



Local Plan Area Wide Viability Study



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APPENDICES

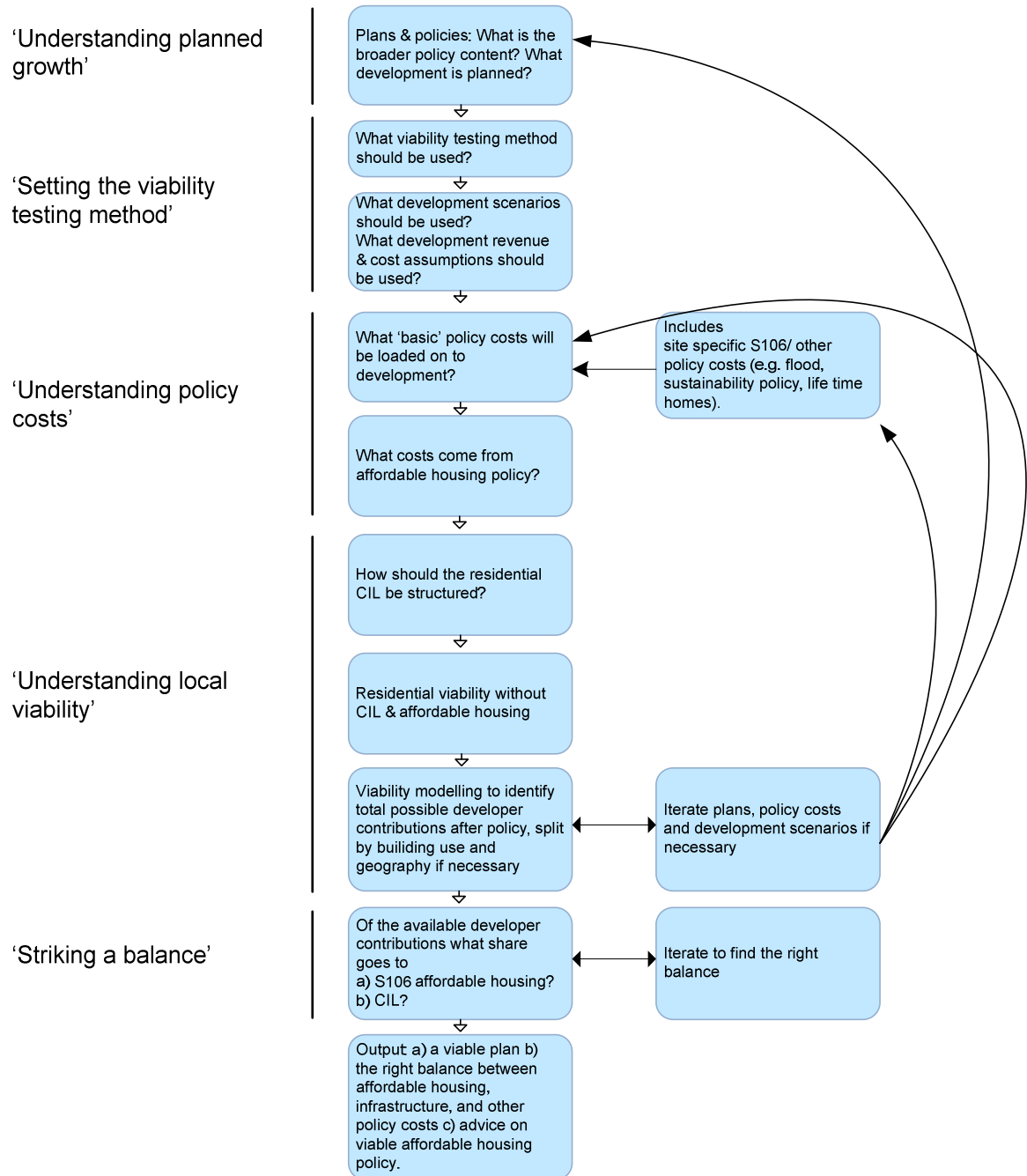
Appendix 1 – Sales Value Heat Mapping

Appendix 2 – Cost Evidence of District Heating/CHP

1 INTRODUCTION

- 1.1 The aim of this study is to provide viability testing of the Preferred Options for the City of York Local Plan, in order to give an indication of the deliverability of the Plan at this early stage in its emergence. To achieve this, the high level, area-wide viability assessments across each of the key property market sectors are required. This will demonstrate whether the amount and distribution of development being planned for in the City of York Local Plan can be viably delivered, in the context of emerging policy requirements.
- 1.2 In coming to conclusions in these respects, the Council is specifically seeking guidance on:
 - The recommended level of affordable housing in policy;
 - The maximum level of CIL, and the recommended level of CIL; and
 - The cumulative viability implications of these and other policy costs.
- 1.3 These factors need to be taken into account in order to ensure that development in York remains viable.
- 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.
- 1.5 Our method is set out over page. This report and our work more broadly is part of an on-going, iterative process, and the modelling may well have to be revisited as and when policy requirements and market conditions change through the process towards adoption of the Local Plan.
- 1.6 At this stage, no site-specific viability assessments of the strategic sites likely to be identified in the Local Plan have been undertaken. This more detailed analysis will be undertaken between the Preferred Options and Submission stages of the Plan, working alongside the landowners, promoters and developers of the sites in question. Nonetheless, the assessments contained within this report represent a robust basis to underpin and inform the site selection process as part of the Preferred Options Local Plan.
- 1.7 Future stages of this work will also consider issues of infrastructure delivery, identifying the new infrastructure required to enable growth and considering how it can be viably delivered. This too, is a critical element of understanding whether a plan is viable and deliverable.

Figure 1.1 Approach



1.8 The approach in respect of non-residential development is broadly similar (albeit modelling residual value using a model that assesses residual margin rather than residual land value) in that policy costs are identified, and taken into account in assessing local viability for different development types. These assessments then inform consideration of the scope or otherwise for CIL and any other policy costs.

2 PLANS AND POLICIES: POLICY CONTEXT

Introduction

- 2.1 The importance of maintaining plan viability is a central theme of national planning policy and guidance in recent years. This section of the report sets out the policy and regulatory context at a national level covering the consideration of viability in the development of local planning policy and proposals for the Community Infrastructure Levy.

Defining viability: the Harman Report

- 2.2 The Harman Report usefully defines viability, stating 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.'*¹

National Planning Policy Framework

- 2.3 The National Planning Policy Framework (NPPF) resembles 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:

*'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.'*²

- 2.4 The NPPF also states that viability assessments should be proportionate and utilise appropriate available evidence. As such, it is not necessary to demonstrate that every site proposed to be allocated for development remains viable in the context of all policy costs and the balance of development costs and values. Rather, a high level and area-wide assessment that takes these factors into account in testing whether the bulk of planned growth will remain viable meets the requirements of the NPPF at this stage in the emergence of the Local Plan.

Community Infrastructure Levy

- 2.5 The legislation and guidance supporting the Community Infrastructure Levy (CIL) has a similar concern to ensure that planning policy does not render development unviable.

¹ NHBC (June 2012) Viability Testing Local Plans (p14)

² DCLG (March 2012) National Planning Policy Framework (para 173)

Finding the balance

- 2.6 Regulation 14 of the 2010 CIL regulations requires that a charging authority ‘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’.

- 2.7 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, CIL is expected to have a positive economic effect on development across an area in the medium to long term. In deciding the rate(s) of CIL for inclusion in its draft charging schedule, a key consideration for authorities is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing CIL on development across their area. The CIL regulations place this balance of considerations at the centre of the charge-setting process. In view of the wide variation in local charging circumstances, it is for charging authorities to decide on the appropriate balance for their area and how much potential development they are willing to put at risk through the imposition of CIL. The amount will vary. For example, some charging authorities may place a high premium on funding infrastructure if they see this as important to future economic growth in their area, or if they consider that they have flexibility to identify alternative development sites, or that some sites can be redesigned to make them viable. These charging authorities may be comfortable in putting a higher percentage of potential development at risk, as they expect an overall benefit.

In their background evidence on economic viability to the CIL examination, charging authorities should explain briefly why they consider that their proposed CIL rate (or rates) will not put the overall development across their area at serious risk ‘³

- 2.8 In other words, the ‘appropriate balance’ is the level of CIL which maximises 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.

- 2.9 The statutory Guidance sets the development of the area firmly in the context of the Local Plan. In guiding examiners the Guidance is clear that:

“In considering whether the overall development of the area has been put at serious

³ DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures* (para 7)

risk, the examiner will want to consider the implications for the priorities that the authority has identified in its Development Plan...⁴

- 2.10 This appropriate balance must therefore be a matter of judgment as much as rigorous calculation. It is not surprising, therefore, that charging authorities are allowed considerable discretion in this matter. This point is stressed repeatedly in Government publications. For example, the statutory guidance says:

'It is for charging authorities to decide what CIL rate, in their view, sets an appropriate balance between the need to fund infrastructure and the potential implications for the economic viability of development...'

'The legislation... only requires a charging authority to use appropriate available evidence to 'inform the draft charging schedule'. A charging authority's proposed CIL rate (or rates) should appear 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.'⁵

- 2.11 The guidance adds that charging authorities should 'take a strategic view across their area and should not focus on the potential implications of setting a CIL for individual development sites within a charging authority's area. Regulation 14 recognises that the introduction of CIL may put some potential development sites at risk'.⁶
- 2.12 This reinforces an earlier message: the levy may put some schemes at risk by rendering some schemes unviable. But that is allowable, as long as CIL strikes a sensible overall balance, and does not put the *overall* development of the area at risk and that enough land is likely to be made available for development, allowing for any such risks. .

Keeping clear of the ceiling

- 2.13 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... In setting a CIL rate, [they] will need to bear in mind that economic circumstances and land values could change significantly during the lifetime of the charging schedule.'⁷

- 2.14 We would add two further reasons for a cautious approach to rate-setting, which stops short of the margin of viability:
- i Whilst our viability assessments relate to typical, or average, schemes, in real life values and costs vary widely between individual schemes and over time;

⁴ DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures (para 11)*

⁵ DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures (10)*

⁶ DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures (8)*

⁷ DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures (10)*

- ii Perceptions of risk vary between places and types of development, depending on the strength of the market. Where risks are perceived to be high, developers will expect a higher profit than the standard assumed in viability assessments;
- iii 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

- 2.15 CIL Regulation 13 allows the charging authority to introduce charge variations by geographical zone within its area, by use of buildings, or both. As part of this, some rates may be set at zero. But variations must reflect differences in viability; they cannot be based on policy boundaries. Nor should differential rates be set by reference to the costs of infrastructure.
- 2.16 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’.⁸ Moreover ‘it would not be appropriate to seek to draw zones on the basis of individual sites’⁹ or in ways that ‘impact disproportionately on a particular sector, or small group of developers’,¹⁰ otherwise the CIL may fall foul of State Aid rules.

Supporting evidence

- 2.17 The legislation requires a charging authority to use ‘appropriate available evidence’¹¹ to inform their charging schedules. The statutory guidance enlarges on this, explaining that the available data ‘is unlikely to be fully comprehensive or exhaustive’.¹²
- 2.18 These statements are important, because they indicate that the evidence supporting CIL charging rates should be proportionate. One implication of this is that this testing does not focus on analysing types of development that will not have significant impacts, either on total CIL receipts or on the overall development of the area. This suggests that the viability calculations may leave aside geographical areas or land uses which are expected to see little or no development over the plan period.

Chargeable floorspace

- 2.19 CIL will be payable on ‘most buildings that people normally use’.¹³ It will be levied on the net additional floorspace created by any given development scheme.¹⁴ 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.

⁸ DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures* (12)

⁹ DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures* (13)

¹⁰ DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures* (13)

¹¹ Section 212 (4)(b) quoted in DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures* (9)

¹² Section 212 (4)(b) quoted in DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures* (9)

¹³ DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (para 37)

¹⁴ DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (para 38)

Summary

2.20 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 put at serious risk the overall development of the area'.

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

- The charging authority has complied with the required procedures
- The charging authority's draft charging schedule is supported by background documents containing appropriate available evidence which need not be 'fully comprehensive or exhaustive';
- The proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority's area;
- While charging rates should be consistent with the evidence, they are not required to 'mirror' the evidence¹⁵. In this and other ways, charging authorities have a large measure of discretion in setting charging rates.

2.22 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 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.

2.23 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.

¹⁵ Planning Act 2008 (Section 212 (4) (b))

3 PLANS AND POLICIES: PLANNED DEVELOPMENT

Introduction

- 3.1 We set out below a brief review of the local policies that have been taken into account in considering the broad viability of the emerging Local Plan policies as part of this study.

City of York Local Plan

- 3.2 The Council is currently preparing a draft Local Plan preferred option (Reg 18 stage) for public consultation in June – July 2013. The Plan will cover the city of York, with adoption anticipated in 2015 and the document potentially covering the period up to 2035.
- 3.3 The land uses which are likely to account for the largest quantum of development, and hence are critical to the delivery of the Core Strategy, comprise:
- Residential
 - Offices
 - Retail
 - Industrial/Warehousing
 - Public services and community facilities.
- 3.4 In our viability assessments and the resulting recommendations, we have focussed on these types of development, aiming to ensure that they remain broadly viable after all policy requirements are taken into account.
- 3.5 We have also assessed the viability of other types of development where the Council believes that it is particularly appropriate.
- 3.6 We have provided more detail of emerging plans in the relevant sections of this report.

Policies Impacting on Viability

- 3.7 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 Local Plan" (*Viability Testing Local Plans*, June 2012).
- 3.8 Given that the Local Plan is not yet out for consultation, it is not possible to undertake a detail scoping exercise of the policies within it to determine their whether they are likely to impact upon viability and as such need to be taken into account as part of this work. Once the Preferred Options Plan is published, we will assess the emerging policies and seek to categorise them as follows:
- Policies that do not have a particular bearing on development costs. We can safely set these policies to one side for our purposes;
 - Policies that have cost implications for certain categories of development across the area as a whole or certain areas within it; and
 - Policies that apply to specific strategic sites, setting out the requirements and 'performance specification' from those developments only.

- 3.9 In the absence of a published draft policy framework, we have focussed our work on those areas of policy and existing practice that have an impact on development costs and viability and that are likely to be contained within the Plan. We have worked closely with the Council in establishing these requirements, which can be summarised as follows:
- The provision of affordable housing – tested at 20% and 30% in line with emerging policy in the Local Plan;
 - Achieving Code for Sustainable Homes (CSH) standards – build costs assumed (taken from BCIS, indexed for York) are considered to cover realistic costs of CSH Level 4;
 - Contributions towards open space provision – taken from current CYC contributions policy set out in its ‘Commuted Sum Payments for Open Space in New Developments – A Guide for Developers’ document;
 - Contribution towards education provision – taken from current policy set out in its ‘Developer contributions to education facilities’ document;
 - Provision of on-site renewable energy sources (this could include microgeneration sources to contribute towards reduced carbon homes); and
 - District heating – based on information provided by CYC and derived from ‘The Potential and Costs of District Heating Networks’, a report to the Department of Energy and Climate Change and the ‘Richmondshire Low Carbon and Renewable Energy Potential Study’.
- 3.10 At this stage, we have not included any amount in the viability assessments to cover contributions towards strategic infrastructure and public transport where necessary. Further work is required to define the list of infrastructure that is required to enable the level of growth envisaged in the Local Plan, to quantify the likely costs of each item and identify potential sources of funding. The Council is considering the introduction of a Community Infrastructure Levy for York as a means of securing developer contributions towards strategic infrastructure requirements, subject to further viability and infrastructure delivery work that is required to provide the evidence base for it.
- 3.11 Further, it is not possible at this stage to take all S106 costs into consideration. The full policy requirements for any particular development are not yet clear, given the early stage of the Local Plan’s development. For this study, the only S106 costs that have been taken into consideration are those relating to open space provision and education. This is particularly important in relation to the larger strategic sites, as S106 costs can increase significantly. As such, any overages shown in this study could appear optimistic.
- 3.12 Once the full policy costs are understood after the publication of a draft framework the viability assessments will be adjusted to reflect the revised position with known costs.

4 RESIDENTIAL VIABILITY TESTING: METHOD

Introduction

- 4.1 This section of the report sets out our approach to considering the viability of development in York, in line with the requirements of national policy and reflecting the implications of local policies on the costs and values of development.

Development appraisal

- 4.2 Viability assessment is at the core of this process. The purpose of the assessment is to identify charging rates at which the bulk of the development proposed in the development plan is financially viable, in order to ensure that affordable housing, CIL and other policy costs (the ‘policy cost package’) do not put at risk the overall development planned for the area.
- 4.3 Our viability assessments are based on development appraisals of hypothetical schemes, using the residual valuation method. This approach is in line with accepted practice and as recommended by RICS guidance¹⁶ and the Harman report.¹⁷ Residual valuation is applied to different land uses and where relevant to different parts of the area, aiming to show typical values for each. It is based on the following formula:

Value of completed development scheme

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

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

Less policy costs – building in (for example) Section 106 costs but at this stage excluding CIL

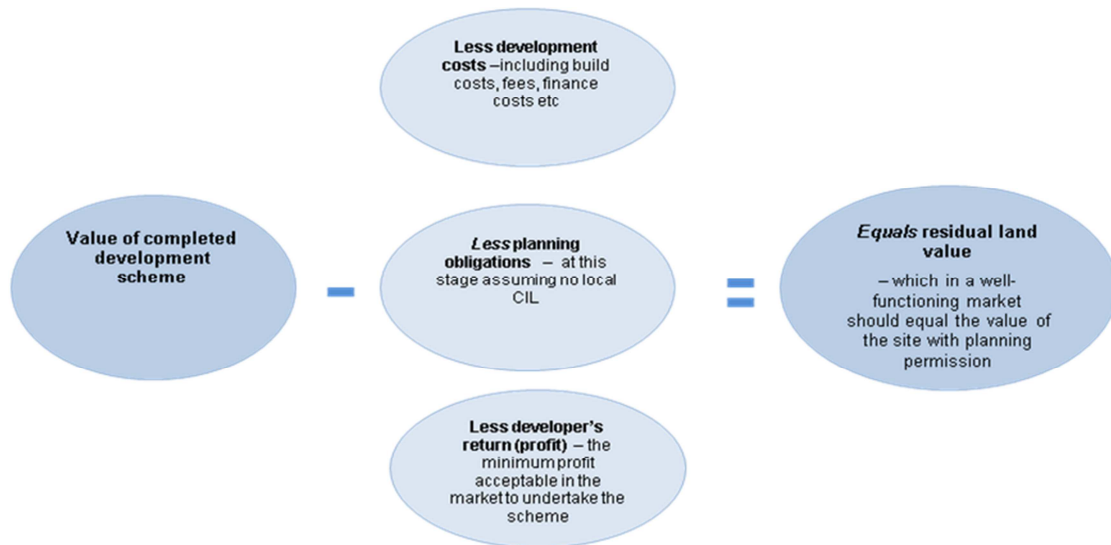
Equals residual land value

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

¹⁶ RICS (2012), *Financial Viability in Planning, RICS First Edition Guidance Note*

¹⁷ Local Housing Delivery Group Chaired by Sir John Harman (2012) *Viability Testing Local Plans*

Figure 4.1 Method diagram



- 4.4 For each of the hypothetical schemes/archetypes tested, we use this formula to estimate typical residual land values, which is what the site should be worth once it has full planning permission. The residual value calculation requires a wide range of inputs, or assumptions, including the costs of development and the required developer's return.
- 4.5 The arithmetic of residual appraisal is straightforward, although the inputs to the calculation are hard to determine for a specific site (as demonstrated by the complexity of many S106 negotiations). The difficulties grow when we are required to make calculations that represent a typical or average site – which is what we need to do for CIL purposes. Therefore our viability assessments are necessarily broad approximations, subject to a margin of uncertainty.
- 4.6 Having estimated the residual value, we compare this residual value with the 'benchmark land value' or 'land cost'. The 'benchmark land value' is the value at which a willing and reasonable landowner would sell to a prospective developer. This is the *minimum* land value the landowner will accept to release his or her land for the development specified.
- 4.7 This process of comparison takes place in a series of summary tables. These can be found in the relevant sections. The first example in this report is found at Table 6.1.
- 4.8 Benchmark values will vary to reflect the landowner's judgements, which might include the contextual nature of development, the site density achievable, the approach to the delivery of affordable housing (in the context of residential development) and so on. There are a wide range of permutations here. In order to make progress, we have to assume a central value, even though there could be a margin of error in practice. These values are discussed further in section X.
- If the residual land value shown by the appraisals is *below* the benchmark value, the development is not financially viable, even without CIL or affordable housing. That means that unless the circumstances change it will not happen.
 - If the residual value and the benchmark values are *equal*, the development is just viable, but there is no surplus value available for CIL or affordable housing.

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

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

Recommending a CIL charge

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

- Markets fluctuate over time. Assessments are based on current market data, but there must be sufficient latitude for fluctuations to happen without rendering the policy cost package (CIL, affordable housing and other costs) unviable; and
- Individual site costs and values vary. Developments should remain viable after the policy cost package is paid in the bulk of cases.

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

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

5 RESIDENTIAL VIABILITY TESTING: ASSUMPTIONS

Introduction

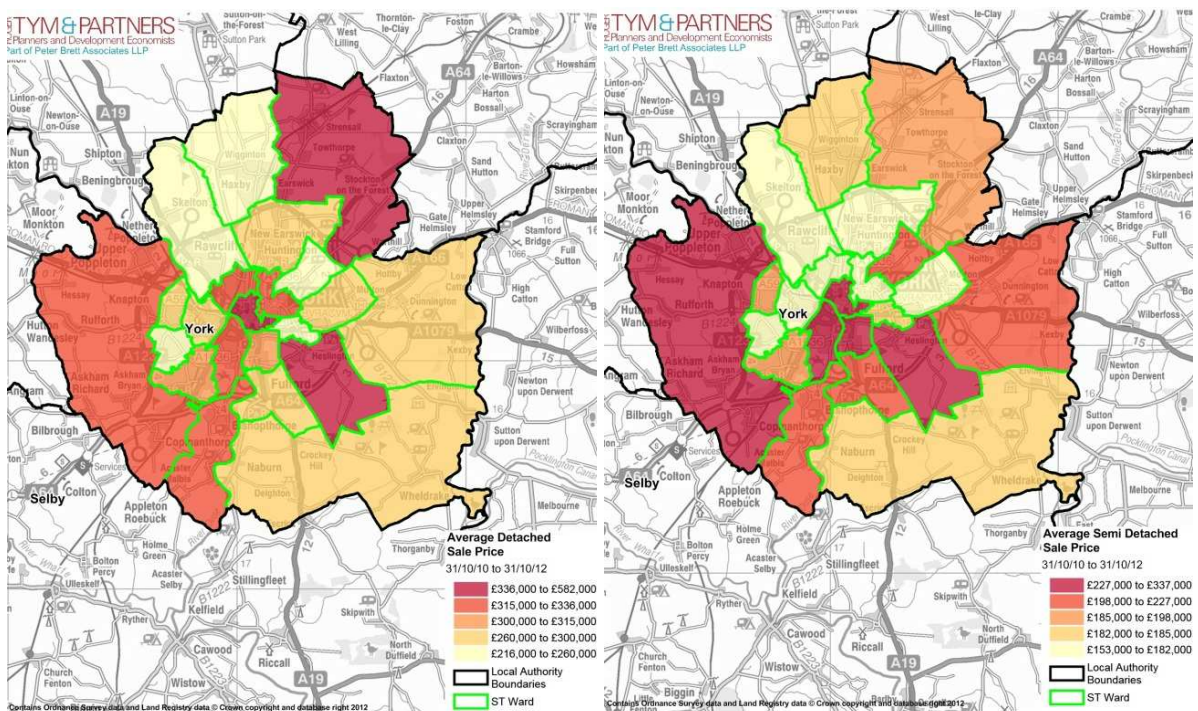
5.1 This section provides an overview of the residential property market in York. It also sets out the evidence for, and the details of, the assumptions we have made in respect of development archetypes, as well as the likely costs and revenues of development that feed in to our viability assessments.

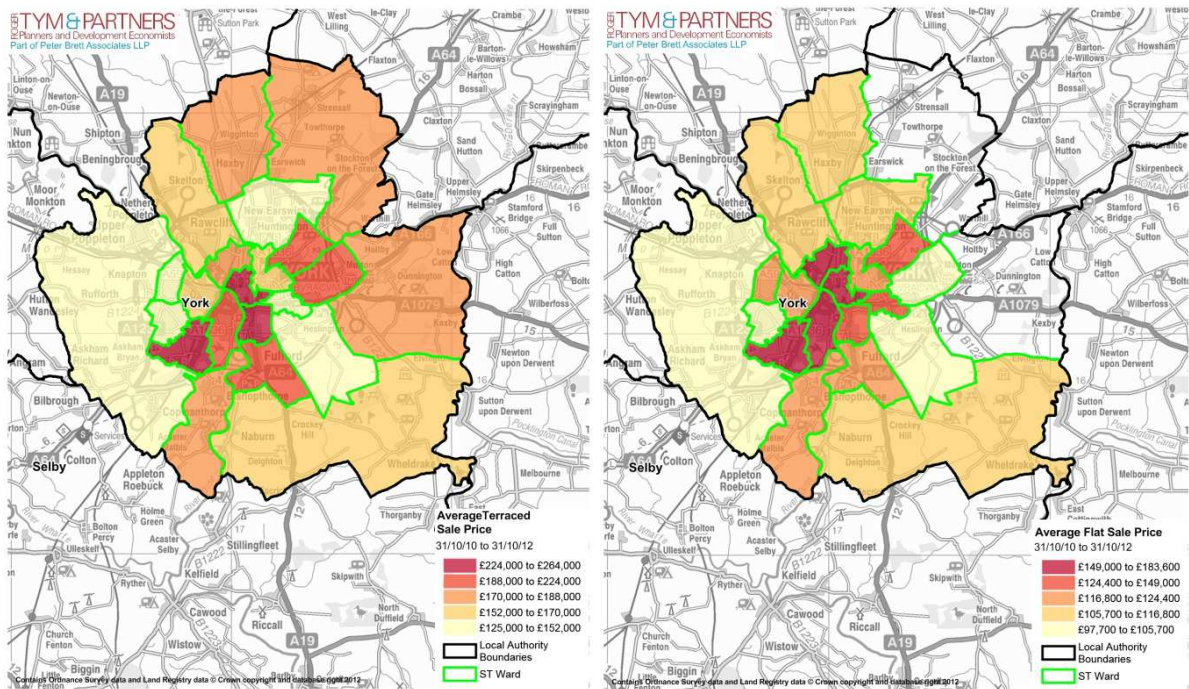
Market Overview

5.2 York is generally acknowledged to have a relatively healthy housing market, driven by the high quality urban and rural environment that is a function of the City's attractive historic core and location. The city also provides easy access to high quality education and employment opportunities not only in York, but also in Leeds, which further drives the attractiveness of the City as a residential location. The quality of both historic and new-build residential property is also very good.

5.3 Figure 5.1 below shows how sales prices vary across York, using Land Registry data from a two year period between November 2010 and November 2012 to provide a statistically robust data set. Achieved house prices are averaged at a ward level, outliers are then removed and the each ward is then re-averaged and banded. The results are presented separately for each house type, so that the data is not skewed by an over-representation of a particular house type. Larger versions are provided at Appendix 1.

Figure 5.1: Sales Value Heat Mapping





5.4 We are not drawing firm conclusions on the scope for CIL charge variation at this stage. Further, more detailed analysis will be undertaken as part of future viability work for the purposes of establishing any CIL charging schedule. Initially however, the sales value heat mapping presented above does not seem to show a clear pattern of areas with consistently higher values and those with consistently lower values. For example, the area to the north west of the city centre appears to have lower values in respect of detached and semi-detached properties, but moderate values in respect of terraces and apartments. Conversely, the area to the south west of the city has high values for detached and semi-detached houses, but lower values for terraces and flats.

5.5 Guidance states ‘Charging Authorities can set differential levy rates for different geographical zones provided that those zones are defined by reference to the economic viability of development within them.’¹⁸ Given that the pattern across York suggested by this data is somewhat inconsistent, it may be difficult to justify charge variation by zone for the purposes of CIL. Of course, future analysis (including that at more tightly defined geographic level) may well provide the evidential basis for charge variation by zone in York.

Economic and Housing Market Context

5.6 Figure 5.2 below shows average house prices in York, relative to the England and Wales average over the last 5 years.

¹⁸ DCLG (December 2012) *Community Infrastructure Levy Guidance* (para 34)

Figure 5.2: Average House Prices



Source: Land Registry

- 5.7 It is clear from Figure 5.2 that average house prices in York are above the national average, with the gap having widened in recent years. The peak of the recent market cycle was in October 2007, when the average residential property price in York was £193,387 and £181,912 across England and Wales. The impact of the financial crisis and resultant recession is also clear in Figure 5.2, with average values in York falling to £164,455 by May 2009. Since that time, prices have been on a steady (if somewhat erratic) upwards trajectory, peaking in August 2010 before falling back and then again in July 2012. The most recent data suggest that average prices in York were £179,371 in November 2012.
- 5.8 Looking forward, the latest projections of house prices prepared by Savills in their Residential Property Focus (Q4 2012), shown below, suggests that values will remain broadly flat over the next three years across the Yorkshire and Humber region as a whole, before growing at 2.5% and 3% in 2016 and 2017 respectively. That said, based on the characteristics of the local market, there may be some reason to suggest that York will out-perform the regional average.
- 5.9 For the purposes of Plan Viability and CIL charge setting, it is current market conditions that must be the primary consideration. However, we have also sought to ‘future-proof’ this analysis to some extent by considering several sales value scenarios. These are discussed and set out below but can be considered to reflect a reference case current market conditions scenario, and scenarios around it that broadly reflect both better and worse locations in York under current market conditions, and how values could change in future.

Figure 5.3: Savills Residential Values Forecast

MAINSTREAM MARKETS
Five-year forecast values

	Actual	Forecast					
	2012	2013	2014	2015	2016	2017	5yrs to end 2017
UK	-2.0%	0.5%	1.5%	2.0%	3.5%	3.5%	11.5%
London	-0.5%	1.5%	4.0%	4.5%	5.0%	4.5%	21.0%
South East	-1.0%	1.5%	3.5%	4.0%	4.5%	4.5%	19.5%
South West	-1.5%	1.0%	2.5%	3.0%	4.0%	4.0%	15.5%
East	-1.0%	1.0%	3.0%	3.5%	4.5%	4.0%	17.0%
East Midlands	-1.5%	0.5%	2.0%	2.5%	4.0%	3.5%	13.0%
West Midlands	-2.5%	0.0%	0.5%	1.0%	3.0%	3.0%	7.5%
North East	-3.0%	-0.5%	-0.5%	0.0%	2.5%	3.0%	4.5%
North West	-3.0%	0.0%	0.0%	0.5%	2.5%	3.0%	6.0%
Yorks & Humber	-3.0%	0.0%	-0.5%	0.5%	2.5%	3.0%	5.5%
Wales	-2.0%	0.5%	1.5%	2.0%	3.5%	3.5%	11.5%
Scotland	-4.0%	0.0%	0.0%	0.5%	2.5%	3.0%	6.0%

Source: Savills Research forecasts based on Nationwide actuals

Source: Savills Residential Property Focus (Q4 2012)

Viability testing: Archetypes

- 5.10 The viability assessments undertaken are based on modelling a series of site archetypes or typologies. For different areas of York we sought to define a series of typical forms of residential development, in terms of their scale and nature. This was based on an analysis of existing committed residential sites and the range of sites submitted through the Council’s Call for Sites exercise undertaken in Autumn 2012, in order to make sure the range of archetypes matches the range of sites that may come forward across the Plan period. These archetypes are described in Table 5.1 below.

Table 5.1 Archetypes

Area	Site type	Site size & Rationale	Density	Gross site area:net developable	Breakdown by type
City Centre/ City Centre Extension					
	Exceptional	5ha parcel of major site	80 dph	75%	375no. dwellings comprising 180no. apartments (60%) and 120no. townhouses (40%)
	Large	1ha	90 dph	80%	72no dwellings comprising 50no. apartments (70%), 0no. houses (0%) and 22no. townhouses (30%)
	Medium	0.5ha	90 dph	85%	38no. dwellings comprising 30no. apartments (80%) and 8no. townhouses (20%)
	Small	0.2ha	100 dph	90%	18no. dwellings comprising 18no. apartments (100%)
Urban					
	Large	1ha	50dph	80%	40no. dwellings comprising 8no. apartments (20%), 24no. houses (60%) and 8no. townhouses (20%)
	Medium	0.5ha	50dph	85%	22no. dwellings comprising 0no.apartments (0%), 14no. houses (60%) and 8no. townhouses (40%)
	Small	0.2 ha	50dph	90%	10no. dwellings comprising 0no. apartments (0%), 10no. houses (100%) and 0no. townhouses (0%)
Suburban					
	Exceptional	4ha parcel of major site	40dph	70%	110 dwellings comprising 22no. apartments (20%), 55no. houses (50%) and 33no. townhouses (30%)
	Medium	1 ha	40dph	80%	32 dwellings comprising 3no. apartments (10%), 23no. houses (70%) and 6no. townhouses (20%)
	Small	0.2 ha	40dph	90%	7no. dwellings comprising 0no. apartments (0%), 6no. houses (80%) and 1no. townhouses (20%)
Village/Rural					
	Village expansion	5ha	30dph	70%	105 dwellings inc. 84no. houses (80%) and 21no. townhouses (20%)
	Large	1 ha	30 dph	80%	24no. dwellings comprising 19no. houses (80%) and 5no. townhouses (20%)
	Medium	0.2ha	30 dph	90%	5no. dwellings comprising 5no. houses (100%) and 0no. townhouses (0%)
	Small	0.05ha	30 dph	90%	1 dwelling comprising 1no. house (100%).
New Settlement/Extension to Urban Area/Major Village Expansion					
		10ha parcel	40 dph	60%	240 units inc. 24 apartments (10%), 168 houses (70%) and 48no. Townhouses (20%)

5.11 For each archetypes, an indicative dwelling mix has been set out. Development proposals have been shown in the ‘Breakdown by Type’ column. This breakdown shows the developments that are likely to come forward on sites of the size and location shown, based on our analysis of recent planning application and consultations with developers. Whilst these breakdowns are not directly based on the North Yorkshire SHMA, it is clear that it will have been a consideration in recent planning applications. We consider the breakdowns

applied to be reflective of the nature of development likely to come forward in York over the next few years.

- 5.12 The archetypes cover a wide range of site sizes and development types. In the case of very large strategic development sites, we have sought to reflect the practicalities of how such sites are brought to the market and developed. It is highly unlikely that a single site comprising several hundred units will be developed by a single developer in a single phase. These kind of sites are usually split in to a number of development parcels that are sold individually and brought to the market over a period of years. We have therefore sought to consider the viability of a single parcel of development as such sites, rather than of the scheme as a whole. This allows for a more accurate viability assessment to be undertaken.

Development revenue and cost assumptions

- 5.13 The viability assessments are based on a wide range of assumptions on the costs and revenues of development. These are discussed below along with their sources. We have also sought to test some of these assumptions through selected consultation with developers and agents. The approach to engaging with key stakeholders is also discussed below.

Sales Values

- 5.14 In order to establish typical sales values in York, we undertook a detailed review of new-build housing that is currently on the market in the city. Information on the price and size of new houses and apartments was gathered and used to determine a value per sq. m for each dwelling. These per sq.m values could then be averaged and used as the basis for analysis of differences between areas and development types.
- 5.15 This analysis revealed asking price values with a broad range between £2,160 per sq.m and £7,050 per sq.m (although the latter has been excluded from further analysis as unlikely to be reflective of the market as a whole). More typically, values ranged between £2,300 and £3,200 per sq. m, with an average of £2,830 for houses and £2,907 for apartments.
- 5.16 When analysing new build sales values it is important to consider the potential difference between asking price and achieved price. Typically the discount applied to new build sales values is in the region of 5 to 10 per cent, which suggests an average achieved price per sq. m of between £2,550 and £2,690 per sq. m for houses and £2,620 and £2,760 per sq. m for apartments. More refine analysis of different house types suggests that townhouses in York may have a slightly higher per sq. m sales value than house, although this is based on a relatively small sample size and does not reflect what is commonly seen elsewhere in the country.
- 5.17 Due to the relatively low levels of new build properties currently being marketed in York, we have also taken into account Land Registry data for achieved sales prices on newly built homes. Our analysis of this data suggests that on the basis of our assumed property sizes, average achieved values for houses are typically in the region of £2,600 per sq. m. This is based on the breakdown by type and assumed average sizes below:
- Detached: £2,662 per sq. m based on an average unit size of 140 sq. m

- Semi-detached: £2,427 per sq. m based on an average unit size of 110 sq. m
 - Terraced/Townhouses: £2,602 per sq. m based on an average unit size of 130 sq. m
- 5.18 The average achieved price for apartments, based on an assumed average unit size of 60 sq. m was £2,594.
- 5.19 Bringing together the finding of our analysis of both the new houses currently being marketed, the land registry data on new build sales and the feedback from consultations with developers and agent, we have established three value levels – a reference case and low and high value scenarios around it – that reflect the range of values currently being achieved in York. These scenarios also effectively act as a sensitivity test of the reference case against likely changes to market conditions that may occur in the foreseeable future.
- 5.20 These three value levels were set against the three dwelling types - houses, town houses and apartments. For houses, the reference case value is considered to be £2,600 per sq. m, with the lower value scenario at £2,400 per sq. m and a higher value scenario at £2,800 per sq. m. These figures are mirrored in relation to apartments except a slightly higher value is applied to the higher value scenario at £2,900 per sq. m. Town house dwellings have a narrower range of values. Our research suggests that the reference case values should be set at £2,700 per sq. m, with the lower value scenario at £2,500 per sq. m and the higher value scenario at £2,800 per sq. m.
- 5.21 The difference in value between the reference case scenario and the higher value scenario is 3.7%, which is broadly in line with the level of growth in residential values projected over the next 3-4 years suggested by Figure 5.3 above.

Benchmark land values

- 5.22 As described above, the residential viability assessments undertaken as part of his study will show the residual land value generated by each archetype. This is then compared against a ‘benchmark’ land value to determine whether it is viable or not. Our assumptions on benchmark land value are informed by a number of sources.
- 5.23 Clearly, the value of a piece of land to a developer will vary significantly from one site to the next as a result of its specific characteristics, including:
- Size and shape;
 - Topography and ground conditions;
 - Location and potential sales values;
 - Capacity of and ease of connection with surrounding infrastructure e.g. local utility networks;
 - Whether the site is allocated and/or benefits from a suitable planning permission; and
 - The nature of the planning permission and Developer Contributions that can reasonably be expected.
- 5.24 Whilst our assessments seek to test a range of likely market conditions evident within York, we also seek to ensure that, as far as is possible in all other respects, we are comparing like with like. Therefore, our assumption in terms of land is that all sites will be cleared and

remediated (if they are brownfield) and fully serviced parcels (if they are greenfield) so that in either scenario they are readily developable. For sites that are not in this condition, these costs would be subtracted from the gross land value in the offer that any rational developer would make to a landowner in any case. This approach reflects what happens in practice in land transactions and is an approach that has been found sound in examinations elsewhere.

- 5.25 One source of information on residential development land values is the VOA's Property Market Report. Data specifically for York is only available up until the July 2009 report, at which time land values were considered to be c£1.8 per ha, on a par with those of Leeds. The most recent report (January 2011) suggest that residential land values for Leeds have fallen to £1.36m per ha and it is reasonable to assume that York's values will have suffered a broadly equivalent fall. This data must be qualified, however, as it is unclear what level of affordable housing or other policy costs are taken into account in arriving at the values. As such, they should be treated with some caution.
- 5.26 As a further layer of analysis, we have considered existing and alternative use values and the uplift factors/multipliers that can be applied to them to inform conclusions on residential land values. Of course, it is difficult to generalise about existing or alternative use values across a whole local authority, but we have sought to consider the principal uses that may be relevant.
- 5.27 Some of the land on which new residential development will take place is likely to be agricultural. The VOA's 2011 Property Market Report indicates that the highest average value agricultural land in North Yorkshire is worth approximately £21,000 per hectare. In order to inform residential land values, a multiplier of between 15 and 30 times is often applied. This would give residential land values in the region of £315,000 per ha and £630,000 per ha.
- 5.28 An alternative use for some sites being considered for residential development is for employment development. The 2009 VOA Property Market Report states that employment land in York typically has a value of £410,000 per ha, with the top of the market identified as £475,000 per ha. Allowing for value growth since that time (in line with locations still covered in the latest version of the report) of 11%, this suggests current employment land values of £450,000 - £530,000 per ha. An uplift of c30% over industrial land values is often used as a proxy for considering residential land values. This suggests residential land values of £585,000 - £690,000 per ha.
- 5.29 We have also sought to complement this information through consultation with local land agents and developers. Clearly, net residential land values will vary significantly according to a number of factors. As discussed above, establishing net land values can be somewhat tricky and will vary significantly from one site to the next. That said, there was relative consistency in responses received that gross land values are in the region of £1.8m - £2.25m per ha (£730,000 - £910,000 per acre). Further details on the findings of consultations undertaken to date and the process for further and more comprehensive engagement with the development industry and other key stakeholder in due course is provided at para. 5.39 – 5.45 below.

- 5.30 In coming to a view on the benchmark land value (a figure net of policy requirements and so on), we have also taken into account our knowledge of other comparable locations in the sub-region and the residential values being achieved there and their relative strength or weakness as a residential location in comparison to York. For example, residential land values in Harrogate (where sales values are slightly lower) are considered to be currently in the region of £850,000 - £1.05m.
- 5.31 Based on all of the above, we have assumed benchmark land values of £1.25m per ha outside of the city centre and £1.45m per ha in the city centre and extensions to it. It is clear that these assumed values are considerably higher than those of the existing/alternative uses considered above, and are likely to provide a more than adequate return to motivate a reasonable landowner to sell. We consider that these assumptions reflect what a readily developable residential site might achieve in current market conditions given a reasonable seller and a reasonable buyer.
- 5.32 Notwithstanding the above, it is clear that some sites, including the larger strategic sites identified in the emerging Local Plan, will have high levels of abnormal development costs related to remediation and infrastructure issues. It is not the role of planning policy to make provision for specific interests to ameliorate the costs associated to their own use of their land in order to ensure it can be profitably developed. However, the Council needs to be able to demonstrate that strategic sites are deliverable and is keen to work with strategic landowners to ensure that policy requirements do not place an unduly onerous burden on their sites, so that they can be viably developed. Such site specific issues that affect viability will be considered in greater detail through site-specific viability testing of strategic sites to inform any CIL charges. Of course, developers would also have also recourse to negotiate affordable housing provision and any other S106 costs as part of any planning application process.

Other Assumptions

- 5.33 There are a number of further assumptions that need to be included in the assumptions that complete the inputs into the viability modeling used. An important input is the build costs associated with bringing forward a new residential development, for this we utilise the Build Cost Information Service (BCIS) database which provides build cost data that is indexed for specific locations. The figures shown are correct as of January 2013 and include an uplift that allows for the cost of meeting Code Level 4 as BCIS values only cover Code Level 3.
- 5.34 In the case of York the following basic build costs have been used:
- £816 per sq. m for two storey houses;
 - £820 per sq. m for townhouses; and
 - £971 per sq. m for flats.
- 5.35 Another key assumption to take into consideration when carrying out development viability modeling is the development densities. This will enable the total developable floorspace to be calculated and therefore the cost values and the sales values of the hypothetical development schemes. The densities have been broken down by reference to the nature of development likely to take place in different parts of the City. Clearly, high density

development comprising a greater proportion of apartments would be expected in the City Centre, whilst few apartments and more family housing would be expected in more suburban and rural areas. The assumed densities are as follows:

- City centre and city centre extension - 80-100dph;
- Urban - 50dph;
- Suburban and new settlement - 40dph;
- Rural and villages - 30dph.

5.36 Notwithstanding the above, it is feasible that some parcels within large urban extension/new settlements could be developed at densities above 40dph, particularly where they are close to transport nodes and local facilities where apartments could be included in greater proportions. However, mortgage availability for apartments and the profile of purchaser that buys them is currently very restricted, so such higher densities of development are only likely in later phases and once restrictions on mortgage and development finances have eased somewhat from the current position.

5.37 Other costs have been taken into account in the modeling that has been undertaken. An in-depth description of each cost is provided in the Construction Costs section of Table 5.2 below. The other costs include:

- Contingency - 5% of costs;
- External works - at 10% of costs;
- Professional fees – 10% of costs;
- Finance costs - 7% p.a.
- Fees on land purchase - 1.5%; and
- Developer's profit - 20% on cost.

5.38 All of these percentages are set at industry standard levels.

Stakeholder Engagement

5.39 Due to time frame for the production of Local Plan Preferred Options document, it has not been possible to undertake a comprehensive stakeholder consultation exercise or formal event. Rather, the consultation on the preferred Options Local Plan will be used to test the assumptions applied in this study. It is envisaged that a formal workshop and/or more comprehensive programme of engagement with developers and other stakeholders will take place during the consultation period on the Preferred options Local Plan.

5.40 Whilst comprehensive consultation with the development industry has not been possible at this stage, a number of informal telephone and face-to-face consultations has been undertaken with selected organisations. Most notably, we have met with Rapleys, who are advising the landowner of the large and strategically important British Sugar site – Associated British Foods (ABF). Rapleys/ABF and the Council are committed to working together to ensure the delivery of the British Sugar site with the assistance of ATLAS, who are working in an independent advisory role to support the delivery of the site.

- 5.41 Other consultations included several locally active and national house builders and local commercial and residential agents. These consultations were used as a means of discussing the assumptions made with stakeholders who have an understanding of the local market. Consultees include:
- Carter Jonas;
 - McBeath Property;
 - Rapleys (on behalf of British Sugar);
 - Taylor York;
 - Persimmon Homes;
 - Barratt Homes; and
 - Northminster Properties.
- 5.42 Sales values for residential development were generally considered to range between £2,400 and £2,650 per sq. m, although empirical data provided by a consultee (along with our own) suggests slightly higher values. Of course, sales values will vary significantly from one unit to the next, the majority appear to achieve values in the region of £2,450 to £2,700 per sq. m.
- 5.43 It was also suggested that sales rates of between 25 to 28 dwellings per annum are typical in York. This is in line with what is currently being achieved in the existing market conditions, although the Council is keen to enable higher rates of new housing delivery through the emerging plan. In any case, some liquidity appears to be returning to the mortgage market which should mean that more prospective purchasers have access to mortgage finance and sales rates may well increase in the coming years.
- 5.44 Understandably, developers are reluctant to give details of specific residential land transactions. However, some of the consultees were willing to pass general comment in general terms on gross land values, which are considered to be in the region of £1.8m - £2.25m per ha.

Assumptions Summary

- 5.45 The assumptions made for the purposes of this study are summarised in Table 5.2 below.

Table 5.2 Residential development revenue and cost assumptions

Assumption	Source	Notes
Revenue		
Sales value of completed scheme	Land Registry, PBA research	The sales value assumptions are based on analysis of asking prices of new-build houses currently on the market broken back to give average per sq. m values as described in para 5.5-5.7 above (making allowances for discounting) along with analysis of achieved sales price data of new-build houses from Land Registry . This data is then supplemented following conversations with agents and house builders' sales representatives, which allows us to form a view on new build sales values. Values used are as follows. Houses

Assumption	Source	Notes																												
		<table border="1"> <thead> <tr> <th>Level</th> <th>Average prices per sq m</th> </tr> </thead> <tbody> <tr> <td>Lower Value</td> <td>£2,400</td> </tr> <tr> <td>Mid value</td> <td>£2,600</td> </tr> <tr> <td>Higher Value</td> <td>£2,800</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th colspan="2">Town Houses</th> </tr> <tr> <th>Level</th> <th>Average prices per sq m</th> </tr> </thead> <tbody> <tr> <td>Lower Value</td> <td>£2,500</td> </tr> <tr> <td>Mid value</td> <td>£2,700</td> </tr> <tr> <td>Higher Value</td> <td>£2,800</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th colspan="2">Apartments</th> </tr> <tr> <th>Level</th> <th>Average prices per sq m</th> </tr> </thead> <tbody> <tr> <td>Lower Value</td> <td>£2,400</td> </tr> <tr> <td>Mid value</td> <td>£2,600</td> </tr> <tr> <td>Higher Value</td> <td>£2,900</td> </tr> </tbody> </table>	Level	Average prices per sq m	Lower Value	£2,400	Mid value	£2,600	Higher Value	£2,800	Town Houses		Level	Average prices per sq m	Lower Value	£2,500	Mid value	£2,700	Higher Value	£2,800	Apartments		Level	Average prices per sq m	Lower Value	£2,400	Mid value	£2,600	Higher Value	£2,900
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Densities	Analysis of recent development; experience, York AHVS & Urban Design Compendium	<p>The following densities have been assumed for each location type:</p> <ul style="list-style-type: none"> • City Centre & City Centre Extension – 80-100dph • Urban – 50dph • Sub-urban & New Settlement - 40dph • Rural, Villages – 30dph 																												
Construction costs																														
Construction	BCIS	<p>BCIS is a national database of build costs published by RICS on a quarterly basis. BCIS offers a range of prices dependent on the final specification. It also allows us to 'index' the build cost prices so that they are specific to York.</p> <p>Build costs used are derived from the recent actual prices in the marketplace. As early as 2009, the market across the UK was building at round Code for Sustainable Homes Level 3 to 4 for private and Level 4 for social housing¹⁹.</p> <p>The following costs have been used in this study and are considered to cover realistic costs for Code Level 4:</p>																												

¹⁹ In 2009, the NHBC stated that Code 3 and 4 was the level most commonly specified in new building. See NHBC (2009, revised Jan 2010) *The Code for Sustainable Homes Simply Explained*

		<ul style="list-style-type: none"> • Build costs houses - £816 per sq m • Build cost for townhouses £820 per sq. m • Build costs flats £971 per sq m <p>Costs may alter in future. In particular, there may be national policy change regarding Code for Sustainable Homes building standards. The final effect of these changes on viability is difficult to foresee. While we have reviewed current Government research on cost impacts of CSH²⁰ we note that past forecasts of price changes (such as that predicted in the original Cyril Sweete work)²¹ have never affected costs to the extent forecast. When these future requirements come into force, they will impact on both development costs and land values. We have not incorporated these possible impacts into our calculations. Our approach to incorporating these (and other) potential but unknown costs is to set a wide margin for error that will cover variations in factors such as build costs, site conditions, and timing.</p>
Floorspace size assumptions	Analysis of property being marketed and Industry standard	<p>We have assumed average floorspaces of</p> <ul style="list-style-type: none"> • Houses 120 sq. m • Townhouses – 130 sq. m • Apartments - 65 sq m <p>Floorspace assumptions for non-residential uses are detailed in the specific scenarios for that use explained in each chapter.</p>
Net Developable Area	Industry Standard	<p>Whilst a site may have a gross area of 1ha, for example, it is not possible to bring forward development on 100% of the site. Allowances need to be made for infrastructure requirements, open space provision as well as other potential on-site provisions. As a consequence of this, on small sites the net developable area is considered to be 80% with this reduced to 70% for larger sites as there is likely to be more on-site provision of items such as open space required.</p> <p>For developments that would be considered strategic urban extensions, new settlements or major village expansions a lower developable area of 60% is assumed. This is to make allowances for the additional development criteria such as potential for community facilities, schools and so on.</p>
Contingency	Industry standard	Contingency is an expression of risk relating to a specific scheme and will vary from site to site. We have adopted a generic average of 5% though in practice it will vary.
Road/site works/ external works	Industry standard	On-site preparation for internal access roads and other external works. This will vary from site to site, but we have assumed a figure of 10% of construction costs
Professional fees	Industry standard	10%
Finance	Industry standard	7%

²⁰ DCLG (2010) *Code for Sustainable Homes – a Cost Review*

²¹ Cyril Sweete for DCGL (2008) *Cost Analysis of The Code for Sustainable Homes*

Profit	Industry standard	20% on cost	
Stamp duty on land purchase	HMRC	up to £125,000	0.00%
		Over £125,000 to £250,000	1.00%
		Over £250,000 to £500,000	3.00%
		Over £500,000 to £1m	4.00%
		Over £1 million	5.00%
Fees on land purchase	Industry Standard	Agent – 1% Legal - 0.5%	
Build/sales rate	Industry standard	Sites up to 100 units – 12 per quarter Sites over 100 units – 20 per quarter	
Benchmark land value	PBA Research + Consultation with agents & developers	City Centre/City Centre Extension - £1,450,000/ha All other areas - £1,250,000/ha.	

Policy costs

- 5.46 As set out in Figure 1.1 of this report, our approach initially is to assess the viability of development in a ‘policy off’ scenario, so without taking into account matters such as affordable housing or other policy requirements. This established the total level of ‘headroom’ in viability terms of development in York. We then move on to considering the cost implications of various policy requirements before considering ‘policy on’ scenarios that do take these factors into account.
- 5.47 The policies taken into account in the residential viability assessments are summarised in Table 5.3 below.

Table 5.3: Policy Costs

Assumption	Source	Notes
Affordable Housing Levels	Proposed Policy in Preferred Options CYC Local Plan	Test at 20% and 30% Split 70% social rent; 30% shared ownership
Affordable Housing Transfer Values	Industry Standard	We have assumed that capital transfer rates for houses are: <ul style="list-style-type: none"> • 40% of OMV for social/affordable rent properties • 70% of OMV for shared ownership properties
Other S106 costs	Existing CYC Policy	Education - £5,652 ²² Open Space ²³

²² http://www.york.gov.uk/download/downloads/id/1450/developer_contributions_to_education_facilities

²³

http://www.york.gov.uk/download/downloads/id/1472/commuted_sum_payments_for_open_space_in_new_developments_%E2%80%93_a_guide_for_developers

		<p>Houses - £2,800 per unit (blended rate for 3, 4 and 5+ bed units)</p> <p>Townhouses - £2,800 per unit (blended rate for 3, 4 and 5+ bed units)</p> <p>Apartments - £756 per unit (blended rate for 1 and 2 bed units)</p>
District Heating/CHP	Pyroy Report/CYC ²⁴	<p>Houses - £2,800 (blended rate of detached and semi - CHP)</p> <p>Townhouses £2,350 (terraced rate, rounded - CHP)</p> <p>Apartments - £no additional cost</p>

²⁴ The evidence base on the net cost of District Heating/CHP is provided at Appendix 2.

6 RESIDENTIAL VIABILITY FINDINGS

Introduction

- 6.1 In this section we set out the findings of the viability testing of residential development, firstly with policy considerations taken out of the equation and subsequently taking them into account. The former shows the total developer contributions available for sharing between CIL and/or S106/affordable housing – but does not allocate these developer contributions to either of these competing priorities; whilst the latter enables comparison between policy on and policy off scenarios.
- 6.2 Deciding about what share of developer contributions goes to affordable housing, and what goes to CIL is a decision which needs to be made carefully. The decision needs to be mindful of the trade-offs involved.

‘Policy off’ findings

- 6.3 Applying the assumptions set out above, to the archetypes identified, the model shows the residual value that would be generated in each case; compares it to the benchmark land value; and, where applicable, expresses any overage as a maximum potential CIL charge (on a per sq. m basis)
- 6.4 Tables 6.1 – 6.3 below show the results of the calculations for each archetype in respect of each of the three sales value scenarios. Reading the tables from left to right, successive columns are as follows:
- Scenario – defines the scheme
 - Number and type of units
 - Net site area
 - Floorspace – the accommodation within the scheme liable to CIL, equal to the floorspace of market housing (affordable housing is not liable).
 - Residual value - £ per hectare. The residual value is produced by an indicative appraisal. The method and assumptions used in this appraisal are described in the report. Briefly, the residual site value is the difference between the value of the completed development and the cost of that development, and developer’s profit.
 - Residual value per sq m – the residual land value of the site, divided by the chargeable floorspace.
 - Benchmark land value – the estimated minimum a developer would typically need to pay to secure a site of this kind, expressed in £ per ha.
 - Benchmark land value per sq m - the benchmark land value of the site, divided by its chargeable floorspace
 - Cost of S106: this is the cost of the non-affordable housing S106 cost per ha, and broken down per square metre of private and affordable housing development. This figure is £0 in the policy off scenario;

- Cost of affordable housing: this is the equivalent cost, per ha and per square metre, of the development of affordable housing at the prevailing rate. This figure is £0 in the policy off scenario;
- Overage per ha – the difference between the Residual land value and the benchmark land value. As noted earlier, this overage is an estimate of the CIL ‘ceiling’ – the maximum CIL that could be charged consistent with the development being financially viable, expressed per ha. This is the rate theoretically viable after other policy costs, including affordable housing, have been paid.
- CIL Overage per sq m gross chargeable floorspace. Calculated by deducting the benchmark land value per sq m and other policy costs from the gross residual value produce the ‘overage’ per sq m. This is the rate theoretically viable after other policy costs, including affordable housing, have been paid. Again, this ‘overage’ is an estimate of the CIL ‘ceiling’, this time expressed as a rate per sq m. Given the uncertainties surrounding viability appraisal, it is of course an approximate indicator, which should be used cautiously.

Table 6.1: Policy Off Viability Summary Table (lower sales values)

	Number of dwellings	Net Site area ha	Density	Gross Floor Space sq.m	CIL Chargeable Floor Space sq.m	Residual Value Policy Off		Benchmark		Cost of Affordable		Policy Costs		CIL Overage	
						Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Low value															
City Centre/ City Centre Extension															
Exceptional	300	3.75	80 dph	27,300	27,300	£4,768,595	£655	£1,450,000	£199	£0	£0	£0	£0	£3,318,595	£456
Large	72	0.8	90 dph	6,084	6,084	£5,091,825	£670	£1,450,000	£191	£0	£0	£0	£0	£3,641,825	£479
Medium	38	0.425	90 dph	2,964	2,964	£4,362,409	£626	£1,450,000	£208	£0	£0	£0	£0	£2,912,409	£418
Small	18	0.18	100 dph	1,170	1,170	£3,077,890	£474	£1,450,000	£223	£0	£0	£0	£0	£1,627,890	£250
Urban															
Large	40	0.8	50dph	4,440	4,440	£4,659,090	£839	£1,250,000	£225	£0	£0	£0	£0	£3,409,090	£614
Medium	22	0.425	50dph	2,728	2,728	£5,843,046	£910	£1,250,000	£195	£0	£0	£0	£0	£4,593,046	£716
Small	10	0.18	50dph	1,200	1,200	£5,911,327	£887	£1,250,000	£188	£0	£0	£0	£0	£4,661,327	£699
Suburban															
Exceptional	110	2.8	40dph	12,320	12,320	£3,706,637	£842	£1,250,000	£284	£0	£0	£0	£0	£2,456,637	£558
Medium	32	0.8	40dph	3,728	3,728	£4,045,772	£868	£1,250,000	£268	£0	£0	£0	£0	£2,795,772	£600
Small	7	0.18	40dph	854	854	£4,294,419	£905	£1,250,000	£263	£0	£0	£0	£0	£3,044,419	£642
Village/Rural															
Village expansion	105	3.5	30dph	12,810	12,810	£3,185,697	£870	£1,250,000	£342	£0	£0	£0	£0	£1,935,697	£529
Large	24	0.8	30 dph	2,928	2,928	£3,275,829	£895	£1,250,000	£342	£0	£0	£0	£0	£2,025,829	£554
Medium	5	0.18	30 dph	600	600	£3,109,753	£933	£1,250,000	£375	£0	£0	£0	£0	£1,859,753	£558
Small	1	0.045	30 dph	120	120	£2,459,113	£922	£1,250,000	£469	£0	£0	£0	£0	£1,209,113	£453
New Settlement/Extension to Urban Area/Major Village Expansion															
SUE	240	6.00	40 dph	27,960	27,960	£3,744,801	£804	£1,250,000	£268	£0	£0	£0	£0	£2,494,801	£535

Table 6.2: Policy Off Viability Summary Table (medium sales values)

	Number of dwellings	Net Site area ha	Density	Gross Floor Space sq.m	CIL Chargeable Floor Space sq.m	Residual Value Policy Off		Benchmark		Cost of Affordable		Policy Costs		CIL Overage	
						Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Medium value															
City Centre/ City Centre Extension															
Exceptional	300	3.75	80 dph	27,300	27,300	£5,776,968	£794	£1,450,000	£199	£0	£0	£0	£0	£4,326,968	£594
Large	72	0.8	90 dph	6,084	6,084	£6,250,540	£822	£1,450,000	£191	£0	£0	£0	£0	£4,800,540	£631
Medium	38	0.425	90 dph	2,964	2,964	£5,451,929	£782	£1,450,000	£208	£0	£0	£0	£0	£4,001,929	£574
Small	18	0.18	100 dph	1,170	1,170	£4,107,655	£632	£1,450,000	£223	£0	£0	£0	£0	£2,657,655	£409
Urban															
Large	40	0.8	50dph	4,440	4,440	£5,526,130	£996	£1,250,000	£225	£0	£0	£0	£0	£4,276,130	£770
Medium	22	0.425	50dph	2,728	2,728	£6,857,103	£1,068	£1,250,000	£195	£0	£0	£0	£0	£5,607,103	£874
Small	10	0.18	50dph	1,200	1,200	£6,973,446	£1,046	£1,250,000	£188	£0	£0	£0	£0	£5,723,446	£859
Suburban															
Exceptional	110	2.8	40dph	12,320	12,320	£4,384,569	£996	£1,250,000	£284	£0	£0	£0	£0	£3,134,569	£712
Medium	32	0.8	40dph	3,728	3,728	£4,777,855	£1,025	£1,250,000	£268	£0	£0	£0	£0	£3,527,855	£757
Small	7	0.18	40dph	854	854	£5,052,422	£1,065	£1,250,000	£263	£0	£0	£0	£0	£3,802,422	£801
Village/Rural															
Village expansion	105	3.5	30dph	12,810	12,810	£3,748,001	£1,024	£1,250,000	£342	£0	£0	£0	£0	£2,498,001	£683
Large	24	0.8	30 dph	2,928	2,928	£3,854,042	£1,053	£1,250,000	£342	£0	£0	£0	£0	£2,604,042	£711
Medium	5	0.18	30 dph	600	600	£3,654,455	£1,096	£1,250,000	£375	£0	£0	£0	£0	£2,404,455	£721
Small	1	0.045	30 dph	120	120	£2,891,203	£1,084	£1,250,000	£469	£0	£0	£0	£0	£1,641,203	£615
New Settlement/Extension to Urban Area/Major Village Expansion															
SUE	240	6.00	40 dph	27,960	27,960	£4,422,423	£949	£1,250,000	£268	£0	£0	£0	£0	£3,172,423	£681

Table 6.3: Policy Off Viability Summary Table (higher sales values)

	Number of dwellings	Net Site area ha	Density	Gross Floor Space sq.m	CIL Chargeable Floor Space sq.m	Residual Value Policy Off		Benchmark		Cost of Affordable		Policy Costs		CIL Overage	
						Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
High value															
City Centre/ City Centre Extension															
Exceptional	300	3.75	80 dph	27,300	27,300	£6,713,314	£922	£1,450,000	£199	£0	£0	£0	£0	£5,263,314	£723
Large	72	0.8	90 dph	6,084	6,084	£7,453,821	£980	£1,450,000	£191	£0	£0	£0	£0	£6,003,821	£789
Medium	38	0.425	90 dph	2,964	2,964	£6,723,037	£964	£1,450,000	£208	£0	£0	£0	£0	£5,273,037	£756
Small	18	0.18	100 dph	1,170	1,170	£5,652,302	£870	£1,450,000	£223	£0	£0	£0	£0	£4,202,302	£647
Urban															
Large	40	0.8	50dph	4,440	4,440	£6,342,398	£1,143	£1,250,000	£225	£0	£0	£0	£0	£5,092,398	£918
Medium	22	0.425	50dph	2,728	2,728	£7,658,534	£1,193	£1,250,000	£195	£0	£0	£0	£0	£6,408,534	£998
Small	10	0.18	50dph	1,200	1,200	£8,035,564	£1,205	£1,250,000	£188	£0	£0	£0	£0	£6,785,564	£1,018
Suburban															
Exceptional	110	2.8	40dph	12,320	12,320	£4,983,812	£1,133	£1,250,000	£284	£0	£0	£0	£0	£3,733,812	£849
Medium	32	0.8	40dph	3,728	3,728	£5,448,668	£1,169	£1,250,000	£268	£0	£0	£0	£0	£4,198,668	£901
Small	7	0.18	40dph	854	854	£5,729,654	£1,208	£1,250,000	£263	£0	£0	£0	£0	£4,479,654	£944
Village/Rural															
Village expansion	105	3.5	30dph	12,810	12,810	£4,250,388	£1,161	£1,250,000	£342	£0	£0	£0	£0	£3,000,388	£820
Large	24	0.8	30 dph	2,928	2,928	£4,370,642	£1,194	£1,250,000	£342	£0	£0	£0	£0	£3,120,642	£853
Medium	5	0.18	30 dph	600	600	£4,199,157	£1,260	£1,250,000	£375	£0	£0	£0	£0	£2,949,157	£885
Small	1	0.045	30 dph	120	120	£3,323,294	£1,246	£1,250,000	£469	£0	£0	£0	£0	£2,073,294	£777
New Settlement/Extension to Urban Area/Major Village Expansion															
SUE	240	6.00	40 dph	27,960	27,960	£5,043,334	£1,082	£1,250,000	£268	£0	£0	£0	£0	£3,793,334	£814

- 6.5 The tables above show how development viability appears when all policy contexts are taken out of the equation. This enables a benchmark figure upon which comparisons can be made when policy conditions are introduced to the model.
- 6.6 With the baseline figures established, it is necessary to explore the implications of policy requirements and how competing priorities of policy and maintaining development viability within York can be achieved. We noted that the 'overage' identified could be targeted at paying for:
- CIL (which funds infrastructure to support growth), or for
 - affordable housing (via Section 106 affordable housing payments)
 - or a mixture of the two.
- 6.7 As pointed out in the introduction, 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. There is no right answer in this respect - elected members and officers will need to make a choice. We set out below a framework which will inform the decisions that need to be made.

'Policy on' findings

- 6.8 The tables calculate the betterment, or overage produced by each scheme – which is the difference between the residual land value of the scheme and its benchmark land value. This overage is expressed as a maximum sum available for CIL, although this figure could reduce if/when other policy/S106 not already identified are taken account of. Affordable housing requirements and other policy costs will reduce the remaining amount available for CIL. Given the uncertainties surrounding viability appraisal, it is of course an approximate number, surrounded by a wide margin of uncertainty. We take account of this uncertainty in our recommendations.
- 6.9 The tables are presented in the same way as the policy off scenario. The theoretical maximum developer contributions available to pay for CIL, after other policy costs have been paid is therefore shown in the far right column of the summary table below. The modelling has been undertaken at both 20% and 30% affordable housing levels, in line with emerging policy in this respect.

Table 6.4: Policy On Viability Summary Table (lower sales values, 20% affordable housing)

	Number of dwellings	Net Site area ha	Density	Gross Floor Space sq.m	CIL Chargeable Floor Space sq.m	Residual Value Policy Off		Benchmark		Cost of Affordable		Policy Costs		CIL Overage			
						Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Low value																	
City Centre/ City Centre Extension																	
Exceptional	300	3.75	80 dph	27,300	21,840	£4,768,595	£655	£1,450,000	£199	£1,824,576	£251	£653,248	£90	£840,771	£144		
Large	72	0.8	90 dph	6,084	4,867	£5,091,825	£670	£1,450,000	£191	£1,897,506	£250	£695,358	£91	£1,048,961	£172		
Medium	38	0.425	90 dph	2,964	2,371	£4,362,409	£626	£1,450,000	£208	£1,730,976	£248	£651,526	£93	£529,907	£95		
Small	18	0.18	100 dph	1,170	936	£3,077,890	£474	£1,450,000	£223	£1,591,200	£245	£640,800	£99	-£604,110	-£116		
Urban																	
Large	40	0.8	50dph	4,440	3,552	£4,659,090	£839	£1,250,000	£225	£1,371,900	£247	£509,660	£92	£1,527,530	£344		
Medium	22	0.425	50dph	2,728	2,182	£5,843,046	£910	£1,250,000	£195	£1,598,784	£249	£573,139	£89	£2,421,123	£471		
Small	10	0.18	50dph	1,200	960	£5,911,327	£887	£1,250,000	£188	£1,632,000	£245	£625,111	£94	£2,404,216	£451		
Suburban																	
Exceptional	110	2.8	40dph	12,320	9,856	£3,706,637	£842	£1,250,000	£284	£1,092,748	£248	£398,679	£91	£965,210	£274		
Medium	32	0.8	40dph	3,728	2,982	£4,045,772	£868	£1,250,000	£268	£1,151,376	£247	£427,104	£92	£1,217,292	£327		
Small	7	0.18	40dph	854	683	£4,294,419	£905	£1,250,000	£263	£1,171,753	£247	£434,078	£91	£1,438,588	£379		
Village/Rural																	
Village expansion	105	3.5	30dph	12,810	10,248	£3,185,697	£870	£1,250,000	£342	£903,924	£247	£334,860	£91	£696,913	£238		
Large	24	0.8	30 dph	2,928	2,342	£3,275,829	£895	£1,250,000	£342	£903,924	£247	£334,860	£91	£787,045	£269		
Medium	5	0.18	30 dph	600	480	£3,109,753	£933	£1,250,000	£375	£816,000	£245	£312,556	£94	£731,198	£274		
Small	1	0.045	30 dph	120	96	£2,459,113	£922	£1,250,000	£469	£652,800	£245	£250,044	£94	£306,269	£144		
New Settlement/Extension to Urban Area/Major Village Expansion																	
SUE	240	6.00	40 dph	27,960	22,368	£3,744,801	£804	£1,250,000	£268	£1,151,376	£247	£427,104	£92	£916,321	£246		

Table 6.5: Policy On Viability Summary Table (medium sales values, 20% affordable housing)

	Number of dwellings	Net Site area ha	Density	Gross Floor Space sq.m	CIL Chargeable Floor Space sq.m	Residual Value Policy Off		Benchmark		Cost of Affordable		Policy Costs		CIL Overage	
						Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Medium value															
City Centre/ City Centre Extension															
Exceptional	300	3.75	80 dph	27,300	21,840	£5,776,968	£794	£1,450,000	£199	£1,973,088	£271	£653,248	£90	£1,700,632	£292
Large	72	0.8	90 dph	6,084	4,867	£6,250,540	£822	£1,450,000	£191	£2,052,648	£270	£695,358	£91	£2,052,534	£337
Medium	38	0.425	90 dph	2,964	2,371	£5,451,929	£782	£1,450,000	£208	£1,873,248	£269	£651,526	£93	£1,477,156	£265
Small	18	0.18	100 dph	1,170	936	£4,107,655	£632	£1,450,000	£223	£1,723,800	£265	£640,800	£99	£293,055	£56
Urban															
Large	40	0.8	50dph	4,440	3,552	£5,526,130	£996	£1,250,000	£225	£1,485,120	£268	£509,660	£92	£2,281,350	£514
Medium	22	0.425	50dph	2,728	2,182	£6,857,103	£1,068	£1,250,000	£195	£1,729,728	£269	£573,139	£89	£3,304,236	£643
Small	10	0.18	50dph	1,200	960	£6,973,446	£1,046	£1,250,000	£188	£1,768,000	£265	£625,111	£94	£3,330,334	£624
Suburban															
Exceptional	110	2.8	40dph	12,320	9,856	£4,384,569	£996	£1,250,000	£284	£1,182,508	£269	£398,679	£91	£1,553,382	£441
Medium	32	0.8	40dph	3,728	2,982	£4,777,855	£1,025	£1,250,000	£268	£1,246,440	£267	£427,104	£92	£1,854,311	£497
Small	7	0.18	40dph	854	683	£5,052,422	£1,065	£1,250,000	£263	£1,268,540	£267	£434,078	£91	£2,099,804	£553
Village/Rural															
Village expansion	105	3.5	30dph	12,810	10,248	£3,748,001	£1,024	£1,250,000	£342	£978,588	£267	£334,860	£91	£1,184,553	£405
Large	24	0.8	30 dph	2,928	2,342	£3,854,042	£1,053	£1,250,000	£342	£978,588	£267	£334,860	£91	£1,290,594	£441
Medium	5	0.18	30 dph	600	480	£3,654,455	£1,096	£1,250,000	£375	£884,000	£265	£312,556	£94	£1,207,900	£453
Small	1	0.045	30 dph	120	96	£2,891,203	£1,084	£1,250,000	£469	£707,200	£265	£250,044	£94	£683,959	£321
New Settlement/Extension to Urban Area/Major Village Expansion															
SUE	240	6.00	40 dph	27,960	22,368	£4,422,423	£949	£1,250,000	£268	£1,246,440	£267	£427,104	£92	£1,498,879	£402

Table 6.6: Policy On Viability Summary Table (higher sales values, 20% affordable housing)

	Number of dwellings	Net Site area ha	Density	Gross Floor Space sq.m	CIL Chargeable Floor Space sq.m	Residual Value Policy Off		Benchmark		Cost of Affordable		Policy Costs		CIL Overage		
						Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	
High value																
City Centre/ City Centre Extension																
Exceptional	300	3.75	80 dph	27,300	21,840	£6,713,314	£922	£1,450,000	£199	£2,110,992	£290	£653,248	£90	£2,499,074	£429	
Large	72	0.8	90 dph	6,084	4,867	£7,453,821	£980	£1,450,000	£191	£2,213,757	£291	£695,358	£91	£3,094,706	£509	
Medium	38	0.425	90 dph	2,964	2,371	£6,723,037	£964	£1,450,000	£208	£2,039,232	£292	£651,526	£93	£2,582,279	£463	
Small	18	0.18	100 dph	1,170	936	£5,652,302	£870	£1,450,000	£223	£1,922,700	£296	£640,800	£99	£1,638,802	£315	
Urban																
Large	40	0.8	50dph	4,440	3,552	£6,342,398	£1,143	£1,250,000	£225	£1,591,710	£287	£509,660	£92	£2,991,028	£674	
Medium	22	0.425	50dph	2,728	2,182	£7,658,534	£1,193	£1,250,000	£195	£1,833,216	£286	£573,139	£89	£4,002,180	£779	
Small	10	0.18	50dph	1,200	960	£8,035,564	£1,205	£1,250,000	£188	£1,904,000	£286	£625,111	£94	£4,256,453	£798	
Suburban																
Exceptional	110	2.8	40dph	12,320	9,856	£4,983,812	£1,133	£1,250,000	£284	£1,261,849	£287	£398,679	£91	£2,073,284	£589	
Medium	32	0.8	40dph	3,728	2,982	£5,448,668	£1,169	£1,250,000	£268	£1,333,548	£286	£427,104	£92	£2,438,016	£654	
Small	7	0.18	40dph	854	683	£5,729,654	£1,208	£1,250,000	£263	£1,355,013	£286	£434,078	£91	£2,690,563	£709	
Village/Rural																
Village expansion	105	3.5	30dph	12,810	10,248	£4,250,388	£1,161	£1,250,000	£342	£1,045,296	£286	£334,860	£91	£1,620,232	£553	
Large	24	0.8	30 dph	2,928	2,342	£4,370,642	£1,194	£1,250,000	£342	£1,045,296	£286	£334,860	£91	£1,740,486	£594	
Medium	5	0.18	30 dph	600	480	£4,199,157	£1,260	£1,250,000	£375	£952,000	£286	£312,556	£94	£1,684,602	£632	
Small	1	0.045	30 dph	120	96	£3,323,294	£1,246	£1,250,000	£469	£761,600	£286	£250,044	£94	£1,061,649	£498	
New Settlement/Extension to Urban Area/Major Village Expansion																
SUE	240	6.00	40 dph	27,960	22,368	£5,043,334	£1,082	£1,250,000	£268	£1,333,548	£286	£427,104	£92	£2,032,682	£545	

- 6.10 The findings set out above show the cumulative impact of 20% affordable housing (the proposed policy level for brownfield sites of over 15 units) and the costs of all of the other policy requirements identified for each archetype and at each value scenario. Where the numbers in the final columns are positive (shown in black), then that archetype at the assumed value scenario can be considered viable in the context of the cumulative impact of all policy costs. Where the figure is negative (shown in red), that archetype should be considered unviable.
- 6.11 All bar one of the 45 appraisals are shown to be viable, taking account of the cumulative impact of all policy costs, including affordable housing. The one archetype shown to be unviable is the small city centre site and this is only unviable at the lowest sales values. Where the medium or higher values are assumed, the same archetype is shown to be viable. It is likely that higher sales values will be achieved in the City Centre, relative to less central locations. Therefore, this finding does not call into question the viability of the plan. In any case, the delivery of the plan is not reliant on small city centre sites.
- 6.12 The corresponding findings assuming 30% affordable housing (the proposed policy level for greenfield sites over 15 units) are set out in Tables 6.7 – 6.9 below.

Table 6.7: Policy On Viability Summary Table (lower sales values, 30% affordable housing)

	Number of dwellings	Net Site area ha	Density	Gross Floor Space sq.m	CIL Chargeable Floor Space sq.m	Residual Value Policy Off		Benchmark		Cost of Affordable		Policy Costs		CIL Coverage	
						Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Low value															
City Centre/ City Centre Extension															
Exceptional	300	3.75	80 dph	27,300	19,110	£4,768,595	£655	£1,450,000	£199	£2,736,864	£376	£653,248	£90	-£71,517	-£14
Large	72	0.8	90 dph	6,084	4,259	£5,091,825	£670	£1,450,000	£191	£2,846,259	£374	£695,358	£91	£100,208	£19
Medium	38	0.425	90 dph	2,964	2,075	£4,362,409	£626	£1,450,000	£208	£2,596,464	£372	£651,526	£93	-£335,581	-£69
Small	18	0.18	100 dph	1,170	819	£3,077,890	£474	£1,450,000	£223	£2,386,800	£367	£640,800	£99	-£1,399,710	-£308
Urban															
Large	40	0.8	50dph	4,440	3,108	£4,659,090	£839	£1,250,000	£225	£2,057,850	£371	£509,660	£92	£841,580	£217
Medium	22	0.425	50dph	2,728	1,910	£5,843,046	£910	£1,250,000	£195	£2,398,176	£374	£573,139	£89	£1,621,731	£361
Small	10	0.18	50dph	1,200	840	£5,911,327	£887	£1,250,000	£188	£2,448,000	£367	£625,111	£94	£1,588,216	£340
Suburban															
Exceptional	110	2.8	40dph	12,320	8,624	£3,706,637	£842	£1,250,000	£284	£1,639,122	£373	£398,679	£91	£418,836	£136
Medium	32	0.8	40dph	3,728	2,610	£4,045,772	£868	£1,250,000	£268	£1,727,064	£371	£427,104	£92	£641,604	£197
Small	7	0.18	40dph	854	598	£4,294,419	£905	£1,250,000	£263	£1,757,630	£370	£434,078	£91	£852,711	£257
Village/Rural															
Village expansion	105	3.5	30dph	12,810	8,967	£3,185,697	£870	£1,250,000	£342	£1,355,886	£370	£334,860	£91	£244,951	£96
Large	24	0.8	30 dph	2,928	2,050	£3,275,829	£895	£1,250,000	£342	£1,355,886	£370	£334,860	£91	£335,083	£131
Medium	5	0.18	30 dph	600	420	£3,109,753	£933	£1,250,000	£375	£1,224,000	£367	£312,556	£94	£323,198	£139
Small	1	0.045	30 dph	120	84	£2,459,113	£922	£1,250,000	£469	£979,200	£367	£250,044	£94	-£20,131	-£11
New Settlement/Extension to Urban Area/Major Village Expansion															
SUE	240	6.00	40 dph	27,960	19,572	£3,744,801	£804	£1,250,000	£268	£1,727,064	£371	£427,104	£92	£340,633	£104

Table 6.8: Policy On Viability Summary Table (medium sales values, 30% affordable housing)

	Number of dwellings	Net Site area ha	Density	Gross Floor Space sq.m	CIL Chargeable Floor Space sq.m	Residual Value Policy Off		Benchmark		Cost of Affordable		Policy Costs		CIL Coverage	
						Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Medium value															
City Centre/ City Centre Extension															
Exceptional	300	3.75	80 dph	27,300	19,110	£5,776,968	£794	£1,450,000	£199	£2,959,632	£407	£653,248	£90	£714,088	£140
Large	72	0.8	90 dph	6,084	4,259	£6,250,540	£822	£1,450,000	£191	£3,078,972	£405	£695,358	£91	£1,026,210	£193
Medium	38	0.425	90 dph	2,964	2,075	£5,451,929	£782	£1,450,000	£208	£2,809,872	£403	£651,526	£93	£540,532	£111
Small	18	0.18	100 dph	1,170	819	£4,107,655	£632	£1,450,000	£223	£2,585,700	£398	£640,800	£99	-£568,845	-£125
Urban															
Large	40	0.8	50dph	4,440	3,108	£5,526,130	£996	£1,250,000	£225	£2,227,680	£401	£509,660	£92	£1,538,790	£396
Medium	22	0.425	50dph	2,728	1,910	£6,857,103	£1,068	£1,250,000	£195	£2,594,592	£404	£573,139	£89	£2,439,372	£543
Small	10	0.18	50dph	1,200	840	£6,973,446	£1,046	£1,250,000	£188	£2,652,000	£398	£625,111	£94	£2,446,334	£524
Suburban															
Exceptional	110	2.8	40dph	12,320	8,624	£4,384,569	£996	£1,250,000	£284	£1,773,762	£403	£398,679	£91	£962,128	£312
Medium	32	0.8	40dph	3,728	2,610	£4,777,855	£1,025	£1,250,000	£268	£1,869,660	£401	£427,104	£92	£1,231,091	£377
Small	7	0.18	40dph	854	598	£5,052,422	£1,065	£1,250,000	£263	£1,902,810	£401	£434,078	£91	£1,465,534	£441
Village/Rural															
Village expansion	105	3.5	30dph	12,810	8,967	£3,748,001	£1,024	£1,250,000	£342	£1,467,882	£401	£334,860	£91	£695,259	£271
Large	24	0.8	30 dph	2,928	2,050	£3,854,042	£1,053	£1,250,000	£342	£1,467,882	£401	£334,860	£91	£801,300	£313
Medium	5	0.18	30 dph	600	420	£3,654,455	£1,096	£1,250,000	£375	£1,326,000	£398	£312,556	£94	£765,900	£328
Small	1	0.045	30 dph	120	84	£2,891,203	£1,084	£1,250,000	£469	£1,060,800	£398	£250,044	£94	£330,359	£177
New Settlement/Extension to Urban Area/Major Village Expansion															
SUE	240	6.00	40 dph	27,960	19,572	£4,422,423	£949	£1,250,000	£268	£1,869,660	£401	£427,104	£92	£875,659	£268

Table 6.9: Policy On Viability Summary Table (higher sales values, 30% affordable housing)

	Number of dwellings	Net Site area ha	Density	Gross Floor Space sq.m	CIL Chargeable Floor Space sq.m	Residual Value Policy Off		Benchmark		Cost of Affordable		Policy Costs		CIL Overage	
						Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
High value															
City Centre/ City Centre Extension															
Exceptional	300	3.75	80 dph	27,300	19,110	£6,713,314	£922	£1,450,000	£199	£3,166,488	£435	£653,248	£90	£1,443,578	£283
Large	72	0.8	90 dph	6,084	4,259	£7,453,821	£980	£1,450,000	£191	£3,320,636	£437	£695,358	£91	£1,987,828	£373
Medium	38	0.425	90 dph	2,964	2,075	£6,723,037	£964	£1,450,000	£208	£3,058,848	£439	£651,526	£93	£1,562,663	£320
Small	18	0.18	100 dph	1,170	819	£5,652,302	£870	£1,450,000	£223	£2,884,050	£444	£640,800	£99	£677,452	£149
Urban															
Large	40	0.8	50dph	4,440	3,108	£6,342,398	£1,143	£1,250,000	£225	£2,387,565	£430	£509,660	£92	£2,195,173	£565
Medium	22	0.425	50dph	2,728	1,910	£7,658,534	£1,193	£1,250,000	£195	£2,749,824	£428	£573,139	£89	£3,085,572	£687
Small	10	0.18	50dph	1,200	840	£8,035,564	£1,205	£1,250,000	£188	£2,856,000	£428	£625,111	£94	£3,304,453	£708
Suburban															
Exceptional	110	2.8	40dph	12,320	8,624	£4,983,812	£1,133	£1,250,000	£284	£1,892,774	£430	£398,679	£91	£1,442,359	£468
Medium	32	0.8	40dph	3,728	2,610	£5,448,668	£1,169	£1,250,000	£268	£2,000,322	£429	£427,104	£92	£1,771,242	£543
Small	7	0.18	40dph	854	598	£5,729,654	£1,208	£1,250,000	£263	£2,032,520	£428	£434,078	£91	£2,013,056	£606
Village/Rural															
Village expansion	105	3.5	30dph	12,810	8,967	£4,250,388	£1,161	£1,250,000	£342	£1,567,944	£428	£334,860	£91	£1,097,584	£428
Large	24	0.8	30 dph	2,928	2,050	£4,370,642	£1,194	£1,250,000	£342	£1,567,944	£428	£334,860	£91	£1,217,838	£475
Medium	5	0.18	30 dph	600	420	£4,199,157	£1,260	£1,250,000	£375	£1,428,000	£428	£312,556	£94	£1,208,602	£518
Small	1	0.045	30 dph	120	84	£3,323,294	£1,246	£1,250,000	£469	£1,142,400	£428	£250,044	£94	£680,849	£365
New Settlement/Extension to Urban Area/Major Village Expansion															
SUE	240	6.00	40 dph	27,960	19,572	£5,043,334	£1,082	£1,250,000	£268	£2,000,322	£429	£427,104	£92	£1,365,908	£419

- 6.13 The tables above show that the cumulative impact of an increase to a 30% provision of affordable housing along with that of all other policy requirements identified does impact on the viability of some archetypes. At the lower level of sales values, three of the four city centre archetypes are shown to be unviable. However, given that the 30% affordable housing rate only applies to greenfield schemes, and that it is highly unlikely that there are any greenfield sites in the city centre, this finding is not relevant and does not call into question the viability of deliverability of the plan.
- 6.14 The smallest of the 'Rural/Villages' archetypes is also shown to be unviable at the lowest level of sales values, although only by a very small margin – equating to just £11 per sq. m when applied to the chargeable floorspace. The implementation of the Local Plan is not dependent on such sites, which are expected to form only a small proportion of the City's future housing supply. In any case, the majority of such sites will be viable, as shown by the findings in respect of the medium and higher sales value scenarios for the same archetype.

Conclusions

- 6.15 Very few of the archetypes assessed were shown to be unviable in the context of the cumulative impact of all policy requirements, including affordable housing – even at the lower sales value scenario. The evidence shows that most sites will be able to accommodate the principal policy requirements of the Preferred Options Local Plan. It is clear, therefore, that when looked at as a whole (cumulatively) and before consideration of CIL, that the residential development and the policy requirements proposed to be placed on it (as envisaged in the Preferred Options Local Plan) should be considered viable. The level of viability shown, suggests that even were S106 costs to be higher than currently taken into account, then the vast majority of scenarios would remain viable.
- 6.16 That is not to say, however, that all sites within York will be viable. Development is unavoidably uncertain and generic assessments of viability as undertaken here have a significant margin of error. Some sites, by virtue of site-specific characteristics and constraints may well be unviable. That said, one would expect that the cost of putting right site-specific development constraints should be reflected in land prices.
- 6.17 As a future phase of this work, an assessment of infrastructure required to enable the proposed level of growth in York will be undertaken, providing an estimate of the cost of delivering it and quantifying known sources of funding available for it. This, along with the findings of the viability assessments set out above, will inform conclusion with respect to the potential for CIL to be introduced in York and recommendations as to charging levels.

7 NON-RESIDENTIAL VIABILITY ASSESSMENT: METHOD

Introduction

- 7.1 This section of the report sets out how the approach assessing the viability of non-residential forms of development, differs slightly from that for residential development and applies a different model.

Method

- 7.2 The viability assessment model for non-residential development assesses a single square metre of development, in order to directly demonstrate any potential CIL charge rate on a per sq. m basis.
- 7.3 Whilst our approach to assessing non-residential development is still a 'residual value' assessment, rather than assuming a fixed level of developer's profit and having the output measure being a residual land value to compare against a benchmark (as with the residential model), the non-residential model assumes a fixed land value and the output measure is a residual level of developer's profit that can be compared against benchmark profit levels. This method is known as a profit residual and is used simply because it takes us to the scope for a charge more efficiently in the case of non-residential development.
- 7.4 In identifying appropriate assumptions in terms of rental values, yields and so on, some consideration has to be given to the likely nature of development to come forward. For example, a typical town centre office development this is likely to be 4-6 storeys at say 80% site coverage. At business park locations, office development is more likely to be 2 or 3 storeys and site coverage more like 40%. Typical industrial development is, of course, single storey and with site coverage also in the region of 40%. These figures do not feed directly in to the model, but rather inform the assumptions made in other respects.

Information Sources

- 7.5 The approach taken to establishing the likely values of new development is to review recent rental and investment transactions in York. The transactional data is derived from the Focus/CoStar database, which provides details of the vast majority of transactions, broken down by use. The information includes some or all of the following:
- The address of the property;
 - Names of the lessor and lessee and their respective agents;
 - The size of the property;
 - The length of the lease and other key terms;
 - Quoting and/or the achieved rental value on leases;
 - The price paid/capital value and yield on investment purchases.
- 7.6 The analysis of transactional data from Focus/CoStar focussed specifically on more modern accommodation in similar locations to where future growth is envisaged, wherever possible, so that the information gleaned from the transactions was most relevant and comparable to the types and locations of development likely to occur. Where adequate volumes of

transactional data for directly comparable property was not readily available, assumptions were based on informed judgement as to the likely values that new development (of the type envisaged and in the locations proposed) would attract, combined with findings of consultations with agents and developers.

- 7.7 Cost data for office and industrial development types have principally been sourced from the BCIS index of construction prices. This provides build costs for a wide range of different forms of development indexed for York. In order to properly reflect the cost implications of the Council's policy aspirations for BREEAM standards as well as grade A office accommodation, an average of the mean and the upper quartile average build costs have been applied.
- 7.8 In addition to transactional data that provides intelligence on prevailing yields for different property types in York, we also took account of recently published market commentaries by major commercial property agents. Most notable amongst these is CBRE's 'Prime Rent and Yield Monitor Q1 2012'. As necessary, adjustments were made to the figures quoted by CBRE to take account of the relative attractiveness of York and the prime locations.
- 7.9 Our initial conclusions on rental values and yields are then tested against consultations with local agents and developers who are active in the York market, with revisions made to reflect comments received where it was justified by evidence to do so.
- 7.10 The assumptions on land and purchase costs have been derived from the Valuation Office Agency's Property Market Reports, specifically the July 2009 version (the most recent to include figures for York) and the January 2011 version (the latest report, but which only provides figures for Leeds and Sheffield in Yorkshire and The Humber). These reports provide information on the value of a cleared development site situated in an established industrial location with a site area of 0.5 to 1.0 hectare. In addition, it has been assumed that development will be restricted to industry or warehousing and other provisions based on market expectations for the locality. This information was supplemented by consultations with local agents and developers.
- 7.11 Circumstantial evidence on the appetite for development was also taken into account. An absence of existing buildings or proposals for certain types of development which might be expected to be acceptable in suitable locations is taken as prima facie evidence that achieving viability is a challenge. Put more simply, if no development of a particular type is taking place, then this fact can form part of the evidence base that it isn't viable; whereas if there is significant pressure for a certain type of development, then it can be used as part of the evidence of its viability.

Common assumptions

- 7.12 A number of the assumptions made by the model are common to all types of non-residential development. These assumptions are based upon industry standards and are summarised as follows:
- External works at 10% of build cost;
 - Professional fees at 10-12% of build costs, depending on use;

- Likely residual s.106/278 contributions based on experience of developments elsewhere and the type of development expected to come forward in Harrogate;
- Marketing and cost of sales at 5% of development value;
- Contingency at 5% of costs;
- Interest at 10% on all costs (excluding developer's margin) broadly equating to an annual rate of 7% on an 18 month build period; and
- Developer's margin at 20% of cost.

Consultation findings

- 7.13 Local agents were able to provide a significant amount of information with regard to commercial properties in and around York. A mixed picture was given for the three components of commercial property that are used in this study.
- 7.14 Office accommodation is currently in surplus with a large number of units being left empty. Agents suggested there has been about a 20% drop in rental values compared to the peak of the market. A typical rent that could be achieved on existing office stock in the city is considered to be about £110 per sq. m. Tenants who take up office space tend not to have a strong covenant and so yields have seen an increase to near 10%, although some strengthening in yields and increases in rental values could be considered likely when wider economic conditions improve following the emergence from recession.
- 7.15 The industrial market is considered to be relatively strong at the moment in York, particularly in comparison with the office market. There is thought to be particular demand for larger units of 2,000 – 3,000 sq. m. Achievable rents in the current market range from £50 per sq. m. for larger spaces (over 2,000 sq. m), increasing to £70 per sq. m. for smaller units around 1,000 sq. m. and again to £80 per sq. m. for small start-up units. Yields are holding at about 8.5%. The fact that rental values and yields have remained reasonably healthy suggests that the supply and demand relationship is remains well balanced, which could be a function of constrained supply in recent years, or higher demand in the local economy ha might be expected.
- 7.16 Retail demand is considered to be currently healthy in the City, with on-going demand for city centre space in the prime locations. Previous work undertake by Deloitte suggests Zone A rental values (i.e. the value attributed to that proportion of a high street unit closest to the frontage) in the region of £1,000 - £2,000 per sq. m, although these values will vary hugely depending on location. (It should be noted that the assessment undertaken as part of this study applies overall rental values for high street retail, rather than zoned approach.) Outside of the city centre recent applications and development pressures for both retail warehousing and supermarkets are evidence of strong demand and values.

8 OFFICE VIABILITY

Introduction

- 8.1 This section of the report sets out our findings with respect of office development in York. It considers current market conditions, shows how we arrive at the assumptions the feed in to our viability assessments and draws conclusions on the viability of office development.

Market overview

- 8.2 In order to inform our viability assessments, PBA has undertaken an in-depth analysis of recent transactional data relating to lettings and sales of office floorspace in York. The aim of this analysis is to enable conclusions to be drawn principally with respect to prevailing rental values and the likely yields on office properties. This analysis is supplemented by detailed consultations with local commercial property agents and review of any other published information available.
- 8.3 Historically, employment uses associated with the city have had a strong link with the East Coast Mainline that passes through it and have primarily been of an industrial nature. However, as these industrial sectors have declined, the tertiary sector has developed and become one of the main employment sectors in the area, most notably the banking and finance sectors.
- 8.4 From PBA research, the market in York comprises a combination of national businesses as well as smaller local businesses, reflecting the wider structure of the local economy. The city is strategically located at a point that is within relatively close proximity to Leeds, as well as Middlesbrough and Newcastle. Combine this with its role as an economic driver for the smaller centres located around it, such as Malton and Selby, it provides an attractive proposition to a potential tenant.
- 8.5 A key characteristic of the city is its historic nature. The historic core means that there is limited scope for large scale office developments to be located centrally, and as such, many of the larger scale office developments are located on the edge of the city. Whilst there is still some office provision within the centre, the type and range of stock is more limited.
- 8.6 As mentioned above, the historical nature of the city has meant that new build office accommodation has had to be provided out of the centre. As a result of this, a number of key employment areas have developed where the majority of office space is located. The key areas identified include Clifton Moor, Monks Cross and York Business Park. These three areas are all located to the north of the city, and whilst a number of use classes are situated in these sites, office provision makes up a significant proportion.
- 8.7 Given the contrasts in office provision in York, research into recent transactions has shown a significant range in the rental values achieved - location, the quality of space and unit size will all have bearings on the rents achieved. Our research suggests that office rental values in both business park locations as well as in the city centre, are in the region of £15 per sq. ft (£160 per sq. m) for good quality modern accommodation.

- 8.8 There are few freehold sales on which to based robust conclusions on yields for office development. From the available information and consultations with agents, we estimate office yields in York to be 8-9% on the basis that York has consistently out-performed other locations in the sub-region (the business parks in York identified at para 8.6 above, are considered to be performing better than similar developments in Harrogate, for example) and there is continued demand for high quality office space within the city to cater for the needs of the evolving local economy.

Assumptions

- 8.9 From our market research, the following assumptions have been made and will be used in the viability modelling:
- Achievable rents at £160 per sq. m;
 - Yields at 8%;
 - Basic build costs for town centre office development at £1,300 per sq. m and for business park offices at £1,150 per sq. m.

Viability analysis

Scenarios tested

- 8.10 The assumptions that were made from the research that has been carried out, have been inputted into viability appraisals for potential office developments. The appraisals are shown in table 8.1 below.

Table 8.1 Office Development Viability Appraisal

		Town Centre Office	Business Park Office
Rent		£160	£160
Yield %		8.00	8.00
Minus inducements	1	200	200
VALUES	2	1,800	1,800
COSTS	2		
Land + Purchase Costs	3	200	40
Basic Build Cost		1,300	1,150
External Works	4	65	115
Fees	5	137	127
Section 106/278	6	0	10
Marketing & Sales		90	90
Contingencies	7	75	70
Interest	8	170	144
Margin	9	407	347
Total Cost		2,444	2,092
Surplus/Deficit		-644	-292
Surplus/Deficit % on cost		-26%	-14%

Notes
1. A reduction of 10% of development value is made to reflect current market norms for rent free periods and other tenant inducements
2. All values and costs per m ² unless stated
3. The total cost of purchasing land, including related costs. It is assumed that this will be higher in urban areas.
4. Works outside built structure. Higher where extensive servicing and landscaping is required. Usually negligible in town centres.
5. Fees are higher for smaller and/or more complex structures.
6. Site/development specific mitigation such as on-site and access or public realm works close to it.
7. Contingencies at 5% of costs
8. Interest costs vary with the nature and length of a typical project.
9. Profit normally allowed at 20% on all costs and effectively assumed development is speculative.

Findings

- 8.11 It is clear to see from table 8.1 that, whilst there may be demand for office space in the city as previously highlighted, bringing forward a speculative office scheme is unlikely to be viable in current market conditions. This result is not specific to York. Experience has shown that speculative office development, in the current climate, is only viable within London, across the rest of the country schemes of this nature are wholly unviable.
- 8.12 That is not to say, however, that no office development will take place. Where a developer can attract a substantial pre-let or space is sought by an owner occupier whose property needs have changed may well lead to office development taking place.
- 8.13 It is also likely that wider economic conditions will improve over the plan period. This will have a materially beneficial impact on the viability of office development in York because the perceived risk will fall and yields will fall accordingly, whilst rental values are also likely to rise as businesses seek to growth, demand more space and hoard less cash. Relatively small changes in rental values and yields, which are certainly within the range of foreseeable market change over the next 5 years, could well see a return to viability of speculative office development in York. For example, if rents for business park offices were to increase by 10%, which equates to £16 per sq. m (£1.50 per sq. ft) and yields were to fall by 0.5%, then development may become viable (albeit very marginally so).
- 8.14 The fact that speculative office development is not currently viable is not a result of existing or proposed policy requirements of the council, which are minimal in any case, but rather as a result of wider economic conditions and their impact on development values.

9 INDUSTRIAL AND WAREHOUSING

9.1 We have appraised industrial and warehouse space as a single use, covering use classes B1c (light industrial), B2 (general industrial) and B8 (warehousing and distribution). Most of the new space developed is likely to consist of small units, largely occupied by services and light industry rather than traditional manufacturing.

Market overview

9.2 As has been highlighted in the previous section, the industrial economy in York has been in decline for a number of years now. Manufacturing works associated with the railway are closing down, the once buoyant confectionary industry has also seen decline. The gaps that have been left in the employment market by this decline have been taken up by emerging office based businesses.

9.3 Researching recent transactions that have taken place it has been possible to gain an understanding of the prevalent market conditions that will inform the viability assessment. The transactional data has shown that there is a broad range of industrial stock that is being taken up across the city, ranging from small workshop units to larger industrial and distribution sheds.

9.4 From our analysis of the data available, industrial rents in York show variations depending on the quality of space and its location. Headline rents are around £65 per sq. m.

9.5 There are four main areas where the majority of transactions have taken place, these are York Business Park, Clifton Moor, Stirling Park and Hazel Court. York Business Park has shown that rents of between £60 and £85 per sq. m are being achieved (albeit with the higher rents being on relatively small units).

9.6 Clifton Moor appears to achieve higher rental values than York Business Park. Rents at Stirling Park appear lower again, although the units are generally larger ones and as such lower per sq. m rental values would be expected. Current rents at Sterling Park are in the region of £50 - £60 per sq. m.

9.7 From the market research that has been carried out, the following assumptions have been made which have been inputted into the viability appraisal model:

- Achievable rents at £65 per sqm;
- Yields of 8.5%;
- Basic build costs at £780 per sqm.

Viability assessment

9.8 Using the same approach as for the office developments above, the assumptions gathered have been put into the viability model. The results of which are shown below in table 9.1 below.

Table 9.1 Industrial Development Viability Appraisal

		Industrial
Rent		£65
Yield %		8.50
Minus inducements	1	76
VALUES	2	688
COSTS	2	
Land + Purchase Costs	3	40
Basic Build Cost		600
External Works	4	60
Fees	5	66
Section 106/278	6	10
Marketing & Sales		34
Contingencies	7	36
Interest	8	78
Margin	9	183
Total Cost		1,107
Surplus/Deficit		-419
Surplus/Deficit % on cost		-38%

Notes

1. A reduction of 10% of development value is made to reflect current market norms for rent free periods and other tenant inducements
2. All values and costs per m² unless stated
3. The total cost of purchasing land, including related costs. It is assumed that this will be higher in urban areas.
4. Works outside built structure. Higher where extensive servicing and landscaping is required. Usually negligible in town centres.
5. Fees are higher for smaller and/or more complex structures.
6. Site/development specific mitigation such as on-site and access or public realm works close to it.
7. Contingencies at 5% of costs
8. Interest costs vary with the nature and length of a typical project.
9. Profit normally allowed at 20% on all costs and effectively assumed development is speculative.

Findings

- 9.9 The assessment shows that speculative industrial development is unlikely to be viable in current market conditions. The position is similar to that of office development in that very little, if any, speculative industrial development is currently taking place outside of Greater London but that is not to say no development of industrial floorspace will take place. Where developer can attract a pre-let or space is sought by an owner occupier whose property needs have changed may well lead to development taking place.
- 9.10 It is also likely that wider economic conditions will improve over the plan period. This will have a materially beneficial impact on the viability industrial development as perceived risk and the yields associated to it will fall, whilst rental values may rise as businesses seek to expand to meet increased (post-recession) demand. Relatively small changes in rental values and yields, within the range of foreseeable market change over the next 5 years, could well see a return to viability of speculative industrial development in York. For

example, if rental values increased to £80 and yields were to fall to 7.5%, then the deficit would fall to just 15% of cost.

- 9.11 The fact that speculative industrial development is not currently viable is not a result of existing or proposed policy requirements of the council, which are minimal in any case, but rather as a result of wider economic conditions and their impact on development values.

10 RETAIL VIABILITY

10.1 We have looked at both comparison and convenience retailing when developing our evidence and both in town and edge of town.

Defining retail categories

10.2 In this analysis of retail viability, we make an important distinction between convenience and comparison units. These distinctions are based on the definitions provided at Annex B of PPS4,²⁵ which we have slightly reworded to fit the present context (the Annex B definition discussion applies to goods, but we wish to define the sales units in which those goods are sold).

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

- A *convenience unit* is a shop or store selling mainly everyday essential items, including food, drinks, newspapers/magazines and confectionery.
- A *comparison unit* is a shop or store selling mainly goods which are not everyday essential items. Such items include clothing, footwear, household and recreational goods.

10.4 Some stores sell a mixture of convenience and comparison goods. In those instances, a store should be categorised as being having convenience or comparison status according to its main use (our definition above defines convenience and comparison units as shops or stores selling *mainly* these types of items). We have used this phrasing carefully, and in this have taken the lead from the way that PPS4 defines superstores.²⁶

10.5 Additional precision on the types of goods sold in convenience and comparison stores can be taken from Appendix A of the PPS4 companion document *Practice guidance on need, impact and the sequential approach*.²⁷ It is worth noting that this document remains in use following the March 2012 introduction of the NPPF.

²⁵ DCLG (2009) *Planning Policy Statement 4: Planning for Sustainable Economic Growth*

²⁶ DCLG (2009) *Planning Policy Statement 4: Planning for Sustainable Economic Growth* (27) Annex B provides the following definition. Superstores: Self-service stores selling **mainly** food, or food and non-food goods, usually with more than 2,500 square metres trading floorspace, with supporting car parking.

²⁷ DCLG (2009) *Practice guidance on need, impact and the sequential approach*. Appendix A lists Convenience goods as follows: food and non-alcoholic beverages, Tobacco, Alcoholic beverages (off-trade), newspapers and periodicals, non-durable household goods. Appendix A lists Comparison goods as follows: Clothing materials & garments, Shoes & other footwear, Materials for maintenance & repair of dwellings, Furniture & furnishings; carpets & other floor coverings, Household textiles, Major household appliances, whether electric or not, Small electric household appliances, Tools & miscellaneous accessories, Glassware, tableware & household utensils, Medical goods & other pharmaceutical products,

- 10.6 The definitions provided above do not rely on PPS4, because we do not rely on PPS4 to support a particular policy stance, or use it to justify a particular definition. Rather, we use PPS4 as analytical support to help us clearly distinguish between particular types of retailing commonly observable in the marketplace, and to provide reassurance that these distinctions are not ours alone.

Market overview

Comparison retailing

- 10.7 Work by Deloitte on the future for retailing is pessimistic, suggesting that ‘reductions in store numbers of 30-40% are foreseeable over the next 3-5 years.’²⁸ The effects are seen to be increased vacancy rates, decreasing prime rents, and increasingly flexible rental terms, including shorter rental terms, lease free periods, shorter break clauses and monthly, as opposed to quarterly, rents.²⁹ Other reports describe a similar picture.³⁰
- 10.8 Within the category of comparison retailing, it is possible to make a useful distinction between town centre high-street type retailing and edge of town centre shed-type retailing.

Town centre high-street type retailing

- 10.9 With the exception of Central London, town centre (high street) comparison retailing in the UK is in a period of transition. The majority of comparison retail-led regeneration schemes have stalled due to a combination of weak consumer demand, constraints on investment capital and poor retail occupier performance. There have been a number of insolvencies, and the traditional high-street operators are frequently struggling, particularly in secondary retail locations such as those in York’s city centres. Colliers retail market report (Autumn 2011) states that ‘Secondary retail locations will continue to suffer as a result of the growing consumer trend of fewer shopping trips and the focus on the large retail destinations and online. Furthermore, daily/weekly shopping that would once have taken place in the local town centre is increasingly shifting to supermarkets, which now provide a wide range of comparison goods and services alongside the traditional convenience offer. Put simply, many towns do not need the same number of shops that historical trends justified and, thus, unless this outdated retail stock is converted into another use, the vitality of these town centres will continue to diminish’.
- 10.10 Developers in the sector have therefore been going through a process of redesigning existing schemes in order to make them deliverable in the current economic climate and more appropriate to future consumer demand. This has often involved reducing the scale of potential developments and targeting better quality, financially stable retail operators.

Therapeutic appliances & equipment, Bicycles, Recording media, Games, toys & hobbies; sport & camping equipment; musical instruments, Gardens, plants & flowers, Pets & related products, Books & stationery, Audio-visual, photographic and information processing equipment, Appliances for personal care, Jewellery, watches & clocks, Other personal effects.

²⁸ Deloitte (2012) *The changing face of retail: The store of the future* (2) see https://www.deloitte.com/view/en_GB/uk/industries/consumer-business/28098047f3685310VgnVCM3000001c56f00aRCRD.htm

²⁹ Ibid (9)

³⁰ Financial Times December 29 2011 *UK retail insolvencies expected to soar*

- 10.11 York could be considered to be bucking the trend of other retail centres. The high quality of the built environment, the link with the historical origins of the city as well as the unique architecture makes for an attractive area which shoppers are drawn to. The retail experience that is on offer in the centre is different to that of the other retail centres in close proximity and therefore provides a unique option for retailers to locate.
- 10.12 From the market research that has been carried out it can be seen that the retail market is one that is particularly buoyant with a significant number of transactions taking place. The data collected provides detailed information in relation to both town centre and out of centre retail.
- 10.13 Town centre retail units have shown rents that are currently being achieved in York range from £150 per sq. m (on an overall basis) at the bottom end of the scale up to, in some cases c£400 per sq m (overall) and above. Clearly, 'Zone A' rents will be significantly higher as these relate only to the most valuable floorspace closest to the frontage of the unit.
- 10.14 The data collected highlights a number of national multiple retailers that have taken space within the town centre. These include the likes of WHSmith, Go Outdoors, Joules Clothing, Hotel Chocolat as well as Wagamama and YO! Sushi. This shows that there is a level of confidence in the retail sector in the city compared to other locations. Add to this a number of smaller local retailers, a bespoke shopping experience is offered that helps the centre to compete with the larger ones surrounding it.
- 10.15 York City Centre, whilst providing a unique opportunity through the historic backdrop, also experiences constraints from this same factor. In order for the centre to be able to maintain its competitive edge over other retail centres it needs to be able to evolve. The historic nature of the centre restricts this possibility though of bringing forward modern retail space as there are too many constraints restricting developments.
- 10.16 One particular problem that is arrived at when trying to assess market values for retail premises in central locations is the impact on zonal rents, especially in an historic centre such as York's. To overcome this, the research that has been carried out is in relation to the overall rents that are achieved for retail premises so that rent zones are removed from the equation, thus simplifying the methodology.
- 10.17 From the assessment that has been carried out, the following assumptions have been made in relation to city centre retail:
- Rents at £250 per sqm;
 - Yields at 7%; and
 - Basic build costs at £780 per sqm.

Edge-of-town warehouse operations and retail parks

- 10.18 York has two predominant retail warehousing/out of town retail locations. The first at Foss Islands Retail Park and the other located at Clifton Moor. Both these areas provide a range of retail provision. Foss Island Retail Park has a Morrisons superstore, a Waitrose supermarket as well as other national multiples including Wickes and Halfords. Clifton

Moor Retail Park contains a number of national multiples that would be expected in this location, including a Tesco superstore, Toys'R'Us, Maplin, Argos, B&Q and PoundStretcher to name a few.

- 10.19 Nationally, retail warehouse operations (and larger retail parks) are performing better than in-town retailing. This is reflected in historical performance. The Portas report states that 'Shoppers have been flocking out of town. This shows up starkly in the statistics – in the last decade the amount of out-of-town retail floorspace has risen by 30% while that in-town has fallen by 14%.³¹
- 10.20 While the long term trend suggests that out-of-town (and online) shopping is doing considerably better than in-town retail. The sector has had difficulties, with the failure of retailers such as Focus DIY and Allied Carpets, but the market is gradually reabsorbing vacant space. Colliers research reports that across the retail warehouse sector as a whole, vacancy rates improved slowly from 5.8% to 3.5% from 2010 to 2011.³²
- 10.21 Much depends on the specifics of any scheme. Colliers report that when well located, high quality sites 'come to the market, 'competition is fierce', but this is not a consistent picture.³³ Colliers research states that 'added value can usually only be achieved by the construction of new rentalised space or substantial sub-division, creating a number of new smaller units that attract much higher rents per square foot'.³⁴
- 10.22 Discussions with local agents provided mixed and varied views with respect to the out of town retail market sector within York. Appropriate rental levels, with respect to stand alone out of town retail units are in the range of £170 per sq. m, whilst incentives offered to tenants often range from 9 to 18 month rent free periods.
- 10.23 Yields are very dependent on tenant covenant strength and length of lease, but with a number of notable failures amongst out of centre retailers, they have risen in recent years and are likely to range from 7%- 8.25%.

Convenience retail

- 10.24 Convenience retailing operates in a very different market segment to comparison retailing. The convenience retail sector continues to perform well, with operators seeking to continually expand market share by the development of new store formats and the securing of prime locations both in town and out of town.
- 10.25 IGD (international food and grocery analysts) state that the UK convenience sector is projected to increase sales by 5.8% per year to £42.6bn in 2015.³⁵ Local Data Company analysis shows that Tesco, Morrisons and Waitrose are all opening, or planning to open, new stores. Morrisons in particular has announced plans to open 300 'M Local'

³¹ Portas, M (2011) *The Portas Review* (10)

³² Colliers (2011) *Midsummer Retail Report* (30)

³³ Colliers (2011) *Midsummer Retail Report* (30)

³⁴ Colliers (2011) *Midsummer Retail Report* (30)

³⁵ http://www.globalstorefocus.com/cgi-bin/newsletter.pl?edition=201101&this_page=5

convenience stores across the UK by 2015.³⁶ These levels of activity nationally suggest that there may be applications for permission for this type of retail in future.

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

Viability assessment

- 10.28 We have produced indicative development appraisals of three different types of retail development as follows:
- High street comparison retail;
 - Edge-of-centre retail park scheme; and
 - Convenience retailing
- 10.29 It is difficult to model the viability of town centre retail development, as values are usually more sensitive to location, footfall patterns and sizes of unit than office or residential development. These patterns can lead to large variations in values – even on the same street. Our response is therefore to adopt ‘overall’ rental values to understand the broad potential range of comparison retail viability across York city centres.
- 10.30 Our assessment applies the following core assumptions:
- Rents for town centre comparison at £250 per sq. m, retail warehousing at £170 per sq. m and supermarkets at £220 per sq. m;
 - Yields for town centre comparison at 7%, retail warehousing at 7.5% and supermarkets at 5%; and
 - Basic build costs for town centre comparison at £780 per sq. m, retail warehousing at £600 per sq. m and supermarkets at £1,250 per sq. m.
- 10.31 The results of our viability assessment are summarised in the table 10.1 below.

³⁶ Local Data Company newsletter ‘A Week On The High Street’ Monday 6th February - Friday 10th February 2012

Table 10.1 Summary viability assessment - retail developments

		Town Centre Comp. Retail	Retail Park/ Warehouse	Supermarkets
Rent		£250	£170	£220
Yield %		7.00	7.50	5.50
Minus inducements	1	357	227	400
VALUES	2	3,214	2,040	3,600
COSTS	2			
Land + Purchase Costs	3	1,250	300	400
Basic Build Cost		780	600	1,250
External Works	4	39	72	150
Fees	5	82	67	140
Section 106/278	6	10	50	100
Marketing & Sales		161	102	180
Contingencies	7	45	37	77
Interest	8	216	109	204
Margin	9	515	257	480
Total Cost		3,097	1,594	2,981
Surplus/Deficit		117	446	619
Surplus/Deficit % on cost		4%	28%	21%

Notes

1. A reduction of 10% of development value is made to reflect current market norms for rent free periods and other tenant inducements
2. All values and costs per m² unless stated
3. The total cost of purchasing land, including related costs. It is assumed that this will be higher in urban areas.
4. Works outside built structure. Higher where extensive servicing and landscaping is required. Usually negligible in town centres.
5. Fees are higher for smaller and/or more complex structures.
6. Site/development specific mitigation such as on-site and access or public realm works close to it.
7. Contingencies at 5% of costs
8. Interest costs vary with the nature and length of a typical project.
9. Profit normally allowed at 20% on all costs and effectively assumed development is speculative.

- 10.32 The modelling that has been carried out shows that town centre comparison retail developments are on the margins of viability. Therefore the likelihood of any development being brought forward in the near future is likely to be limited. This is primarily a function of the costs and difficulty of assembling sites of development, rather than as a result of any existing or proposed policy requirements.
- 10.33 Retail warehousing and developments are being shown to be one of the few commercial development types that are still viable in current market conditions. Supermarkets are also shown to be viable in current market conditions.

11 EDUCATION, HEALTH AND COMMUNITY FACILITIES VIABILITY & CIL CHARGES

11.1 We see this category as including, but not necessarily being limited to:

- Schools, including free schools;
- Community facilities, including community halls, community arts centres, and libraries;
- Medical facilities; and
- Emergency services facilities.

Viability analysis

11.2 A number of these facilities may be delivered in the District over the plan period and would potentially occupy net additional floorspace (thereby creating development which is liable for CIL).

11.3 We do not recommend that the Council proposes to levy a CIL charge on these uses, for the following reasons.

- Completed developments of these types are not commercial in nature. They do not have a commercial value in themselves. They therefore do not create a residual site value. In other words, considered from a commercial perspective, such developments are not viable.
- Non-state education projects such as private schools generally have charitable status. They will therefore be exempt from CIL. There is therefore no point breaking out a separate charge in the schedule.

11.4 There is the exception of primary care facilities that are predominantly occupied by GPs. There is a commercial market for properties of this sort. We have analysed the price paid for completed investments across the country by specialist investments in the field and concluded that, again, the sites used are usually sourced on a preferential basis and the land values generated are not significant in most cases. It is possible that privately-funded BUPA-type health provision might be developed, but this is likely to be de minimis.

11.5 Given that these facilities are commonly not commercially-driven developments, it is considered that there can be no evidence to justify a change from the CIL charge for such uses. Indeed, there is simply no evidence to suggest that 'value capture' could be achieved from such uses which usually require public funding to be delivered.

12 CONCLUSIONS & NEXT STEPS

Conclusions

- 12.1 This study provides an area-wide and broad brush assessment of the the viability of development, covering all of the broad types and locations of development likely to come forward over the plan period. Its purpose is to aid the understanding of whether emerging local plan can be considered viable and whether the policy requirements of the plan (either individually or cumulatively) are likely to render development as envisaged in the Preferred Options Local Plan unviable.
- 12.2 Our findings are that the policy requirements tested through this study would not render development unviable either individually or cumulatively. The vast majority of residential development archetypes are demonstrable viable, even at lower sales value scenarios taking account of all policy requirements including affordable housing.
- 12.3 Speculative office and industrial development is shown to be currently unviable in York, as is the case in most parts of the country. However, some development may still occur where pre-lets are secured, by owner-occupiers or in cases where site development characteristics are particularly favourable. The cause of these uses being unviable is not policy requirements, but rather wider economic conditions, which are projected to improve over the plan period. Such improvement should mean the viability of office and industrial uses will also improve and may well do so to a point where speculative development becomes a possibility again.
- 12.4 Retail uses, particularly supermarket developments and retail warehousing are shown to be viable in current market conditions and in the context of policy requirements upon them. High street retail development is assessed to be of marginal viability. As ever, the challenge in bringing forward such developments is the very high cost of assembling development sites.

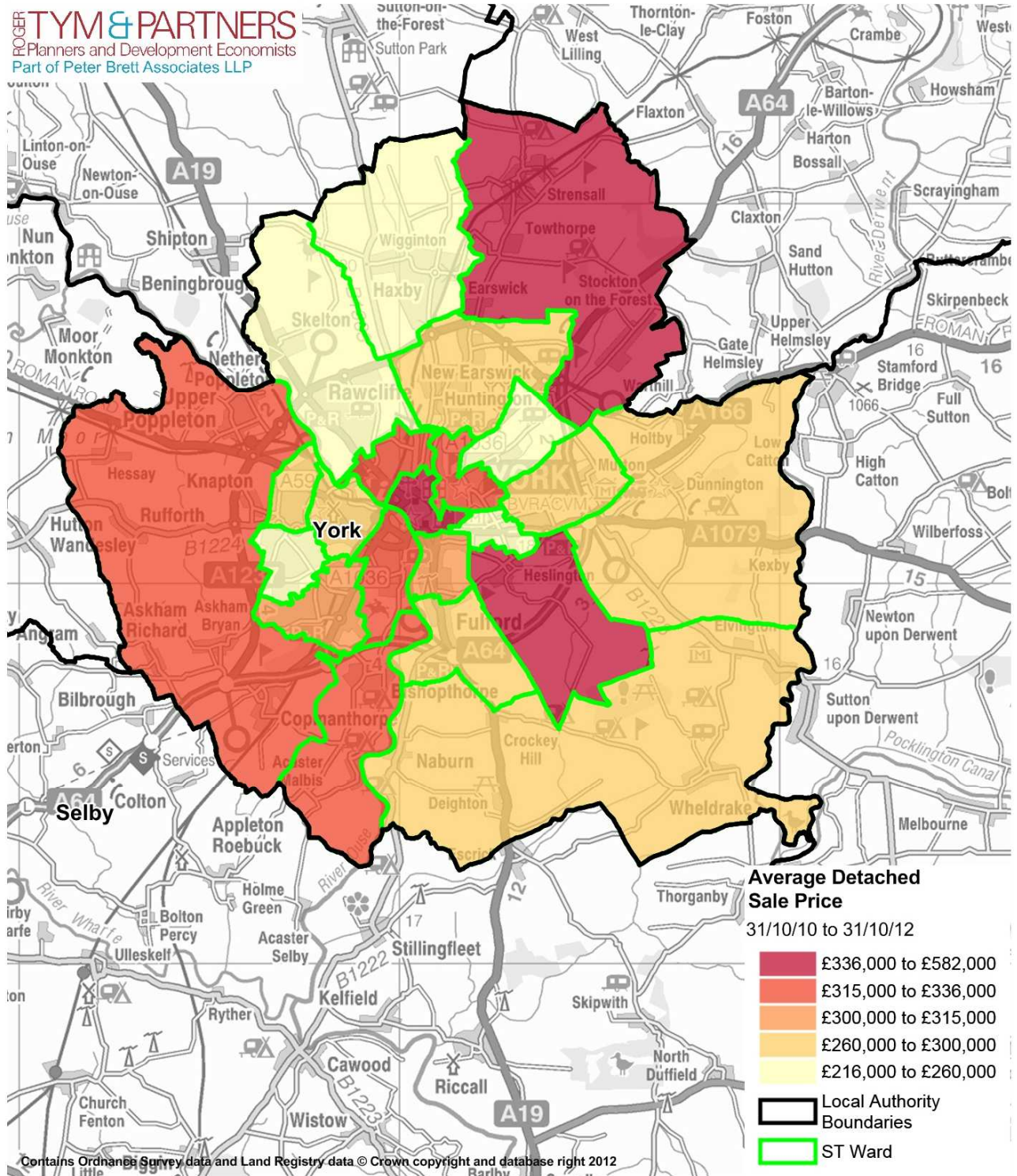
Next Steps

- 12.5 As part of the consultation of the Preferred Options Local Plan, it is envisaged that further and more detailed and comprehensive consultation with local developers and stakeholders will be undertaken.
- 12.6 Following this consultation, further viability work will be undertaken. This will include further iterations of the modelling set out in this report to reflect any amendments to the assumptions required as a result of comments received on the Preferred Options Local Plan and this study as part of he evidence base for it.
- 12.7 Further assessments will also be undertaken with respect to the site specific viability of key strategic sites proposed to be allocated by the Plan. This will provide an opportunity to reflect in more detail the specific development constraints, costs and values that are likely to prevail at these strategic sites.

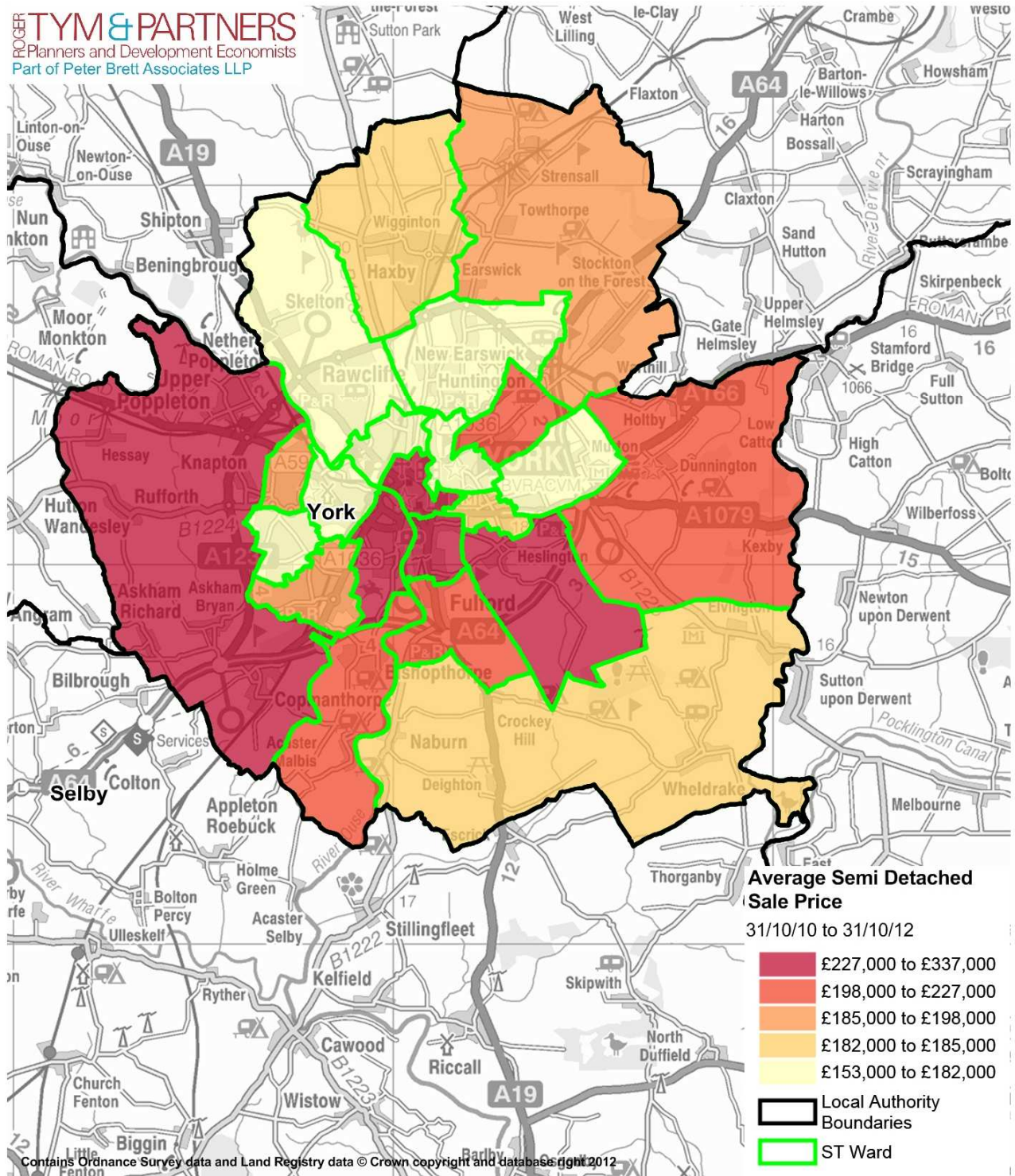
- 12.8 This further work will also inform the development of the Council's approach to the Community Infrastructure Levy and the potential charge rates for different uses and zones (as appropriate) in York.
- 12.9 All of this work will feed into and be reflected within the Submission Draft of the City of York Local Plan.

APPENDIX 1: SALES VALUE HEAT MAPPING

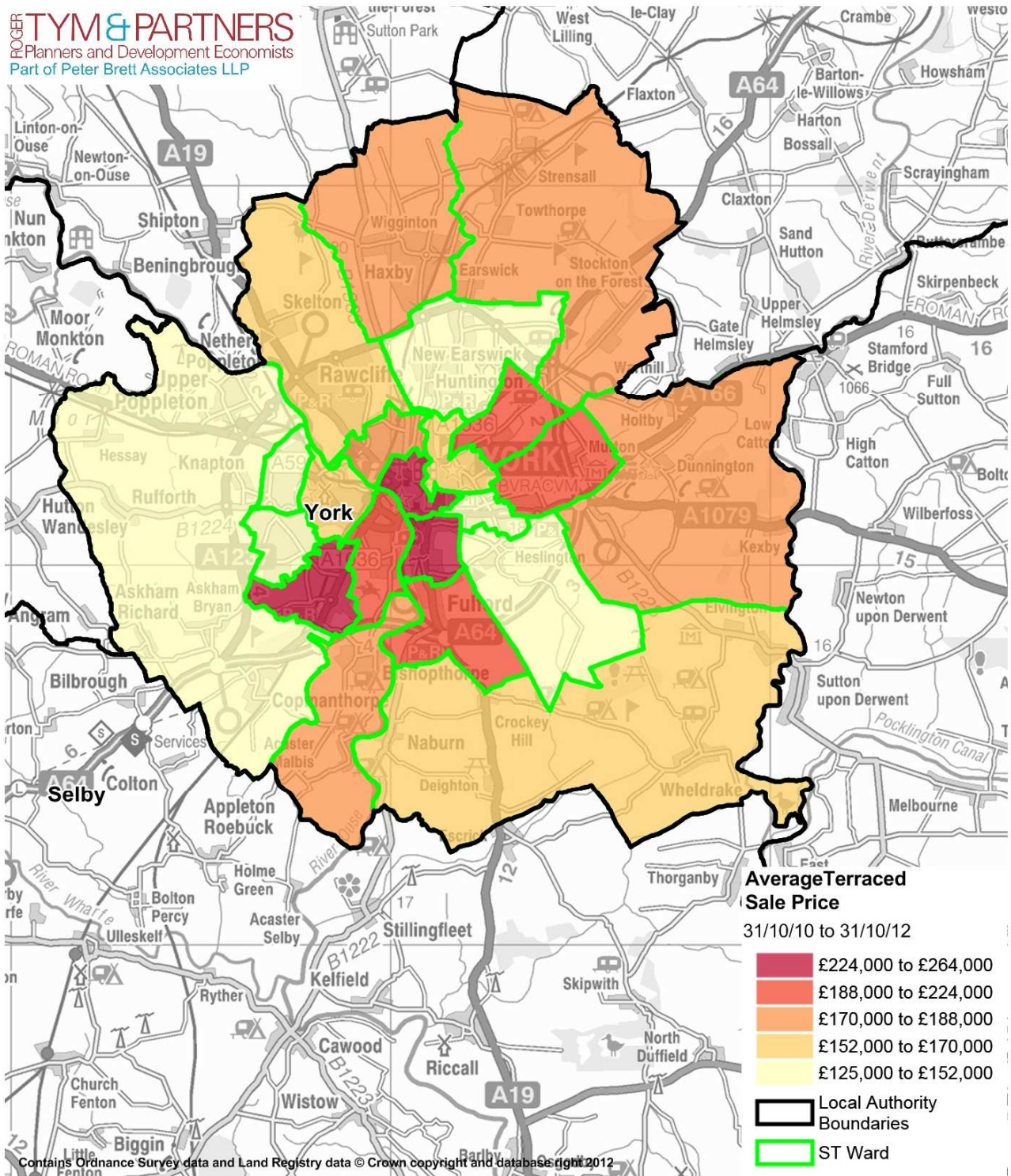
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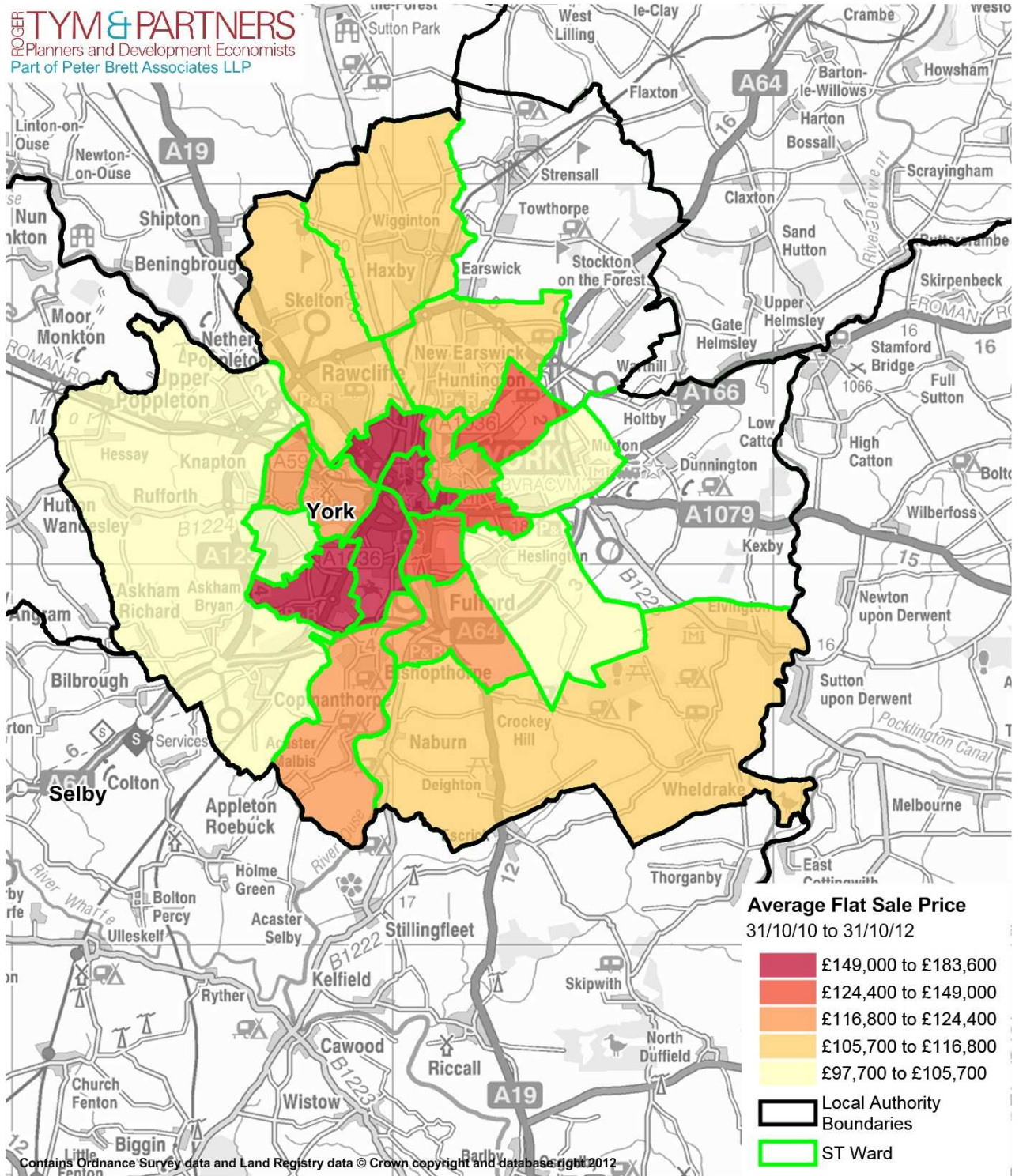


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APPENDIX 2: COST EVIDENCE OF DISTRICT HEATING/CHP

In order to meet future Building Regulations zero carbon requirements from 2016 a proportion of carbon reduction will need to be achieved onsite. This will be known as 'carbon compliance'. The amount of carbon compliance required is not yet defined, and may be assessed on a case by case basis. However, the emphasis of emerging 'zero carbon policy' is that it provides a cost efficient way of reducing carbon emissions and as such should not place significant over burden on the developer.

As such, work on cost implications of the most likely carbon compliance solutions is currently being investigated. The most recent work on this was published by the Zero Carbon Hub, in February 2011. This work modelled the costs of meeting the carbon compliance element using Photovoltaic's (PV) and gas boilers for each dwelling. In comparison, the study also calculated the contribution that district heating solutions could make to achieving Carbon Compliance, using either gas (engine) CHP or biomass heating instead of all or some of the PV. As using district heating solutions can reduce the amount of PV required to meet Carbon Compliance, the amount of capital investment into PV is also reduced. These savings, or 'avoided costs', from using less PV are summarised in the table below. It should be noted however, that this does not include the capital cost of the district solution which are shown in table 2.

Type of dwelling	Floor area (m ²)	Carbon compliance level (kgCO ₂ /m ² /yr)	Cost of carbon compliance with PV (2016 prices) excl. fabric	PV required if no district heating (m ²)	PV required with district heating (m ²)		Cost saving from district solution (in 2016 prices) per dwelling	
					Gas CHP	Biomass heating	Gas CHP	Biomass heating
Flat	54.5	14	£1,332	4.92	0.00	0.00	£1,332	£1,332
Semi	76	11	£3,004	11.4	5.8	0	£726	£3,004
Terrace	76	11	£3,444	9.4	3.6	0	£1,637	£3,444
detached	118	10	£4,033	14	8.7	0	£1,134	£4,033

Table 1: summary of potential avoided cost of PV from using district heating

Source: "Carbon Compliance, setting an appropriate limit for zero carbon new homes, findings and recommendations"

One of the main opportunities for York identified in The Renewable Energy Strategic Viability Study for York (2010) is District Heat Networks/CHP. A recent and robust source of data is the *Potential and Costs of District Heating Networks, a report to the Department of Energy and Climate Change by Poyry and AECOM*. The data in the Poyry report was based on installing DHNs to supply existing dwellings, which is generally more expensive than for a new dwelling. These costs are highlighted in the table below. The table shows a summary of the estimated costs for a DHN to serve new dwellings, derived from the Poyry report. Based on data held by AECOM on heat main costs, it has been estimated that the DHN infrastructure cost for a new build would be roughly 30% less than that for existing dwellings, and the cost for the DHN branches would be 20% less. The figures below are for the network only, and exclude any costs for the energy centre, and for the heat exchanger and heat meter for each dwelling.

Dwelling type	DHN infrastructure cost (from Poyry report)	With reduction for new build (30%)	DHN branch cost (from Poyry report)	With reduction for new build (20%)	Total DHN cost (excl. energy centre) for new build
Flat	£712	£498	£752	£602	£1,100
Small terrace	£2,135	£1,495	£1,912	£1,530	£3,024
Semi detached dense	£2,719	£1,903	£2,598	£2,078	£3,982
Semi detached less dense	£2,719	£1,903	£3,198	£2,558	£4,462

Table 2: estimated costs of DHN's for new dwellings

Source: *The Potential and Costs of District Heating Networks, a report to the Department of Energy and Climate Change and the Richmondshire Low Carbon and Renewable Energy Potential Study (Aecom, July 2012)*

A comparison of these costs with the avoided costs for carbon compliance, and the resulting net cost is shown in Table 3. The table highlights that the net cost is actually negative for flats, and for high density housing the net cost is approximately £500 for biomass heating, and up to approximately £2,300 for gas CHP. These costs could also be reduced further if a) the developer chooses not to provide a gas supply to each dwelling and therefore sees a saving in gas infrastructure and b) in the developer or ESCO is able to share trenches with other infrastructure being installed on site (such as water, electricity and fibre optic cabling) which will reduce costs of installation.

Type of dwelling	Cost saving from district solution (in 2016) per dwelling		Secondary DHN costs per dwelling	Net cost for district heating	
	Gas CHP	Biomass heating		Gas CHP	Biomass heating
Flat	£1,332	£1,332	£1,100	-£232	-£232
Semi	£726	£3,004	£3,024	£2,298	£20
Terrace	£1,637	£3,444	£3,982	£2,345	£538
Detached	£1,134	£4,033	£4,462	£3,328	£429

Table 3: net costs for DHNs to met zero carbon

Source: *The Richmondshire Low Carbon and Renewable Energy Potential Study (AECOM, July 2012)*

The proportion of the net cost, if there is one that will be passed onto the developer will depend on a range of factors including: whether the energy centre already exists to serve other heat loads, or whether a new energy centre needs to be provided specifically for the new development; the overall financial viability of the DHN and the energy centre; the mix of heat loads; the actual predicted carbon savings for each dwelling; the level of financial return required by the ESCO; and

the ability of the ESCO to sell the electricity at retail prices to a large electricity user rather than at wholesale prices to the National Grid.