ES4 Renewable and low carbon infrastructure         | ES2                                      | No                     |  |  | 104             |
| ER1 Flood Risk                                      | ER1                                      | No                     |  |  | 105             |
| ER2 Water management                                | ER2                                      | Yes                    | All development  | Policy requires all development to meet minimum targets for water consumption as set out by CSH and BREEAM   | 108             |
| ER3 Contamination                                   | ER3                                      | No                     |  |  | 109             |
| ER4 Ground stability                                | ER4                                      | No                     |  |  | 110             |
| W1 Waste Management and Development                 | W1                                       | Yes                    | All major development (i.e. with more than 10 dwellings) | All development must include a scheme for sustainable management of the waste generated by the development   | 111             |
| W2 Waste Audit for Major Development                | W2                                       | Yes                    | All major development (i.e. with more than 10 dwellings) | All development must conduct a waste audit and measures to minimise waste over a five year period  | 112             |
| W3 Existing waste management facilities in          | W3                                       | No                     |  |  | 112             |

| Policy (at September 2013)   | Policy in Feb 2014 (Proposed Submission) | Any cost implication ? | Application  | Nature of costs  | Policy page no. |
|--|--|------------------------|--|--|-----------------|
| Torbay   |  |                        |  |  |                 |
| W4 Proposals for New waste management facilities                                   | W4                                       | No                     |  |  | 113             |
| W5 Waste water disposal  | W5                                       | No                     |  |  | 114             |
| M1 Minerals  | M1                                       | No                     |  |  | 116             |
| M2 Maximising the use of secondary and recycled aggregates                         | M2                                       | No                     |  |  | 117             |
| M3 Preserving and safeguarding of limestone resources and key local building stone | M3                                       | No                     |  |  | 118             |
| SC1 Sustainable communities  | SS10                                     | Possibly               | All development                                      | Development proposals may incur planning contributions in relation to contributing a sustainable community   | 120             |
| SC2 Healthy Bay  | SC1                                      | Possibly               | Major development (i.e. with more than 10 dwellings) | Major developments of 30 or more dwellings/1,000 sqm floorspace are required to undertake a Health Impact Assessment to demonstrate how they maximise positive impacts on health and healthy living within the development and adjoining areas | 122             |
| SC3 Sport, leisure and recreation  | SC2                                      | Possibly               | Major development (i.e. with more than 10 dwellings) | A contribution towards new or existing leisure and recreation facilities may be required   | 124             |
| SC4 Sustainable food production  | SC4                                      | Yes                    | Major development (i.e. with more than 10 dwellings) | Major residential or mixed use development schemes should include the provision of allotments  | 126             |
| SC5 Child poverty  | SC5                                      | Possibly               | All development                                      | New development will be assessed in terms of its requirement to support investment in existing schools and appropriate contributions which may be required   | 127             |



| Policy (at September 2013)                           | Policy in Feb 2014 (Proposed Submission) | Any cost implication ? | Application   | Nature of costs  | Policy page no. |
|--|--|------------------------|---|--|-----------------|
| DE1 Design   | DE1                                      | No                     |   |  | 128             |
| DE2 Building for life                                | DE2                                      | Possibly               | Major development (i.e. with more than 10 dwellings)  | Proposals will be assessed against Building for Life criteria  | 130             |
| DE3 Development amenity                              | DE3                                      | Possibly               |   | Sets out minimum standards as a guide but is not mandatory on development and therefore is not considered a burden on viability. | 131             |
| DE4 Building heights                                 | DE4                                      | No                     |   |  | 133             |
| DE5 Domestic extensions                              | DE5                                      | No                     |   |  | 134             |
| DE6 Advertisements                                   | DE6                                      | No                     |   |  | 135             |
| H1 Housing   | SS11                                     | No                     |   |  | 139             |
| H2 Five year housing supply                          | SS12                                     | No                     |   |  | 141             |
| H3 Applications for new homes                        | H1                                       | No                     |   |  | 145             |
| H4 Affordable Housing                                | H2                                       | Yes                    | Residential development above threshold (3 dwellings greenfield and 15 dwellings brownfield). | See previous section in this chapter.  | 146             |
| H5 Self build affordable housing and exception sites | H3                                       | No                     |   |  | 150             |
| H6 Houses in multiple occupation                     | H4                                       | No                     |   |  | 151             |
| H7 Sites for gypsies and travellers                  | H5                                       | No                     |   |  | 153             |
| H8 Housing for people in need of care                | H6                                       | Possibly               | Housing for people in need of care  | The LPA will seek S106 contributions to meet likely local health care and social service costs arising                           | 155             |

| Policy (at September 2013)                          | Policy in Feb 2014 (Proposed Submission) | Any cost implication ? | Application   | Nature of costs   | Policy page no. |
|---|--|------------------------|---|---|-----------------|
|   |  |                        |   | from care facilities and sheltered accommodation, unless applicants are able to show that this contribution would not be appropriate  |                 |
| SDT1<br>Torquay                                     | SDT1                                     | No                     |   |   | 157             |
| SDT2<br>Torquay town centre and harbour             | SDT2                                     | Possibly               | Torquay town centre   | Various priorities (employment/retail provision, landscape and strategic transport improvements) to be taken forward in phases.   | 158             |
| SDT3<br>Torquay gateway                             | SDT3                                     | Possibly               | Torquay Gateway (Scotts Bridge/Barton and Edginswell Valley area) | Various priorities (employment provision, open space and strategic transport improvements) to be taken forward in phases.   | 159             |
| SDT4<br>Babbacombe and St Marychurch                | SDT4                                     | Possibly               | Babbacombe and St Marychurch                                      | Various priorities (transport improvements) to be taken forward in phases.  | 160             |
| SDP1<br>Paignton                                    | SDP1                                     | No                     |   |   | 162             |
| SDP2<br>Paignton town centre and seafront           | SDP2                                     | Possibly               |   | Various priorities (transport and flood mitigation improvements) to be taken forward in phases.   | 163             |
| SDP3<br>Paignton north and western area             | SDP3                                     | Possibly               | Paignton North and Western Area                                   | Development should be accompanied by improved infrastructure, including along the Western Corridor and A358 Totnes Road. Also improvements to sewerage capacity and provision of green infrastructure | 164             |
| SDP4<br>Clennon Valley Leisure Hub                  | SDP4                                     | Possibly               | Clennon Valley, Goodrington                                       | Development will be expected to incorporate and contribute towards flood alleviation and sea defence measures   | 166             |
| SDB1<br>Brixham                                     | SDB1                                     | No                     |   |   | 169             |
| SDB2<br>Brixham town centre, harbour and waterfront | SDB2                                     | Possibly               |   | Various priorities (employment/retail provision, landscape and strategic transport improvements) to be taken forward in phases.   | 170             |

| Policy (at September 2013)  | Policy in Feb 2014 (Proposed Submission) | Any cost implication ? | Application                   | Nature of costs   | Policy page no. |
|---|--|------------------------|-------------------------------|---|-----------------|
| SDB3<br>Brixham urban fringe and area of outstanding natural beauty | SDB3                                     | Possibly               | Brixham Urban Fringe and AONB | Support Park and Ride facilities to serve Brixham and provide a transport interchange | 171             |

NB: references in this report relate to the September 2013 working draft. We are advised by the Council that EN2, C4, ES1, ER2, W2, SC1, SC4, SC5, SDP4 and SDB3 have been amended in the February 2014 Proposed Submission Version, to address our comments on viability impact.

### 3.3 Review of the Policy Requirements

3.3.1 In broad terms, there are four broad types of development policy contained within the emerging Torbay Local Plan. These are:

- Policies that do not have a particular bearing on development costs;
- Policies that have direct cost implications for certain categories of development across Torbay as a whole or certain areas within it;
- Policies that may have a cost implication should mitigation measures be required
- Policies that might have a cost implication should the developer choose to undertake the policy recommendation (these are not requirements of policy but requests from the Council to undertake certain works – failure to do so would not be a reason in itself to refuse permission)

#### Policies that do not have a particular bearing on development costs

- 3.3.2 Policies SD1-SD2, H1-2, SDT1-2, SDP1, SDB1 are broad strategic policies which seek to establish overall objectives, development levels and to put in place a strategy for development. These policies do not have a direct bearing on development costs; although it is important for local development plans to set out realistic and deliverable development strategies reflect evidence of need, market demand and wider deliverability factors including the availability, achievability and suitability of land supply to meet development targets.
- 3.3.3 Policies E1, E3, E4, TC1-5 and T1-2 are all aimed at supporting the local economy and protecting existing employment, shops and services and have no effect on the cost of development.
- 3.3.4 TA1, IF2, EN3, C1-3, HE1-2, ES4, ER1, ER3-4, W3-5, DE1, DE3-6, H3, H5-H7 are broad strategic or development management policies and do not add costs to development.
- 3.3.5 Policies M1 to M3 are minerals policy and therefore have no impacts on the cost of development.
- 3.3.6 TA3-TA4 require development to have suitable access and parking, and policy ES3 requires resilience to the effects of climate change be built into design, however these cost would be incorporated into the normal opening up and construction costs of the development, and would therefore be considered as no additional burden on development.

### **Policies that may have a cost implication should mitigation measures be required**

- 3.3.7 Policies EN1, NC1 would only have an impact on costs if mitigation is required – this type of cost would be either absorbed through general development costs or contingency allowed for in development appraisals.
- 3.3.8 Policy SC2 seeks Health Impact Assessments, these would be considered as part of the professional fees associated with development and any mitigation required would be through contingency funds.
- 3.3.9 Policy SC3 requires a contribution to sports and recreation provision – it is likely that the Council will seek contributions to sports and recreation through CIL and therefore these costs will not be directly accounted for within the appraisal.
- 3.3.10 Policy SC5 requires all development to consider child poverty and what measures it can include to minimise – whilst this does potentially have a cost this should already be covered by costs associated with sustainable communities and infrastructure provision.
- 3.3.11 DE2 requires major development to be assessed against Building for Life criteria. Whilst this may have a cost implication it is unclear from the policy what the cost implication would be, although evidence on building to Life Time Homes standards has suggested an extra cost over of £500 per unit on current building regulation standards.

### **Policies that have potential cost implications**

- 3.3.12 Policy E2 states that major or mixed use schemes will need to include a 'meaningful' proportion of B space. It is considered that the greater gross to net used for larger sites will be able to accommodate this requirement.
- 3.3.13 Policy TA2 Strategic Transport requirements requires safeguarding of land and contributions from development to facilitate improvements to the strategic transport network. As specific schemes are not named in the policy it is considered that the assumed funding will be through CIL rather than S106.
- 3.3.14 Policy IF1 on infrastructure delivery requires development to support provision of infrastructure. Funding for infrastructure from development is anticipated through both S106 and CIL. An allowance will be made for S106 on major sites based on past experience of delivering these types of sites and through any local information provided through the infrastructure plan.
- 3.3.15 Policy on green infrastructure in EN2 requires contributions from major development towards country parks and for all development to accommodate or integrate green infrastructure within development proposals. On site provision and integration would be through allowance made to developable area – of site provision is mostly likely through CIL.
- 3.3.16 Policy C4 requires all major development to contribute to the provision of woodland. As it is unlikely that this will be allowed through S106, it is considered that the cost to development will be through a CIL payment and therefore no additional cost will be allowed for in the appraisal.
- 3.3.17 Policy SC1 requires development to contribute towards creating sustainable communities – much of the costs associated with this will be absorbed through the normal costs of development or be funded through CIL.
- 3.3.18 Policy ER2 requires all development to minimise water consumption and minimal levels expressed in BREEAM and Code for Sustainable Homes. Building regulations are increasingly looking to improve water standards, therefore without a definition of what the

minimum standard is it would be prudent to exclude this as an additional cost beyond current building standards.

- 3.3.19 Policies W1-2 require all development to include schemes for sustainable management of waste arising from both construction and operation and that a waste audit must be undertaken and mitigation measures in place to cover at least the first five years of the development life. This should be considered part of a S106 cost specific to each development.
- 3.3.20 Policy SC4 requires that major development should include provision of allotments. It is likely that can be absorbed within the gross to net developable area, however there could be a cost implication in preparing the land. Therefore this should be considered part of a S106 cost specific to each development.
- 3.3.21 Draft affordable housing policy is set out in H4 – this will be tested as set out in section 2.5 of this report.
- 3.3.22 Policy H8 requires developments of 50 units and over to provide a minimum of 5% new homes to lifetime home standards. It also requires developments that include care homes and sheltered housing to contribute towards local health care and social service costs.
- 3.3.23 Policies SDT2-4, SDP2-4 and SDB2-3 set the broad requirements and priorities for strategic development areas the Bay. The requirements vary according area but generally seek improvements to employment provision, strategic transport and green infrastructure.

#### **Policies that have an optional cost**

- 3.3.24 Policy ES1 asks applicants to consider including exemplar developments and policy ES2 seeks energy reduction. Whilst these may have a cost it is unlikely that most developers would willingly add additional costs to their development therefore it would either not be done or be absorbed through general costs or contingency and therefore it won't be considered as an additional cost in the appraisals.

#### **Policy flexibility**

- 3.3.25 Whilst the emerging LDP contains specific policy requirements which will have an impact on a scheme's viability it is important to stress that the emerging plan contains policy wording which ensures that the plan can respond flexibly to changing economic circumstances and individual site circumstances.

For example policy H4 (affordable housing) allow for policy requirements to be varied if it can be demonstrated that they will affect scheme viability.

### **3.4 Infrastructure Requirements**

- 3.4.1 A clear requirement of CIL Regulations is to identify a safe 'funding gap' to justify a CIL charge. The council needs to establish the shortfall between the cost of necessary infrastructure and the mainstream money available to pay for that infrastructure. The cost of Infrastructure is particularly important for strategic development sites that could have specific on site infrastructure costs, and this will need to be reflected in any viability testing.
- 3.4.2 To justify a CIL charge the Council needs to establish a funding shortfall. In simple terms this is done by illustrating that infrastructure costs are greater than available funding. For the infrastructure plan this involves three tasks:

- Ensuring the majority of infrastructure requirements are identified and costed;
  - Fully explore funding options;
  - Presentational issues, e.g. comparing funding against overall cost to illustrate a shortfall.
- 3.4.3 If these tasks are explored in detail and presented correctly, it will prevent potential objectors undermining the Council's Draft Infrastructure Plan (IP) and consequently principle justification for any CIL Charge.
- 3.4.4 To support the delivery of the Local Development Plan the IP needs to robustly identify the infrastructure requirements needed to support growth, but also contribute towards illustrating the delivery of the strategy by setting out known funding sources, delivery partners and phasing issues.
- 3.4.5 The council have drafted an infrastructure plan which sets out the requirements for the Bay over the Plan period, including costs and timing of infrastructure. Overall the plan identified a total cost of infrastructure of approximately £262 million. £102 million of funding has currently been secured or identified e.g. through funding bids. The remaining shortfall of £160 million could be reduced through future public funding streams and future developer contributions which will need the introduction of appropriate mechanisms including the CIL.
- 3.4.6 The Council have also consulted on introducing a CIL levy of £100 per sqm on residential units and between £100 and £300 per sqm on retail development across the Bay through its first draft charging schedule<sup>15</sup>. These amounts are reconsidered through this study's look at whole plan viability.
- 3.4.7 Even with the introduction of CIL there is still likely to be a funding shortfall which will require difficult decisions for Council members. Work in this area will help inform the Council CIL Regulation 123 List. It is recommended that any officer working on this should involve members to highlight the funding shortfall and get support for the delivery of critical infrastructure.

### 3.5 Viability Testing Sites and Emerging Policies

- 3.5.1 In viability testing the site typologies set out in the following chapters of this report, based on gradually escalating the levels of policy costs, we start with understanding of the basic viability of sites, including very minimal policy costs (e.g., a range of S106 contributions), and then add the following factors: affordable housing, CIL and any other policy requirements where applicable.
- 3.5.2 These policy costs risk negatively affecting viability, but may deliver valuable benefits. S106 requirements must be necessary to making development acceptable in planning terms. In addition, many of the policies and S106 Obligations have potential to enhance the value of development and therefore its selling price. For simplicity it is not practicable to factor these uplift effects into this study's economic modelling.
- 3.5.3 We seek to understand the trade-offs involved with these policy choices, in order that elected members and their officers may arrive at a reasoned and prioritised set of policy choices.

The viability testing has involved a number of iterations in order to arrive at the combination of policies that most accurately serve local aspiration. We do not describe these iterations in the report.

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<sup>15</sup> Torbay Council, Community Infrastructure Levy, Preliminary Draft Charging Schedule Consultation Document, December 2011.



## 4 Residential Typologies and Assumptions

### 4.1 Introduction

- 4.1.1 The high level viability modelling uses local values and costs to test what level of contributions can be achieved without risking viability, as well as testing variable affordable housing requirements. These are tested against a range of potential housing sites within Torbay.
- 4.1.2 This chapter reviews the generic assumptions that are required in the viability appraisal process used to identify residual values in developing sites along with any headroom potential to meet community gain. These assumptions include the site net developable area, the total number of dwellings, mix (i.e. houses and apartments) and tenure, which are used to derive saleable floorspace assumptions. Average sales values and build costs are then applied. A merged mix of affordable and open market housing, based on a range of affordable housing proportions set out in Local Plan policy H4, has been used. The principal variable factors are explored below.

### 4.2 Site Typologies

- 4.2.1 Sites which have been considered through the Torbay SHLAA work (2013)<sup>16</sup> as being deliverable urban sites and Greenfield sites available for delivering housing in Torbay have each been assessed for viability.
- 4.2.2 To provide a robust evidence base, it was important that we modelled this broad cross section of development types. The residential sites identified in the SHLAA process provide a set of residential viability tests to cover notional developments of different sizes, locations, densities and mixes, type (greenfield/brownfield) as well as affordable housing. These categories affected the level of abnormal costs each site was deemed to have. For example, larger sites were likely to incur additional requirements in bringing them forward such as opening up cost. Brownfield sites were assumed to have the highest abnormal costs, greenfield sites the lowest, with mixed brownfield and greenfield sites having a central value between these two bookends (although none of assessed sites were categorised as 'mixed').
- 4.2.3 These sites – of which there are 92 – provide real situations for testing viability against the requirements being put forward in the current (September 2013) draft Torbay Local Plan. The viability assessments and the resulting recommendations have focussed on these types of development, aiming to ensure that they remain broadly viable after any policy requirements, including affordable housing, is applied. We have provided more detail of emerging policy requirements in the earlier sections of this report.
- 4.2.4 Given the range of real-world sites and associated with different sites within the Torbay area, it is not always possible to get a perfect fit between a site, the site profile and cost/revenue categories. But a best fit in the spirit of the Harman Report guide has been attempted, as described in the remaining part of this chapter and Chapter 6 (non-residential developments testing).

### 4.3 Site Coverage and Floorspace Mix

- 4.3.1 In order to establish housing land values, assumptions need to be made about the likely number of units and saleable floorspace of the dwellings, to generate an overall sales turnover. Total turnover is dramatically increased by greater coverage. But housing needs to be serviced by roads for instance, and, for larger developments, land is required for public open space, strategic landscaping, community buildings, employment and possibly schools.

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<sup>16</sup> Peter Brett Associates, SHLAA Update (2013), Final Report

### Net (developable) area

- 4.3.2 The net area of the site allows for the provision of non-residential land uses normally associated with larger sites. Typically, residential benchmark land values are normally reported on a per net hectare basis, since it is only this area which delivers a saleable return. It is therefore necessary to identify what the likely net developable area will be.
- 4.3.3 The Torbay SHLAA provides site analysis of how many units a site will yield based on net area densities. The SHLAA also provides the gross site. In order to inform the land price, we have estimated the net area for residential units based on the ratios of gross area to net area in **Table 4.1**.

Table 4.1 Gross to Net developable areas ratio

| Site area (ha) | Developable ratio |
|----------------|-------------------|
| <0.40          | 100%              |
| <2.00          | 80%               |
| <35.00         | 66%               |
| >=35.00        | 50%               |

### Density and mix

- 4.3.4 We use the net area and identified yield to measure the density of the development. The site density reflects location and site characteristics, and the housing market in the nominal location. The density does vary widely between sites, which is what would be expected across the different locations and site characteristics.
- 4.3.5 Higher density sites are traditionally more likely to accommodate flats, although demand is currently at a low level in many locations. Whilst low density sites will have a much higher proportion of family houses.
- 4.3.6 To reflect the varying site densities listed within the SHLAA, approximate mixes have been assumed based on the number of dwellings and locations of the SHLAA sites and the feedback from the Developer Workshop. The housing mix is summarised in **Table 4.2**. It is important to note here, as with any assumption in this report, that the dwelling mix in **Table 4.2** are used for the purpose of this report to check the likely potential availability of SHLAA sites. They do not reflect any policy or requirement that the Council may wish to apply on specific sites.

Table 4.2 Housing mix based on site densities

| Dwellings per net developable ha | Flats | Houses |
|----------------------------------|-------|--------|
| <35                              | 0%    | 100%   |
| <70                              | 20%   | 80%    |
| <100                             | 40%   | 60%    |
| <150                             | 80%   | 20%    |
| =>150                            | 100%  | 0%     |



## Floorspace

- 4.3.7 In order to establish housing land values, assumptions need to be made about the likely saleable floorspace of the dwellings, to generate an overall sales turnover.
- 4.3.8 The floorspace for new builds is assumed to be based on the standards in Torbay Council's Policy DE2 Building for Life, the proposed 2013 Government standards at Level 2 for new build housing and marketing brochures for recent new builds in Torbay. Affordable unit sizes are assumed to mirror the open market unit standards. Unit sizes are set out as follows:
- Flats = 60 sqm
  - Houses = 90 sqm
- 4.3.9 It will be noted that minimum space standards in Policy DE3 Development Amenity are advisory and set out in explanatory text rather than upper case policy. There is therefore scope for flexibility on these, particularly on new-build market housing schemes.

## 4.4 Reviewing the Current Viability Evidence (value and costs)

- 4.4.1 Current residential revenues and other viability variables are obtained from a range of sources, including:
- Generic websites, such as the RightMove and the Land Registry
  - Direct research with developers and agents operating in the area.
  - Information on land and property values has been taken from industry standard sources including CoStar (Focus) and Property Week databases.
- 4.4.2 The sources used for typical development costs include BCIS build cost data rebased to the location and third quarter 2013 price values. For costs such as external works, fees, finance and developers' margins, high-level approximations to represent the average over a range of scheme types have been used, sourced from previous viability studies within the local area, internet sources including Estates Gazette, which have the great advantage of showing the typical buildings used for the calculation, and information available to the council such as previous viability reports.
- 4.4.3 Where relevant, different parts of the Bay have been distinguished to ensure that we have the right evidence to inform any proposal for geographic differentials in affordable housing provision, the CIL levy rate and/or other policy costs. We need to distinguish circumstances where particular types of site are prone to different economic circumstances that affect viability. This includes, for instance, the additional costs associated with large Greenfield urban extensions, where the site specific infrastructure costs required to open up the site for development are significantly greater than for smaller sites; and brownfield sites with higher existing use value, based on commercial values as opposed to agricultural value.

## Benchmark land values

- 4.4.4 To assess viability, the residual value generated by a scheme is compared with a benchmark value, which reflects 'a competitive return for a landowner' (as stated in Harman). The threshold land value is important in our calculations of developer contribution in line with those set out the emerging Torbay Local Plan. The difference between the threshold land value and the residual land value represents the amount of money available for S106 contributions (including affordable housing) or CIL.

- 4.4.5 Given the number of landowners within the Bay, each with different propensities to sell, it is important to appreciate that assumptions on benchmark land values can only be broad approximations, subject to a wide margin of uncertainty. We take this uncertainty into account when drawing conclusions and recommendations from our analysis.
- 4.4.6 A cross section of residential land comparables across Torbay have been examined based on developer and agent consultation, developers' recent transactions and their assumptions used in their own viability work. They generally relate to sites which are not existing housing land, and in some cases are sites which require some remediation or opening up because they are not fully serviced with roads and major utilities to the site boundary.
- 4.4.7 Opening up costs are treated as an add-on to the adopted benchmark land value so that the benchmark land value is sufficiently below the market rate for clean residential land. Data on land values is limited. The nearest published comparators from the VOA are in Plymouth which shows that clean residential land value in 2010 was selling for £1.5M per net developable hectare and in Exeter, where values were significantly more at £2.5m/net ha. Given sales values for housing in the Bay, which provides a useful proxy for land value (*ceterus paribus*), land values in Torbay are more likely to be closer to those being achieved in Plymouth.
- 4.4.8 When sites are likely to require opening up costs, then the actual purchase of the land should fall within the difference between the benchmark land value for these sites and the clean residential land value (assumed to be something in the region of £1.5m/Ha).
- 4.4.9 Additionally, in the spirit of the NPPF and Harman, the purchase land values for sites in viability testing should reflect the likely value under the burden of any future policies that will apply to the development. Historically, many developments have come forward with the expectation of negotiating the policy burdens, and in Torbay the expectation has generally been optimistic, on behalf of the landowners and developers, in that the full compliance with policy can be negotiated down. With the NPPF's requirement for demonstrating that the majority of development is able to carry the burden of policy costs, including meeting the affordable housing requirement in full, then it is likely that the extra costs will come off the purchased land value.
- 4.4.10 Therefore the following benchmarks are used for the minimum selling price of land which reflects a competitive return for a landowner before incurring the associated costs for bringing it forward for residential developments with:
- 0-49 dwellings achieves a minimum land value = £800,000 per net developable ha
  - 50-199 dwellings achieves a minimum land value = £480,000 per net developable ha
  - 199+ dwellings achieves a minimum land value = £400,000 per net developable ha
- 4.4.11 Land values for sites below the affordable housing contribution/provision threshold (i.e. less than 3 dwellings for Greenfield sites and less than 15 dwellings for brownfield sites) are expected to achieve higher land values. However, we have not concerned ourselves with testing these sites since they are less likely to be impacted by policy than sites with more than 3 dwellings, or brownfield sites which require additional costs for bringing them forward even when they are under the threshold for contributing towards affordable housing. This approach is in line with the Harman report which advises authorities to work on the basis of future policy and its effects on land values where they will be impacted.

#### **Sales values for open market housing**

- 4.4.12 In order to arrive at a gross development value, assumptions need to be made about sales turnover values. These have been sourced from an assessment of the housing market based

on discussions with local developers and agents about their current experience, and generic websites such as the RightMove and Zoopla.

- 4.4.13 To help understand the local market we compare average house sales for all properties in Torbay and neighbouring authorities in Devon and Plymouth. As can be seen in **Table 4.3** Torbay's values are significantly lower than the surrounding area (by around £38,000 to £45,000), with the exception of Plymouth.

Table 4.3 Average sales values in Torbay and neighbouring districts (for comparison)

| Area          | No. of Transactions | Av Price        | Change in values |             |
|---------------|---------------------|-----------------|------------------|-------------|
|               |                     |                 | 2013 Q2-Q3       | 2012-2013   |
| South Hams    | 348                 | £298,632        | 2.7%             | 5.4%        |
| East Devon    | 592                 | £249,225        | -1.7%            | -7.2%       |
| Mid Devon     | 284                 | £224,673        | 1.4%             | 3.4%        |
| Teignbridge   | 574                 | £220,543        | 1.5%             | -2.2%       |
| North Devon   | 307                 | £218,933        | 5.2%             | -5.2%       |
| West Devon    | 187                 | £218,466        | 1.8%             | -9.6%       |
| Exeter        | 427                 | £207,177        | 2.9%             | -5.4%       |
| Torridge      | 267                 | £205,444        | 13.0%            | 7.0%        |
| <b>Torbay</b> | <b>493</b>          | <b>£184,574</b> | <b>2.3%</b>      | <b>0.8%</b> |
| Plymouth      | 836                 | £159,983        | 1.5%             | -0.2%       |

Source: Land Registry; PBA

- 4.4.14 Torbay's low values and difficult market are reflected in in the number of transaction for new builds. A review of the land registry data from the past three years shows that transactions for new build properties are only at around 6% of all transactions. As a result, current (or soon to be) new builds in Torbay, which can be used for drawing conclusions about local values, is very limited. At the time of looking (i.e. October 2013), there were only three new build schemes in Torbay (two in Paignton and one in Brixham) with relevant marketing information to draw information from. This is likely to reflect the lack of sites coming forward and possibly slowness in the market reacting to the recent bounce back in housing demand following the double dip recession and downturn in house prices both nationally and locally. As noted above, there are grounds to suggest that the market is improving, and the South Devon Link Road should enhance sales values and viability when completed in 2015.
- 4.4.15 As a guide, the currently marketed new build schemes had asking house prices from around £165,000 to £270,000. Usefully, this is about £2,100 per sqm at the lowest to £3,200 per sqm.
- 4.4.16 More reliable sales figures can be obtained through Land Registry records. Analyse of the new build transactions in Torbay published by Land Registry is shown in **Table 4.4** and mapped in **Figures 4.1 and 4.2**. This shows distinct value areas across Torbay and a range of values according to property type. Generally the achieved in Brixham are the highest across the borough, followed by Torquay and then Paignton.
- 4.4.17 The exception to this pattern is for new apartments which achieved more value per unit in Paignton than in Torquay. However, this was based on a small sample of recent new flats in Paignton, and feedback at the Developer Workshop has suggested that this is unusual and the sample will have included a higher specification than the average. Similarly, Land Registry figures reflect what has been sold rather than forthcoming completions. For instance, proposed developments at Great Parks, Yalberton and White Rock in Paignton are likely to achieve higher sales values than Paignton taken as a whole.

Table 4.4 Land Registry analysis for Torbay House Prices (2010-2013)

|                  | No. of transactions |     | Average price by dwelling type |          |
|------------------|---------------------|-----|--------------------------------|----------|
|                  | Existing            | New | Existing                       | New      |
| <b>Apartment</b> |                     |     |                                |          |
| Brixham          | 63                  | 9   | £121,202                       | £205,489 |
| Paignton         | 241                 | 8   | £107,614                       | £189,938 |
| Torquay          | 441                 | 90  | £129,593                       | £145,628 |
| Torbay           | 745                 | 107 | £121,774                       | £153,976 |
| <b>House</b>     |                     |     |                                |          |
| Brixham          | 470                 | 16  | £206,098                       | £256,000 |
| Paignton         | 868                 | 9   | £188,606                       | £164,556 |
| Torquay          | 1,020               | 79  | £207,271                       | £223,407 |
| Torbay           | 3,103               | 211 | £181,345                       | £188,159 |

Source: Land Registry; PBA

- 4.4.18 It is values based on per square metre which is most useful for testing viability since it is the amount of floorspace which is achieved on a site which provides development value rather than the number of units on a site. Unfortunately, the reliable Land Registry records do not include floorspace data. However, based on feedback at the workshops/consultation with development industry about typical house sizes of new build properties, using Land Registry data we have arrived at the open market sales values per square metre shown in **Table 4.5** which we will use as an average in assessing plan wide viability.

Table 4.5 Open market sales values per sqm at 3Q 2013

| Private sale | House  | Flats  |
|--------------|--------|--------|
| Brixham      | £2,200 | £2,400 |
| Paignton     | £2,000 | £2,200 |
| Torquay      | £2,100 | £2,300 |

### Sales value for Affordable Housing

- 4.4.19 Registered Providers of Social Housing (RPs) - housing associations and other qualified providers - have historically had access to funds from the Government to purchase land, and develop or purchase affordable housing, including units from developers through the operation of Section 106 (S106) agreements. Grant funding is no longer available in Torbay on developer-led sites that deliver affordable housing through S106. The most common delivery of affordable housing is that properties are built by the developer and transferred to the RP at a price below the full market value through the operation of S106 agreements.
- 4.4.20 The value of affordable housing dwellings is normally derived by assessing the value of the net rental income over a 25-35 year timeframe. Allowances for key management and maintenance costs are deducted from the gross rental income and this net rental income can then either be capitalised using an appropriate yield taking into account the strength of the income, or its value can be calculated over a 25-35 year timeframe using a discounted cashflow/net present value methodology.
- 4.4.21 While individual RP will have individual assumptions depending on their relative business plans, there is often reasonable consistency when the capitalised value of the affordable housing is compared to the full open market value of an equivalent property. In consultation with the Council's housing officers and the registered providers, different affordable housing

tenures are assumed to command the value of the open market units based on the percentages in **Table 4.6**.

Table 4.6 Affordable housing values as a proportion of open market values

| Tenure                                | % of OMV |
|---------------------------------------|----------|
| Social rent                           | 40%      |
| Affordable rent                       | 50%      |
| Intermediate (e.g. shared ownerships) | 65%      |

### Build costs

- 4.4.22 Residential build costs used in testing plan viability in Torbay are based upon industry data from the Build Cost Information Service (BCIS) which is published on a quarterly basis by the Royal Institution of Chartered Surveyors (RICS). BCIS offers a range of prices dependent on the final specification, location and time of delivery.
- 4.4.23 The build costs for Torbay are from recent data of actual (median) average costs over 15 years, rebased (adjusted) to 2013 quarter 3 prices to align with the current values in **Table 4.2**.
- 4.4.24 On top of the basic build costs, an allowance of 10% for 'external works' relating to costs for internal access roads, hard and soft landscaping, plus a 4% contingency is made to give an overall build cost shown in **Table 4.7**.

Table 4.7 Build costs in Torbay at 2013 Q3

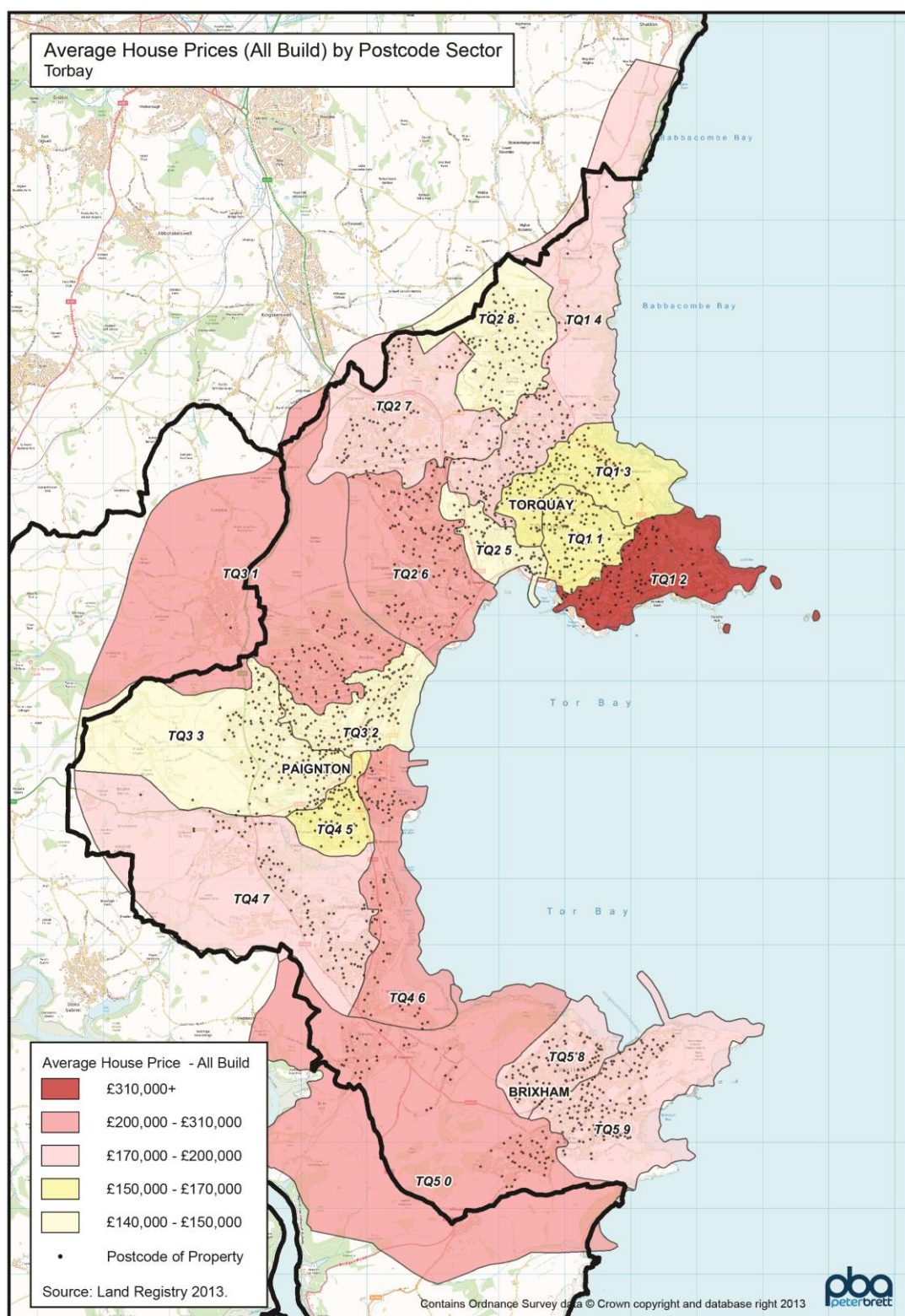
| Private                 | Build costs (per Sq.m) |
|-------------------------|------------------------|
| Flats                   | £1,172                 |
| Houses (general estate) | £1,021                 |

- 4.4.25 Since as early as 2009, the market across the UK was building at around Code for Sustainable Homes (CSH) Level 3 to 4 for private and Level 4 for affordable housing. These costs are assumed to meet a CSH Level 3 equivalent standard. But costs may alter in future. In particular, there may be national policy change regarding design standards for homes. The final effect of these changes on viability is difficult to foresee<sup>17</sup>. We have not incorporated these possible impacts into our calculations, because with the exception of the impact of policy costs on land values, this appraisal is based on current market conditions, not forecasts of potential future change. Our approach to incorporating these (and other) potential but unknown costs is to include contingency (noted above) and highlight sites which are marginally (10%) on either side of the viability threshold, which enables a wide margin for error that will cover variations in factors such as build costs, site conditions and timing.
- 4.4.26 Volume and regional house builders are able to operate within this figure comfortably, especially given that they are likely to achieve significant economies of scale in the purchase of materials and the use of labour. Many smaller developers are unable to attain these economies, so their construction costs may be higher; however, this can be compensated for by lower overheads, and this often enables smaller developers to acquire sites in competition.

<sup>17</sup> While we have reviewed research on cost impacts of sustainable homes, we note that past forecasts of price changes (such as that predicted in Sweett on the cost of meeting CSH levels) have never affected costs to the extent forecast. When changes in the future requirements occur, they should impact on development costs, sales value and land values in equal measure.

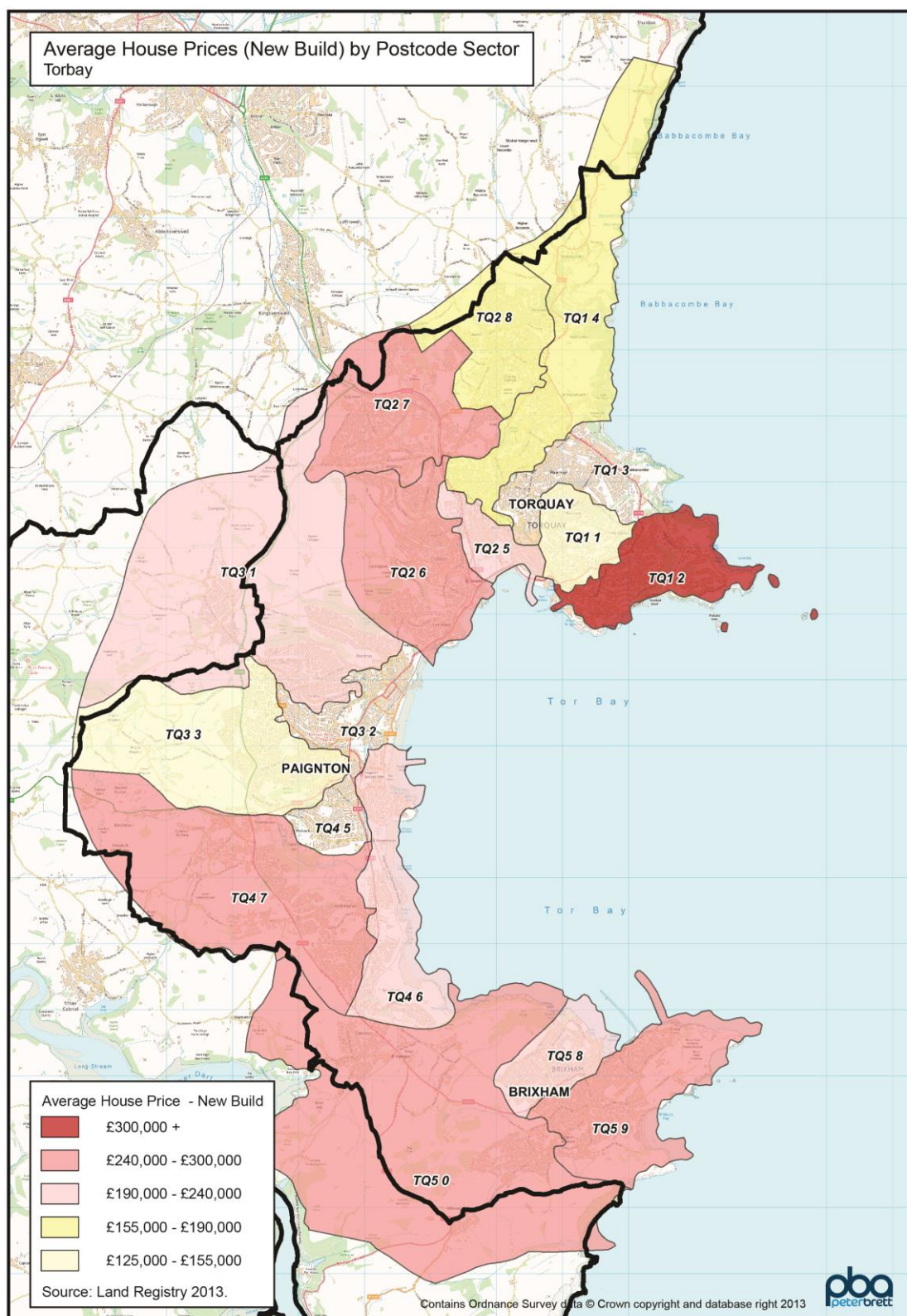


Figure 4.1 Land Registry analysis for All Torbay House Prices (2010-2013)



Source: Land Registry; PBA

Figure 4.2 Land Registry analysis for New Torbay House Prices (2010-2013)



Source: Land Registry; PBA



### Other finance costs

- 4.4.27 **Profit** - All developers have a slightly different approach to levels of profit and overhead. Profits are derived from turnover across a number of sites, some of which may have been held long-term in land banks, and others acquired as a result of option agreements where price is established at a discount to Open Market Value (OMV). The most appropriate profit level is that which most developers currently assume when appraising sites for purchase for immediate development.
- 4.4.28 A developer's return is based on their attitude to risk. A developer's attitude to risk will depend on many factors that include, but not exclusive to, development type (e.g. Greenfield, Brownfield, refurbishment, new build etc), development proposal (uses, mix and quantum), credit worthiness of developer and current market conditions.
- 4.4.29 The Harman Report states that '*residential developer margin expressed as a percentage of GDV - should be the default methodology*' and E.2.3.8.1 of the RICS Financial viability in planning report states '*The residential sector seeks a return on the GDV*'.
- 4.4.30 We have applied a rate that is acceptable to both developers and financial institutions in the current market. The developer return is a Gross Margin and therefore includes overheads. The developer return is calculated as a percentage of Gross Development Value at the following rate:
- Developers return on market housing - 20% GDV
  - Developers return on affordable housing - 6% GDV
- 4.4.31 **Professional fees** - these relate to the costs incurred to bring the development forward and cover items such as; surveys, architects, quantity surveyors, etc. Professional fees are based on accepted industry standards and are calculated as a percentage of build costs at
- Professional fees – 10% build costs
- 4.4.32 **Sale costs** - Sale costs relate to the costs incurred for disposing the completed residential units, including legal, agents and marketing fees. These are based on industry accepted scales at the following rates:
- Sale costs – 3% GDV
- 4.4.33 **Finance costs** - When testing for development viability it is common practice to assume development is 100% debt financed (as advised by Harman Viability Testing Local Plans - Advice for planning practitioners and RICS Financial viability in planning guidance note GN94/2012). In addition, allowances have been made for financing costs of land purchase.
- 4.4.34 Within our cashflow we reflect phased purchases, completion rates and sales revenues, based on a finance rate market interest, as follows:
- Finance costs – 6.5% Development costs/land value
- 4.4.35 **Stamp duty** - Stamp Duty Land Tax (SDLT) is generally payable on the purchase or transfer of property or land in the UK where the amount paid is above a certain threshold. The SDLT rates are by Treasury, the following rates current rates have been applied:
- Up to £150,000 - 0.00%
  - £150,000 to £250,000 -1.00%



- £250,000 to £500,000 - 3.00%
- Over £500,000 - 4.00%

4.4.36 **Fees on land purchase** - In addition to SDLT, the purchaser of land will incur professional fees on the land purchase. These fees are based upon the following industry standards:

- Surveyor - 1.00%
- Legals - 0.75%

#### Other development costs

4.4.37 The next stage in the consideration of land value and variables is an examination of opening up development costs, which increase construction costs beyond those accounted for in the overall build costs. These could include land remediation and site opening up costs.

4.4.38 It is widely accepted, including within 'Viability Testing Local Plan' that larger scale schemes have additional costs that do not apply to smaller developments to account for opening up sites with opening up infrastructure. These costs tend to increase at disproportionate amounts as schemes get bigger, although there will be different levels of development costs according to the type and characteristics of each site. As these are generic appraisals, we have accounted for known features of the tested sites, which include their potential yields (and therefore additional requirements on strategic infrastructure) and whether they are Brownfield (requiring remediation or demolition) as set out in **Table 4.8**.

Table 4.8 Abnormal development costs per net hectare

| <50        | £0       |
|------------|----------|
| <200       | £100,000 |
| <2,000     | £200,000 |
| >=2,000    | £500,000 |
|            |          |
| Greenfield | £0       |
| Brownfield | £200,000 |

## 5 Residential Development Viability Analysis

### 5.1 Introduction

- 5.1.1 This section sets out the assessment of residential development viability and the impact of Whole Plan policies.
- 5.1.2 Each generic site has been subjected to a detailed appraisal, complete with cashflow analysis, under a no policy burden scenario. The impact of policy costs are then considered through adding policy 'layers' in order judge the cumulative impact of policies. These are:
- Policy Layer 1 - to test the viability of development assuming a basic £2,000 per unit of S106, which may be considered necessary for making a development acceptable in planning terms, based on the Local Plan policies set out in the Chapter 3. We do not add on any affordable housing or other requirements at this stage.
  - Policy Layer 2 - is a variant of Policy Layer 1, where we double the S106 costs to £4,000 per unit, to provide more scope for achieving the provision of particular infrastructure on some sites.
  - Policy Layer 3 - is where affordable housing at the proposed rates set out in Draft Policy H4 is applied.
  - Policy Layer 4 - is a cumulative policy layer of S106 contribution at £2,000 per unit and affordable housing at the proposed rates set out in Draft Policy H4. This is a combination of Policy layer 1 and 3 above.
- 5.1.3 We display the results in a table using a 'traffic light' system. A green colour means that the development is viable and amber is marginal in that they fall within a 20% range (i.e. 10% above or below) around the benchmark land value, but for this exercise would be considered achievable but would need to be monitored. A red colour means it is unviable.
- 5.1.4 We also provide a table of financial headroom which may be used as a contribution towards planning policy or CIL. This enables an assessment of the potential for charging a CIL at a level which does not put development at risk.
- 5.1.5 A complete example of an individual site appraisal using the PBA toolkit is shown in **Appendix A**. The results of the each site's viability against different policy scenarios is presented in **Appendix B**, and summarised in the rest of this chapter.

### 5.2 Results

#### Viability with No Policy Burden

- 5.2.1 **Table 5.1** summarises the viability of the selected sites from the Torbay SHLAA under a scenario where no additional policy costs are included, i.e. no affordable housing, no developer contributions and no policy costs.
- 5.2.2 As can be seen in **Table 5.1**, nearly all types of development would be viable in Torbay under current market conditions. With the inclusion of the marginally viable sites (in that they fall within a 20% range (i.e. 10% above or below) around the benchmark land value), then some 94% of potential dwellings from 86 (out of 92) sites are considered to be achievable at this time.
- 5.2.3 Sites considered unviable under current market conditions does not mean that these sites will not deliver housing sites. This is because over the plan period there may be circumstances

such as a rise in values (for instance, through supply side factors like the opening of the South Devon Link Road), or a landowner willing to sell land for a lower price than the generic levels necessarily used in this appraisal. For example, the Council own a number of sites and so the room for negotiation on the purchase price of land balanced with other objectives, like regeneration, might be expected.

Table 5.1 Residential site appraisals results with no policy burdens

|                   | Sites | Yield | Share of potential yield |
|-------------------|-------|-------|--------------------------|
| <b>Total</b>      | 92    | 4,047 |                          |
| <b>Yes</b>        | 82    | 3,376 | 83%                      |
| <b>Marginal</b>   | 4     | 416   | 10%                      |
| <b>Achievable</b> | 86    | 3,792 | 94%                      |
| <b>No</b>         | 6     | 255   | 6%                       |

5.2.4 **Table 5.2** provides a summary of the potential excess financial headroom per square metre of development above the level required to deliver these dwelling, which may be used as a contribution towards planning policy or CIL. This is also shown as a potential amount based on the type of site or settlement market area.

5.2.5 Under this scenario, the potential financial headroom for charging a CIL would be up to a maximum of £174 on all sites. The level of financial headroom and CIL is the same since no affordable housing floorspace is included.

5.2.6 However, in accordance with the Harman Guidance, would advise not charging at the limit of viability because conditions can change quickly and rapidly. Therefore a rate of about £120 would be more appropriate. This is slightly higher than the £100 per sqm in the Torbay draft charging CIL schedule, however this new rate is without any other policy costs including affordable housing which needs to be factored in to the assessment.

5.2.7 On a site type or area basis, as shown in **Table 5.2**, then it can be seen that there is sufficient average headroom to charge for planning gain or CIL on both Greenfield and Brownfield site, and in Torquay or Paignton. However in Brixham it becomes more marginal without putting development at risk.

Table 5.2 Residential site with no policy burdens financial headroom summary by type of site or market area

| Financial headroom per sqm        | All units | CIL chargeable units |
|-----------------------------------|-----------|----------------------|
| Greenfield (across the Bay)       | £151      | £151                 |
| Brownfield (across the Bay)       | £205      | £205                 |
| Brixham                           | -£4       | -£4                  |
| Paignton                          | £164      | £164                 |
| Torquay                           | £224      | £224                 |
| Torbay Borough (weighted average) | £174      | £174                 |

### Policy Layer 1: S106 Contribution at £2,000 per unit

5.2.8 The appraisal results in **Table 5.3** shows what the viability implications are based on the council seeking some planning gain through S106 contributions. There is no specified amount

for an S106 in the emerging Local Plan, but a contribution may be considered necessary for making a development acceptable in planning terms based on the Local Plan policies. For the local planning authority (LPA) to take account of S106 in granting planning permission it needs to be convinced that, without the obligation, permission should be refused. The impact and any contribution must also be directly related to the scheme.

- 5.2.9 To assess the likely impact of introducing an S106 requirement on development, we started with a rate of £2,000 per dwelling, which the Council has indicated to reflect recent achievements. However, the S106 requirement should depend on the type of development and its impacts, and in some developments it could be significantly more than £2,000 per unit.
- 5.2.10 Based on this scenario, there is no change in the potential sites able to come forward as those where no S106 is charged. The same dwellings are also deliverable.

Table 5.3 Residential site with S106 at £2k per unit appraisal results

|                   | Sites | Yield | Share of potential yield |
|-------------------|-------|-------|--------------------------|
| <b>Total</b>      | 92    | 4,047 |                          |
| <b>Yes</b>        | 82    | 3,376 | 83%                      |
| <b>Marginal</b>   | 4     | 416   | 10%                      |
| <b>Achievable</b> | 86    | 3,792 | 94%                      |
| <b>No</b>         | 6     | 255   | 6%                       |

- 5.2.11 But as shown in **Table 5.4**, the potential financial headroom for further planning contributions above £2k per unit, or for CIL, has fallen slightly to £150. If this was levied on CIL, then we would recommend that CIL be charged at just over £100 sqm to avoid charging at the margin of viability, which is in line with the previous draft charging schedule recommended amount of CIL in Torbay. But under this scenario there is no affordable housing, which we consider later.

Table 5.4 Financial headroom with S106 at £2k per unit by type of site or market area

| Financial headroom per sqm        | All units | CIL chargeable units |
|-----------------------------------|-----------|----------------------|
| Greenfield (across the Bay)       | £129      | £129                 |
| Brownfield (across the Bay)       | £179      | £179                 |
| Brixham                           | -£26      | -£26                 |
| Paignton                          | £141      | £141                 |
| Torquay                           | £199      | £199                 |
| Torbay Borough (weighted average) | £150      | £150                 |

## Policy Layer 2: S106 Contribution at £4,000 per unit

- 5.2.12 The viability assessment was also run with £4,000 of S106 per unit, which is double the above. The appraisal results (in **Table 5.3**) shows this has only a small impact on the number of potential sites and their yield, with the potential loss of just two sites and 358 dwellings.

Table 5.3 Residential site with S106 at £4k per unit appraisal results

|                   | Sites | Yield | Share of potential yield |
|-------------------|-------|-------|--------------------------|
| <b>Total</b>      | 92    | 4,047 |                          |
| <b>Yes</b>        | 82    | 3,376 | 83%                      |
| <b>Marginal</b>   | 2     | 58    | 1%                       |
| <b>Achievable</b> | 84    | 3,434 | 85%                      |
| <b>No</b>         | 8     | 613   | 15%                      |

- 5.2.13 **Table 5.4** shows the potential financial headroom beyond the £4k per unit S106 reduces to £126 sqm available for either additional planning gain or CIL. If this was levied on CIL, then we would recommend that CIL be charged at £80 sqm to avoid charging at the margin of viability. But under this scenario there is no affordable housing, which we consider next.

Table 5.4 Financial headroom with S106 at £4k per unit by type of site or market area

| Financial headroom per sqm        | All units | CIL chargeable units |
|-----------------------------------|-----------|----------------------|
| Greenfield (across the Bay)       | £106      | £106                 |
| Brownfield (across the Bay)       | £153      | £153                 |
| Brixham                           | -£48      | -£48                 |
| Paignton                          | £117      | £117                 |
| Torquay                           | £174      | £174                 |
| Torbay Borough (weighted average) | £126      | £126                 |

### Policy Layer 3: Affordable housing policy (H4)

- 5.2.14 Next we consider the impact of the Council's proposed Housing Policy (H4) on development viability, without the burden of other policy costs. As shown in **Table 5.5**, the vast majority of SHLAA sites are able to accommodate this policy under current market conditions with 80 out of 92 assessed sites being achievable. Some two-thirds of the potential yield would also be considered deliverable, including affordable housing being delivered as established in Policy H4.

Table 5.5 Residential site with affordable housing (policy H4) appraisal results

|                   | Sites | Yield | Share of potential yield |
|-------------------|-------|-------|--------------------------|
| <b>Total</b>      | 92    | 4,047 |                          |
| <b>Yes</b>        | 72    | 2,081 | 51%                      |
| <b>Marginal</b>   | 8     | 608   | 15%                      |
| <b>Achievable</b> | 80    | 2,689 | 66%                      |
| <b>No</b>         | 12    | 1,358 | 34%                      |

- 5.2.15 With an affordable housing policy which seeks more contribution and/or provision from Greenfield development, the burden on development may result in a small amount of negative viability for the average Greenfield site, as shown in **Table 5.6**. The same applies to sites in Brixham where the impact is more significant, however on closer inspection negative value only applies to two of the seven sites tested, but being the biggest sites, this does have a

negative effect on average viability of the potential dwellings being delivered in Brixham. Overall, based on a viability limit across the Bay of £31, the recommended CIL charge would be limited to no more than about £20 per sqm.

Table 5.6 Financial headroom with affordable housing (policy H4) by type of site or market area

| Financial headroom per sqm        | All units | CIL chargeable units |
|-----------------------------------|-----------|----------------------|
| Greenfield (across the Bay)       | -£29      | -£40                 |
| Brownfield (across the Bay)       | £120      | £126                 |
| Brixham                           | -£107     | -£143                |
| Paignton                          | £16       | £9                   |
| Torquay                           | £94       | £100                 |
| Torbay Borough (weighted average) | £35       | £31                  |

#### Policy Layer 4: Affordable housing policy (H4) with S106

- 5.2.16 This layer provides a cumulative viability assessment of the impact of the Council's proposed Housing Policy (H4) on development viability, along with the burden of other policy costs through an S106 contribution set at £2,000 per unit.
- 5.2.17 As shown in **Table 5.7**, the majority of SHLAA sites are able to accommodate this policy under current market conditions with 72 out of 92 assessed sites being achievable. However only a slight majority of the potential yield is considered achievable with the cumulative impact of policies. Consequently, the overall deliverability of sites remains positive and therefore the cumulative impact of the S106 with the affordable housing policy might be considered a deliverable policy since it avoids putting the majority of development of residential sites at risk.

Table 5.7 Residential site with affordable housing (policy H4) and S106 at £2k appraisal results

|                   | Sites | Yield | Share of potential yield |
|-------------------|-------|-------|--------------------------|
| <b>Total</b>      | 92    | 4,047 |                          |
| <b>Yes</b>        | 69    | 1,703 | 42%                      |
| <b>Marginal</b>   | 7     | 466   | 12%                      |
| <b>Achievable</b> | 76    | 2,169 | 54%                      |
| <b>No</b>         | 16    | 1,878 | 46%                      |

- 5.2.18 As shown in **Table 5.8**, under this cumulative policy layer there would be no further financial headroom for levying CIL on all residential sites in the Bay. But there may be possibilities for levying a CIL and S106 on some sites, or introducing a CIL as an alternative to S106 on developments where the specific requirement for local infrastructure may be less direct.
- 5.2.19 Given the differences between types of sites (brownfield/greenfield) and market areas, then variable CIL and S106 charges by market area may be a better approach for maximising developer contributions. For instance, in areas like Torquay (which has the most Brownfield sites), it would seem appropriate for levying CIL so that they contribute to infrastructure not directly related to specific schemes, but are necessary to unlocking growth with the town. Whereas Greenfield sites, which are mostly found in Paignton, may not be fully charged for CIL and instead contribute S106 relating specifically to the infrastructure needs of those large sites.

- 5.2.20 To consider a varied CIL and S106 combination, along with the Affordable Housing Policy (H4), then it would be appropriate to review the summary findings of the Policy Layer 3 appraisal results in **Table 5.6** along with the findings in **Table 5.8** below to arrive at a suitable combination. We discuss these options next in the overall summary of the results.

Table 5.8 Financial headroom with affordable housing

| Financial headroom per sqm        | All units | CIL chargeable units |
|-----------------------------------|-----------|----------------------|
| Greenfield (across the Bay)       | -£51      | -£72                 |
| Brownfield (across the Bay)       | £94       | £96                  |
| Brixham                           | -£129     | -£169                |
| Paignton                          | -£7       | -£22                 |
| Torquay                           | £68       | £68                  |
| Torbay Borough (weighted average) | £11       | -£0                  |
| <b>Recommendation for CIL</b>     |           | £0                   |

### 5.3 Summary of Residential Testing

- 5.3.1 The relatively low values achieved from residential development in Torbay means that viability of development is marginal in many places across the borough. This is reflected in the housing market which has seen limited new build properties coming forward. Clearly there is scope for the picture to change as viability improves.
- 5.3.2 Given the variety of sites in Torbay, the Bay does not have a one size fits all viability picture. Greenfield sites achieve more financial headroom than Brownfield sites except where the Council is proposing to apply its Housing Policy (H4) which is more onerous on Greenfield sites.
- 5.3.3 It is clear from viability testing that there is an opportunity cost between S106, affordable housing and CIL. Policy H4 of the Local Plan indicates that affordable housing proportions or tenure may need to be relaxed in some scheme where there are viability constraints, and therefore allowing an option for renegotiation based on specific sites viability should be considered necessary. In addition the model assumes zero grant, whereas in practice there are options for public subsidy of affordable housing schemes or the release of public land at less than market value to facilitate delivery. This provides a useful failsafe to ensure the delivery of the Local Plan as a whole (albeit with reduced affordable housing provision than it would ideally seek). Nevertheless, while there is scope to negotiate on S106 and affordable housing, considerably less scope exists to negotiate CIL, once adopted. Moreover, CIL must be set at levels that do not undermine viability based on headline local plan policies and rates of affordable housing: it cannot be based on a lower level on the assumption that the local planning authority will negotiate down to this level. It will be important that Council reflects this, and other policy options, when considering its Local Plan policies and planning to address local housing need.
- 5.3.4 With the combination of assessing SHLAA sites, rather than a limited number of generic sites and the different proposed policies now in place, the viability picture is different to that of the viability work undertaken to support the preliminary draft Charging Schedule (see **paragraph 3.4.6**).
- 5.3.5 The scenarios set out above show that with no policy costs the site supply across the Bay is broadly viable. If this is considered in terms of a potential CIL – the maximum charge would be in the order of £120 sqm across the Bay. When the cost of affordable housing is added on the



basis of the draft policy then some sites become more marginal, however the general picture is that the majority of supply is still deliverable. However, with the need for affordable housing and other S106 for development mitigation, then the potential for CIL across all areas or site types is more limited, suggesting that the levy should be varied a to avoid putting development of residential sites at risk.

5.3.6 Based on the viability testing in this report, it is recommended that implementation of H4, along with an allowance for an assumed S106 is deliverable with CIL on the following basis, depending on the Council's position in terms of Plan preparation at the time of seeking adoption of the charging schedule:

- Option 1 – Policy achieved Affordable Housing and assumed S106 allowance at £2,000 per unit:
  - Brixham £0 levy
  - Paignton £0 levy
  - Torquay £60 levy
- Option 2 – Policy achieved Affordable Housing and assumed S106 allowance at £2,000 per unit:
  - Strategic greenfield sites (across the Bay) £0 levy
  - All other areas £70 levy

5.3.7 **Option 1** has been arrived at by looking at both greenfield and brownfield development across each of the three market areas and identifying a weighted average (based on yields) for all the potential sites identified whereby the majority of supply in each area has sufficient scope to pay the levy at the shown rate.

5.3.8 **Option 2** takes a different approach in that it looks at ability to pay in terms of type of development, i.e. strategic sites likely to be identified by the Council and sets a specific rate for these sites based on the viability of developing that type of development as opposed to the sites likely to come forward within the existing urban area which are predominantly brownfield in nature and would therefore be a different type of development with different policy assumptions especially in relation to affordable housing. Whilst there is some risk that not all development within Torbay outside the strategic sites could pay policy costs and CIL it is considered from our analysis that this would only make up a small proportion of the supply and therefore would not put at risk the overall delivery of the plan and would strike an appropriate balance between delivery of housing, which is largely on the green field sites and the ability to collect CIL to help fund required infrastructure to support growth.

## 6 Non-residential Typologies and Assumptions

### 6.1 Introduction

- 6.1.1 There are no other notable Local Plan policies which will impact on non-residential development viability in the Bay. Nonetheless, it is important to briefly consider the viability of non-residential development, not least because if there is some headroom in values then this could usefully contribute to meeting local infrastructure requirements through S106 and CIL.

### 6.2 Non Residential Typologies

- 6.2.1 We test for non-residential development on the basis of the hypothetical schemes that were considered in the previous PBA evidence on viability for CIL charging in the Bay (2012). These are described **Table 6.1**.

Table 6.1 Non-residential use typologies

| Use                       | GIA sqm | NIA sqm |
|---------------------------|---------|---------|
| 1: Town Centre Office     | 800     | 760     |
| 2: Business Park          | 2,000   | 1,900   |
| 3: Industrial             | 5,000   | 4,750   |
| 4: Warehouse              | 5,000   | 4,750   |
| 5: Local convenience      | 280     | 266     |
| 6: Supermarket            | 2,500   | 2,375   |
| 7: Retail Warehouse / OOC | 1,500   | 1,425   |
| 8: Town Centre Retail     | 500     | 475     |
| 9: Hotel                  | 1,500   | 1,425   |
| 10: Carehomes             | 2,500   | 2,375   |

- 6.2.2 Viability testing on a typical basis has been adopted since it is impossible for this study to consider viability on a site-specific basis at this stage, given that there is currently insufficient data on site-specific costs and values, as site details have yet to be established. Such detail will evolve over the plan period.<sup>18</sup>

### 6.3 Reviewing Current Viability Evidence (value and costs)

#### Establishing gross development value (GDV)

- 6.3.1 In establishing the GDV for non-residential uses, a similar approach has been taken too residential, so we do not repeat the process here. However, given the significant variety in development types, this report has also considered historical comparable evidence for new values on both a local, regional and national level.
- 6.3.2 The following **table** illustrates the values established for a variety of non-residential uses, expressed in square metres (sqm) of net rentable floorspace.

<sup>18</sup> Site-specific testing for non-residential uses would be considering detail on purely speculative / assumed scenarios, producing results that would be of little use for a study for strategic consideration.

Table 6.2 Non-residential uses – rent and yields

| Use                       | Rent | Yield  |
|---------------------------|------|--------|
| 1: Town Centre Office     | £100 | 9.60%  |
| 2: Business Park          | £120 | 8.50%  |
| 3: Industrial             | £66  | 10.00% |
| 4: Warehouse              | £40  | 10.00% |
| 5: Local convenience      | £195 | 7.50%  |
| 6: Supermarket            | £200 | 5.50%  |
| 7: Retail Warehouse / OOC | £180 | 7.50%  |
| 8: Town Centre Retail     | £140 | 11.00% |
| 9: Hotel                  | £103 | 6.10%  |
| 10: Carehomes             | £128 | 6.10%  |

Source: PBA research

### Site coverage

- 6.3.3 It is important to consider the density of development proposed. The following table sets out the assumed site net developable area for each development type and plot ratios to derive floorspace estimates.

Table 6.3 Non-residential uses – site coverage ratios

| Use                       | Net developable area | Plot Ratio |
|---------------------------|----------------------|------------|
| 1: Town Centre Office     | 0.04                 | 200%       |
| 2: Business Park          | 0.25                 | 80%        |
| 3: Industrial             | 1.25                 | 40%        |
| 4: Warehouse              | 1.25                 | 40%        |
| 5: Local convenience      | 0.03                 | 90%        |
| 6: Supermarket            | 0.63                 | 40%        |
| 7: Retail Warehouse / OOC | 0.38                 | 40%        |
| 8: Town Centre Retail     | 0.05                 | 100%       |
| 9: Hotel                  | 0.19                 | 80%        |
| 10: Carehomes             | 0.36                 | 70%        |

### Developer profit

- 6.3.4 The developer's profit is the expected and reasonable level of return a private developer can expect to achieve from a development scheme. This figure is based a 20% profit margin of the total development cost of the development.

## Build costs

- 6.3.5 Build cost inputs have been established from the RICS Build Cost Information Service (BCIS) at values set at the time of this study (current build cost values). The build costs are entered at a pound per square metre rate at the following values shown in the following **table**. The build costs adopted are based on the BCIS median values, rebased to Torbay prices at 2013 Q3. An allowance of 10% of build costs is also made for external works such as car parking and landscaping.

Table 6.4 Non-residential uses – build costs in Torbay at 2013 Q3

| Use                       | Average build costs per sqm |
|---------------------------|-----------------------------|
| 1: Town Centre Office     | £1,392                      |
| 2: Business Park          | £1,535                      |
| 3: Industrial             | £816                        |
| 4: Warehouse              | £565                        |
| 5: Local convenience      | £862                        |
| 6: Supermarket            | £1,191                      |
| 7: Retail Warehouse / OOC | £974                        |
| 8: Town Centre Retail     | £862                        |
| 9: Hotel                  | £1,320                      |
| 10: Carehomes             | £1,326                      |

Sources: BCIS

## Professional fees, overheads

- 6.3.6 This input incorporates all professional fees associated with the build, including: architect fees, planner fees, surveyor fees, project manager fees. The professional fees variable is set at a rate of 12% of build cost.
- 6.3.7 This variable has been applied to the valuation appraisal as a percentage of the total construction cost. This figure is established from discussions with both regional and national developers as well as in-house knowledge and experience of industry standards.

## Finance

- 6.3.8 A finance rate has been incorporated into the viability testing to reflect the value of money and the cost of reasonable developer borrowing for the delivery of development. This is applied to the valuation appraisal as a percentage of the build cost at the rate of 6.5% of total development costs (inc build costs, external works, professional fees, sales and marketing)

## Sales costs

- 6.3.9 This variable is based on the average cost of legals and marketing for development, incorporating agent fees, 'on site' sales costs and general marketing/advertising costs. The rate of 4% of GDV is applied to the valuation appraisal as a percentage of the GDV and is established from discussions with developers and agents.

### Professional fees on land purchase

- 6.3.10 This input represents the fees associated with the lands purchase and are based upon the following industry standards: Surveyor – 1%; Legals – 0.75% of residual land value.
- 6.3.11 A Stamp Duty Land Tax is payable by a developer when acquiring development land. This factor has been recognised and applied to the residual valuation as percentage cost against the residual land value at the standard variable rates set out by HMRC (at between 0% to 4% of land value based on the actual value of the land purchase), which was discussed in Chapter 4.

### Land for non-residential uses

- 6.3.12 After systematically removing the various costs and variables detailed above, the result is the residual land value. In order to ascertain the level of likelihood towards delivery and the level of risk associated with development viability, the resulting residual land values are measured against a benchmark value which reflects a value range that a landowner would reasonably be expected to sell/release their land for development.
- 6.3.13 Establishing the existing use value (EUV) of land and in setting a benchmark at which a landowner is prepared to sell to enable a consideration of viability can be a complex process. There are a wide range of site specific variables which affect land sales (e.g. position of the landowner – are they requiring a quick sale or is it a long term land investment?). However, for a strategic study, where the land values on future individual sites are unknown, a pragmatic approach is required.
- 6.3.14 From discussions with agents active in the commercial sector, we have concluded that there have been very few sales of commercial or employment land in the Bay over the past 5 years, largely arising from the moribund state of the commercial market caused by the recession. Land values established before 2007 provide evidence of a range of land values for employment uses between £500k and £750k/ha. There is planning policy resistance to changes of use to residential from employment uses where there is a demonstrable employment demand and a solid resistance from landowners to sell for lower than the established pre-2007 value. There is no evidence to suggest therefore that a lower value should be attributed to brownfield sites as an EUV in the viability appraisals.
- 6.3.15 We have therefore concluded that a benchmark figure towards the lower end of the range of £500,000/ha is appropriate as a starting point. The benchmark is then adjusted on the basis of location and different uplifts applied according to use. So for example a town site will be at the upper end of the existing use value as it will already have a comparatively high value and if the potential use is retail then it will also have a higher uplift value as expectation on return will be higher. The benchmark values are given in **Table 6.5**.

Table 6.5 Non-residential uses – build costs in Torbay at 2013 Q3

| Use                   | Benchmark land value per net developable hectare |
|-----------------------|--|
| 1: Town Centre Office | £500,000   |
| 2: Business Park      | £500,000   |
| 3: Industrial         | £500,000   |
| 4: Warehouse          | £500,000   |
| 5: Local convenience  | £800,000   |
| 6: Supermarket        | £1,300,000                                       |

| Use                       | Benchmark land value per net developable hectare |
|---------------------------|--|
| 7: Retail Warehouse / OOC | £1,300,000                                       |
| 8: Town Centre Retail     | £1,100,000                                       |
| 9: Hotel                  | £500,000   |
| 10: Carehomes             | £500,000   |

## 7 Non-residential Development Viability Analysis

### 7.1 Introduction

- 7.1.1 This section sets out the assessment of non-residential development viability based on the assumptions set out in the previous chapter. The **tables** below summarise the detailed assessments, and represent the residual value per square metres after values and costs, including land have been calculated.
- 7.1.2 It is important to note that the analysis considers development that might be built for subsequent sale or rent to a commercial tenant. However there will also be development that is undertaken for specific commercial operators either as owners or pre-lets.

### 7.2 Policy Requirements

- 7.2.1 For the purposes of testing whole plan viability, the tests below already assume that most development will still be expected to make s106/s278 etc contributions to mitigate direct impacts of the development. These will often centre on highways improvements but could also relate to design and access. No other Local Plan policies are considered to apply. This leaves any financial headroom in the viability assessment suitable for charging CIL, subject to there being no other demands that the Council may seek to apply.
- 7.2.2 Clearly as S106/278 agreements are specific to individual developments, we have had to take a pragmatic approach in our generic appraisals based on a combination of looking at past agreements and utilising our knowledge of undertaking similar studies elsewhere. We have basically assumed that higher impact and trip generating uses such as supermarkets will generally be expected to contribute the highest amounts, which are borne out when analysing past agreements. Smaller amounts have been attributed to the other uses as impact is often less significant and ability to pay, i.e. viability often limits the level sought. In some cases, like town centre offices, no S106/278 contribution is applied. These rates have been set out in **Table 7.1**.

Table 7.1 Non-residential uses – S106/278 charges

| Use                       | Applied S106/278 charges per sqm |
|---------------------------|----------------------------------|
| 1: Town Centre Office     | £0                               |
| 2: Business Park          | £50                              |
| 3: Industrial             | £50                              |
| 4: Warehouse              | £50                              |
| 5: Local convenience      | £50                              |
| 6: Supermarket            | £150                             |
| 7: Retail Warehouse / OOC | £100                             |
| 8: Town Centre Retail     | £50                              |
| 9: Hotel                  | £50                              |
| 10: Carehomes             | £50                              |
|                           |                                  |



## 7.3 Viability Results

### B-class uses

- 7.3.1 In line with other areas of the country, our analysis suggests that for commercial B-class development it is not currently viable to charge a CIL. Whilst there is variance for different types of B-space, essentially none of them generate sufficient value to justify a CIL charge.
- 7.3.2 As the economy recovers this situation may improve but for the purposes of setting a CIL we need to consider the current market. Importantly this viability assessment relates to speculative build for rent – we do expect that there will be development to accommodate specific users, and this will be based on the profitability of the occupier's core business activities rather than the market values of the development.

Table 7.2 Viability of B-class development in Torbay

| Use                    | Town centre office | Business Park | Industrial | B8 warehouse |
|------------------------|--------------------|---------------|------------|--------------|
| Residual value per sqm | -£913              | -£910         | -£653      | -£553        |

### Retail uses

- 7.3.3 A range of retail scenarios have been tested. These centred on either town centre development (those identified within emerging Local Plan policies SDT2 Torquay town centre and harbour, SDP2 Paignton town centre and seafront, and SDB2 Brixham town centre), harbour and waterfront) or out of centre developments which have been identified as supermarkets, convenience stores and comparison retail stores. It was considered that these represent the most likely scenarios to come forward over the plan period and also allowed the testing of the type of development envisaged in the Plan.
- 7.3.4 **Superstores, supermarkets and local convenience** – large scale and small scale convenience retail continues to be one of the best performing sectors in the UK, although we are aware that even this sector is seeing reduced profits at the time of writing. Leases to the main supermarket operators (often with fixed uplifts) command a premium with investment institutions. Although there are some small regional variations on yields, they remain generally strong with investors focussing primarily on the strength of the operator covenant and security of income. We would therefore suggest the evidence base for large out of town retail can be approached on a wider region or even national basis when justifying CIL charging. Following our appraisal on this basis, in Torbay we believe there is scope for a significant CIL charge for out of town centre development without affecting viability.
- 7.3.5 **Retail warehouse** – although this market has been relatively flat in recent times, especially in terms of new build, there may potentially be more activity in the future. Whilst values have dropped the relatively low build costs mean that there is still value in these types of developments when there is occupier demand.
- 7.3.6 The appraisal summary shown in **Table 7.3** is for all out of town centre development. Whilst it can be seen that these different types of out of town centre provision have different levels of viability, it is not possible to set a size threshold for different types of shopping. Therefore it is considered that all types of retail development outside the three town centres in Torbay (as defined by policy) should attract a charge that will be viable for all identified types of retail development. As the provision of very small scale local convenience retailing is likely to either be under the 100 sqm CIL threshold, or not critical to delivery of the plans objectives, it is considered that setting CIL for all out of town centre retail development around that level

would not significantly impact on the delivery of the Plan. Although formally designated as a district centre, it will be noted that the Willows Torquay operates as an out of centre retail park.

- 7.3.7 Although we have not specifically tested out of centre A2-A5 uses it is considered that most of these developments will either be less than 100 sqm or utilise existing floorspace and therefore would not be liable in most circumstances. If larger proposals do come forward which are liable for an out of centre charge then they will be competing with other out of centre development and will attract similar values. Whilst there may be a limited number of larger proposals over the plan period, these have not been identified in the plan. Therefore if they are not viable with a CIL charge, deliverability of the Plan is not put at risk.

Table 7.3 Viability of Out of centre retail uses in Torbay

| Use                    | Supermarket | Small / local convenience retail | Retail warehouse |
|------------------------|-------------|----------------------------------|------------------|
| Residual value per sqm | £656        | £674                             | £123             |

- 7.3.8 **Town centre** - we have tested town centre retail in the main centres, combining values achieved in Torquay, Paignton and Brixham as these are the main focus for future growth or regeneration. We consider that on a strategic level in Torbay there is little difference between A1-A5 units. It has been suggested elsewhere that development of convenience, supermarket development may attract higher values whether in or out of town centres – however in the case of Torbay it is considered that this type of development is not currently planned for in the town centre and even if it did come forward there would be significantly higher development costs and land values involved in an in centre development, due to the historical nature and constraints of the centre, as opposed to a cleaner site outside of the town centre and therefore a single retail charge for in centre is appropriate in this circumstance. The residual analysis shows that centres in Torbay are not currently able to support a CIL charge.

Table 7.4 Viability of Torbay's town centres

| Use                    | Town/local centre |
|------------------------|-------------------|
| Residual value per sqm | -£273             |

### Care homes and extra care

- 7.3.9 We have tested the viability of the care sector. There has been significant private sector investment in care homes in the recent past, fuelled by investment funds seeking new returns. However, there have been concerns about the occupancy rates and the ability to sustain prices. The high level analysis suggests that care homes are unlikely to be viable enough in Torbay.

Table 7.5 Viability of Care homes viability in Torbay

| Use                    | Care homes |
|------------------------|------------|
| Residual value per sqm | -£316      |

- 7.3.10 In terms of extra care housing (or extra care or assisted living as it is sometimes referred to), like care homes, there has been considerable investment in the past in Torbay and the market seems to be picking up again. However it should be noted that general retirement housing is

not included within this definition of extra care housing and that the standard residential rates will apply to these types of developments.

#### **Other non-residential development**

- 7.3.11 In addition to the development considered above there are other non-residential uses that we have considered. PAS guidance suggests that there needs to be evidence that community uses are not able to support CIL charges. Our view is that it would not be helpful to set a CIL for the type of facilities that will be paid for by CIL (amongst other sources).
- 7.3.12 Our approach to this issue is that the commercial values for community uses are £0 but there are build costs of around £1,800 per sqm plus the range of other development costs; with a net negative residual value. Therefore we recommend a £0 CIL for these uses.

### **7.4 Summary of Charging CIL on Non-residential Developments**

- 7.4.1 The following figure illustrates the levels of value in our tested schemes when all costs have been subtracted from the values. As can be seen positive values exist for all out of town centre retail development.
- 7.4.2 The findings suggest that if the council were minded to set a CIL charge on out of town centre comparison retail development a figure up to £123 per sqm would be possible. The CIL charge on out of centre convenience retail and the local convenience retails developments could be set up to £656 per sqm would be possible. However, in both cases it would be prudent to err on the side of caution to avoid charging at the margins of viability, as prompted by the Harman guidance, and therefore a figure of £100 sqm for on out of centre comparison retail and up to £400 sqm for both out of centre and local convenience retail would be more appropriate.
- 7.4.3 It is suggested that a zero charge applies to all the other forms of non-residential development. All other tested uses show negative values, although, it is important to note that this does not mean that these uses will never come forward in Torbay. Specific business operation plans and bespoke schemes with identified end users, and land owners willing to sell at lower prices, will enable development to come forward in the future.

## **Appendix A    Sample appraisal**

# Torbay Local Plan Viability Testing Economic Viability Report

| Land off Alfriston Roa Paignton                 |   |                   |              | 24 March 1900 Units |                                |                 |                         |                  |            |
|---|---|-------------------|--------------|---------------------|--------------------------------|-----------------|-------------------------|------------------|------------|
| ITEM  |   |                   |              |                     |                                |                 |                         |                  |            |
| Net Site Area                                   | Residual Value                                      |                   |              |                     | Technical Check:               |                 |                         |                  |            |
|   | 1.44  | Greenfield        | £554,353     | per ha              |                                | 4,712           | Sqm/ha                  | 35               | Units/ha   |
| Yield   | Units   | Density (dwgs/ha) | Flats        | Private             | Affordable                     | Social rent     | Intermediate rent       | Shared ownership |            |
|   | 84  | 58                | 20%          | 58.80               | 25.20                          | 8.32            | 8.32                    | 8.57             |            |
| 1.0 Development Value                           |   |                   |              |                     |                                |                 |                         |                  |            |
| 1.1 Private units                               |   |                   | No. of units | Size sq.m           | Total sq.m                     | Epsm            | Total Value             |                  |            |
|   | Flats (NIA)   |                   | 11.76        | 51                  | 598                            | £2,200          | £1,316,097              |                  |            |
|   | Houses  |                   | 47.04        | 88                  | 4,151                          | £2,000          | £8,302,560              |                  |            |
|   |   |                   | 58.8         | 4,750               |                                |                 |                         |                  |            |
| 1.2 Social rent                                 |   |                   | No. of units | Size sq.m           | Total sq.m                     | Epsm            | Total Value             |                  |            |
|   | Flats (NIA)   |                   | 1.66         | 51                  | 85                             | £880            | £74,454                 |                  |            |
|   | Houses  |                   | 6.65         | 88                  | 587                            | £800            | £469,688                |                  |            |
|   |   |                   | 8.3          | 672                 |                                |                 |                         |                  |            |
| 1.3 Affordable rent                             |   |                   | No. of units | Size sq.m           | Total sq.m                     | Epsm            | Total Value             |                  |            |
|   | Flats (NIA)   |                   | 1.66         | 51                  | 85                             | £1,100          | £93,067                 |                  |            |
|   | Houses  |                   | 6.65         | 88                  | 587                            | £1,000          | £587,110                |                  |            |
|   |   |                   | 8.3          | 672                 |                                |                 |                         |                  |            |
| 1.3 Intermediate                                |   |                   | No. of units | Size sq.m           | Total sq.m                     | Epsm            | Total Value             |                  |            |
|   | Flats (NIA)   |                   | 1.71         | 51                  | 87                             | £1,320          | £115,065                |                  |            |
|   | Houses  |                   | 6.85         | 88                  | 605                            | £1,200          | £725,881                |                  |            |
|   |   |                   | 8.6          | 692                 |                                |                 |                         |                  |            |
| Gross Development value                         |   |                   |              |                     |                                |                 | £11,683,921             |                  |            |
| 2.0 Development Cost                            |   |                   |              |                     |                                |                 |                         |                  |            |
| 2.1 Site Acquisition                            |   |                   |              |                     |                                |                 |                         |                  |            |
| 2.1.1   | Site value (residual land value)                    |                   |              |                     |                                |                 | £798,268                |                  |            |
|   |   |                   |              |                     |                                | Purchaser Costs |                         | 2.75%            |            |
|   |   |                   |              |                     |                                |                 | 820,220                 |                  |            |
| 2.3 Build Costs                                 |   |                   |              |                     |                                |                 |                         |                  |            |
| 2.3.1 Private units                             |   |                   | No. of units | Size sq.m           | Total sq.m                     | Cost per sq.m   | Total Costs             |                  |            |
|   | Flats (GIA)   |                   | 11.76        | 59                  | 688                            | £1,028          | £707,222.88             |                  |            |
|   | Houses  |                   | 47.04        | 88                  | 4,151                          | £896            | £3,719,546.88           |                  |            |
|   |   |                   | 59           | 4,839               |                                |                 |                         |                  |            |
| 2.3.2 Affordable units                          |   |                   | No. of units | Size sq.m           | Total sq.m                     | Cost per sq.m   | Total Costs             |                  |            |
|   | Flats (GIA)   |                   | 5.04         | 59                  | 295                            | £1,028          | £303,095.52             |                  |            |
|   | Houses  |                   | 20.16        | 88                  | 1,779                          | £896            | £1,594,091.52           |                  |            |
|   |   |                   | 25           | 2,074               |                                |                 |                         |                  |            |
|   |   |                   |              |                     |                                | 84.00           |                         | £6,323,957       |            |
| 2.4 Other Construction Costs                    |   |                   |              |                     |                                |                 |                         |                  |            |
| 2.4.1   | External works as a percentage of build costs       |                   |              |                     | 10%                            |                 | £632,395.68             |                  |            |
| 2.4.2   | Site abnormals (Remediation/demolition)             |                   |              |                     | £0 per net ha                  |                 | £0.00                   |                  |            |
| 2.4.3   | Strategic infrastructure                            |                   |              |                     | £0 per net ha                  |                 | £0                      |                  |            |
|   |   |                   |              |                     |                                |                 | £632,396                |                  |            |
| 2.5 Professional Fees                           |   |                   |              |                     |                                |                 |                         |                  |            |
| 2.5.1   | as percentage of build costs and construction costs |                   |              |                     | 10%                            |                 | £632,396                |                  |            |
|   |   |                   |              |                     |                                |                 | £632,396                |                  |            |
| 2.6 Contingency                                 |   |                   |              |                     |                                |                 |                         |                  |            |
| 2.6.1   | as percentage of build costs and construction costs |                   |              |                     | 4%                             |                 | £252,958.27             |                  |            |
|   |   |                   |              |                     |                                |                 | £252,958                |                  |            |
| 2.7 Developer contributions                     |   |                   |              |                     |                                |                 |                         |                  |            |
| 2.7.1   | S.106 Obligations                                   |                   |              |                     | £4,000 per unit                |                 | £336,000                |                  |            |
| 2.7.2   | Policy ES1 (one exemplar unit)                      |                   |              |                     | £0                             |                 | £0                      |                  |            |
| 2.7.3   | CSH Level 4   |                   |              |                     | 0.0% build cost                |                 | £0                      |                  |            |
| 2.7.5   | Policy H8 (Lifetime homes)                          |                   |              |                     | £0 per unit on 5% of all units |                 | £0                      |                  |            |
| 2.7.4   | CIL   |                   |              |                     | £0 per sqm on OM units         |                 | £0                      |                  |            |
|   |   |                   |              |                     |                                |                 | £336,000                |                  |            |
| 2.8 Sale cost                                   |   |                   |              |                     |                                |                 |                         |                  |            |
| 2.8.1   | as percentage of GDV                                |                   |              |                     | 3.00%                          |                 | £350,518                |                  |            |
|   |   |                   |              |                     |                                |                 | £350,518                |                  |            |
| TOTAL DEVELOPMENT COSTS (including land)        |   |                   |              |                     |                                |                 | £9,348,444              |                  |            |
| 3.0 Developers' Profit                          |   |                   |              |                     |                                |                 |                         |                  |            |
| 3.1   | Private units                                       |                   |              |                     | Rate 20%                       |                 | Gross development value |                  | £1,923,731 |
| 3.2   | Affordable units                                    |                   |              |                     | Rate 6%                        |                 | Gross development value |                  | £123,916   |
|   |   |                   |              |                     |                                |                 | £2,047,647              |                  |            |
| TOTAL PROJECT COSTS (EXCLUDING INTEREST)        |   |                   |              |                     |                                |                 | £11,396,092             |                  |            |
| TOTAL INCOME - TOTAL COSTS (EXCLUDING INTEREST) |   |                   |              |                     |                                |                 | £287,829                |                  |            |
| 4.0 Finance Costs                               |   |                   |              |                     |                                |                 |                         |                  |            |
| 4.1   | Finance   |                   |              |                     | APR 6.50%                      |                 | PCM 0.526%              |                  | -£287,829  |
| TOTAL PROJECT COSTS (INCLUDING INTEREST)        |   |                   |              |                     |                                |                 | £11,683,921             |                  |            |

## **Appendix B    Summary results**

Torbay Local Plan Viability Testing  
Economic Viability Report

|            |            | Dwellings | Net site area | Financial headroom |         | No policy layers | Policy layer 1 | Policy layer 2 | Policy layer 3 | Combined policy layers 3&4 |
|------------|------------|-----------|---------------|--------------------|---------|------------------|----------------|----------------|----------------|----------------------------|
| Settlement | Type       | N         | ha            | Per Ep             | Liab Ep | Viab?            | Viab?          | Viab?          | Viab?          | Viab?                      |
| Brixham    | Brownfield | 12        | 0.15          | £353               | £353    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Brixham    | Brownfield | 8         | 0.14          | £303               | £303    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Brixham    | Brownfield | 14        | 0.49          | £131               | £131    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Brixham    | Brownfield | 25        | 0.60          | £230               | £230    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Brixham    | Brownfield | 15        | 1.50          | -£592              | -£592   | No               | No             | No             | No             | No                         |
| Brixham    | Brownfield | 7         | 0.20          | £176               | £176    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Brixham    | Brownfield | 9         | 0.20          | £251               | £251    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Brixham    | Brownfield | 170       | 11.38         | -£58               | -£58    | No               | No             | No             | No             | No                         |
| Paignton   | Greenfield | 84        | 1.44          | £251               | £251    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Greenfield | 47        | 0.85          | £197               | £197    | Yes              | Yes            | Yes            | Marginal       | Marginal                   |
| Paignton   | Greenfield | 6         | 0.10          | £210               | £210    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Greenfield | 8         | 0.21          | £115               | £115    | Yes              | Yes            | Yes            | Yes            | Marginal                   |
| Paignton   | Greenfield | 185       | 3.20          | £250               | £250    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Greenfield | 120       | 3.02          | £196               | £196    | Yes              | Yes            | Yes            | Yes            | Marginal                   |
| Paignton   | Greenfield | 65        | 1.37          | £224               | £224    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Greenfield | 350       | 19.08         | £11                | £11     | Marginal         | Marginal       | No             | No             | No                         |
| Paignton   | Greenfield | 65        | 0.86          | £268               | £268    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Greenfield | 50        | 2.75          | £19                | £19     | Marginal         | Marginal       | Marginal       | No             | No                         |
| Paignton   | Greenfield | 250       | 5.60          | £210               | £210    | Yes              | Yes            | Yes            | Yes            | Marginal                   |
| Paignton   | Greenfield | 50        | 1.34          | £185               | £185    | Yes              | Yes            | Yes            | Marginal       | No                         |
| Paignton   | Greenfield | 50        | 1.54          | £173               | £173    | Yes              | Yes            | Yes            | Marginal       | No                         |
| Paignton   | Greenfield | 150       | 4.77          | £163               | £163    | Yes              | Yes            | Yes            | Marginal       | No                         |
| Paignton   | Greenfield | 135       | 5.81          | £95                | £95     | Yes              | Yes            | Yes            | No             | No                         |
| Paignton   | Greenfield | 10        | 1.20          | -£696              | -£696   | No               | No             | No             | No             | No                         |
| Paignton   | Brownfield | 270       | 7.83          | £117               | £117    | Yes              | Yes            | Yes            | Marginal       | No                         |
| Paignton   | Brownfield | 8         | 0.14          | £158               | £158    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 21        | 0.24          | £221               | £221    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 8         | 0.14          | £158               | £158    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 12        | 0.37          | -£38               | -£38    | No               | No             | No             | No             | No                         |
| Paignton   | Brownfield | 10        | 0.15          | £143               | £143    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 8         | 0.04          | £447               | £447    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 6         | 0.04          | £250               | £250    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 6         | 0.72          | £266               | £266    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 150       | 0.15          | £404               | £404    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 50        | 0.32          | £275               | £275    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 8         | 0.30          | -£47               | -£47    | No               | No             | No             | No             | No                         |
| Paignton   | Brownfield | 45        | 0.36          | £236               | £236    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 12        | 0.25          | £122               | £122    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 20        | 0.17          | £233               | £233    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 24        | 0.24          | £206               | £206    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 60        | 0.77          | £240               | £240    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 10        | 0.04          | £291               | £291    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Paignton   | Brownfield | 40        | 1.96          | -£171              | -£171   | No               | No             | No             | No             | No                         |
| Torquay    | Greenfield | 10        | 0.25          | £204               | £204    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Greenfield | 15        | 0.30          | £251               | £251    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Greenfield | 20        | 0.44          | £232               | £232    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Greenfield | 100       | 2.67          | £254               | £254    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Greenfield | 500       | 23.07         | £139               | £139    | Yes              | Yes            | Yes            | No             | No                         |
| Torquay    | Greenfield | 50        | 2.59          | £111               | £111    | Yes              | Yes            | Yes            | No             | No                         |
| Torquay    | Brownfield | 12        | 0.02          | £402               | £402    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 20        | 0.06          | £380               | £380    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 8         | 0.32          | -£2                | -£2     | Marginal         | Marginal       | No             | Marginal       | Marginal                   |
| Torquay    | Brownfield | 10        | 0.10          | £283               | £283    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 7         | 0.11          | £256               | £256    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 10        | 0.05          | £347               | £347    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 30        | 0.16          | £341               | £341    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 13        | 0.06          | £353               | £353    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 12        | 0.23          | £215               | £215    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 8         | 0.03          | £363               | £363    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 8         | 0.09          | £292               | £292    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 10        | 0.11          | £299               | £299    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 30        | 0.23          | £318               | £318    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 40        | 0.51          | £276               | £276    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 50        | 0.35          | £352               | £352    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 30        | 0.25          | £308               | £308    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 30        | 0.09          | £380               | £380    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 6         | 0.04          | £323               | £323    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 8         | 0.18          | £171               | £171    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 9         | 0.22          | £152               | £152    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 6         | 0.10          | £244               | £244    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 25        | 0.16          | £323               | £323    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 25        | 0.64          | £138               | £138    | Yes              | Yes            | Yes            | Marginal       | Marginal                   |
| Torquay    | Brownfield | 8         | 0.05          | £322               | £322    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 12        | 0.02          | £402               | £402    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 10        | 0.15          | £188               | £188    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 7         | 0.34          | £315               | £315    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 45        | 0.18          | £393               | £393    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 12        | 0.27          | £267               | £267    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 20        | 0.35          | £210               | £210    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 18        | 2.67          | £90                | £90     | Yes              | Yes            | Yes            | No             | No                         |
| Torquay    | Brownfield | 12        | 0.29          | £155               | £155    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 9         | 0.21          | £165               | £165    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 9         | 0.23          | £139               | £139    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 8         | 0.04          | £342               | £342    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 6         | 0.09          | £264               | £264    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 6         | 0.12          | £205               | £205    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 8         | 0.30          | £25                | £25     | Marginal         | Marginal       | Marginal       | Marginal       | Marginal                   |
| Torquay    | Brownfield | 8         | 0.24          | £108               | £108    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 14        | 0.25          | £230               | £230    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 59        | 0.24          | £377               | £377    | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 6         | 0.20          | £75                | £75     | Yes              | Yes            | Yes            | Yes            | Yes                        |
| Torquay    | Brownfield | 15        | 0.20          | £269               | £269    | Yes              | Yes            | Yes            | Yes            | Yes                        |



Torbay Local Plan Viability Testing  
Economic Viability Report

|            |            | Dwellings | Net site area | Financial headroom |          | No policy layers | Policy layer 1 | Policy layer 2 | Policy layer 3 |
|------------|------------|-----------|---------------|--------------------|----------|------------------|----------------|----------------|----------------|
| Settlement | Type       | N         | ha            | Per Epa            | Viab Epa | Viab?            | Viab?          | Viab?          | Viab?          |
| Brixham    | Brownfield | 12        | 0.15          | £353               | £353     | Yes              | Yes            | Yes            | Yes            |
| Brixham    | Brownfield | 8         | 0.14          | £303               | £303     | Yes              | Yes            | Yes            | Yes            |
| Brixham    | Brownfield | 14        | 0.49          | £131               | £131     | Yes              | Yes            | Yes            | Yes            |
| Brixham    | Brownfield | 25        | 0.60          | £230               | £230     | Yes              | Yes            | Yes            | Yes            |
| Brixham    | Brownfield | 15        | 1.50          | -£592              | -£592    | No               | No             | No             | No             |
| Brixham    | Brownfield | 7         | 0.20          | £176               | £176     | Yes              | Yes            | Yes            | Yes            |
| Brixham    | Brownfield | 9         | 0.20          | £251               | £251     | Yes              | Yes            | Yes            | Yes            |
| Brixham    | Brownfield | 170       | 11.38         | -£58               | -£58     | No               | No             | No             | No             |
| Paignton   | Greenfield | 84        | 1.44          | £251               | £251     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Greenfield | 47        | 0.85          | £197               | £197     | Yes              | Yes            | Yes            | Marginal       |
| Paignton   | Greenfield | 6         | 0.10          | £210               | £210     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Greenfield | 8         | 0.21          | £115               | £115     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Greenfield | 185       | 3.20          | £250               | £250     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Greenfield | 120       | 3.02          | £196               | £196     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Greenfield | 65        | 1.37          | £224               | £224     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Greenfield | 350       | 19.08         | £11                | £11      | Marginal         | Marginal       | No             | No             |
| Paignton   | Greenfield | 65        | 0.86          | £268               | £268     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Greenfield | 50        | 2.75          | £19                | £19      | Marginal         | Marginal       | Marginal       | No             |
| Paignton   | Greenfield | 250       | 5.60          | £210               | £210     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Greenfield | 50        | 1.34          | £185               | £185     | Yes              | Yes            | Yes            | Marginal       |
| Paignton   | Greenfield | 50        | 1.54          | £173               | £173     | Yes              | Yes            | Yes            | Marginal       |
| Paignton   | Greenfield | 150       | 4.77          | £163               | £163     | Yes              | Yes            | Yes            | Marginal       |
| Paignton   | Greenfield | 135       | 5.81          | £95                | £95      | Yes              | Yes            | Yes            | No             |
| Paignton   | Greenfield | 10        | 1.20          | -£696              | -£696    | No               | No             | No             | No             |
| Paignton   | Brownfield | 270       | 7.83          | £117               | £117     | Yes              | Yes            | Yes            | Marginal       |
| Paignton   | Brownfield | 8         | 0.14          | £158               | £158     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 21        | 0.24          | £221               | £221     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 8         | 0.14          | £158               | £158     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 12        | 0.37          | -£38               | -£38     | No               | No             | No             | No             |
| Paignton   | Brownfield | 10        | 0.15          | £143               | £143     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 8         | 0.04          | £447               | £447     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 6         | 0.04          | £250               | £250     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 6         | 0.72          | £266               | £266     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 150       | 0.15          | £404               | £404     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 50        | 0.32          | £275               | £275     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 8         | 0.30          | -£47               | -£47     | No               | No             | No             | No             |
| Paignton   | Brownfield | 45        | 0.36          | £236               | £236     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 12        | 0.25          | £122               | £122     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 20        | 0.17          | £233               | £233     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 24        | 0.24          | £206               | £206     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 60        | 0.77          | £240               | £240     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 10        | 0.04          | £291               | £291     | Yes              | Yes            | Yes            | Yes            |
| Paignton   | Brownfield | 40        | 1.96          | -£171              | -£171    | No               | No             | No             | No             |
| Torquay    | Greenfield | 10        | 0.25          | £204               | £204     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Greenfield | 15        | 0.30          | £251               | £251     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Greenfield | 20        | 0.44          | £232               | £232     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Greenfield | 100       | 2.67          | £254               | £254     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Greenfield | 500       | 23.07         | £139               | £139     | Yes              | Yes            | Yes            | No             |
| Torquay    | Greenfield | 50        | 2.59          | £111               | £111     | Yes              | Yes            | Yes            | No             |
| Torquay    | Brownfield | 12        | 0.02          | £402               | £402     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 20        | 0.06          | £380               | £380     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 8         | 0.32          | -£2                | -£2      | Marginal         | Marginal       | No             | Marginal       |
| Torquay    | Brownfield | 10        | 0.10          | £283               | £283     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 7         | 0.11          | £256               | £256     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 10        | 0.05          | £347               | £347     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 30        | 0.16          | £341               | £341     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 13        | 0.06          | £353               | £353     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 12        | 0.23          | £215               | £215     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 8         | 0.03          | £363               | £363     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 8         | 0.09          | £292               | £292     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 10        | 0.11          | £299               | £299     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 30        | 0.23          | £318               | £318     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 40        | 0.51          | £276               | £276     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 50        | 0.35          | £352               | £352     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 30        | 0.25          | £308               | £308     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 30        | 0.09          | £380               | £380     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 6         | 0.04          | £323               | £323     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 8         | 0.18          | £171               | £171     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 9         | 0.22          | £152               | £152     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 6         | 0.10          | £244               | £244     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 25        | 0.16          | £323               | £323     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 25        | 0.64          | £138               | £138     | Yes              | Yes            | Yes            | Marginal       |
| Torquay    | Brownfield | 8         | 0.05          | £322               | £322     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 12        | 0.02          | £402               | £402     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 10        | 0.15          | £188               | £188     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 7         | 0.34          | £315               | £315     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 45        | 0.18          | £393               | £393     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 12        | 0.27          | £267               | £267     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 20        | 0.35          | £210               | £210     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 18        | 2.67          | £90                | £90      | Yes              | Yes            | Yes            | No             |
| Torquay    | Brownfield | 12        | 0.29          | £155               | £155     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 9         | 0.21          | £165               | £165     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 9         | 0.23          | £139               | £139     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 8         | 0.04          | £342               | £342     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 6         | 0.09          | £264               | £264     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 6         | 0.12          | £205               | £205     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 8         | 0.30          | £25                | £25      | Marginal         | Marginal       | Marginal       | Marginal       |
| Torquay    | Brownfield | 8         | 0.24          | £108               | £108     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 14        | 0.25          | £230               | £230     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 59        | 0.24          | £377               | £377     | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 6         | 0.20          | £75                | £75      | Yes              | Yes            | Yes            | Yes            |
| Torquay    | Brownfield | 15        | 0.20          | £269               | £269     | Yes              | Yes            | Yes            | Yes            |

## **Appendix C    Developer workshop notes**

**Meeting Title:** Torbay Plan Viability Workshop

**Attendees:**

|                      |                                       |
|----------------------|---------------------------------------|
| Mark Felgate (MF)    | PBA                                   |
| Russell Porter (RP)  | PBA                                   |
| David Pickhaver (DP) | Torbay Council                        |
| James Stacey         | Tetlow King Planning (Northern Trust) |
| Felicity Tozer       | Tetlow King Planning (SW HARP)        |
| James Dawson         | JD Architectural Design               |
| Sarah Griffin        | Sovereign Housing                     |
| Susanne Long         | TDA                                   |
| Jessica Crellen      | Persimmon Homes                       |
| Paddy Fleming        | Knight Frank (SLP)                    |
| Sarah Bevan          | McCarthy & Stone                      |

**Date of Meeting:** 13<sup>th</sup> November 2013

| Item | Subject Actions  |
|------|--|
| 1.   | MF welcomed the attendees and set out the purpose and scope of the session.  |
| 2.   | MF explained the importance of demonstrating that the Torbay Plan is deliverable, within the context of the Framework and in terms of Local Plan policies and the contribution the viability work would make to the evidence base.   |
| 3.   | MF set out some market context, explaining that in comparison to surrounding areas in Devon that Torbay, after Plymouth, has the lowest values. MF also explained that new build data is fairly limited but by comparing available information on recent transactions shows that within the Bay there is little difference in terms of value areas which focus separately on Torquay, Paignton and Brixham.  |
| 4.   | <p>MF described the CIL rates being proposed in other areas of Devon but pointed out that these are not necessarily comparable as assumptions such as percentage of affordable housing will vary.</p> <p>A discussion was had on CIL, how it works and how it would be implemented and in particular the relationship between CIL and S106.</p> <p><i>Post meeting note – for further information about CIL please go to the following pages where there are useful summaries and guidance, or please feel free to ask the team.</i></p> <p><a href="https://www.gov.uk/government/policies/giving-communities-more-power-in-planning-local-development/supporting-pages/community-infrastructure-levy">https://www.gov.uk/government/policies/giving-communities-more-power-in-planning-local-development/supporting-pages/community-infrastructure-levy</a></p> <p><a href="http://www.pas.gov.uk/3-community-infrastructure-levy-cil">http://www.pas.gov.uk/3-community-infrastructure-levy-cil</a></p> |

| Item | Subject Actions  |
|------|--|
| 5.   | RP described the approach to viability (please see attached slides for details)  |
| 6.   | <p>RP described the scenarios and assumptions to be used for the non residential testing. He explained that the starting point for these would be those used in the previous CIL study, updated where newer information was available.</p> <p>The industry representative generally agreed with types of development to be tested but did not feel able to comment in any detail in respect of the values and costs. However there was an indication that the build costs for offices maybe a bit low and should be higher spec as that what was likely to come forward if anything. It was generally considered that in looking at the values and cost presented that it was unlikely that sufficient value would be realised for a levy to be applied for most of the non residential development. The exception was retail.</p>   |
| 7.   | <p>RP described the scenarios and assumptions to be used for the residential testing. He explained that the starting point for these would be those used in the previous CIL study, updated where newer information was available.</p> <p>There was discussion in respect of values and in particular those in Brixham – it was agreed that these would be looked at again.</p> <p><i>Post meeting note – the data has been looked at again and it would appear that the higher values were a result of the villages at Galmpton and Churston Ferrers being included within the Brixham classification on Land Registry. These figures will be revised.</i></p> <p>In terms of Paignton it was cautioned against using the Paignton values as the new growth here would be greenfield development of which there has been little in the past few years and therefore the recent transaction/marketed values may be lower than they could be in the future.</p> <p>Land values for greenfield land were not thought to vary considerably across the bay with a figure of around £700k per acre for a clean site with planning permission suggested.</p> <p>It was also thought that greenfield sites in Torbay would be similar values to those in Plymouth.</p> <p>Marketing fees at 2% were considered a bit on the low side, and it was suggested by several attendees that 3-5% would be more reflective.</p> <p>Affordable housing transfer rates were considered to be about right, although it was also stated that the market values from which these are calculated has been contentious in terms of negotiations.</p> <p>Developer return at 20%, rather than 18% was considered to be more appropriate for Torbay.</p> |