

Community Infrastructure Levy:

**A Stage 2 Economic Viability Assessment
prepared for:**

Hertsmere Borough Council

Report by: Lambert Smith Hampton

December 2012

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Community Infrastructure Levy

Stage 2

Economic Viability Assessment

Prepared for:

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Executive Summary

Introduction

- a Lambert Smith Hampton (LSH) was commissioned by Hertsmere Borough Council ("the Authority") to undertake further investigation into the proposed Community Infrastructure Levy (CIL) rates presented as part of the initial CIL Assessment Stage 1 study. The Stage 1 Study was undertaken for 8 of the 10 Hertfordshire Local Authorities to provide them an indication of the potential CIL rates they could viably deliver within the various Authorities based on a set of agreed assumptions.
- b This Stage 2 study expands upon the assumptions, methodology, sensitivity and outcomes of the Stage 1 study and investigates in further detail the assumptions used to identify reasonable CIL rates. In particular, this Stage 2 study investigated the impact on potential CIL rates:
- The anticipated development over the plan period.
 - The anticipated distribution of development across the authority.
 - The anticipated density and type of development over the plan period.
 - Of a finer grain analysis of the anticipated revenue streams within the proposed development areas.

Our viability methodology

- c Building upon the work undertaken in the Stage 1 Study; the residual land value (RLV) of a number of generic development schemes were compared to a range of reasonable land value benchmarks. The set of development scenarios established in the Stage 1 Study were used to determine whether, having deducted construction costs, planning requirements (including CIL) and a developer's profit, that the residual value remained sufficient to incentivise landowners into releasing that land for development. This RLV approach is the same as that used by Developers to identify the potential purchase price of land for a varying number of uses and is consistent with other CIL assessment models.
- d Should a resulting residual value fail to meet an appropriate benchmark, then the scheme is either considered unviable at a chosen CIL rate or, potentially, the value of 'negotiated' elements of development cost (which will be the planning requirements such as s106 contributions to deal with the cost of site related infrastructure as well as the provision of affordable housing) may be reduced with the consequence that they cannot reasonably be secured (or only in part) from the development.
- e Viability assessments are based on factors, which are impacted by economic variations over time and therefore will be affected by fluctuations in the wider economic climate. The current

market conditions are below that of height of 2007 and there is current uncertainty over the recovery rate of the economy from the recent economic recessions. As part of the Stage 1 assessment sensitivity testing was undertaken to ensure that the proposed CIL rates were viable in an uncertain market.

Modelling the outputs and the conclusions

- f In the wider area CIL study in Stage 1 a total of 11 different development types were established (5 residential, and 6 other property uses - offices, industrial/distribution, hotels, private care homes and gyms). This study focuses its investigation primarily on the impact of distribution and density of anticipated residential development within the Authority over the plan period.

Residential

- g As part of this report the distribution of proposed residential development was aggregated into 5 key market areas. The table below sets out the breakdown of anticipated development by key area and by density.

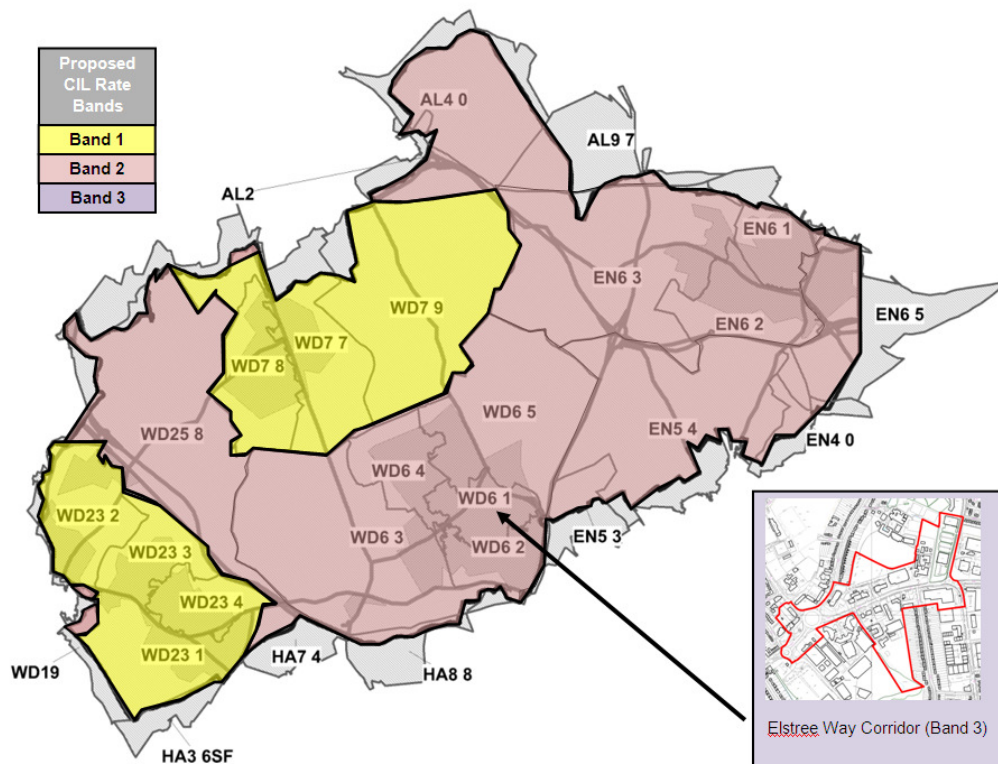
Area	Post Code	Total units by Density				Total Units	% of Total
		25 dpha	40dpha	70dpha	100dpha		
Borehamwood	WD6		555	555	800	1913	66%
Potters Bar, Ridge, South Mimms	EN6	54	214			268	9%
Bushey, Aldenham and Patchetts Green	WD23		571			571	20%
Elstree and Shenley	WD6		65			65	2%
Radlett	WD7		98			98	3%
						2915	

- h Using this assessment of residential distribution LSH undertook a further investigation of residential sales values specifically reviewing post code areas where residential development is anticipated. This fine grain analysis of residential values within the Authority enabled LSH to conclude more accurately potential sales rates which should be attributed to proposed development, both by geography and density.
- i LSH were therefore able to conclude achievable residential CIL rates within the Authority with more accuracy than identified in the Stage 1 Study. Furthermore, reasonable consideration was given to the distribution of overall residential development across the authority. It is notable that 68% of the proposed development (non-committed) is anticipated to occur in the key market area Borehamwood and Elstree and only 3% in Radlett.

- j Therefore, based on the results of the Stage 1 and this Stage 2 study LSH conclude that CIL charges for residential development taking account of geographical distribution and variations can be expressed in three CIL zones as set out in the table and map below:

Development Type	CIL rate (per square metre of chargeable floorspace)		
	Zone 1	Zone 2	Zone 3
Residential	£120	£210	£60
	Borough Wide		
Hotel	£145		
Care Home	£163		
Retail	£84		
Office	£0		
Industrial	£0		

Map showing the geographical distribution of proposed residential CIL rates



Major Development Sites

- k LSH are aware that the Authority proposes 800 new homes in the Elstree Way Corridor during the plan period. This scheme was specifically reviewed to understand the impact of the proposed Section 106 costs. From discussions with the Council we understand the latest information in regards to infrastructure/ S106 costs suggests a cost circa £6000 per unit. Based on the assessment it would appear the development can support a CIL rate of circa £60 psqm and remain viable. Therefore LSH conclude that the major regeneration area is identified in a 3rd CIL band at £60 psqm. However, should the infrastructure/ S106 costs vary this would have an impact on the potential CIL rate, and therefore the proposed rate may need be reviewed for this major development site.

Commercial

- l LSH concluded that at current rent levels office and industrial development is unlikely to come forward in the short or medium term as the development costs do not support viable schemes. Therefore, for the purposes of administration LSH proposed that commercial uses other than Hotel, Private Care Homes and Retail are incorporated into a 4th CIL Band at £0 psqm.
- m As concluded in Stage 1 study LSH identified that owner occupied hotels and private care homes could deliver CIL charges of circa £145 psqm and £163 psqm respectively.
- n LSH furthermore conclude that retail developments are able to support a CIL rate between £84 psqm (<500 sqm) and £170 psqm (>500sqm) and in the Stage 1 study proposed the use of the mean point of £125 psqm for a reasonable single CIL rate for Retail uses. The below table sets out the conclusions of this Stage 2 study for commercial and property:

	Achievable CIL Rate
Office	£0
Industrial	£0
Hotel	£145
Private Care Home	£163
Retail	£170/ 84 *
Other Commercial uses	£0

*+500 sqm / -500sqm

[End of Executive summary]

1. Introduction

Instruction

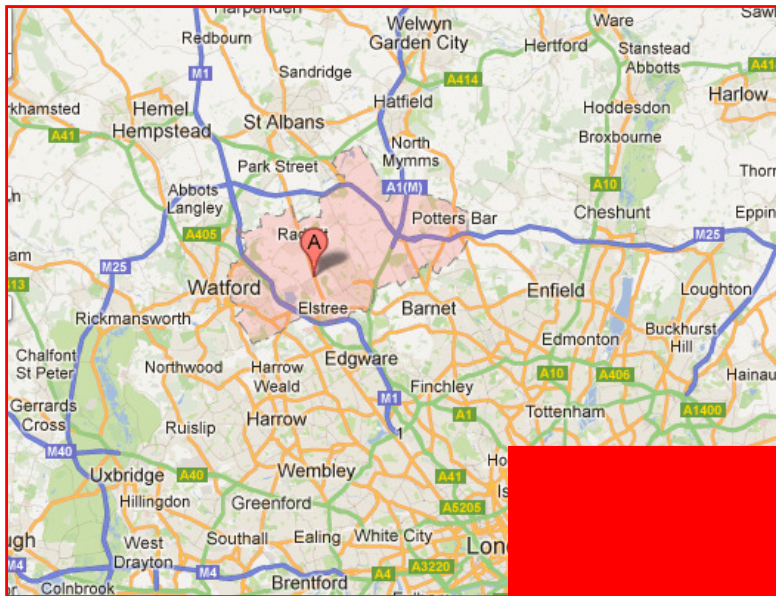
- 1.1 Lambert Smith Hampton was commissioned to undertake a Stage 2 Community Infrastructure Levy (CIL) Economic Viability Assessment (EVA) on behalf of Hertsmere Borough Council (“the Authority”) the EVA will form part of the supporting evidence that will be used in the preparation of the authority’s CIL Charging Schedule. The Stage 2 builds on the findings of the Stage 1 Study which was undertaken for eight Hertfordshire authorities to give an indication of the level of CIL achievable.
- 1.2 The Study is in response to the Secretary of State’s enabling powers in the Planning Act of 2008¹ with regard to the introduction of a Community Infrastructure Levy. This Stage 2 Study provides further detailed assessment of the appropriate assumptions for assessing CIL as well as identifying appropriate CIL rates.
- 1.3 When undertaking this study, consideration was given to the appropriate use of agreed assumptions and data assessed in the Stage 1 study. The Stage 1 study identified some reasonable CIL rates based on the evidence collected, although it was a generic area wide study across 8 authorities.
- 1.4 In particular the Stage 1 study limited the level of investigation into the anticipated distribution of development across the individual authorities. The Stage 1 study also identified the opportunity to undertake a finer grain analysis of both the proportion of the anticipated development types tested and sales values in the areas where most development was anticipated.
- 1.5 Furthermore, additional consideration was highlighted for proposed major developments within the Authority, where significant anticipated infrastructure required for delivery would add additional costs to those schemes tested in the Stage 1 and therefore potentially impact the delivery of a CIL from such a scheme.

¹ Section 205-2225 and CIL regulations February 11th 2011.

1.6 The primary areas of additional investigation this stage 2 study provides over stage 1 are:

- Proposed Development distribution across the authority.
- Review of the appropriate tested schemes based on density identified by the Authority (eg. SHLAA).
- Assessment of residential values based on proposed geography of anticipated development.
- Impact of major development areas
- Further analysis of commercial uses.

1.7 The maps below highlight the area of investigation for this Stage 2 study:



Our Advice

- 1.8 This report has been prepared using standard industry residual valuation techniques, taking account of previous CIL reviews and RICS guidance, building upon evidence collected and used in the Stage 1 report.
- 1.9 The advice provided herein is to inform the CIL policy decision-making process and must only be regarded as an indication of potential value, on the basis that all assumptions are satisfied. In accordance with Valuation Standards 1 of the Royal Institution of Chartered Surveyors (RICS) Valuation Professional Standards – Global and UK 7th Edition (2012 amended) advice given expressly in preparation for, or during the course of negotiations or possible litigation does not form part of a formal “Red Book” valuation and should not be relied on as such.
- 1.10 This report expands upon information previously provided to the Authority and although significant care has been given to ensure the outcomes are accurate and reasonable, it should be acknowledged that chosen assumptions will rarely fit all eventualities. LSH recognise that every development scheme will be unique and the assumptions of this report will not necessarily reflect the outcomes of specific cases. The Authority should consider using the information provided within this report to consider the appropriate balance for a chargeable CIL rate when establishing their proposed CIL charging Schedule.

2. CIL in context

Community Infrastructure Levy

- 2.1 The Planning Act 2008 introduced CIL as a mechanism to enable the funding of infrastructure needed to support growth from developer contributions. This led to the publication of the CIL Regulations in March 2010 and the introduction of CIL from 6th April 2010. The Regulations set out the requirements for CIL, including the production of a Charging Schedule, which has to be supported by background evidence on economic viability and infrastructure planning. Amendments were made in April 2011 and November 2012 to clarify the 2010 Regulations.
- 2.2 This report provides economic viability evidence that identifies appropriate CIL rates that could charge by assessing “*the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across the Authority*”² and in appropriate circumstances provides them with options for potential charging rate(s).
- 2.3 This study will support the future consideration of a CIL charging schedule at Examination in Public (EiP). The regulations require a local authority to have used appropriate evidence to inform the draft charging schedule which should both include information on the infrastructure requirements that CIL will help fund as well as evidence that the economic viability of the proposed CIL charge has been properly considered.
- 2.4 The introduction of CIL is intended to provide a more transparent and effective way of providing for major infrastructure, addressing some concerns that have been expressed about the previous reliance on the use of 'tariff style' s106 obligations to support the funding of new infrastructure. When introduced, the expectation is that CIL will be used for general infrastructure contributions across the local authority area (and beyond it as well, since the Regulations allow for the pooling of CIL to deliver strategic infrastructure). S106 obligations will still be available to local planning authorities to be entered into for site specific mitigation - including the securing of affordable housing - but on a reduced scale when they introduce CIL (or from 6 April 2014, whichever is the earliest date).

² (CIL Regs 2010, R.14.1.b)

How does CIL work and how is it calculated?

- 2.5 The CIL rate or rates are set out in the 'charging schedule' and must be expressed as £/square metre. CIL is levied on the gross internal floor-space of the net additional liable development. In use existing floor-space to be demolished on a site is deducted from the gross new floor-space to arrive at a net new floor-space that the CIL rate is to be applied. Any existing floor-space on a site must have been in lawful use for at least 6 of the last 12 months from when planning permission is granted in order for it to be deducted from the gross floor-space of the new development
- 2.6 The levy can be varied for different areas within the charging authority's area and for different types of development (e.g. residential, commercial). The Stage 1 study has already identified that it would appear appropriate to have variable rates between various types of development and has also identified that it may be appropriate to vary CIL rates by geography to reflect the changing affluence across the Authority.
- 2.7 In setting the rate(s) of CIL in an area, the charging authority must consider the "appropriate balance" between:

- (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and
- (b) The potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area."³

- 2.8 This means that in setting the CIL rate charging authorities need to demonstrate that their proposed CIL rate(s) will not put development across their area, taken as a whole, at undue risk. Therefore in this assessment consideration has been given to the impact of viability of development in various locations within the authority, where it is identified most development will occur over the plan period. By considering type and distribution of development proposed CIL charging rates will minimise risk to development delivery across the Authority and help provide to support in achieving an "appropriate balance" for any chargeable CIL rates.

³ CIL Regs 2010, R14.1.(a) and (b)

3. Planning Assumptions

3.1 In addition to any proposed CIL it is anticipated that the Authority will require other planning policies to be met by a Developer. The two primary planning policies which have been considered for this assessment have been the Authority's current level of affordable housing and Section 106 contributions, which will remain for on site contributions once the CIL has come into force. Other policy considerations include the code for sustainable homes (CSH) level 4.

3.2 The viability assessment and CIL outputs aim to ensure that any proposed CIL rate enables the scheme to remain viable whilst meeting other planning policies. It is recognised that the higher the affordable housing within a scheme the more susceptible it is to negative fluctuations in economic conditions. Furthermore, the Stage 1 study sensitivity assessment showed that lower affordable housing thresholds could support higher CIL rates and remain viable. The table below sets out the current Hertsmere Borough Council affordable housing policy used in this assessment:

- 35% of all new residential development to be Affordable Housing, apart from Radlett and Bushey where 40% is sought
- 75% of affordable units to be Social Rented Units
- 25% of affordable units to be Intermediate Tenure (Shared Ownership)

3.3 In order to estimate standard capitalised rates for affordable tenures - such as social rented, affordable rent or shared ownership (intermediate) - a blended mix of unit sizes was discussed and agreed with the authority as part of Stage 1 and calculated on assumptions similar to the Three Dragons Toolkit and the HCA Economic Appraisal Toolkit. No grant funding was included in the viability testing. By not including any grant funding in assessing the development viability LSH have ensured that irrespective of future decisions regarding grant availability, viability will not be adversely impacted.

3.4 Anticipated average capitalised affordable values applied in the model are set out in the table overleaf. LSH recognise that such rents and achievable revenue from affordable units can fluctuate between schemes, Registered Providers, and time. However the assumptions used reasonably reflect the average capital income received over the Authority as whole at the time of this assessment. Any improvement in the achievable values will improve the overall viability of a development.

Summary of Affordable housing assumptions

Tenure	Rent pw.	Size (sqm)	Deductions	Yield	Cap Rate per m ² (£)	Cap rate per ft ² (£)
Social Rented Units	£75-110	50-120 sqm	25%	5.5%	£818	£76
	%of OMV	Rent Cap	Applied			
Shared Ownership Units	30%	2.75%	25%	6%	£2,433	£226

3.5 In addition to affordable housing, an allowance has been made for a Section 106 payment to be made by a development in regard to on site matters. As part of the Stage 1 study the authority reviewed its previous Section 106 contributions collected and requested from previous planning applications and identified a reasonable level of Section 106 contribution that would remain applicable after the introduction of a CIL charge as the basis of this assessment.

3.6 The average sum was then assessed against proposed units to enable a calculation of Section 106 contribution anticipated by unit. For the purposes of this assessment the Authority has proposed that it would be reasonable to assume the following Section 106 in addition to CIL on the various schemes below:

Residential Scheme	No Units.	Section 106 per unit	Total S.106
1	25	£2,000	£50,000
2	40	£2,000	£80,000
3	70	£2,000	£140,000
4	100	£2,000	£200,000

3.7 This study also takes into account identified Section 106 contributions proposed for major development schemes in the Authority and the impact of on site major infrastructure costs, which will have an impact both on the schemes viability and potential ability to provide an additional CIL charge. This is particularly relevant to the Elstree Way Corridor. In discussions with the Authority it has become clear that a Section 106 sum of circa £4.8m is required on this scheme (£6,000 per unit). Therefore for this major development area this figure has been assumed.

4. Our Methodology

Assessing Viability

4.1 *“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 ensure that the development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered”.*⁴

4.2 In discussing the impact of planning policy on development viability, the National Planning Policy Framework (NPPF) states that: *“the cumulative impact of these standards and policies should not put implementation of the plan at serious risk”*⁵ and is echoed in the requirement in CIL guidance for charging authorities to set rates that: *“will not put the overall development across their area at serious risk”*.

4.3 Estimating a potential CIL charge therefore requires an understanding of the impact on viability of a CIL charge for a notional development. This can be achieved through undertaking a valuation of a development and assessing its viability through review of the impact on land value. In line with the RICS (Valuation Information paper 12: Valuation of Development land); and as recommended the paper “Viability Testing Local Plans – advice for practitioners” (June 2012); this assessment uses a residual method to assess land value, however we have also considered a comparison of recent land sale prices in the general vicinity for development purposes.

4.4 The residual method requires the input of a large amount of data, which is rarely absolute or precise, coupled with making a large number of assumptions, particularly when reviewing generic developments over wide geographical areas. Small changes in any of the inputs can cumulatively lead to a large change in the land value. Some of these inputs can be assessed with reasonable objectivity, but others present great difficulty as they may vary by developer, as well as development. Furthermore consideration is needed for the passage of time and the risks associated with the development.

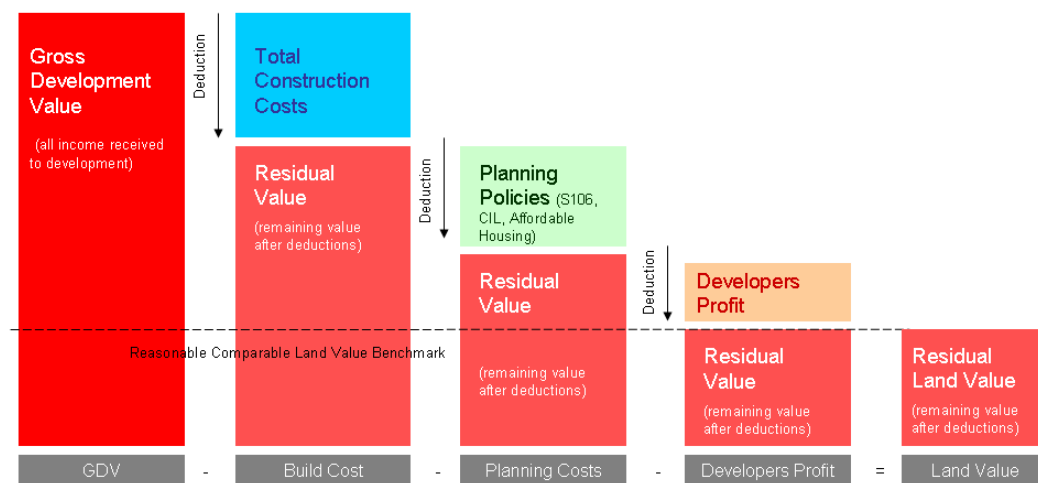
⁴ Viability Testing Local Plans, advice for planning practitioners (June 2012) LGA and HBF.

⁵ NPPF, para 174.

Residual Appraisal Methodology

- 4.5 The residual appraisal method essentially deducts the total costs - in the form of construction costs, planning obligations and profit - from the total value generated by the development opportunity. The remaining sum is described as the residual land value and this is available to pay a landowner to enable the site to be developed and guides a developer in determining an appropriate offer price for a site. The diagram below sets out this approach.

Diagram 3: Calculating residual value



- 4.6 To establish whether the resulting residual land value, including a CIL charge, is appropriate and does not render the scheme unviable proper allowance has been made to the level of value of which a landowner would reasonably release/dispose of their land for development. Therefore, it is important to identify a reasonable “Land Value Benchmark” (shown as a dotted line on diagram above) which reflects what the site should reasonable anticipate to transact for (Market Value⁶) in order to assess the viability of a development.

⁶ Market Value is described as “The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion. ... Market Value is understood as the value of an asset estimated without regard to costs of sale or purchase, and without offset of any associated taxes”⁶ The Royal Institution of Chartered Surveyors, Appraisal & Valuation Standards, PS 3.2., 3.3.2 (5th ed. London: 2003, as amended). A detailed Commentary on the definition is set out in the Appraisal & Valuation Standards. This definition has been accepted by the International Valuation Standards Committee (International Valuation Standards (8th ed. London: IVSC, 2007)).

4.7 Reasonable consideration of Market Value and therefore Land Value benchmarks can be achieved in a number of ways which including:

- Comparison to similar sites.
- Existing Use Value with and without a premium.
- Alternative Use Value.
- Evidenced assessment of Development Value.

4.8 It is reasonable to assume that a development is unlikely to come forward unless a reasonable value is achieved through the residual valuation which is in excess of Existing Use Value. The Homes and Community Agency (HCA) guidance on good practice (2009)⁷ proposes that ***“a viable development will support a residual land value at a sufficient level sufficiently above the sites Existing Use value (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the land owner”***.

4.9 Furthermore the Local Housing Delivery Group (LGDG) (June 2012) also promote that EUV plus an appropriate premium is appropriate for benchmark testing CIL and planning policy requirements. However, the paper also indicates that it is best not to determine a reasonable value benchmark from one approach in isolation.

4.10 Whilst there appears to be consistency that a reasonable land value benchmark should reflect a value over and above Existing Use Value, the level at which the appropriate premium should be set will vary to reflect the value at which the property will be sold (Market Value) from site to site and area to area.

4.11 Given the addition of a premium of EUV is to reflect what value a landowner should reasonably be anticipated to release land for development at, it can be assumed that the premium should reflect the Market Value of the land.

4.12 This conclusion is not to assume that the Market Value will reflect historic land purchases where CIL and other planning policies may not have been taken into account. Instead in line with RICS guidance Market Value should be evidenced based having regard to

⁷Investment and Planning Obligations: Response to the Downturn: HCA 2009.

development plan policies, including CIL and all other material planning considerations and disregard those matters which are contrary to the development plan.

4.13 Therefore to ascertain what the reasonable value of land will transact for development purposes (Market Value), LSH have not simply attributed a various percentage premium to the proposed a EUV, but rather have given consideration to Existing Use Values, Alternative Use Values, Comparable Evidence and land values generated from policy compliant schemes (without CIL); to calculate what appears to be the most appropriate land value for a tested scheme, taking into account density and geography. Where an alternative land value (AUV) (in this assessment Industrial land value were used as a benchmark) is greater than a residual development value, AUV has been used to assess the potential of CIL.

4.14 It should however, be recognised that achievable land value is specific to individual development opportunities and the ability for developments to come forward will be predicated on a number of factors including; the land owner, market demand, design, policies, geography, experience and finance. The purpose of this assessment is to judge a reasonable CIL rate which, “on balance” will enable future development to come forward.

4.15 Clearly, determining factors may also change with time and therefore the assumptions used in this assessment should be considered as a “snap shot in time”, but aim to best support the delivery an appropriate CIL across the Authority and plan period. However, it is extremely difficult for policy makers to determine appropriate assumptions including land value which will be suitable in all cases. Therefore, the assumptions used and conclusions reached are ultimately a matter of judgement for the Authority.

Stage 2 – Residential assumptions

4.16 LSH have set out their approach and assumptions in detail as part of the Stage 1 report. Stage 1 identified a number of generic residential schemes which were agreed to best reflect the types of development broadly anticipated across the study area. Each of these types of schemes were then tested against varying planning assumptions by Authority and by variations in values by geography, based on data collected across the study area.

4.17 The results of the Stage 1 assessment provided a wide range of results, demonstrating that certain types of development would not be achievable in certain locations within the

study area and that potential deliverable CIL rates varied widely. The Stage 1 identified through its results that the study was limited through the level of detail reviewed over 8 authorities.

- 4.18 The Stage 1 study, assessed average sales values for units based at a post code level and did not distinguish between variations in value within post codes. In other words, the high value areas masked the impact of low value areas within the same post code.
- 4.19 In addition, although the proposed CIL rates did give consideration towards anticipated dominant types of development within a specific Authority, detailed assessment of the proportion of each type of development scenario was not undertaken.
- 4.20 The Stage 1 study also identified that a further investigation into the geographical distribution of the development and type of development across the authority would provide a clearer understanding into the potential delivery of anticipated development over the plan period.
- 4.21 Finally the Stage 1 study highlighted that there may be cases, more specifically major project developments within the Authorities which did not reflect the average assumptions used in the testing. It was therefore suggested that major development sites were investigated in further detail to ensure any proposed CIL rate did not limit the delivery of important schemes within the Authority.
- 4.22 Therefore, as part of the Stage 2 study further investigation was given to the anticipated type of development and its expected geography across the authority. The Authority provided an estimate of housing development over the plan period based upon its allocations, Strategic Housing Land Availability Assessment (SHLAA) other evidence on land supply.
- 4.23 In addition to identifying location of anticipated schemes the information provided an indication of individual site areas, development capacity and density. Based on this information it was possible to plot by areas within the Authority the anticipated proportion of development attributable to the various development scenarios identified in the Stage 1 study.

-
- 4.24 It was therefore possible to identify the distribution of development across the Authority. For the purpose of this assessment the distribution of units was aggregated into 5 key areas and it was noticeable that in some areas of the authority anticipated development was negligible.
- 4.25 Further residential sale value evidence was then investigated to reflect the anticipated distribution of sites. This investigation specifically looked at average sale values in the immediate vicinity of proposed development. This assessment was undertaken at a finer grain than at Stage 1 which focused upon post code data – i.e. WD7 WD6 etc. As part of the Stage 2 assessment sale values were investigated in the appropriate locations at local level- i.e. WD6 1, WD6 2, WD6 3 etc.
- 4.26 Each post code area (e.g. WD6 1 and WD6 2) provided an average sales value to which the proportion of anticipated development within that area was calculated. To this end an average sale value for an individual post code (e.g. WD6) could be calculated which was weighted by distribution. In addition to this, further investigation was undertaken into the value variation between flats, house and the impact of size, density and height within post code area.
- 4.27 This approach gave a higher level of accuracy to the anticipated sales rates within post codes. It took reasonable consideration of the anticipated type and distribution of residential development within the Authority.
- 4.28 These new assumptions were then tested to provide CIL rates for the various key areas making allowances for variations in the proposed development types within them. The results were then reviewed against the proportion of development anticipated within the key areas allowing the Authority to consider impact of variable CIL rates across the Authority.
- 4.29 In addition to this finer grain analysis LSH also investigated the residual value of proposed major developments within the Authority (schemes over 250 units). LSH reviewed publically available information regarding the proposed development of these sites and specifically investigated their anticipated infrastructure requirements and proposed Section 106 contributions. The impact of a CIL rate was then considered on the delivery of these key development opportunities to see if it required varying from the general concluded CIL results.

Stage 2 –Commercial assumptions

- 4.30 It was concluded that no additional assessment was required for non residential development uses (commercial development) beyond that presented in the Stage 1 report. However, for the purposes of consistency this report reaffirms the assumptions used and the outcomes produced.

5. Development Assumptions

5.1 The Stage 2 study uses the standard development types established in agreement with the Authorities in the Stage 1 study. The below tables summarise the Stage 1 assumptions for the Authority also used in this assessment:

Assumed Development Scenarios

Activity	Type	Density per Ha	Av. House size (Sqm)	Av. Flat size (Sqm)	GIA (Sqm)	Comment
Residential	Rural/Greenfield	Up to 25	95	-	2,375	100% Houses
	Urban/Brownfield	26-40	95	-	3,800	100% houses
	Medium density	41-70	95	67	4,690	Mixed Houses & Flats
	High Density	71-100+	-	67	6,700	100% flatted scheme
Commercial	Shop/Retail	-			92	Single Shop unit
	Office	-			2,800	Two storey block
	Industrial	-			6,000	One storey 60% coverage
	Hotel	-			2,600	3 storey hotel
	Care Home	-			1,700	2 storey retirement home

Assumed Development Build Costs (Based upon BCIS Q2 2012 adjusted for Herts)

Activity	Type	Standard Build Cost (£psqm)	Externals allowance *	CSH L4*	Abnormals allowance*	Contingency 5%**
Residential	Rural/Greenfield	£1,022	5%	4%	10%	5%
	Urban/Brownfield	£1,022	5%	4%	10%	5%
	Medium density	£1,022/ £1,195	5%	4%	10%	5%
	High Density	£1,195	5%	4%	10%	5%
Commercial	Shop/Retail	£748	5%	N/A	5%	5%
	Office	£1,345	5%	N/A	5%	5%
	Industrial	£484	0%	N/A	5%	5%
	Hotel	£1,345	5%	N/A	5%	5%
	Care Home	£1,300	5%	N/A	5%	5%

*Percentage over standard build cost

** Percentage over aggregated build costs

Assumed Other Development Costs

Assumption		Comment
Professional Fees	12%	Reflects GLA TDTK
Marketing & Sales Fees	3%	Standard Industry Assumption
Finance Costs	7%	100% of cost Incorporates all finance costs
Stamp Duty	4%	Standard Industry Assumption
VAT on Stamp	0.8%	Standard Industry Assumption
Purchase Fees	1.5%	Standard Industry Assumption
Consultant Fees	1%	Reflects planning costs
Ground Rent	£100 per unit	LSH estimate for private flats
Ground Rent Yield	5.5%	LSH estimate for private flats

Profit

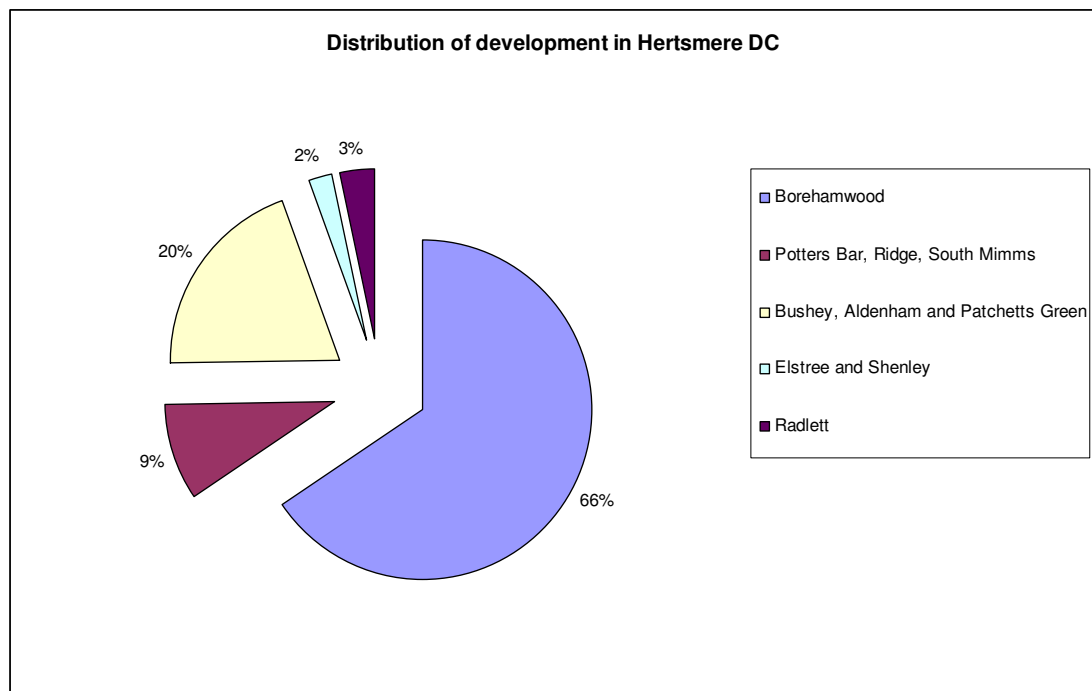
- 5.2 Profit is closely reflective of risk, and the larger the risk to development, the higher the required profit level. The model enables profit to be varied, both for private elements of the scheme and for affordable elements.
- 5.3 Over the last 5 years private profit return on total GDV was circa 15-17% (17-20% on Cost). However, with the collapse of finance, investors have recently been requesting higher profit margins to reflect the potential risk. As a result many developers have been advocating the general profit requirement to increase to circa 20% on GDV (25% on cost).
- 5.4 LSH considered the impact of risk on their profit assumptions when producing their Stage 1 report and concluded that a private return of 17% was a reasonable assumption to apply to their model on the assumption that economic markets fluctuate and that Hertfordshire is seeing house prices return to those similar to that of 2007 and that significant allowances have been made in the other development cost assumptions to ensure that a net return of 17% on GDV (20% on cost) remains reasonable.
- 5.5 A lower return has, however been distinguished where development profit is not the primary driver for development, such as affordable housing and owner occupied development (such as major retail and hotel development). A profit level of 6% on cost has been applied in these circumstances to reflect the lowered development risk. This again reflects GLA Development Control Toolkit and HCA guidance.

Residential development distribution

- 5.6 LSH undertook an assessment of the proposed land supply provided by the Authority and concluded that circa 2,195 units are anticipated to be delivered over the remaining plan period. The units can be sorted into 5 key areas:

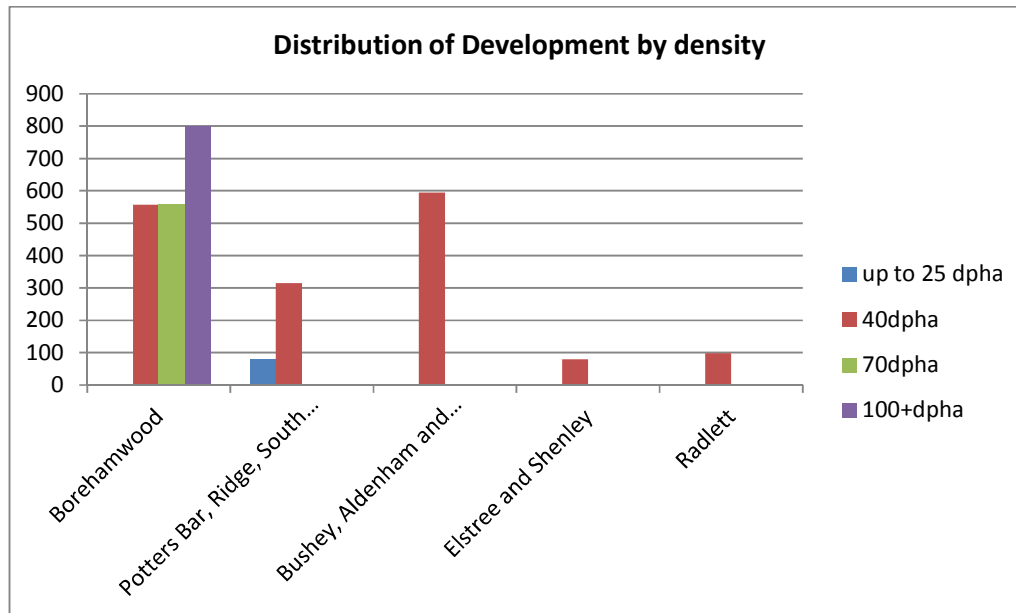
• Borehamwood	WD6	1913 units
• Potters Bar, Ridge, South Mimms	EN6	268 units
• Bushey, Aldenham and Patchetts Green	WD23	571 units
• Elstree and Shenley	WD6	65 units
• Radlett	WD7	98 units
		2915 units

- 5.7 The below chart demonstrates the distribution of anticipated development across the Authority and it is apparent that a significant proportion of development is anticipated in Borehamwood (66%) and Bushey, Aldenham and Patchetts Green (20%) with the remaining areas making up circa 14% of development.



- 5.8 LSH also assessed the density of the anticipated development by the key areas to provide insight into the makeup of the anticipated development within the Authority. The below

chart shows that a 31% of development is anticipated to be below 25 units per hectare; that 29% of development will be circa 40 units per hectare; that 38% will be circa 70 units per hectare; with only 2% of all development around 100 per hectare.



Major Development Opportunities

- 5.9 LSH are aware that the Authority propose the redevelopment of the Elstree Way Corridor, therefore this was investigated in detail in line with the proposed Masterplan. The below table summarises the non standard assumptions used to assess the viability of the scheme:

Assumption	Input
Units	800
Land Value benchmark	£2.0m ha
Density per hec	100
Sales values	Av. £3,882 psm
Affordable Housing	35%
S106	£6,000 per unit

Revenue inputs

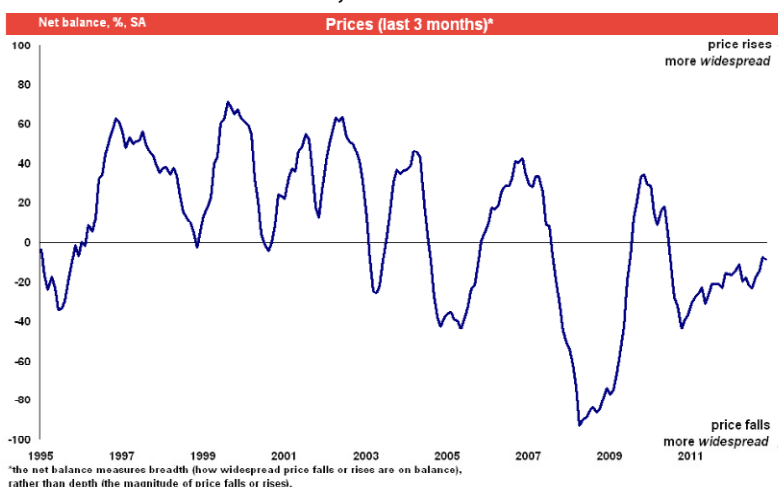
5.10 Assessing revenue values is largely dependent on comparable evidence, furthermore, such evidence only represents a snapshot in time, reflecting the market conditions and planning policies at the time of review. Therefore careful consideration needs to be given to the current market conditions to identify any trends or anomalies that may distort this assessment. This report relies upon information collected for the Stage 1 study (January to June 2012), which is regarded as still relevant for this assessment. In addition to this a finer grain review was undertaken of residential sale values in the primary locations of anticipated development. Data was collected from the following sources:

- Current and proposed development schemes in the study area.
- LSH land dataset for Hertfordshire
- Land Registry entries of recent property transactions.
- Advertised residential properties in the study area.
- Circa 450 various commercial properties advertised and sold in study area
- National data set reviews – Focus, PIP, VOA Property Market Reviews
- Discussions with local agents.

Residential Market

5.11 The UK residential housing market has demonstrated that it has been inherently cyclical in nature over the last 15 years with regular periods of house price group and sharp falls at relatively regular periods. Current RICS Housing Market data shows that UK average values are currently similar those of 1995 after a significant reduction in values since 2007. Although house prices did begin to surge in late 2010, entering a second recession at the end of 2011 has seen current prices fall from those of even 2 years ago. Data suggests that average annual growth in the UK is relatively flat from 2011 to 2012.

UK House Price variation 1995-2012; Source RICS

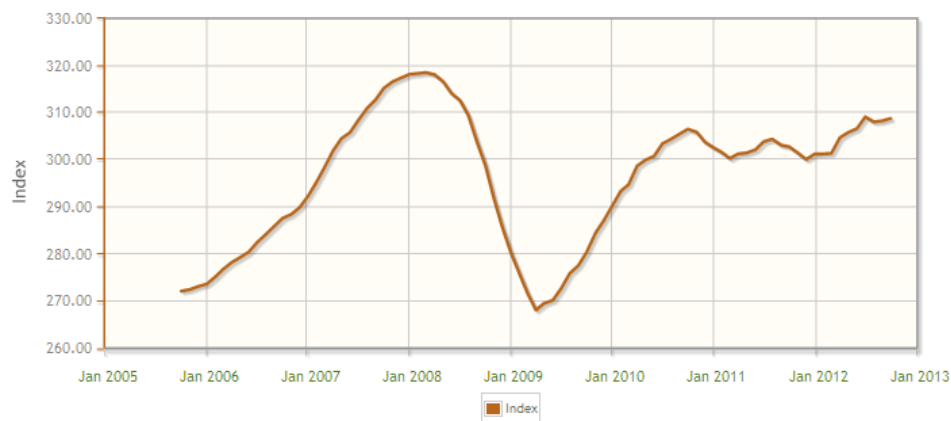


5.12 Long term housing price predictions vary significantly from assuming values will return to peak levels within five years time, to the assumption that net annual house growth will be minimal over the same period. This lack of clarity does make it difficult to conclude a potential CIL rate which is to last over an entire plan period. Therefore LSH would suggest that the local market is regularly assessed to ensure that the CIL rate remains appropriate against the wide economic back drop. For the purposes of this assessment it seems reasonable to assume current housing prices without anticipating any inflationary element within the model to ensure that the CIL remains suitable for circa 5 years.

5.13 At a local level house prices in Hertfordshire saw a significant rise and fall between 2006 and 2009, with prices again rising in 2010 and levelling out over 2011 and 2012. It is anticipated that house prices may increase by circa 2% over the next 12 months, however most economic predictions have been rounded down as more data has become available in 2012.

Land Registry House price index (2006-2012) for Hertfordshire.

House Price Index



Source: Land Registry

5.14 In addition to overall market trends house prices vary by geography. The below heat map highlights the value variation in house prices in and around the Authority. The heat map shows the cooler areas marked in green and yellow where house prices do not exceed on average £250,000 per dwelling. It is possible to see that Elstree and parts of Borehamwood have low sale values, whilst areas including Radlett and Bushey achieve average values over £500,000 per dwelling and are some of the most affluent areas in Hertfordshire. Potters Bar appears to have an average value of circa £250,000.

5.15 This heat map clearly shows the impact of sale value variation and why it is important to consider the proposed/anticipated distribution of development when considering assumptions such as an appropriate sales value and land value for assessing a reasonable CIL rate.

Heat Map showing the distribution of average house prices in Hertsmere Borough



Data Source: Land Registry

5.16 As part of Stage 2 LSH undertook further assessment of the 5 key areas identified where proposed development is anticipated to take place over the plan period. Average sales values in these locations were then assessed (Appendix 1). The table below sets out the average sales values identified in the Stage 1 study by post code and the new average by post code celebrated to reflect the average.

Table showing average sales rate per sqft in areas of the Authority.

Area	Post Code	Stage 1	1	2	3	4	5	7	8	9	New average
Borehamwood	WD6	354	330	322		322	323				324
Potters Bar, Ridge, South Mimms	EN6	402	362	366			335				354
Bushey, Aldenham and Patchetts Green	WD23	416	375	330	347	366					360
Esltree and Shenley	WD6	354			353						353
Radlett	WD7	543						445	439	367	417

5.17 These new averages were applied to the model in assessing the appropriate CIL rate for the above areas. LSH also concluded that flatted units delivered a higher value per sqm/sqft sales value than houses in an equivalent area, therefore the figures used in the model were increased to reflect flatted developments.

Applied Residential Land Value Benchmark

5.18 As expressed in the Stage 1 study, this assessment has attempted to estimate land value benchmarks through assessing and combining a variety of approaches; making sure we have taken account of emerging planning policies including CIL. This combined approach endeavours to minimise objections to identifying a reasonable Market Land Value at which landowners will sell land.

5.19 As with Stage 1 we have concluded proposed land value benchmarks on the assumption of a value per hectare of development. An estimate of land value per hectare by geography follows a similar approach to that of the bi-annual VOA Property Market report. The potential for alternative use value to be higher than that of a proposed development type has been considered.

5.20 We recognised that residential land values are directly impacted by geography, therefore rather than applying a single land value across the Authority the land value benchmarks

were adjusted to reflect market variation. The proposed land value benchmarks are built upon data collected as part of the Stage 1 assessment; however, where appropriate they have been adjusted to take account of sale values reflecting geographical distribution in the Authority. The table below sets out the proposed land value benchmarks for this assessment based on the anticipated distribution and density of development.

	Land Value Bench Mark Per hectare £,000,000				
	WD6	EN6	WD23	WD6 (Elstree)	WD7
Residential <25 units		£2.2			
Residential 40 units	£2.7	£3.6	£4.0	£2.0	£6.0
Residential 70 units	£2.0				
Residential 100 units	£1.8				

Commercial Market

National Level

- 5.21 As previously discussed in the Stage 1 study there has been a 21% drop in investment activity in commercial property over the first quarter of the year (2012) in the UK. Investor activities have been limited by the European economic crisis, worries over the UK economic recovery and the squeeze on consumer spending. In contrast, both industrial and office sectors within Central London have performed well, with an increase in both transaction volumes and inward yield movement. Unfortunately Hertfordshire has not reflected this Central London trend, partly due to the location dynamics of Hertfordshire, but also because commercial property across the UK has looked less attractive against other asset classes, such as residential and student accommodation.

Local level

- 5.22 At a local level LSH undertook research as part of their Stage 1 CIL study into available retail, office, and warehouse space, which gave a view of the market dynamics in and around Hertfordshire and an indication of those uses that are capable of paying CIL. LSH concluded that there is less geographical variation in rents in some property types such as care (residential nursing) homes, leisure uses, and hotels compared to that found in residential development over the study area. This was partly a result of the dearth of comparable evidence for some uses such as care homes, leisure uses and hotels.
- 5.23 When undertaking the Stage 1 a number of hypothetical commercial scenarios reflecting a range of use classes were assessed. An assumption was made that the construction of

new commercial space would be on previously developed land. The table below sets out the conclusions of the Stage 1 study in regards to average rents and yields anticipated across the Authority for various commercial developments. LSH assumed net rents, which made an allowance for rent free and void periods.

Summary of Revenue and Land assumptions used in the Stage 1 study.

Type	Net Rent (pm ²)	Est. Yield	Rate per room	Room Size (m ²)	Applied Land Value benchmark
Hotel		6%	£5,000	33	£2m pha
Care Home	£323	6%			£4.5m pha
Office	£176	8%			£1.6m pha
Small Single unit Retail	£775	6.5%			£1.65m pha
High St Retail	£322	6.5%			£4.7m pha
Superstore Retail	£235	£5.5%			£3.75m pha
Industrial	£50-95	7-7.5%			£1.6m pha

5.24 With regards to office space, the current market conditions have seen an increase in available commercial space, which has reduced the demand for new build commercial property. As part of Stage 1 LSH was able to identify c.200 office properties currently available across the study area.

6. Modelling Outputs

This section identifies the results of testing the agreed assumptions on CIL rates, by location and for different types of development.

- 6.1 LSH ran 25 separate tests for the 5 residential development scenarios across the 5 postcodes covering the Authority as part of stage 1, which demonstrated a wide range of CIL results across the Authority. Furthermore, LSH have undertaken 7 sensitivity tests on the original residential results, thus providing circa 175 variations to the CIL outputs across the Authority. The standard results of Stage 1 are set out below:

Stage 1 Authority outputs showing potential residential CIL rates (£/sqm)

		25 dpa	40 dpa	70 dpa	100 dpa	Mixed use
EN6	HERTSMERE	£ 194	£ 161	£ 183	£ 197	£ 301
WD23	HERTSMERE	£ 113	£ 113	£ 149	£ 156	£ 151
WD25	HERTSMERE	£ 212	£ 187	£ 0	£ 0	£ 0
WD6	HERTSMERE	£ 128	£ 136	£ 141	£ 155	£ 286
WD7	HERTSMERE	£ 160	£ 328	£ 144	£ 144	£ 275

- 6.2 Based on these results LSH proposed that if the Authority was minded to set a single residential CIL rate across the Authority circa **£120/sq.m** would appear reasonable. The results however, also suggested certain areas of the authority were unable to reasonably support a CIL, particularly has at the high density range of development.
- 6.3 As part of the Stage 2 assessment appropriate CIL rates were tested giving consideration to the anticipated distribution of development both by geography and density to ensure the resulting CIL outcomes gave allowed “on balance” development to be viable within the Authority.
- 6.4 The CIL results took into account the adjusted sales rates concluded as part of this Stage 2 study and the anticipated impact of differing density scenarios on the CIL outputs. The results deliver a number of potential CIL rates per area depending on density. The table overleaf shows the results of considering the proposed density for various areas was taken into account to provide a singular appropriate CIL rate by key area:

Stage 2 Authority outputs showing potential residential CIL rates (£/sqm)

Area	Post Code	CIL	% of Units
Borehamwood	WD6	120	66%
Potters Bar, Ridge, South Mimms	EN6	121	9%
Bushey, Aldenham and Patchetts Green	WD23	210	20%
Elstree and Shenley	WD6	120	2%
Radlett	WD7	224	3%

- 6.5 Following an investigation into the viability of the major regeneration area Elstree Way Corridor it was concluded, (based 800 units and 35% of these being affordable and a Section 106 contribution of circa £4,800,000 as discussed with the Authority), the potential CIL for this scheme reduced to circa £60 per sqm (see Appendix 3).
- 6.6 On concluding a reasonable CIL rate by geography, density and proportional split of development type, LSH investigated the overall impact in the resulting CIL rates based on overall estimated development within the Authority over the plan period, as shown in the table below.

Summary of Stage 1 and Stage 2 CIL outputs by key area and associated quantum of development.

Area	Post Code	Stage 1 CIL (£/sqm)	Stage 2 CIL (£/sqm)	% of total development
Borehamwood	WD6	£364	120	66%
Potters Bar, Ridge, South Mimms	EN6	£402	121	9%
Bushey, Aldenham and Patchetts Green	WD23	£416	210	20%
Elstree and Shenley	WD6	£354	120	2%
Radlett	WD7	£543	224	3%

Non Residential Development

- 6.7 For non-residential development the results in this Stage 2 assessment reflect those concluded in the Stage 1 study. LSH focused at Stage 1 on assessing a number of generic commercial property types based on property market research. Representative rents and yields were then applied to the various types of development to provide an indication of the anticipated potential achievable CIL.
- 6.8 Due to the wide range of potential other development uses/types that may be undertaken and due to the limitations of this stage 1 study, LSH concentrated on what were regarded as the key (and most likely) types of development including offices, shops and hotels.
- 6.9 LSH found through its research - although limited by lack of recent evidence - that there was limited or no real variation in the overall impact on delivery of CIL on individual commercial developments across the Authority as office and industrial development tended to cluster around major conurbations. There was however, some notable variation in anticipated values generated from retail development.
- 6.10 The Authority's Policy is for a low level increase in commercial development space over the Core Strategy period, the level of commercial development would be significantly smaller than that of residential. Furthermore, it is anticipated that due to the current recession there is significant available space in retail and office space to support an increase in requirement over the next few years. It is, however, anticipated that commercial space will require refurbishment to meet current standards and that the level of additional floor-space upon which CIL can be calculable in these schemes is expected to be minimal.

Offices

- 6.11 In the Stage 1 assessment LSH did note that although office rents showed some variation across the study area it became apparent early in the testing that speculative new office development was in the most part unviable and therefore unable to support a CIL charge. LSH concluded, however, that at some point this market will change, much of the available space will either be taken up or converted to alternative uses and at this point the viability for office development will re-emerge. Therefore the Authority will need to regularly monitor the market to ensure that when it returns, they are well placed to introduce a CIL charge at the appropriate time.

-
- 6.12 LSH concluded that the commercial market is regularly reviewed (in line with the CIL charging schedule review); at 2-5 year intervals to ensure that CIL rates can be adjusted to take advantage of any improvement in market conditions and to ensure that development remains viable once CIL has been set in the Authority. This recommendation reflects the conclusions of many other CIL viability studies.

Industrial land

- 6.13 LSH concluded in the Stage 1 study that general industrial properties appeared to be able to support a notional CIL charge of £20/m² based on average rental values across the Study area. However, to achieve this a rent of circa £95 per sqm was required, which on further investigation into the data collected in the Stage 1 study, does not appear currently achievable in this Authority. Furthermore, through the Stage 1 sensitivity assessment it became apparent that a 5% drop in revenue or 5% increase in costs made this notional CIL rate unviable. Therefore LSH conclude, like much of the rest of Hertfordshire, industrial development does not provide sufficient headroom in viability to ensure that industrial land can reasonably support a CIL at this time.

Retail

- 6.14 The Stage 1 report concluded that on reviewing retail evidence in the study area, it became apparent that there were two clear types of retail occupiers, the first being; the larger national organisations, such as Tesco, Waitrose, Debenhams and Boots and the second being smaller local shop traders. These two groups of retail providers/occupiers have significantly different characteristics (leaseholder covenants etc) which affect both anticipated rents and yields and would appear to operate in different markets. These variations were ultimately reflected in the development viability assessments.
- 6.15 The Stage 1 report concluded that multiple retailers in the High Street and the major convenience chains could generate more viable developments and therefore potential CIL rates whereas secondary retail locations and the independent sector appeared to be marginally viable.
- 6.16 The Stage 1 assessment also concluded that although larger retail units over 500 sqm including supermarkets/superstores and large High Street stores were assessed on different assumptions they delivered similar CIL rate results. This however did not appear

to be the same for smaller, local operators below 500sqm. In the case of the smaller units viable schemes produced a CIL rate approximately half that of national corporate retailers.

6.17 Based on these findings it was concluded it could be feasible to separate retail development into two distinct groups based the size of the unit. Notwithstanding this the results of the recent Poole CIL charging schedule public examination (and a challenge by J Sainsbury) suggests that it may not be possible, within the CIL regulations, to differentiate between the size of property or development types within in the same use class. The table below summarises the range of potential retail CIL rates based on development size concluded in the Stage 1 report.

Retail size (sqm)	Proposed CIL rate (£/sqm)
<500 sqm	£84
> 500 sqm	£170
Medium	£125

6.18 The Authority's Policy is for low level increase in retail development and a focus on development within existing town, district and neighbourhood centres, and furthermore it was anticipated given the current market conditions and amount of available high street retail space it was unlikely there would be any significant retail development.

Other property types

6.19 The Stage 1 assessment also concluded that several other uses could generate a CIL rate, namely hotel and care homes (private retirement homes). Assumptions used concluded that any current hotel and private residential care home would not be constructed speculatively, with the schemes instead being built by owner occupiers and or with pre-lets in place. These types of development were therefore seen as investment opportunities and therefore their profit assumptions were reduced to reflect this. The table below sets out the anticipated achievable CIL rate based on the assumption of an owner occupier/pre-let and a speculative development opportunity.

Summary of proposed Hotel and Private Care Home CIL rates

	Owner occupied	Speculative Development
Retail size (sqm)	Proposed CIL rate (£/sqm)	
Hotel	£145	£0
Private Care Home	£165	£0

-
- 6.20 On further investigation, the Authority was unable to conclude the proportion of development anticipated from these two property types. However, it was concluded from talking to agents that it was unlikely the Authority would see any speculative hotel or private care home development over the next few years and therefore, it would be reasonable to assume any development which may occur will be able to support the above CIL charges.
- 6.21 LSH concluded in the Stage 1 study that the above commercial uses, whilst anticipated to provide less new floor space than from residential, did reflect the major non residential development that the authorities can anticipate over the plan period.
- 6.22 However, there are many other types of property which may get developed over the plan period, including agriculture, community use, surgeries, day nurseries, hospitals, cinemas, leisure centres, petrol stations etc. For the most part such uses do not in LSH's experience produce revenue which outweighs the costs at a level which would enable a CIL to be included whilst the schemes remain viable, this is because they are often not built to generate profit, but to facilitate a service. LSH were not requested as part of this Stage 2 assessment to investigate such uses, but suggest they could be address in a later CIL charging review.

7. Conclusions

- 7.1 The purpose of this study was to investigate in more detail the impact of development distribution and anticipated type of development on the proposed Community Infrastructure Levy (CIL) rates presented in the Stage 1 study. This report relies and expands upon the evidence base presented in the Stage 1 study to conclude a reasonable approach to chargeable CIL rates within the Authority, whilst maintaining the viability of potential development (taken as a whole).
- 7.2 On the whole it was concluded that the assumptions, scenarios and methodology, supported with evidence presented in the Stage 1 report remained appropriate to this study. Therefore Stage 2 represents a refinement of these conclusions based on further investigations into the nature and geography of anticipated development proposed in the authority over its Plan period. This primarily relates to conclusions relating to residential development, whilst the conclusions of the Stage 2 report in regards to Commercial and other uses remain valid.
- 7.3 LSH updated the proposed CIL rates for residential to reflect a finer grain analysis of property values within the key areas development is anticipated and also took account of the proportional split of different development scenarios within each key area. As a result a single reasonable CIL rate was reconsidered for the 5 key market areas within the Authority.
- 7.4 On the whole this refinement of proposed CIL rates has seen a reduction in potential CIL rates of 20-30%. This is primarily a result of the finer grain analysis identifying slightly lower sale values in the specific areas residential development is anticipated. Previously residential values were only identified at a post code level, which masked any variations within the various post codes. By more accurately assessing the sale values within postcodes and matching them to where development is anticipated to occur as well as the type of development which is to occur it has been possible to recalibrate the reasonable appropriate CIL rate for each area, as set out in the table below:

Summary of proposed achievable CIL rates by Key market area.

Area	Post Code	CIL	% of Units
Borehamwood	WD6	120	66%
Potters Bar, Ridge, South Mimms	EN6	121	9%
Bushey, Aldenham and Patchetts Green	WD23	210	20%
Elstree and Shenley	WD6	120	2%
Radlett	WD7	224	3%

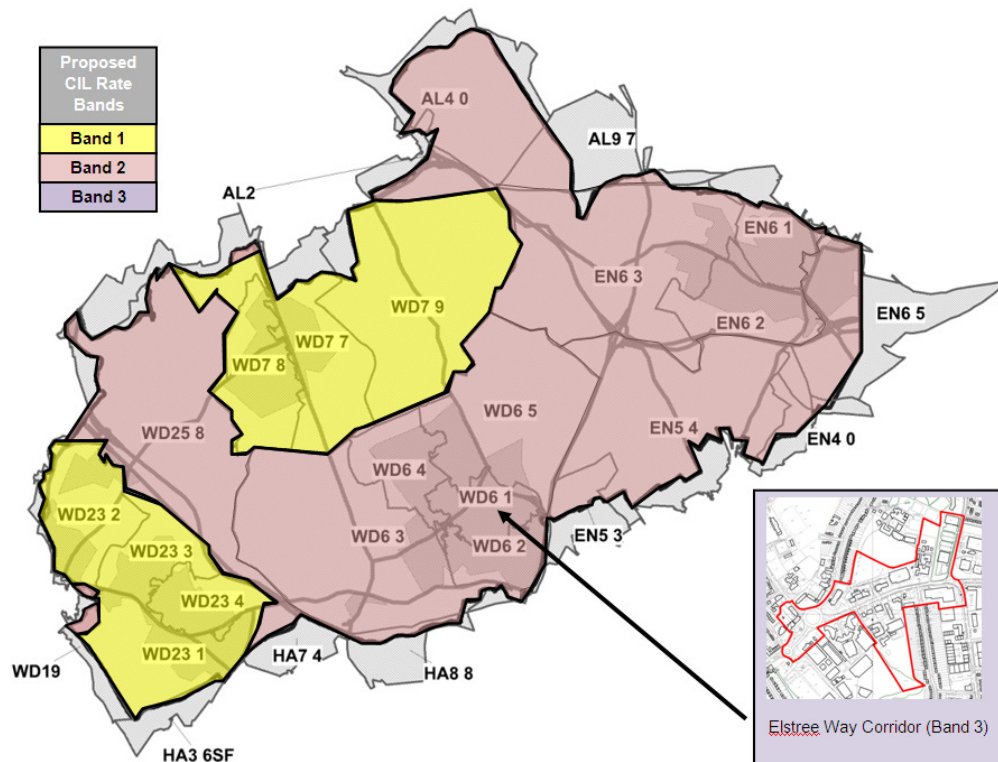
- 7.5 As presented in the table above the level of overall development in each key market area varies, with a significant proportion of the total development occurring in Borehamwood (62%). Furthermore it appeared that achievable CIL in Radlett and Bushey could support a higher CIL than that of the rest of the authority at circa £210 psqm. It should be noted Bushey are estimated to provide circa 20% and Radlett 3% of the overall proposed development in the plan period.
- 7.6 The remaining areas make up the Authority (including Borehamwood) and will deliver circa 77% of the proposed development with distribution heavily weighted toward Borehamwood. LSH conclude that on balance this proportion of the anticipated development can be aggregated together support a CIL of circa £120 per sqm.
- 7.7 However, it is also recognised that the Elstree/Borehamwood is anticipated to deliver a major regeneration scheme of circa 800 units. This scheme was assessed independently (appendix 3), taking account of the additional costs required for on site infrastructure and Section 106 contributions (£4.8m) and it was conclude that whilst the achievable CIL rate reduced to circa £60 per sqm, it is anticipated that the scheme will provide a significant amount of contributions on site. It therefore seems reasonable to conclude that unlike wider area, the regeneration area can only support a CIL rate of circa £60 per sqm, without a reduction in the current infrastructure and Section 106 provisions proposed. Alternatively, if the required S106 reduced on the major development site then the ability to pay CIL would also be affected. For example if the S106 reduced to circa £4,000 per unit then it may be possible to achieve a CIL rate of circa £110.
- 7.8 LSH therefore conclude that the Stage 1 single CIL rate should be expanded to three residential CIL bands to reflect geographical variation in values and development distribution as set out in the table overleaf:

Summary of proposed achievable CIL rates for residential

Development Type	CIL rate (per square metre of chargeable floorspace)		
	Zone 1	Zone 2	Zone 3
Residential	£120	£210	£60*

7.9 The geographical impact of these proposed CIL bands on the CIL delivery within the Authority are presented below in the map below:

Map showing the geographical distribution of proposed residential CIL rates



Commercial CIL

- 7.10 It should be highlighted that the Stage 1 study identified CIL rates for other uses to be applied across the District. LSH conclude that these remain reasonable. It was concluded that office uses could not currently support a CIL rate, which was also felt would to be the case in any new industrial development within the Authority.
- 7.11 Rates of £145 psqm and £163 psqm were identified for owner occupied hotels and private care homes respectively. However, given the administration and management of having different rates, the Authority could consider aggregating these uses within the proposed CIL rates of residential, either at £0 per sqm (band 4) or £120 psqm (band 2).
- 7.12 Stage 1 concluded that a retail CIL rate ranged between £84 psqm and £170 psqm depending on the size and activity anticipated. There are therefore several alternatives to the authority to address the variation in potential CIL.
- 7.13 In choosing and assessing the assumptions used to conclude the above CIL rates allowance has been made for variations both specifically and economically to enable the proposed CIL rates to remain viable. However, the results are determined on a number of variable factors and which may change over time. It is therefore important that the Authority considers a mechanism to review any chosen CIL rate over the plan period. LSH would suggest this was done circa every 2-5 years or when the Authority engage in varying a planning policy, such as Section 106 contributions and Affordable Housing.
- 7.14 Given the nature of the factors affecting development, viability will vary from scheme to scheme and from area to area. It is therefore important to recognise that ultimately the Authority will be making a balanced judgement to enable the maximum CIL to be achieved whilst maximising the potential of development opportunities with the Authority over the plan period and this report should be used to support conclusions reached.

Summary of proposed achievable CIL rates for commercial uses

Development Type	CIL rate (per square metre of chargeable floorspace)
	Borough Wide
Hotel	£145
Care Home	£163
Retail	£84
Office	£0
Industrial	£0
