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Welwyn Hatfield Community Infrastructure Levy Viability Study

Prepared for
Welwyn Hatfield Borough Council

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1 Executive Summary

1.1 This report tests the ability of a range of development typologies throughout the borough of Welwyn Hatfield to accommodate contributions towards infrastructure through the Community Infrastructure Levy ('CIL'). We have tested various levels of CIL in combination with the cumulative impact of Welwyn Hatfield Borough Council's ('the Council') Local Plan (2016) ('LP 2016') policy requirements. This approach is in line with the requirements of the National Planning Policy Framework ('NPPF') the National Planning Practice Guidance ('PPG') and the Local Housing Delivery Group guidance *'Viability Testing Local Plans: Advice for planning practitioners'*.

1.2 The Council consulted on its Preliminary Draft Charging Schedule ('PDCS') from 15 May 2017 to 26 June 2017, for which we produced the supporting viability evidence which informed the Council's proposed CIL rates. This work included the Welwyn Hatfield CIL Viability Study November 2016[1] ('CIL VS 2016'), which built upon previous viability work that we prepared for the Council, mostnotably, the Welwyn Hatfield Combined Policy Viability Update August 2016, in which we examined the viability of the policies and proposals contained within the Welwyn Hatfield Draft Local Plan Proposed Submission August 2016. In addition to the residential typologies tested in the CIL VS 2016, we carried out detailed testing on four strategic development sites proposed in the then Draft Local Plan Proposed Submission August 2016. The Council published the Strategic Sites Testing Update December 2016[2] as evidence alongside its PDCS.

1.3 The Council subsequently published its CIL Draft Charging Schedule ('DCS') for consultation between 30 September 2020 and 25 November 2020. Supporting the schedule was an updated CIL Viability Study February 2020[3].

1.4 The Council has commissioned a further update to the viability evidence to support the emerging Draft Charging Schedule and consequently this report supersedes the DCS Viability Study February 2020. This report should be read in conjunction with the viability work undertaken specifically considering the viability of the strategic sites in December 2016.

Methodology

1.5 The study methodology tests the residual land values of a range of development typologies reflecting the types of developments expected to come forward in the Borough. The appraisals compare the residual land values generated by those developments (with varying levels of affordable housing, CIL and other policy requirements) to a range of benchmark land values to reflect the existing value of land prior to redevelopment. If a development incorporating the Council's policy requirements and a given level of CIL generates a higher residual land value than the benchmark land value, then it can be judged that the development is viable and deliverable. Following the adoption of the CIL Charging Schedule, developers will need to reflect policy requirements in their bids for sites, in line with requirements set out in the PPG[4] and RICS Guidance[5].

1.6 The study utilises the residual land value method of calculating the value of each development typology. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting

[1] Welwyn Hatfield CIL Viability Study November 2016: https://welhat-consult.objective.co.uk/resources/portal/supportingfiles/507439

[2] Strategic Sites Testing Update December 2016: https://welhat-consult.objective.co.uk/resources/portal/supportingfiles/507440

[3] Welwyn Hatfield CIL Viability Study February 2020: https://archive.welhat.gov.uk/media/16787/Welwyn-Hatfield-CIL-Viability-Report-20-July-2020/pdf/Welwyn_Hatfield_CIL_Viability_Report_FINAL_20July20.pdf?m=637311189540470000

[4] PPG on Viability paragraph: 006 Reference ID: 10-006-20190509, *"It is important for developers and other parties buying (or interested in buying) land to have regard to the total cumulative cost of all relevant policies when agreeing a price for the land. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan."*

[5] RICS 'Assessing viability in planning under the National Planning Policy Framework 2019 for England, 1st edition, March 2021'

development costs (construction, fees, finance, sustainability requirements, Section 106 contributions and CIL) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site.

1.7 The housing and commercial property markets are inherently cyclical and the Council is testing the viability of potential development sites at a time when the market has experienced a period of sustained growth following the coronavirus pandemic in 2020/21.

1.8 Forecasts for future house price growth point to continuing growth in mainstream East of England housing markets in the medium term (five years), although there is a degree of short term uncertainty following the government's September 2022 'fiscal event' and a significant increase in interest rates (which are now considered by most analysts to have reached their peak having remained unchanged at the last Bank of England Monetary Policy Committee meeting). We have allowed for this medium term growth over the plan period by running a sensitivity analysis which applies growth to sales values and inflation on costs to provide an indication of the extent of improvement to viability that might result. The assumed growth rates for this sensitivity analysis are outlined in Section 4. It is important to note, however, that our assessment of suggested CIL rates relies on current and not grown appraisal inputs.

1.9 This sensitivity analysis is indicative only, but is intended to assist the Council in understanding the viability of potential development sites on a high level basis, both in today's terms but also in the future. Some sites may require more detailed viability analysis when they come forward through the development management process due to specific site circumstances that cannot be reflected in an area wide assessment[6].

Key findings

1.10 The key findings of the study are as follows:

Residential

- The results of our appraisal of residential developments shows a wide range of potential maximum CIL rates. We have suggested different rates for schemes which are required to provide affordable housing (10 or more units) and those that are not (9 or fewer units).
- The ability of residential schemes to contribute to infrastructure through CIL varies depending on the area and the current use of the site. Having regard to these variations, residential schemes should be able to absorb a maximum CIL rate of between £100 per square metre and £325 per square metre. The CIL PPG requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount (buffer) to the maximum rate, with discounts ranging from circa 20% to 50%. We have considered rates based on a buffer of circa 30% for Welwyn Hatfield's area.

[6] The Local Housing Delivery Group Guidance 'Viability Testing Local Plans: Advice for Planning Practitioners' notes that "*the role of the test is not to provide a precise answer as to the viability of every development likely to take place during the plan period. No assessment could realistically provide this level of detail. Some site-specific tests are still likely to be required at the development management stage*"; and the NPPF identifies at para 57 that "*It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage*". This is reiterated in the PPG (para 007 Reference ID: 10-007-20190509) which provides further detail on this including an illustrative list of circumstances where viability should be assessed in decision making.

Table 1.10.1: Proposed Maximum and suggested residential CIL rates

Area / type of development	Maximum CIL indicated by appraisals (£s per sq m)	CIL after 30% buffer (£s per sq m)	Proposed CIL Rates
1- South Hatfield	£150	£105	**£100**
2- Hatfield and Birchwood	£150	£105	
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield and Woolmer Green.	£200	£140	**£140**
4- Welham Green, Welwyn, Oaklands, Mardley Heath, Digswell.	£325	£228	**£230**
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area.	£325	£228	
Sites under the affordable housing threshold across the borough	£325	£228	**£230**

- Although we have tested schemes with a range of affordable housing percentages, the suggested rates above are based on the appraisal outputs which also include the relevant percentage in Policy SP 7 (i.e. 25% in Hatfield, 30% in Welwyn Garden City and on major development sites and 35% in the excluded villages on sites of 11 new dwellings or a site of 0.5 Ha or more).

- Our suggested rates have regard to the PPG requirement not to set CIL rates at the margins of viability. So whilst the maximum rates are higher than the suggested rates, the inclusion of a buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority's judgement.

- We are also mindful of the flexibility authorities now have as a result of the changes to the CIL regulations which remove pooling restrictions on Section 106 obligations, providing much greater flexibility in how funds can be raised for infrastructure. In addition, residential schemes will need to make provision for affordable housing and we consider that our suggested rates strike an appropriate balance between the objectives set out in Policy SP7 and the need to raise funds for infrastructure to support growth.

- Should the Council wish, it would be possible to combine areas into one charging zone, thereby simplifying the charging schedule into fewer charging zones. We suggest that the Council considers a three zone approach as set out in Table 1.10.1 and the map at **Appendix 6**. In determining which approach to adopt, the Council may wish to consider the amount of development expected to come forward in each area. There would be little benefit from charging a differential rate for the higher value areas should there be comparably little new development expected to come forward in these areas.

- Housing schemes for elderly people are predominantly in the form of flatted schemes in urban areas. Our appraisals of retirement housing and Extra Care housing indicate that the viability of these developments is likely to be challenging and on this basis we recommend the Council considers adopting a nil or nominal CIL rate to these uses.

Commercial

- It is noteworthy that the results of this viability exercise, which identify certain commercial development as not viable, do not mean that sites will not be developed within the Borough for these uses. This is because viability is only one of many factors which affect whether a site is developed. For example, owner occupiers such as a logistics company, may wish to locate in Welwyn Hatfield as it both complements their existing locations and provides good links to the strategic highway network. Alternatively, a business may wish to develop their own premises by reference to their own cost benefit analysis, which will bear little relationship to the residual land value calculations that a speculative landlord developer may undertake.

- Our testing of commercial developments has identified that at current values and costs viability is challenging on **offices**, **science park lab enabled office space**, **hotels**, **industrial and warehousing**, **'all other retail'**, **supermarkets/superstores**, **retail warehousing** and **student accommodation** schemes in the Borough. We therefore suggest that the Council considers setting a nil or nominal rate of £20 per square metre on such development. This level of charge would equate to less than 1% of development costs.

- Should the Council wish to do so, they would be able to set a nominal rate of CIL on **all other uses** of no more than say £20 per square metre. A nominal rate is unlikely to be a significant factor in developers' decision making and could be absorbed without having a significant impact on viability across the borough. In addition, the Council could consider excluding uses such as healthcare, emergency services facilities and education from this category. Should the Council not wish to proceed with a nominal rate on all other uses, a nil rate would apply by default unless a rate has been explicitly set. We have advised that the Council includes offices, science park lab enabled office space, hotels, industrial and warehousing, 'all other retail', supermarkets/superstores, retail warehousing and student accommodation, retirement housing and extra care housing within this category.

Strategic sites

- We have identified that the viability for the delivery of both of the **SDS2 South East Welwyn Garden City - Birchall Garden Suburb Birchall Garden Suburb** and **SDS5 North West Hatfield** sites is more challenging than the other strategic sites tested, given the extent of the infrastructure and S106 mitigation requirements along with other site complications such as contamination, topography and cross border delivery of development. Subsequently, we suggest that the Council considers the merits of adopting a nil CIL rate and seeking all infrastructure contributions through a S106 agreement for both SDS5 North West Hatfield and SDS2 Birchall Garden Suburb.

Proposed rates

- Our proposed CIL rates for Welwyn Hatfield are summarised in Table 1.10.2.

Table 1.10.2: Proposed CIL rates per square metre

Use	Residential Zone 1 CIL Charge (£ per sq m)	Residential Zone 2 CIL Charge (£ per sq m)	Residential Zone 3 CIL Charge (£ per sq m)	Identified sites
Residential at and above the Affordable Housing threshold[7]	£100	£140	£230	NIL
Residential below the Affordable housing threshold		£230		
All other uses[8]		£20		

- For residential schemes, the application of CIL is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme costs, the suggested CIL rates will be a modest amount, typically accounting for less than 5% of development costs (average of 2.33% in Zone 1 and 3.01% in Zone 2 and 4.14% in Zone 3, the latter of which is identified as being the most viable of the areas in the Borough).

- Some scenarios (e.g. certain affordable housing percentages) are unviable prior to the application of CIL i.e. they would be unviable even if a zero CIL were adopted. There is clearly an important distinction to be drawn between these schemes and those that are viable. Where schemes are viable, the proposed CIL rates are sufficiently modest to ensure that schemes remain viable. We therefore recommend that the Council pays limited regard to the unviable schemes as they are unlikely to come forward unless there are significant changes to main appraisal inputs.

- With respect to commercial schemes, the application of a nominal CIL is unlikely to be the determining factor in whether a developer brings forward a site or whether not a scheme is viable. As identified in section 7 of this study the proposed CIL is a marginal factor in a scheme's viability i.e. less than 1% of total development costs in terms of the uses tested allowing for a nominal charge of £20 per square metre (shown to be between 0.28% and 0.83%). The CIL Guidance identifies that a charging authority does not have to set a nil rate, the setting of a nominal rate would allow the Council to achieve the balance required by the CIL regulations between the delivery of development and the provision of infrastructure to support the growth envisaged in the Council's local plan.

- As this would be Welwyn Hatfield's first charging schedule, the proposed CIL contribution sought will not be a new cost burden on development. It is largely replacing much of the financial contributions the Council secures through s106 Agreements. Consequently, it is unlikely to be the determining factor in scheme viability. In this context, we consider the proposed rates to be appropriate.

The Status of our advice

1.11 In preparing this report and the supporting appraisals, we have given full regard to the RICS Professional Standard ('PS') 'Assessing viability in planning under the National Planning Policy Framework for England 2019' (first edition, March 2021). However, paragraph 2.2.3 of the PS acknowledges that statutory planning guidance takes precedence over RICS guidance and practice statements. Conflicts may emerge between the PS and the PPG and/or other adopted development plan documents. In such circumstances, we have given

[7] Excluding retirement housing and Extra Care housing

[8] Excluding uses such as healthcare, emergency services facilities and education

more weight to the PPG and development plan documents.

1.12 In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

1.13 We are not aware of any conflicts of interest in relation to this assessment.

1.14 In preparing this report, no ‘performance-related’ or ‘contingent’ fees have been agreed.

1.15 This report is addressed to Welwyn Hatfield Borough Council only. No liability to any other party is accepted.

2 Introduction

2.1 The Council commissioned this study to consider the ability of developments in Welwyn Hatfield to accommodate contributions towards essential supporting infrastructure through CIL, alongside policies in the LP 2016. The aim of the study is to assess at high level the viability of development typologies representing the types of sites that are expected to come forward to test a range of potential CIL rates to inform a DCS for consultation in accordance with the requirements of the CIL Regulations.

2.2 In terms of methodology, we adopted standard residual valuation approaches to test the viability of development typologies, including the impact on viability of the Council's planning policies alongside potential rates of CIL. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique), mean that conclusions must always be tempered by a level of flexibility in application of policy requirements on a site by site basis.

2.3 We would highlight that the purpose of this viability study is to assist the Council in understanding the capacity of schemes to absorb CIL and to inform a Charging Schedule for consultation and Examination in Public. The Study therefore provides an evidence base to show that the requirements set out within the NPPF, CIL Regulations and PPG are satisfied. The key underlying principle is that charging authorities should use evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area as a whole.

2.4 As an area wide study, this assessment makes overall judgements as to viability of development in Welwyn Hatfield Borough and does not account for individual site circumstances which can only be established when work on detailed planning applications is undertaken. The assessment should not be relied upon for individual site applications. However, we have applied an element of judgement within this study with regard to the individual characteristics of the sites tested. Scheme specific testing may still be required at the point where they come forward[9].

2.5 This position is recognised within Section 2 of the Local Housing Delivery Group guidance[10], which identifies the purpose and role of viability assessments within plan-making. This identifies that: *"The role of the test is not to give a precise answer as to the viability of every development likely to take place during the plan period. No assessment could realistically provide this level of detail. Some site-specific tests are still likely to be required at the development management stage. Rather, it is to provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability of development needed to deliver the plan."*

[9] However, the PPG notes that once plan policies are adopted, land values should adjust to reflect the requirements and that price paid for the land should not be used as a justification for failing to provide policy compliant developments (see for example paragraph 002).

[10] Although this document was published prior to the NPPF and PPG, it remains relevant for testing local plans. The approaches to testing advocated by the LHDG guidance are consistent with those in the PPG. The same cannot be said of some of the approaches advocated in the RICS guidance 'Financial Viability in Planning 2012' (particularly its approach to site value benchmark) but these have always been inconsistent with the LHDG guidance and the approach now advocated by the PPG. In any event, the RICS guidance has since been updated and accords with the approach taken in the PPG, acknowledging that, *"This guidance sets out best practice for the implementation of the revised current planning policy. The NPPF and PPG are the 'authoritative requirement', as defined in RICS Valuation – Global Standards (commonly known as the Red Book). This means that any valuation-based requirements in the PPG take precedence over any other valuation basis or approach set out in the standards."* (paragraph 1.1.4)

Economic and housing market context

2.6 The positive economic start to 2020 was curtailed by the outbreak of COVID-19, declared a global pandemic by the World Health Organisation in March 2020. The virus continues to impact global financial markets and supply chains. The FTSE 100 initially fell from 6,474 points to 5,152 points between 9 to 19 March 2020, representing a fall of 20.42% - the largest fall since the 2008 financial crisis. The Bank of England ("BoE") responded to the COVID-19 outbreak by lowering the base rate to 0.25% and introducing financial arrangements to help bridge the downward economic pressure caused by COVID-19. These changes to the base rate have since been reversed as a result of factors discussed below.

2.7 The UK Government introduced a series of restrictive and economically disruptive measures to slow and mitigate the spread of the COVID-19. The UK Government pledged a support package of £350bn to stabilise the economy during the shock caused by COVID-19. The Chancellor's Winter Economy Plan included a six-month Job Support Scheme, as well as other tax cuts and grants/loans to support businesses, including the furlough scheme which has since ended. Importantly for the housing market, a Stamp Duty holiday ran from June 2020 until the end of June 2021 tapering until September 2021. The successful vaccine production and subsequent rollout programme allowed for the full easing of restrictions within the UK, which led to a positive rebound in economic activity, post pandemic.

2.8 However, the rebound in economic activity post pandemic has seen inflation rates increasing significantly above the BoE's inflation target of 2%. Consumer Price Inflation including owner occupiers' housing costs (CPIH) rose by 6.3% in the 12 months to August 2023, down from 6.4% in July 2023, and with a peak rate at 9.6% in October 2022.

2.9 Interest Rates were subsequently increased by BoE throughout most of 2022 and 2023, to a current peak rate of 5.25% as at August 2023. As at September 2023 the Monetary Policy Committee ("MPC") voted to maintain the Base Rate at 5.25%, by a majority of 5 to 4.

2.10 Despite the economic headwinds facing the UK, the housing market outperformed expectations in 2020 and 2021.

2.11 However, in the third and fourth quarters of 2022, annual house price growth fell back, largely as a result of the Government's September 2022 'Fiscal Event' which saw unfunded cuts to taxes and a consequent fall in sterling and increase in bond yields. Downwards Pressure on House Prices continued throughout late 2022 and into 2023.

2.12 Nationwide's Chief Economist, Robert Gardener, commented in Nationwide's September 2023 House Price Index Report that "*Annual house price growth was unchanged at -5.3% in September. Prices were also flat over the month, after taking account of seasonal effects, following the 0.8% decline seen in August".* Nationwide continues to report that *"Housing market activity remains weak, with just 45,400 approved for house purchase in August, c.30% below the monthly average prevailing in 2019 before the pandemic struck".* Nationwide highlights that "*This relatively subdued picture is not surprising given the more challenging picture for housing affordability. For example, someone earing an average income and purchasing the typical first-time buyer home with a 20% deposit would spend 38% of their take home pay on their monthly mortgage payment – well above the long run average of 29%".* Affordability is further challenged in the higher value areas.

2.13 Nationwide's latest report however continues in a slightly more positive outlook, stating *"However, investors have marked down their expectations for the future path of Bank Rate in recent months amid signs that underlying inflation pressures in the UK economy are finally easing, and with labour market conditions softening. This in turn has put downward pressure on longer term interest rates which underpin fixed mortgage pricing … if sustained, this will ease some of the pressure on those re-mortgaging or looking to buy a home".* Nationwide continue to state *"Nevertheless, with Bank Rate not expected to decline significantly in the years ahead, borrowing costs are unlikely to return to historic lows seen in the aftermath of the pandemic. Instead, it appears more likely that a combination of solid income growth* *together with modestly lower house prices and mortgage rates will gradually improve affordability over time, with housing market activity remaining fairly subdued in the interim".*

2.14 Halifax report a similar picture for September 2023, albeit marginally more positive than Nationwide's analysis.

2.15 Kim Kinnaird, Director, Halifax Mortgages, said: *"UK house prices fell further in September, edging down by -0.4% on a monthly basis. This was a sixth consecutive monthly fall, though the pace of decline slowed markedly compared to August (-1.8%). The average home now costs £278,601, a drop of around £1,200 since last month. On an annual basis prices are down by -4.7%, largely unchanged from -4.5% in August. Nonetheless they remain some £39,400 higher than in March 2020, such was the extraordinary growth seen during the pandemic".*

2.16 Halifax continue to report that *"Activity levels continue to look subdued compared to recent years, with industry data showing lower levels of new instructions to sell homes and agreed sales. Borrowing costs are the primary factor, given the impact of higher interest rates on mortgage affordability. Against this backdrop, homeowners inevitably become more realistic about their target selling price, reflecting what has increasingly become a buyer's market. However, with Base Rate now likely to be at or around its peak, we are seeing fixed rate mortgages deals ease back from recent highs. Wage growth also remains strong, which has helped with affordability, with the house price to income ratio now at its lowest level since June 2020 (6.2 in September vs 6.3 in August). Many economists and financial markets predict that Base Rate will remain higher for longer, with any significant cuts appearing unlikely until inflation gets closer to the Bank of England's 2% target. Overall, these factors are likely to keep mortgage rates elevated in comparison to recent years, constraining buyer demand and putting downward pressure on house prices into next year."*

2.17 In their October 2023 Housing Market Update, Savills reflect *"a pause in price falls as we enter a period of greater stability".*

2.18 Savills suggest that *"demand is still falling faster than supply, according to the August 2023 RICS survey, which suggests price falls and lower activity will continue for at least the next few months. More surveyors reported price falls in August than at any time since 2009".*

2.19 Residential market forecasts issued by the main real estate consultancies indicate that values for the UK as a whole are expected to increase over the next five years, however this price growth is identified as being more moderate than over the past 20 years. There is a consensus that there is likely to be a short term reduction in values in 2023 into 2024, and more sustained growth between 2025 to 2027, as summarised in Table 2.19.1.

Table 2.19.1: National residential forecasts

Agent	2023	2024	2025	2026	2027	Cumulative growth 2023-2027
Knight Frank House price forecasts – UK (October 2023)	-7.0%	-4.0%	4.0%	4.0%	5.0%	1.4%
JLL UK Residential Forecasts Q4 2022 – (October 2022) – UK	-6.0%	1.0%	4.0%	5.0%	5.0%	8.9%
Savillls (November 2022)	-10.0%	-1.0%	3.5%	7.0%	5.5%	6.2%
Average	**-7.67%**	**-1.33%**	**3.83%**	**5.33%**	**5.17%**	**4.8%**

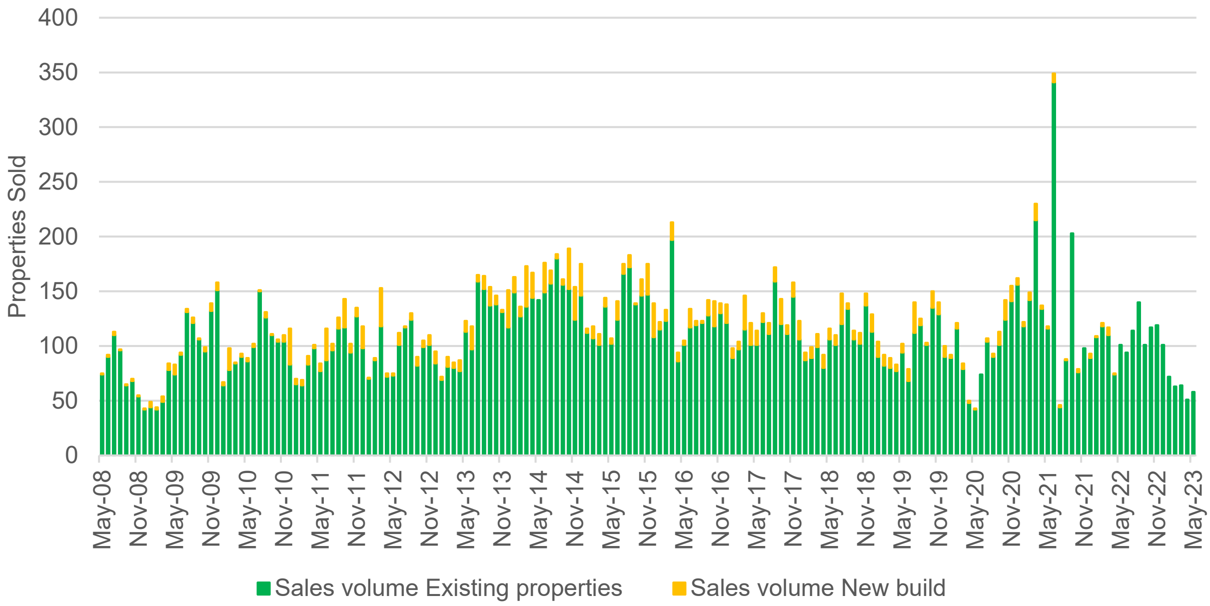
Local housing market context

2.20 House prices in Welwyn Hatfield have followed recent national trends, with values falling in 2008 to 2009 and recovering between 2010 and mid-2016 exceeding the previous 2007 peak of the market values in mid-2010 to early 2011, as shown in Figure 2.20.1. Following the result of the Referendum on the UK's membership of the EU in mid 2016 values fluctuated, but in a general upwards trajectory through to the end of the first Covid-19 lockdown in May 2020. From this point values commenced a more pronounced upwards trend, which further accelerated from mid-2021. 2023 has seen a varied picture with new build properties only seeing a fall in values after April 2023, whist values for existing properties have fallen from January 2023.

Figure 2.20.1: Average sales values in Welwyn Hatfield

Source: Land Registry

Figure 2.20.2: Sales volumes in Welwyn Hatfield



Source: Land Registry

National Policy Context

The NPPF

2.21 In February 2019, the Government published a revised NPPF and revised PPG, with subsequent updates to the PPG in May and September 2019 and July 2021.

2.22 Paragraph 34 of the NPPF states that "*Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan*".

2.23 Paragraph 58 of the NPPF suggests that "*Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available*".

2.24 In urban areas the fine grain pattern of types of development and varying existing use values make it impossible to realistically test a sufficient number of typologies to reflect every conceivable scheme that might come forward over the plan period. The Council's Local Plan policy is applied 'subject to viability', having regards to site-specific circumstances. This enables schemes that cannot provide as much as the relevant policy target for affordable housing to still come forward rather than being sterilised by a fixed or 'quota' based approach to affordable housing.

2.25 The 2019 PPG indicates that viability testing of plans should be based on existing use value plus a landowner premium. The revised PPG also expresses a preference for plan makers to test the viability of planning obligations and affordable housing requirements at the plan making stage in the anticipation that this may reduce the need for viability testing developments at the development management stage. Local authorities have, of course, been testing the viability of their plan policies since the first NPPF was adopted[11], but have adopted policies based on the most viable outcome of their testing, recognising that some schemes coming forward will not meet the targets. This approach maximises delivery, as there is flexibility for schemes to come forward at levels of obligations that are lower than the target, if a proven viability case is made. The danger of the approach in the revised NPPF is that policy targets will inevitably be driven down to reflect the least viable outcome; schemes that could have delivered more would not do so.

CIL Policy Context

2.26 As of April 2015 (or the adoption of a CIL Charging Schedule by a charging authority, whichever was the sooner), the S106/planning obligations system' i.e. the use of 'pooled' S106 obligations, was limited to a maximum of five S106 agreements. However, changes in the CIL regulations in September 2019 removed the pooling restrictions, giving charging authorities a degree of flexibility in how they use Section 106 and CIL. The adoption of a CIL charging schedule is discretionary for a charging authority.

[11] And also following the publication of Planning Policy Statement 3 which required that LPAs set affordable housing policies on the basis of both proven need *and* viability. The need for viability testing was established following the quashing in 2008 of Blyth Valley's Core Strategy, which based its 30% affordable housing target on need alone, with no evidence on the viability of the policy.

2.27 It is worth noting that some site specific S106 obligations remain available for negotiation, however these are restricted to site specific mitigation that meet the three tests set out at Regulation 122 of the CIL Regulations (as amended) and at paragraph 57 of the NPPF, and to the provision of affordable housing.

2.28 The CIL regulations state that in setting a charge, local authorities must strike "an appropriate balance" between revenue maximisation on the one hand and the potentially adverse impact upon the viability of development on the other. The regulations also state that local authorities should take account of other sources of available funding for infrastructure when setting CIL rates. This report deals with viability only and does not consider other sources of funding (this is considered elsewhere within the Council's evidence base).

2.29 From September 2019, the previous two-stage consultation has been amended to require a single consultation with stakeholders. Following consultation, a charging schedule must be submitted for independent examination.

2.30 The payment of CIL becomes mandatory on all new buildings and extensions to buildings with a gross internal floorspace over 100 square metres once a charging schedule has been adopted. The CIL regulations allow a number of reliefs and exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if a material interest in the land is owned by the charity and the development is to be used wholly or mainly for its charitable purpose) are subject to relief. Secondly, local authorities may, if they choose, elect to offer an exemption on proven viability grounds. A charging authority wishing to offer exceptional circumstances relief in its area must first give notice publicly of its intention to do so. The charging authority can then consider claims for relief on chargeable developments from landowners on a case by case basis. In each case, an independent expert with suitable qualifications and experience must be appointed by the claimant with the agreement of the charging authority to assess whether paying the full CIL charge would have an unacceptable impact on the development's economic viability.

2.31 The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed if the scheme has not commenced. To be eligible for exemption, Regulation 55 states that the Applicant must enter into a Section 106 agreement; and that the charging authority must be satisfied that granting relief would not constitute state aid. It should be noted however that CIL cannot simply be negotiated away or the charging authority decide not to charge CIL.

2.32 CIL Regulation 40 includes a vacancy period test for calculating CIL liability so that vacant floorspace can be offset in certain circumstances. That is where a building that contains a part which has not been in lawful use for a continuous period of at least six months within the last three years, ending on the day planning permission first permits the chargeable development, the floorspace may not be offset.

2.33 The CIL regulations enable charging authorities to set differential rates (including zero rates) for different zones within which development would take place and also for different types of development. The CIL Guidance set out in the PPG (paragraph 022 Reference ID: 25-022-20190901) clarifies that CIL Regulation 13 permits charging authorities to *"apply differential rates in a flexible way [including] in relation to geographical zones within the charging authority's boundary; types of development; and/or scales of development".* Charging Authorities taking this approach need to ensure that such different rates are justified by a comparative assessment of the economic viability of those categories of development. Further the PPG clarifies that the definition of "use" for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987, although that Order does provide a useful reference point. The PPG also sets out (paragraph 024 Reference ID: 25-024-20190901) that charging authorities may also set differential rates in relation to, scale of development i.e. by reference to either floor area or the number of units or dwellings.

2.34 The 2010 CIL regulations set out clear timescales for payment of CIL, which are varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allowed charging authorities to set their own timescales for the payment of CIL under regulation 69B if they choose to do so. This is an important issue that the Council will need to consider, as the timing of payment of CIL can have an impact on an Applicant's cashflow (the earlier the payment of CIL, the more interest the Applicant will bear before the development is completed and sold).

2.35 Regulation 73 enables charging authorities to secure physical infrastructure on a development site, or land, in lieu (or 'in kind') of a Developer's CIL liability. The PPG (paragraph 133) notes that *"there may be circumstances where the charging authority and the person liable for the levy will wish land and/or infrastructure to be provided, instead of money, to satisfy a charge arising from the levy*". The PPG goes on to note that the charging authority can enter into agreements with developers to receive infrastructure as payment of a CIL liability.

2.36 Revised regulations came into effect on 1 September 2019 which introduced the following changes:

- Consultation requirements to be amended to remove the current two stage consultation process and replace this with a single consultation.
- Removal of the pooling restrictions contained within Regulation 123.
- Charging authorities are no longer required to publish a Regulation 123 list.
- Changes to calculations of chargeable amounts in different cases, including where granting of amended scheme under Section 73 leads to an increased or decreased CIL liability.
- Removal of provisions which resulted in reliefs being lost if a commencement notice was not served before a developer starts a development. A surcharge will apply in future but the relief will not be lost.
- Introduction of 'carry-over' provisions for a development which is amended by a Section 73 permission, providing the amount of relief does not change.
- Charging authorities are required to publish an annual infrastructure funding statement, setting out how much CIL has been collected and what it was spent on. Similar provisions to be introduced for Section 106 funds.
- Charging authorities are required to publish annual CIL rate summaries showing the rates after indexation.

Local Policy context

2.37 As previously identified, this study takes into account the policies and standards set out within LP 2016, which includes *inter alia* affordable housing requirements; sustainability; accessibility and developer contributions towards infrastructure. There are numerous policy requirements that are now embedded in base build costs for schemes (i.e. secure by design, landscaping, amenity space, internal space standards, car parking, waste storage, tree preservation and protection etc.). This study takes into account the cumulative impact of these policies as required by the NPPF.

2.38 A summary is provided below of the policies identified as having cost implications for developments:

- **Policy SP 1 – Delivering Sustainable Development** (this provides the basis for seeking energy and water efficiency measures, SUDs and green infrastructure);

- **Policy SP 7 – Type and Mix of Housing**:
  - Affordable housing requirements as summarised in Table 2.38.1;

    Table 2.38.1: Policy SP 7 – affordable housing

Location	On-site delivery target	Site threshold
Hatfield (including SDS5)	25%	10 new dwellings or a site of 0.5ha or more
Welwyn Garden City (including SDS1, SDS2, SDS3)	30%	10 new dwellings or a site of 0.5ha or more
Excluded villages	35%	10 new dwellings or a site of 0.5ha or more
Re-development or re-use of Major Developed Sites or other previously developed sites in sustainable locations compatible with Green Belt policy	30%	10 new dwellings or a site of 0.5ha or more

  - **Self-build and Custom Housebuilding** – on sites of 100 or more non-flatted dwellings, developers should provide 2% of dwellings as serviced plots ;
  - **Accessible and Adaptable dwellings** – requirement for at least 20% of all new dwellings of 5 or more new dwellings to meet Building Regulations Part M4(2) 'accessible and adaptable dwellings' standard, which may be varied where a proportion of dwellings meet M4(3) 'wheelchair units';
  - **Housing mix** requirements as set out at paragraph 9.17 and Table 4 in the Supporting Text, as summarised in Table 2.38.2;

    Table 2.38.2: Estimates size and type of all new housing required

1 Bed (Flats & Houses)	2 Bed (Flats)	2 Bed (Houses)	3 Bed (Flats & Houses)	4 Bed + (Houses)
14.5%	9.5%	13.7%	40.9%	21.4%

- **Policy SP 10 – Sustainable Design and Construction** sets the basis for sustainable construction;
- **Policy SADM 13 – Sustainability Requirements** which identifies that:
  - all major development proposals must demonstrate that they have sought to maximise opportunities for renewable and low carbon sources of energy supply where consistent with other Local Plan policies;
  - all non-residential development with a floorspace of 1,000 sq m or more will be required to meet at least BREEAM 'Excellent' subject to feasibility and or viability in which case such proposals will be required to demonstrate a 'Very Good' rating; and
  - all newly constructed dwellings will be required to achieve an estimated water consumption of no more than 110 litres/person/day.
- **Policy SADM 14 – Flood Risk and Surface Water Management** specifies requirements for SUDs and source control on development sites;

- **Policy SADM 16 – Ecology and Landscape requires** all developments to deliver a measurable biodiversity net gain of at least 10%; and

- **Policy SP 13 – Infrastructure Delivery** requires developers to contribute to the reasonable costs of enhancing existing infrastructure or providing new physical, social and green infrastructure, required as a result of their proposals, through either financial contributions (including planning obligations or CIL), or by direct provision of such infrastructure on-site within the development.

- **Policy SP19 - South east of Welwyn Garden City - SDS2 (WGC5) - Birchall Garden Suburb –** allocates the site for 1,950 homes to be delivered over the plan period, 600 in Welwyn Hatfield Borough and 1,350 in East Hertfordshire District, which will be planned comprehensively to create a new community incorporating Garden City principles across the local authority boundaries. The entire site (i.e. across both administrative areas) is required to provide:

  - a detailed remediation strategy designed to secure a permanently safe environment for the human population and local wildlife (particularly in relation to the former waste tip use of on the site). Following remediation, the developer will submit sufficient information to demonstrate that the site is not capable of being determined as contaminated land under Part IIA of the Environmental Protection Act 1990.
  - a secondary school;
  - two primary schools;
  - two neighbourhood centres;
  - an employment area;
  - community facilities including healthcare and leisure facilities;
  - suitable access arrangements and any necessary wider strategic and local highway mitigation measures, including addressing impacts on the A414 in Hertford, the B195 and the A1(M);
  - careful masterplanning and appropriate mitigation measures, having regard to the findings of the Heritage Impact Assessment, a buffer of open land will be required adjacent to Panshangar Park, Birchall Farm and Holwell Hyde Farmhouse.
  - landscaped green infrastructure buffer (screening bund and another screening bund) adjacent to the A414 and Burnside and adjacent recycling centre will be required to provide visual screening, and to ensure that homes and other land uses are not adversely affected by the impacts of noise and air pollution. The buffer will comprise appropriate design features to provide noise and air quality mitigation, flood attenuation, the creation of new habitats and public rights of way. This buffer will also provide visual screening of development from the A414 and mitigate the harm to heritage assets.

- **Policy SP 22 – North West Hatfield - SDS5 (HAT1) –** allocates the site for 1,750 new homes over the plan period. The policy identifies that a masterplan setting out the quantum and distribution of land uses, access, sustainable design and layout principles will be agreed by the Council, working with the landowners and other key stakeholders. The site is required to provide:

  - a new secondary school site and associated playing facilities;
  - two primary schools;
  - a neighbourhood centre;
  - an employment area;
  - community facilities including healthcare and leisure facilities.
  - sustainable transport measures including the improvement of pedestrian links, cycle paths, passenger transport and community transport initiatives;
  - suitable access arrangements and any necessary wider strategic and local highway mitigation measures, including to address impacts on Coopers Green Lane, Green Lanes, the A1001 and locations at or around Junction 4 of the A1(M). Off-site highway works required in connection with the development of this site will

require a new or improved cycle/pedestrian footbridge or underpass facilities above or below the A1(M).

Development context

2.39 LP 2016 identifies that *"Welwyn Hatfield is located centrally within Hertfordshire, and covers an area of approximately 130 square kilometres… Around three-quarters of the borough is designated as part of the Metropolitan Green Belt."*

2.40 Welwyn Hatfield has a unique built environment and heritage, which forms an important part of the borough's identity. LP 2016 identifies that it includes "*the world's second garden city, 10 conservation areas, 431 listed buildings, 73 areas of archaeological significance and 5 registered historic parks and gardens. However, whilst the new town heritage of much of Hatfield and parts of Welwyn Garden City remains a significant asset, some areas developed at that time are becoming tired and are in need of some regeneration and revitalisation, and some of that has taken place in recent years".*

2.41 Developments in Welwyn Hatfield Borough range from small in-fill sites to larger greenfield/Green Belt developments and town centre regeneration projects. LP 2016 Spatial Vision identifies that, *"Welwyn Garden City and Hatfield will continue to be the main focus for shopping, leisure, housing and employment opportunities with the larger villages will continue to be the centres for local shops, services and community facilities for their parish areas*" and in this regard the majority of new development is planned within and adjoining the two towns of Welwyn Garden City and Hatfield.

2.42 LP 2016 goes on to indicate that *"15,200 new homes will be built on a range of sites, two thirds of which will be within and adjoining Welwyn Garden City and Hatfield".* Further, "*Opportunities for development within settlement boundaries will be maximised but a planned release of a limited amount of land from the Green Belt will take place to meet the need for 4,738 dwellings up to year 10 which cannot be provided for within the existing towns and villages. Around 1,800 additional dwellings will be required to meet the remaining need for the full plan period to 2036, which may require further Green Belt release".*

2.43 LP 2016, which was submitted for examination in 2017, has completed the examination process and the report of the Inspector was received on 25 September 2023 finding the plan sound and capable of adoption, subject to identified main modifications, further main modifications and consequential modifications. The LP 2016 was adopted at a meeting of the Council on 12 October 2023. Due to the lengthy examination process, proposed development sites have not come through the planning process in the timescales originally anticipated. , Sinc ethe adoption of LP 2016 areas have been removed from the Green Belt and it is anticipated that there is likely to be an increase in the number of significant sites making progress through this process; either progressing masterplans, planning applications or both. Some sites proposed in the LP 2016 already have submitted planning applications, including Birchall, east of Welwyn Garden City, and South Way in Hatfield.

2.44 LP 2016 estimates that *"there were around 84,000 jobs in Welwyn Hatfield in 2014(6), equivalent to 1.11 jobs for every working age resident. This 'job density' is the 13th highest for all local authorities in the UK (excluding Inner London), and compares to job densities of 0.90 for Hertfordshire, 0.82 for the UK as a whole and 0.80 for the East of England. This makes Welwyn Hatfield a significant workplace destination with a sub-regional role as a centre for employment for surrounding districts - notably Central Bedfordshire, North Herts, East Herts, Stevenage, and St Albans."*

2.45 LP 2016 sets out at Policy SP2 that *"Over the plan period, provision will be made for a net increase of at least 55,000 sq.m of new floorspace for industry, offices and warehousing. This will allow for a sufficient supply of jobs in the borough and provide the opportunity for new employment floorspace over the plan period, allowing for flexibility in the face of economic changes. Employment floorspace provision will include the strategic development sites at Marshmoor, Welham Green, and North West Hatfield, as set out on the Polices*

Map."

2.46 The Council's strategy for retail development is to "*maintain and enhance the vitality and viability of the borough's town, neighbourhood and village centres and to help sustain the rural economy and the vitality of the villages*". LP 2016 identifies that *"Focusing investment in the borough's existing centres will also help to promote their economic prosperity as well as helping to ensure that economic activity takes place in the most sustainable locations easily accessible by modes of travel other than the car".* On this basis LP 2016 identifies at SP 2 Growth, that *"Opportunities have been identified to facilitate the provision of 12,500 square metres new retail floorspace to meet predicted expenditure growth in the borough to 2026 as set out in Table 1 through the allocation of sites within existing centres and new centres in some of the Strategic Development Sites and through existing permissions".*

3 Methodology and appraisal inputs

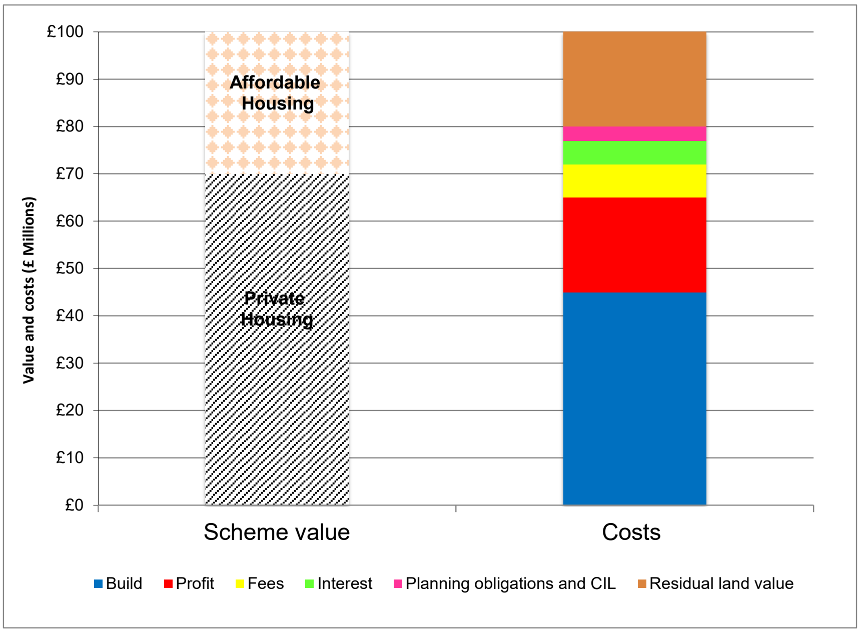
3.1 The PPG on CIL identifies at Para 020 Ref ID: 25-020-20190901 that *"charging authorities should use an area based approach, involving a broad test of viability across their area, as the evidence to underpin their charge*". The PPG goes on to identify that, *"there are a number of valuation models and methodologies available to charging authorities to help them in preparing this evidence. Charging authorities should use evidence in accordance with planning practice guidance on viab*ility". The PPG on CIL also identifies that, *"a charging authority should directly sample an appropriate range of types of sites across its area, in line with planning practice guidance on viability".*

3.2 The PPG on Viability identifies at paragraph 003 Reference ID: 10-003-20180724 that, *"Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability at the plan making stage".* The PPG on Viability goes on to identify at paragraph 004 Reference ID: 10-004-20190509 that, *"A typology approach is a process plan makers can follow to ensure that they are creating realistic, deliverable policies based on the type of sites that are likely to come forward for development over the plan period".*

3.3 Our methodology follows standard development appraisal conventions, which is advocated by the PPG on Viability, using locally-based sites and assumptions that reflect local market circumstances and emerging planning policy requirements. The study is therefore specific to Welwyn Hatfield and reflects the Council's planning policy requirements.

Approach to testing development viability

3.4 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing (the hatched portion) and the payment from a Registered Provider ('RP') (the chequered portion) for the completed affordable housing units. For a commercial scheme, scheme value equates to the capital value of the rental income after allowing for rent free periods and purchaser's costs. The model then deducts the build costs, fees, interest, planning obligations, CIL and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the brown portion of the right hand bar in the diagram.



3.5 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of existing use value, discussed later), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.

3.6 Issues with establishing key appraisal variables are summarised as follows:

- Development costs are subject to national and local monitoring and can be reasonably accurately assessed in 'normal' circumstances. In boroughs like Welwyn Hatfield, some sites will be previously developed. These sites can sometimes encounter 'exceptional' costs such as decontamination. Such costs can be very difficult to anticipate before detailed site surveys are undertaken;

- Assumptions about development phasing, phasing of CIL and Section 106 contributions, and infrastructure required to facilitate each phase of the development will affect residual values. Where the delivery of a planning obligation is deferred, the lower the real cost to the applicant (and the greater the scope for increased affordable housing and other planning obligations). This is because the interest cost is reduced if the costs are incurred later in the development cashflow; and

- While Developer's Profit has to be assumed in any appraisal, its level is closely correlated with risk. The PPG identifies a range of 15% to 20% for private housing development. Typically, developers and banks are targeting around 17.5% profit on value of the private housing element.

3.7 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value[12]' or another appropriate benchmark to make development worthwhile. The margin above existing use value may be considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.

3.8 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the existing use. Ultimately, if landowners' *reasonable* expectations are not met, they will not voluntarily sell their land and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that policy may change at some future point with reduced requirements. However, the communities in which development is brought forward also have reasonable expectations that development will mitigate its impact, in terms of provision of community infrastructure, which will reduce land values. It is within the scope of those expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

Viability benchmark

3.9 In 2019 (with re-issues in 2021 and 2023), the government published a revised NPPF, which indicates at paragraph 34 that "*Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, green and digital infrastructure). Such policies should not undermine the deliverability of the plan*". The revised PPG on Viability indicates that for the purposes of testing viability, local authorities should have regard to existing use value of land plus a premium for the landowner to incentivise release for redevelopment. The PPG on Viability sets out that,

[12] For the purposes of this report, existing use value is defined as the value of the site in its existing use, assuming that it remains in that use. We are not referring to the RICS Valuation Standards definition of 'Existing Use Value'.

"the premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements" (paragraph 013, Ref ID 10-013-20190509).

3.10 Guidance from other planning authorities is also helpful in understanding benchmark land value. The Mayor's Affordable Housing and Viability SPG focuses on decision making in development management, rather than plan making, but indicates that benchmark land values should be based on existing use value plus a premium. It goes on to set out that the EUV should be *"fully justified based on the income generating capacity of the existing use with reference to comparable evidence on rents, which excludes hope value associated with development on the site or alternative uses"*. With respect to the premium, the SPG identifies that, *"Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/costs, a lower or no premium would be expected compared with a site occupied by profit-making businesses that requires relocation".*

3.11 The Local Housing Delivery Group published guidance[13] in June 2012 which provides guidance on testing viability of Local Plan policies. The guidance notes that "*consideration of an appropriate Threshold Land Value [or viability benchmark] needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy*".

3.12 In light of the weaknesses in the market value approach, the Local Housing Delivery Group guidance recommends that benchmark land value "*is based on a premium over current use values*" with the "*precise figure that should be used as an appropriate premium above current use value [being] determined locally*". The guidance considers that this approach "*is in line with reference in the NPPF to take account of a "competitive return" to a willing land owner*".

3.13 The examination on the Mayor of London's first CIL charging schedule in January 2012 considered the issue of an appropriate land value benchmark. The Mayor had adopted existing use value, while certain objectors suggested that 'Market Value' was a more appropriate benchmark. The Examiner concluded that:

"The market value approach…. while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context." (Paragraph 8) and that "*I don't believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done*" (paragraph 9).

3.14 In his concluding remark, the Examiner points out that

"the price paid for development land may be reduced [so that CIL may be accommodated]. *As with profit levels there may be cries that this is unrealistic, but* ***a reduction in development land value is an inherent part of the CIL concept****. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges.* (Paragraph 32 – emphasis added).

13 Viability Testing Local Plans: Advice for planning practitioners, Local Housing Delivery Group, Chaired by Sir John Harman, June 2012

3.15 It is important to stress, therefore, that there is no single threshold land value at which land will come forward for development, particularly in urban areas. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of demand for the site's current use in comparison to others; how offers received compare to the owner's perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single threshold land value, it is difficult for policy makers to determine the minimum land value that sites should achieve. This will ultimately be a matter of judgement for each planning authority.

3.16 Respondents to consultations on planning policy documents in other authorities have suggested that charging authorities should run their analysis using benchmark land values based on market values. This would be an extremely misleading measure against which to test viability, as market values should reflect *existing policies already in place*, and would consequently tell us nothing as to how future (as yet un-adopted) policies might impact on viability. It has been widely accepted elsewhere that market values are inappropriate for testing planning policy requirements. The PPG on Viability now recognises this issue and states in no fewer than five places that prices paid for sites should not be used as benchmark land values. It also warns that there may be a fundamental mismatch between benchmark land values and prices paid for sites, as developers will use their own 'personal' inputs to their appraisals for formulating bids for sites and these inputs may depart from standard assumptions.

3.17 Relying upon historic transactions is a fundamentally flawed approach, as offers for these sites will have been framed in the context of current planning policy requirements, so an exercise using these transactions as a benchmark would tell the Council nothing about the potential for sites to absorb as yet unadopted policies. Various Local Plan inspectors and CIL examiners have accepted the key point that Local Plan policies and CIL will ultimately result in a reduction in land values, so benchmarks must consider a reasonable minimum threshold which landowners will accept. For local authority areas such as Welwyn Hatfield, the 'bottom line' in terms of land value will be the value of the site in its existing use.

3.18 Commentators also make reference to 'market testing' of benchmark land values. This is another variant of the benchmarking advocated by respondents outlined at paragraph 3.16. These respondents advocate using benchmarks that are based on the prices that sites have been bought and sold for. There are significant weaknesses in this approach which none of the respondents who advocate this have addressed. In brief, prices paid for sites are a highly unreliable indicator of their actual value, due to the following reasons:

- Transactions are often based on bids that 'take a view' on squeezing planning policy requirements below target levels. This results in prices paid being too high to allow for policy targets to be met. If these transactions are used to 'market test' CIL rates, the outcome would be unreliable and potentially highly misleading.

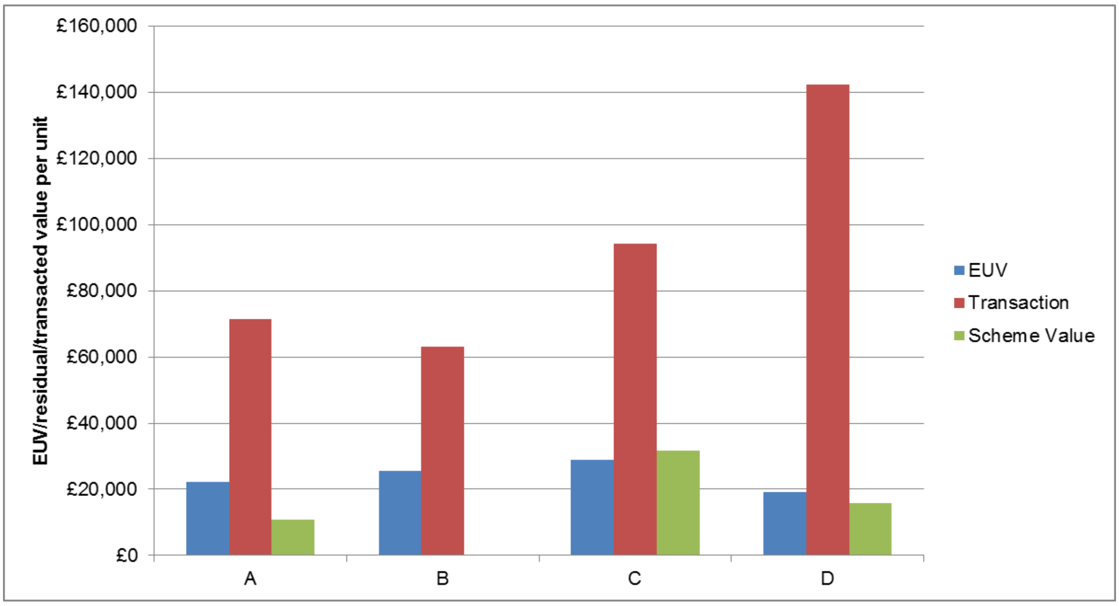
- Historic transactions of housing sites are often based on the receipt of grant funding, which is no longer available in most cases.

- There would be a need to determine whether the developer who built out the comparator sites actually achieved a profit at the equivalent level to the profit adopted in the viability testing. If the developer achieved a sub-optimal level of profit, then any benchmarking using these transactions would produce unreliable and misleading results.

- Developers often build assumptions of growth in sales values into their appraisals, which provides a higher gross development value than would actually be achieved today. Given that our appraisals are based on current values, using prices paid would result in an inconsistent comparison (i.e. current values against the developer's assumed future values). Using these transactions would produce unreliable and misleading results.

3.19 These issues are evident from a BNP Paribas Real Estate review of evidence submitted in viability assessments where the differences between the value ascribed to developments by applicants and the amounts the sites were purchased for by the same parties. The prices paid exceeded the value of the consented schemes by between 52% and 1,300%, %, as shown in Figure 3.19.1. This chart compares the residual value of four central London development proposals to the sites' existing use values and the price, which the developers paid to acquire the sites (all the data is on a per unit basis).

Figure 3.19.1: Comparison of scheme residual values to existing use value and price paid for site



3.20 The issue is recognised in the May 2019 revisions to the PPG, which draw attention to the propensity for prices paid for sites to exceed benchmark land values *"due to different assumptions and methodologies used by individual developers, site promoters and landowners"* (para 014, reference ID 10-014-20190509). As a consequence, the PPG goes on to identify in the same para that market evidence, "*should not be used in place of benchmark land value [as] there may be a divergence between benchmark land values and market evidence"*.

3.21 The PPG on Viability indicates that planning authorities should adopt benchmark land values based on existing use values. It then goes on to suggest that the premium above existing use value can be informed by land transactions. This would in effect simply level benchmark land values up to market value, with all the issues associated with this (as outlined above). The PPG does temper this approach by indicating that "*the landowner premium should be tested and balanced against emerging policies*" and that "*the premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements*". The guidance also stresses in several places that "price paid for land" should not be reflected in viability assessments. This would exclude use of transactional data thus addressing the issues highlighted in paragraphs 3.16 and 3.18.

3.22 For the reasons set out above, the approach of using existing use values is a more reliable indicator of viability than using market values or prices paid for sites, as advocated by certain observers. Our assessment follows this approach, as set out in Section 4.

4 Development appraisals

Residential development

4.1 We have appraised 13 residential development typologies, reflecting both the range of sales values/capital values and also sizes/types of development and densities of development across the borough. The Council have reviewed historic planning applications and have based the appraisal typologies on a range of actual developments within the borough. These typologies are therefore reflective of developments that have been consented /delivered as well as those expected to come forward in the Welwyn Hatfield area in future.

4.2 Details of the schemes appraised are provided in Table 4.2.1 and Table 4.2.2 summarises the housing mix adopted for the purpose of this assessment. We have arrived at these typologies based on a combination of the SLP 2016 position and past completions in the borough.

Table 4.2.1: Development typologies

	No. Resi units	Description of Development	Net dev area (ha)	Dev density (units per ha)
1	1	House	0.04	25
2	5	Houses	0.12	40
3	10	Houses	0.25	40
4	12	Flats and Houses	0.14	86
5	24	Flats	0.20	120
6	50	Houses	1.25	40
7	70	Houses	2.33	30
8	100	Flats	1.00	100
9	160	Houses	4.00	40
10	200	Flats and Houses	3.33	60
11	400	Flats and Houses	16.00	25
12	650	Flats and Houses	26.00	25
13	1,000	Flats and Houses	40.00	25

Table 4.2.2: Unit Mix (across all tenures taken together)

Site type	1 Bed flat	2 bed flat	2 bed house	3 bed house	4 bed house	5 bed house
Unit size	*50 sq m*	*70 sq m*	*79 sq m*	*102 sq m*	*124 sq m*	*134 sq m*
1	0%	0%	0%	100%	0%	0%
2	0%	0%	40%	60%	0%	0%
3	0%	0%	40%	60%	0%	0%
4	0%	75%	0%	25%	0%	0%
5	40%	60%	0%	0%	0%	0%
6	0%	0%	16%	32%	28%	24%
7	0%	0%	18%	54%	28%	0%

Site type	1 Bed flat	2 bed flat	2 bed house	3 bed house	4 bed house	5 bed house
Unit size	*50 sq m*	*70 sq m*	*79 sq m*	*102 sq m*	*124 sq m*	*134 sq m*
8	40%	60%	0%	0%	0%	0%
9	0%	0%	18%	54%	28%	0%
10	9%	16%	13%	32%	18%	12%
11	11%	0%	24%	42%	20%	3%
12	15%	10%	14%	41%	21%	0%
13	15%	10%	14%	41%	21%	0%

4.3 With respect to the size of units adopted in the study, these are informed by the minimum gross internal floor areas set out in the DCLG's Technical Housing standards nationally described space standard published in March 2015.

Residential sales values

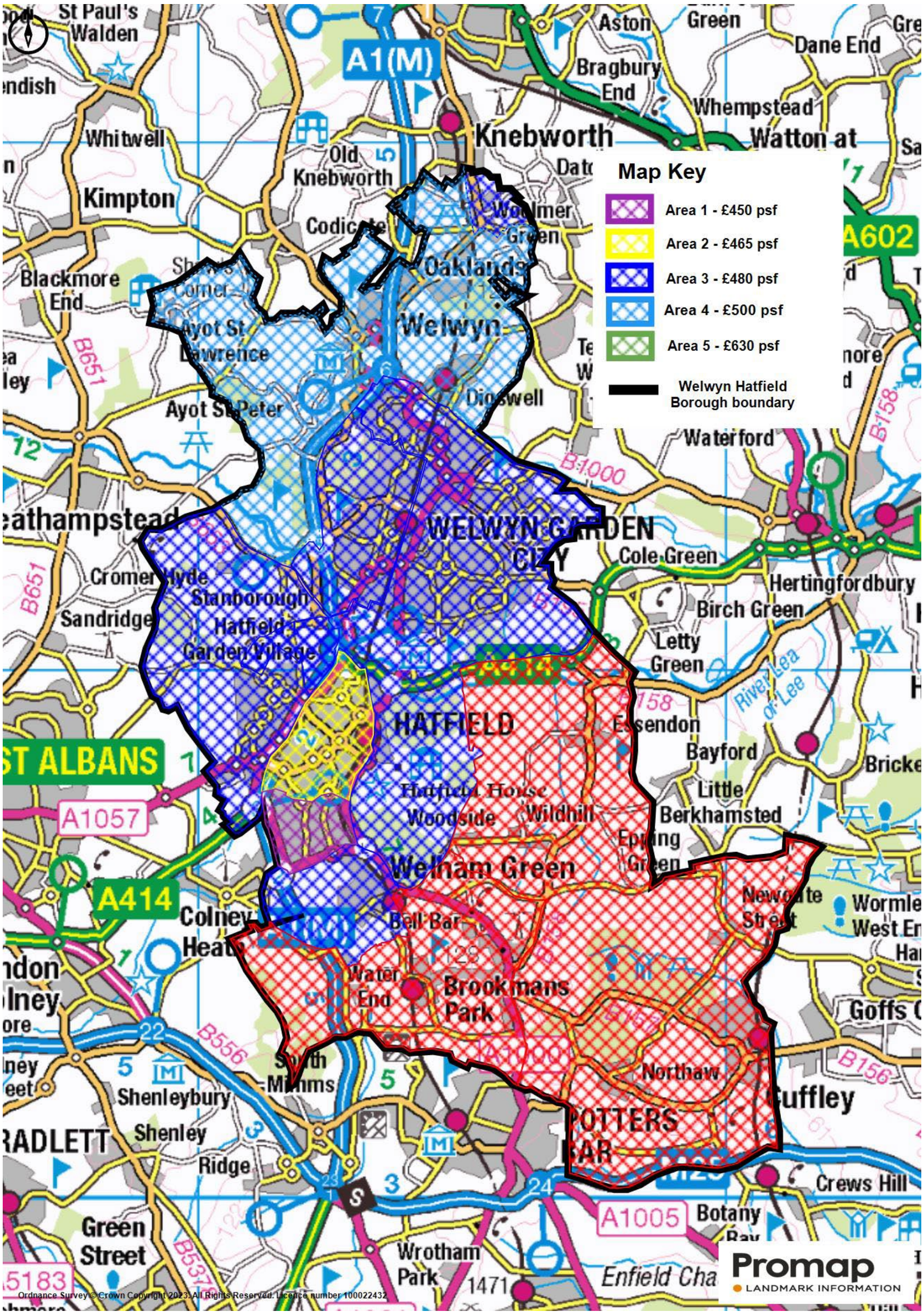
4.4 Residential values in the area reflect national trends in recent years but do of course vary between different sub-markets. We have undertaken research on residential values in the Borough using sources including; LandInsight, which draws data from the Land Registry, Rightmove online database and new homes marketing websites. We considered the comparable evidence of transacted properties in the area as well as properties on the market to establish appropriate values for testing purposes. This exercise indicates that developments in the Borough attract average sales values ranging from circa £4,844 per square metre (£450 per square foot) to £6,781 per square metre (£630 per square foot). In general, higher values are achieved in the northern and southern rural villages/hamlets in the Borough (such as Brookmans Park, Little Heath, Essendon, Cuffley, Welwyn, Digswell, Oaklands and Mardley Heath etc). Lower values are achieved in and around Hatfield (including Hatfield, South Hatfield, Ellenbrook and Birchwood). The market areas are illustrated in Figure 4.4.1 below.

4.5 We have applied the average sales values set out in Table 4.5.1 in our appraisals, which reflects the range set out in Figure 4.4.1.

Table 4.5.1: Average sales values adopted in Welwyn Hatfield appraisals

Area		Ave values £s per sq m	Ave values £s per sq ft
1	South Hatfield	£4,844	£450
2	Hatfield and Birchwood	£5,005	£465
3	Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City, north west of Hatfield, Welham Green and Woolmer Green.	£5,167	£480
4	Welwyn, Oaklands, Mardley Heath and Digswell	£5,382	£500
5	Brookman's Park, Little Heath Cuffley, Essendon and surrounding rural area	£6,781	£630

Figure 4.4.1: Average sales values in Welwyn Hatfield Borough



Source: Map – Promap, Values – BNPPRE research utilising data from Land Registry and Rightmove

4.6 As noted earlier in the report, major agents predict that sales values will increase over the medium term (i.e. the next five years). Whilst this predicted growth cannot be guaranteed, we have run a sensitivity analysis assuming growth in sales values accompanied by cost inflation as summarised in Table 4.6.1. The growth and inflation rates in Table 4.6.1 are intended to provide an illustration of the impact of a potential set of growth and inflation rates on the appraisals, but should be viewed with a degree of caution. Markets are cyclical and clearly values could rise as well as fall, but the long term trend over the period post 1945 has been real growth of 3% per annum (i.e. net of inflation) when the peaks and troughs are smoothed.

Table 4.6.1 Growth scenario

Source	2023	2024	2025	2026	2027	Cumulative 2023-2027
Values	3.5%	4.0%	4.0%	4.0%	4.0%	21.1%
Costs	2.0%	2.0%	2.0%	2.0%	2.0%	10.4%

Affordable housing tenure and values

4.7 LP 2016 Policy SP 7 (Type and Mix of Housing) identifies that - subject to viability - a proportion of new homes built in the borough will be for affordable housing sought on the following basis:

Table 4.7.1: Policy SP 7 – affordable housing

Location	On-site delivery target
Hatfield (including SDS5)	25%
Welwyn Garden City (including SDS1, SDS2, SDS3)	30%
Excluded villages	35%
Re-development or re-use of Major Developed Sites or other previously developed sites in sustainable locations compatible with Green Belt policy	30%

4.8 These on-site targets apply to developments, including mixed use schemes, involving 10 or more new dwellings or sites of 0.5 ha or more.

4.9 LP 2016 policy is not prescriptive with respect to the tenure split, and supporting paragraph 9.17 indicates that "*Applicants will need to demonstrate how they have taken into account the Council's latest evidence of need in terms of tenure, type and size of dwelling so that a range of housing is delivered to meet the needs of different groups in the community including families with children".* The Council's Housing Team have advised that based on the current assessment of need, the Council's starting point is 51% Social Rented housing and the remaining 49% could be met by a range of intermediate products. The Housing Team have indicated that at present there is not much need for shared ownership units as they regard these as being well provided for across the Borough and consequently the Council's preference within the 49% is for an increased level of Affordable Rented units. We understand that the mix can vary on occasion depending on viability.

4.10 To establish the capital value of the rented units, we have used a discounted cashflow model which replicates the approach used by registered providers when preparing bids to acquire new housing stock. The model projects the rents over a 35 year period and deducts the estimated voids and bad debts, management costs, maintenance costs and allowances for major repairs. The model establishes the present value of the net rental income by applying a discount rate (reflecting the cost of funds and RP's risk margin), reflecting the price that can, in principle be paid to acquire the completed units from a developer. With respect to the social rented accommodation the model calculates the gross rent for these properties derived from a combination of property values (as at January 1999), local earnings and property size subject to not exceeding the rent cap for the 2023-2024 period, in line with HCA guidance.

4.11 Our appraisals of the Affordable Rent accommodation assume that the rented housing is let at rents that do not exceed the relevant Local Housing Allowance caps, which reflect the maximum rents that RPs are permitted to charge, as shown in Table 4.11.1. Most of the borough is located within the South East Herts Broad Rental Market Area ('BRMA'), while small parts of the south of the borough fall within the Outer North London BRMA and the west of the borough in the South West Herts BRMA. We have applied the South East Herts LHAs in our assessment.

Table 4.11.1: South East Herts BRMA LHAs (per week)

One Bedroom	Two Bedroom	Three Bedroom	Four Bedroom
£172.60	£212.88	£276.16	£322.19

4.12 RPs are permitted to increase rents by CPI plus 1% per annum which we have reflected in our assessment.

4.13 The Homes England '*Affordable Homes Programme 2021-2026'* document clearly states that Registered Providers will not receive grant funding for any affordable housing provided through planning obligations on developer-led developments. Consequently, all our appraisals assume nil grant. Clearly if grant funding does become available over the plan period, it should facilitate an increase in the provision of affordable housing when developments come forward

Benchmark land values for residential analysis

4.14 Benchmark land values, based on the existing use value or alternative use value of sites are key considerations in the assessment of development economics for testing potential CIL rates. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the land's existing use value. Existing use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. Existing use value or alternative use value are effectively the 'bottom line' in a financial sense and therefore a key factor in this study.

4.15 We have arrived at a broad judgement on the likely range of benchmark land values. On previously developed sites, our calculations assume that the landowner has made a judgement that the current use does not yield an optimum use of the site; for example, it has fewer storeys than neighbouring buildings; or there is a general lack of demand for the type of space, resulting in low rentals, high yields and high vacancies (or in some cases no occupation at all over a lengthy period). We would not expect a building which makes optimum use of a site and that is attracting a reasonable rent to come forward for development, as residual value may not exceed current use value in these circumstances.

4.16 Given the scale of the housing sites that the council anticipate bringing forward, a majority will be brought forward on land that has not been previously developed. Open, greenfield or other forms of previously undeveloped or unused land have very low existing use values (typical agricultural land values are in the region of £26,000 per hectare[14]).

4.17 Residential development generates significantly higher land values and this feeds into landowner expectations. Benchmark land values for greenfield sites are typically ten to fifteen times agricultural land values. This is reflected in the range identified in research undertaken by MHCLG, which suggested a range of greenfield land values from £247,000 to £371,000 per gross hectare (£100,000 to £150,000 per gross acre). In our experience, a similar range of values has been applied in viability assessments on schemes submitted for planning. We note that based on the agricultural land value identified for Hertfordshire by the MHCLG identified in para 4.15 above, Greenfield land value will range between

[14] Based on Ministry of Housing, Communities and Local Government ('MHCLG') 'Land value estimates for policy appraisal 2019' published 18 August 2020 – Hertfordshire Agricultural Land value per hectare

£260,000 to £390,000 per hectare

4.18 Strutt and Parker report in the *English Estates & Farmland Market Review Summer 2023* that agricultural land values in across England range between £19,274 to £27,182 per Hectare (£7,800 per acre and £11,100 per acre). Taking into consideration the ten to fifteen times agricultural value this results in a value range for such land of £192,742 to £407,723 per hectare. In their “The Farmland Market” report published in January 2023, Savills identify that, “the average value of GB farmland increased by 8.9% in 2022 to £7,800 per acre” and that “Prime arable land in the East of England is now on average worth over £10,000 per acre”.

4.19 The 2019 PPG indicates that benchmark land values should be based on existing use value plus a premium to incentivise the release of sites for development. The PPG states very clearly that transactional data should be treated with caution, as using historic transactions of non-policy compliant developments can inflate land values over time (para 014). The PPG also states that prices paid for sites should not be relied upon for establishing existing use values and that hope value should be disregarded (para 015). Furthermore, the PPG indicates that any premium to be added to existing use value should provide an incentive to landowners to bring land forward, but critically this must be balanced with the need to provide “*a sufficient contribution to comply with policy requirements*” (para 016).

4.20 Ultimately, landowners cannot crystallise an uplift in the value of their land in the absence of planning permission; if planning can only be granted if developments contribute towards the cost of supporting infrastructure, and this impacts on land values, then this adjustment would need to be accepted by landowners. The alternative is that the sites remain undeveloped in their existing (low value) use.

4.21 For testing purposes, we have adopted both ends of the value range i.e. £250,000 and £400,000 per gross hectare.

4.22 In any area, there will be evidence of higher prices being paid for land than the values identified above. In many cases, the results of our appraisals indicate that developments will generate significantly higher residual land values than the benchmark land values above and, in those circumstances, developers will be able to pay more for land than the benchmark values we have adopted. However, the prices that developers pay for land varies significantly depending on a range of circumstances and high land prices paid for certain sites should not be applied across the board where circumstances differ. Ultimately, the PPG requires a balance to be struck between providing a sufficient and reasonable incentive to landowners and the need to secure contributions to planning policy requirements. The market will not voluntarily provide contributions to planning policy objectives if this results in reduced land values, so reliance on market pricing of land without adjustment would produce inherently unreliable outcomes.

4.23 Sites in towns and other settlements may either come forward on open land or on sites that have been previously developed. The types of existing uses on the site are diverse and it is not possible within the confines of an area-wide viability assessment to undertake a detailed analysis of the likely value of each site. For the purposes of the exercise, we have adopted a higher value of £500,000 per gross hectare to introduce further caution into the assessment, which reflects the value of urban open space and other residential backlands.

4.24 We have also tested schemes against a benchmark of lower value secondary industrial space on a hectare of land, with 40% site coverage and 1 storey. The rent assumed is based on such lettings of second hand premises in the area at £9.23 per square foot. We have assumed a £61.04 per square foot (£657 per square metre) allowance for refurbishment and a letting void/rent free of two and a half years. The capital value of the building would be £1.973 million, to which we have added a 20% premium, resulting in a benchmark of £2.170 million.

Table 4.24.1: Benchmark Land Values for residential analysis

Use	Benchmark per gross hectare
BLV 1 - Industrial	£2,170,000
BLV 2 - Urban Openspace and other residential backlands	£500,000
BLV 3 - Greenfield (higher)	£400,000
BLV 4 - Greenfield (lower)	£250,000

4.25 We are aware that some agents acting on behalf of landowners value sites by reference to net developable area and also refer to values prior to the deduction of Section obligations. Clearly for the purposes of testing emerging planning policies, these approaches to land value are inappropriate as the exercise is seeking to determine the capacity of developments to absorb plan policies. For the purposes of clarity, the benchmark land values adopted reflect an amount that a developer would pay for the gross site area, after deducting all costs associated with the development.

4.26 Redevelopment proposals that generate residual land values below existing use values are unlikely to be delivered. While any such thresholds are only a guide in 'normal' development circumstances, it does not imply that individual landowners, in particular financial circumstances, will not bring sites forward at a lower return or indeed require a higher return. If proven existing use value justifies a higher benchmark than those assumed, then appropriate adjustments may be necessary. As such, existing use values should be regarded as benchmarks rather than definitive fixed variables on a site by site basis.

4.27 The four benchmark land values used in this study have been selected to provide a broad indication of likely land values across the Borough, but it is important to recognise that other site uses and values may exist on the ground. There can never be a single threshold land value at which we can say definitively that land will come forward for development, especially in urban areas.

Commercial development

4.28 We have appraised a series of commercial development typologies, reflecting a range of use classes at average rent levels achieved on lettings of commercial space in actual developments, see Table 4.28.1. In each case, our assessment assumes an intensification of the site, based on three current commercial uses of the site, providing a range of current use values. In each case, the existing use value assumes that the existing building is 30% of the size of the new development, with a lower rent and higher yield reflecting the secondary nature of the building.

Table 4.28.1: Development typologies

Appraisal input	Total floor area (sq ft)
Office	40,000
Science park lab enabled office space	40,000
Industrial and warehouses	30,000
Supermarkets/ superstores and retail warehousing	53,820
All other retail	10,000
Hotel	120 bedrooms (66,600 based on Hatfield Travelodge)
Student accommodation	200 rooms (30,278 based on 301 sq ft per room)

Commercial rents and yields

4.29 Our research on lettings of commercial floorspace indicates a range of rents achieved. There does not appear to have been substantial commercial development activity in the borough over the past few years. New build developments are on the whole likely to attract a premium rent above second hand rents. The rents and yields adopted in our appraisals are summarised in Table 4.29.1.

Table 4.29.1: Commercial appraisal assumptions for each use

Scheme	Rent	Rent free/void period (years)	Yield
Source/commentary	***Based on average lettings sourced from EGI, Co-Star and local agents***	***BNPPRE assumption informed by research and experience of current market conditions***	***Knight Frank prime yield schedule and comparable evidence***
Office	Welwyn Garden City and Hatfield - £24.50 per sq ft Elsewhere - £17.00 per sq ft	1.5	7.00%
Science park lab enabled office space	£35 per sq ft	1.0	5.00%
Industrial and warehouses	£15 per sq ft	1.5	5.25%
Supermarkets/superstores and retail warehousing	Supermarkets / superstores - £18 per sq ft Retail Warehouse - £20 per sq ft	0.5 1.0	5.75% 6.25%
All other retail	Welwyn Garden City - £40.00 per sq ft Hatfield and elsewhere - £17.50 - £25.00 per sq ft	1.5	8.00%
Hotel	£7,000 per key	N/A	6.5%
Student accommodation	Blended rate adopted - £200 per room per week	N/A	5.50%

Benchmark land values for commercial analysis

4.30 Our appraisals of commercial floorspace test the viability of developments on existing commercial sites. For these developments, we have assumed that the site could currently accommodate one of three existing uses (i.e. thereby allowing the site to be assessed in relation to a range of three current use values (CUVs)) and that the development involves the intensification of use of the site. We have assumed lower rents and higher yields for existing space than the planned new floorspace. This reflects the lower quality and lower demand for second hand space, as well as the poorer covenant strength of the likely occupier of second hand space. A £61.04 per sq ft (£657 per sq ft) refurbishment cost is allowed for to reflect costs that would be incurred to secure a letting of the existing space. A blanket assumption of a 20% premium has been adopted to the resulting existing use value as an incentive for the site to come forward for development. The actual premium would vary between sites, and be determined by site-specific circumstances, so the 20% premium has been adopted as a cautious ‘top of range’ scenario for testing purposes.

Table 4.30.1: Benchmark Land Values for commercial analysis

Scheme	Existing floorspace as a % of new	Rent on existing floorspace (per sq ft)	Yield on existing floorspace	Rent Free on existing space (years)
Office	40%	£9.23 £11.50 £16.50	6.75% 6.75% 8.25%	2.5
Science park lab enabled office space	40%	£9.23 £11.50 £16.50	6.75% 6.75% 8.25%	2.5
Industrial and warehouses	40%	£9.23 £11.50 £16.50	6.75% 6.75% 8.25%	2.5
Supermarkets/superstores and retail warehousing	40%	£9.23 £11.50 £16.50	6.75% 6.75% 8.25%	2.5
All other retail	40%	£16.50 £18.00 £20.00	8.25%	2.5
Hotel	40%	£9.23 £11.50 £16.50	6.75% 6.75% 8.25%	2.5
Student accommodation	40%	£16.50	8.25%	2.5

Build costs

4.31 Advice on build costs has been provided by WT Partnership ('WTP'), who advised the Council on the extra over costs associated with LP 2016 policy requirements. WTP have also undertaken numerous site-specific assessments of build costs associated with viability submissions in support of planning applications in the borough. In addition to the build costs outlined below, our appraisals include a contingency of 5% of build costs. Our approach is set out in Table 4.31.1 below.

Table 4.31.1 Build costs adopted in study

Typology	Base build cost £ per sq ft	External works	Total Cost (before policy costs)
Houses	£1,972	10%	£2,169
Flats: - Lower Density (typologies 10, 11, 12 and 13) - Higher Density (typologies 4, 5 and 8)	 £2,146 £2,610	10%	 £2,361 £2,871
Office	£2,726	10%	£2,999
Science park lab enabled office space	£3,248	10%	£3,573
Industrial and warehouses	£1,450	10%	£1,595
Supermarkets/superstores and retail warehousing	£2,204	10%	£2,424
All other retail	£2,749	10%	£3,024
Hotel	£2,749	10%	£3,024
Student accommodation	£2,552	10%	£2,807

4.32 In addition to the base costs on the houses, we have included an allowance which equates to an additional 2% for demolition and site preparation costs. We have also assumed a gross to net ratio of 100%.

4.33 In addition to the base costs on flats, we have included an allowance which equates to an additional 2% for demolition and site preparation costs. Our appraisals assume a gross to net ratio of between 75% and 85% for flats, depending on the density of the scheme.

4.34 On the commercial schemes we have allowed for a demolition cost of £12.76 per sq ft.

4.35 On the large typologies (typologies 11, 12 and 13), we have included an allowance of £23,000 per residential unit for infrastructure costs as such sites are likely to require the development of such infrastructure to open up the sites for development.

4.36 We have adopted extra over costs associated with LP 2016 policy requirements as advised by WTP. We summarise these costs below, which we have incorporated within our appraisals.

4.37 In WTP's opinion, to achieve a sustainable home in accordance with policies SP 1 and SP10 will add circa £5,000 per residential unit over and above the base build costs, however this excludes the additional costs for SUDs and attenuation.

4.38 The Council's Policy SADM 13 (Sustainability Requirements) in LP 2016 sets out the Council's aspiration to achieve BREEAM 'Excellent' on all non-residential development with a floorspace of 1,000 square metres or more unless it is demonstrated that it is not technically feasible or viable to do so, in which case such proposals will be required to demonstrate a 'Very Good' rating. In this regard we have included an allowance of 3% of base build costs towards achieving BREEAM 'excellent' in our commercial appraisals as advised by WTP.

4.39 WTP have advised that the costs of SUDs and attenuation is very much dictated by the size of a site, density and ground conditions. It is also dependant on the approach the developer undertakes e.g. using green roofs, permeable paving, simple rainwater harvesting, swales, or water storage etc. The typologies included in this area wide assessment vary greatly from a single unit to 1,000 units. Nevertheless WTP's considered advice to test in this study is that the Council's Policy requirements would add an average cost of circa £1,500 to £2,000 per unit.

Accessibility standards

4.40 In line with the requirements of Policy SP 7 – Type and Mix of Housing we have tested the impact of applying accessible and adaptable dwellings standards (Category 2) at the rates summarised in Table 4.40.1. These costs are based on the MHCLG *'Housing Standards Review: Cost Impacts'* study, but converted into percentages of base construction costs (see calculations at **Appendix 1**) so that they can be applied to contemporary costs.

Table 4.40.1: Costs of accessibility standards (% uplift to base construction costs)

Standard	Flats	Houses
M4(2) accessible	1.15%	0.54%
M4(3) (a) accessible and adaptable	9.28%	10.77%
M4(3) (b) wheelchair adaptable	9.47%	23.80%

4.41 Our appraisals assume that for development of 5 units or more, 20% of units are constructed to meet wheelchair accessibility standards (Category 2).

Self-build and custom housebuilding

4.42 Policy SP 7 requires that on sites with 100 or more non-flatted dwellings, developers provide 2% of dwellings as serviced plots for self-build and custom housebuilding . We have accordingly allowed for this policy requirement in our appraisals. We have adopted a conservative position for these units assuming that these are delivered as cost neutral plots i.e. the revenue received matches the costs of delivering serviced plots.

Biodiversity Net Gain

4.43 We have tested the requirement for a 10% increase in biodiversity in perpetuity by applying an increase in build costs of 0.8%, as indicated in the '*Biodiversity net gain and local nature recovery strategies Impact Assessment*' (DEFRA, 2019).

Professional fees

4.44 In addition to base build costs, schemes will incur professional fees covering design, valuation, highways and planning consultants and the cost of preparing and submitting the planning application and so on. Our appraisals incorporate 8% (typologies 10 to 13) to 10% (typologies 1 to 9) allowances, which are at the middle to higher end of the range for most schemes.

Development finance

4.45 Our appraisals assume that development finance can be secured at a rate of 6.5%, inclusive of arrangement and exit fees, reflective of current funding conditions.

Marketing costs

4.46 Our appraisals on residential developments incorporate an allowance of 2.5% for marketing costs, which includes show homes and agents' fees, plus 0.25% for sales legal fees.

4.47 For commercial schemes we have allowed for letting agents and legal fees of 10% and 5% respectively on the first year's rent. We also incorporate an allowance for sales agent and legal fees of 1% and 0.5% respectively on the capital value.

Acquisition/Purchasers costs

4.48 Our appraisals deduct Stamp Duty at 5%, acquisition agent's fees at 1%; and acquisition legal fees at 0.8% of residual land value.

Section 106 costs

4.49 To account for residual Section 106 requirements, we have included an allowance of £3,500 per unit for residential schemes. This is based on analysis of allowances secured on planning applications that the Council has consented in the Borough over the last three years.

4.50 The extent to which the Council will seek Section 106 contributions on commercial floorspace is unclear at this stage, but we have incorporated a notional £20 per square metre allowance. We consider this to be a reasonable proxy for likely sums the Council is likely to seek after it adopts CIL.

4.51 The actual amounts will of course be subject to site-specific negotiations when schemes are brought forward through the development management process and are likely to vary. Notwithstanding this, we consider these assumptions to be reasonable and possibly conservative allowances for Section 106, as we understand that going forward the Council will seek to secure the majority of contributions through CIL rather than S106.

Development and sales periods

4.52 Development and sales periods vary between type of scheme. However, our sales periods are based on an assumption of a sales rate of 4 units per month, with an element of off plan sales reflected in the timing of receipts. This is reflective of current market conditions, whereas in improved markets, a sales rate of up to 8 units per month might be expected. Clearly markets are cyclical and sales periods will vary over the economic cycle and the extent to which units are sold off-plan will vary over time.

Developer's profit

4.53 Developer's profit is closely correlated with the perceived risk of residential development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme. It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the boards of the major housebuilders will set targets for minimum profit).

4.54 The views of the banks which fund development are more important; if the banks decline an application by a developer to borrow to fund a development, it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals.

4.55 The PPG indicates that viability testing for plan making should assume profits on private housing ranging from 15% to 20%. Perceived risk in the UK housing market is receding following the economic recovery in the second half of 2020 which continued into 2021, albeit a degree of caution remains regarding the short term economic outlook as the furlough scheme closes. We have therefore adopted a profit margin of 17.5% of private residential GDV for testing purposes, although individual schemes may require lower or higher profits, depending on site specific circumstances. Profit on commercial development is applied at 15% of GDV in line with normal market assumptions.

4.56 Our assumed return on the affordable housing GDV is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an RP prior to commencement. Any risk associated with take up of intermediate housing is borne by the acquiring RP, not by the developer.

Exceptional costs

4.57 Exceptional costs can be an issue for development viability on previously developed land. Exceptional costs relate to works that are 'atypical', such as remediation of sites in former industrial use and that are over and above standard build costs. However, in the absence of detailed site investigations, it is not possible to provide a reliable estimate of what exceptional costs might be, further these costs will vary on a site by site basis. Our analysis therefore excludes exceptional costs, as to apply a blanket allowance would generate misleading results.

4.58 It is expected however, that when purchasing previously developed sites developers will have undertaken reasonable levels of due diligence and would therefore have reflected obvious remediation costs/suitable contingencies into their purchase price. This approach is in line with the requirements of the PPG, which states that benchmark land values should be adjusted for exceptional costs, which in effect means they have a neutral impact.

5 Appraisal outputs

Residential appraisals

5.1 The full outputs from our appraisals of residential development are attached as **Appendix 2** and **3**. We have modelled 13 site types, reflecting different densities and types of development, which are tested in the five broad housing market areas identified in Section 4 and against the typical land value benchmarks for the Borough.

Scenarios tested

1. Policy position with base sales and base costs (including extra overs for planning policy requirements);
   - 35%, 30% and 25% affordable housing (51% Social Rent and 49% Affordable Rent) for typologies 3 - 13 (i.e. above 10 units);
   - 0% affordable housing for typologies 1 - 2 which fall below the threshold of 10 units.
2. As (1) all with 0% affordable housing; and
3. As (1) all with growth scenario set out in Table 4.6.1 assumptions applied.

5.2 CIL applies to net additional floor area only. Our base appraisals assume no deduction for existing floorspace[15] which reflects the worst case scenario in terms of extent of liability.

5.3 The residual land values from each of the scenarios above in each housing value area are then compared to the benchmark land value based on the assumptions set out in paragraphs 4.16 to 4.24. This comparison enables us to determine whether the imposition of CIL would have an impact on development viability. In some cases, the equation RLV less BLV results in a negative number, so the development would not proceed, whether CIL was imposed or not. We therefore focus on situations where the RLV is greater than BLV and where (all other things being equal) the development would proceed. In these situations, CIL has the potential to 'tip the balance' of viability into a negative position.

Commercial appraisals

5.4 Our research on rents achieved on commercial lettings indicates a range of rents within each main use class. Our commercial appraisals therefore model base position and test the range of rates (higher and lower than the base level) and changes to yields. This enables us to draw conclusions on maximum potential rates of CIL. For each type of development tested, we have run appraisals of a quantum of floorspace, each with rent levels reflecting the range identified by our research.

Presentation of data

Residential appraisals results

5.5 The results for each site type are presented in tables showing the CIL rate and the corresponding RLV (which is then converted into a RLV per hectare). The RLV per hectare is then compared to the four benchmark land values, which are also expressed as a per hectare value. Where the RLV exceeds the benchmark, the amount of CIL entered into the appraisal is considered viable.

5.6 A sample of the format of the results is provided in Figure 5.6.1. This sample relates to site type 6.

[15] Existing buildings must be occupied for their lawful use for at least six months in the three years prior to grant of planning permission to qualify as existing floorspace for the purposes of calculating CIL liability.

Figure 5.6.1: Sample format of residential results

Community Infrastructure Levy
Welwyn Hatfield BC

Benchmark Land Values (per gross ha)

BLV1	BLV2	BLV3	BLV4
Benchmark land value 1 - Industrial	value 2- Urban Openspace & other resi backlands	Benchmark land value 3 - Greenfield (higher)	value 4 - Greenfield (lower)
£2,170,000	£500,000	£400,000	£250,000

Site type 6

	Houses
No of units	50 units
Density:	40 dph

Affordable %	30%
% Social Rented	51%
% Aff Rent	49%
% Shrd Ownrshp	0%

Site area	1.79 ha
Net to gross	70%

Growth

Sales	0%
Build	0%

1- South Hatfield

Private values £4844 psm

CIL amount per sq m	RLV	RLV per ha	RLV less BLV 1	RLV less BLV 2	RLV less BLV 3	RLV less BLV 4
0	1,147,004	642,322	-1,527,678	142,322	242,322	392,322
20	1,097,049	614,348	-1,555,652	114,348	214,348	364,348
30	1,072,072	600,360	-1,569,640	100,360	200,360	350,360
50	1,022,117	572,386	-1,597,614	72,386	172,386	322,386
70	972,163	544,411	-1,625,589	44,411	144,411	294,411
90	922,207	516,436	-1,653,564	16,436	116,436	266,436
100	897,231	502,449	-1,667,551	2,449	102,449	252,449
125	834,787	467,481	-1,702,519	-32,519	67,481	217,481
150	772,344	432,513	-1,737,487	-67,487	32,513	182,513
175	709,901	397,545	-1,772,455	-102,455	-2,455	147,545
200	647,458	362,576	-1,807,424	-137,424	-37,424	112,576
225	585,015	327,608	-1,842,392	-172,392	-72,392	77,608
250	522,571	292,640	-1,877,360	-207,360	-107,360	42,640
275	460,127	257,671	-1,912,329	-242,329	-142,329	7,671
300	397,684	222,703	-1,947,297	-277,297	-177,297	-27,297
325	335,241	187,735	-1,982,265	-312,265	-212,265	-62,265

Maximum CIL rates (per square metre)

BLV1	BLV2	BLV3	BLV4
#N/A	£100	£150	£275

Commercial appraisal results

5.7 The appraisals include a 'base' rent level, with sensitivity analyses which model rents above and below the base level (an illustration is provided in Chart 5.7.1). The maximum CIL rates are then shown per square metre, against three different current use values (see Table 4.49.1). Chart 5.7.2 provides an **illustration** of the outputs in numerical format, while Chart 5.7.3 shows the data in graph format. In this example, the scheme could viably absorb a CIL of between £0 and £275 per square metre, depending on the current use value. The analysis demonstrates the significant impact of very small changes in yields (see appraisals 4 and 6, which vary the yield by 0.25% up or down) on the viable levels of CIL.

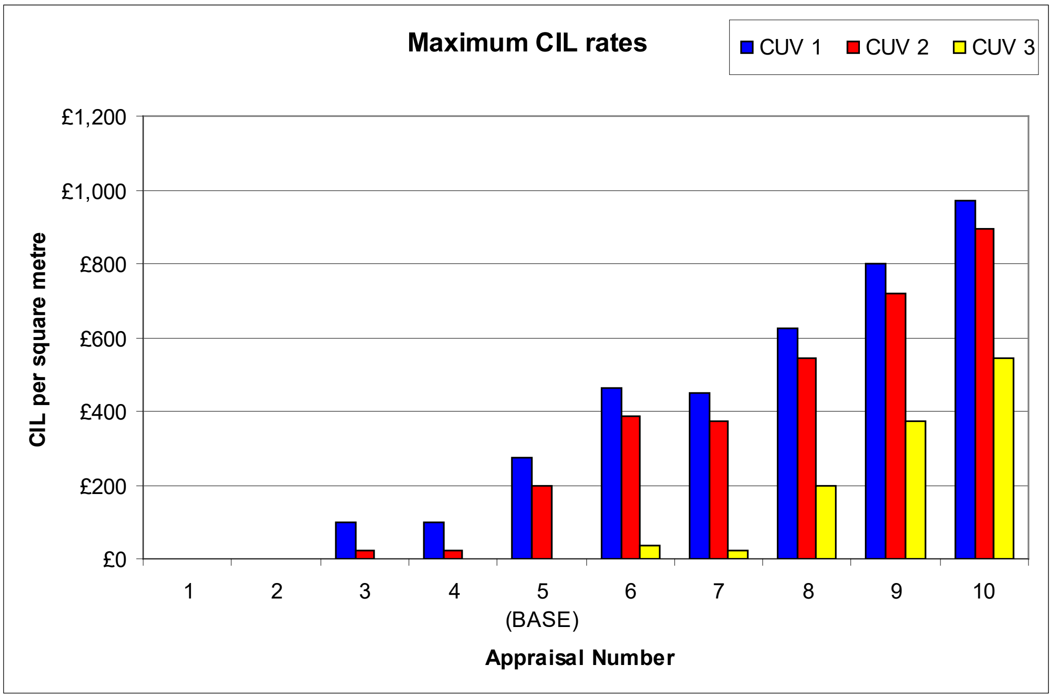
Chart 5.7.1: Illustration of sensitivity analyses

	£s per sq ft	Yield	Rent free
Appraisal 1	£21.00	6.50%	2.00 years
Appraisal 2	£22.00	6.50%	2.00 years
Appraisal 3	£23.00	6.50%	2.00 years
Appraisal 4	£24.00	6.75%	2.00 years
Appraisal 5 (base)	**£24.00**	**6.50%**	**2.00 years**
Appraisal 6	£24.00	6.25%	2.00 years
Appraisal 7	£25.00	6.50%	2.00 years
Appraisal 8	£26.00	6.50%	2.00 years
Appraisal 9	£27.00	6.50%	2.00 years
Appraisal 10	£28.00	6.50%	2.00 years

Chart 5.7.2: Maximum CIL rates – numerical format

	Change in rent from base	CUV 1	CUV 2	CUV 3
Appraisal 1	-14%	£0	£0	£0
Appraisal 2	-9%	£0	£0	£0
Appraisal 3	-4%	£100	£23	£0
Appraisal 4	0%	£99	£21	£0
Appraisal 5 (base)	**-**	**£275**	**£197**	**£0**
Appraisal 6	0%	£465	£387	£38
Appraisal 7	4%	£449	£371	£23
Appraisal 8	8%	£624	£546	£197
Appraisal 9	11%	£798	£720	£371
Appraisal 10	14%	£972	£894	£546

Chart 5.7.3: Maximum CIL rates – graph format



6 Assessment of the results

6.1 This section should be read in conjunction with the full results attached at appendices 2 and 3 (residential appraisal results), Appendix 4 (Retirement and Extra Care residential units) and Appendix 5 (commercial appraisal results). In these results, the residual land values are calculated for scenarios with sales values and capital values reflective of market conditions across the Borough. These RLVs are then compared to appropriate benchmark land values. The maximum CIL rates for each scheme and scenario are determined by deducting the benchmark land values from the residual land value and dividing any surplus by the number of square metres that would – in principle – be liable to pay CIL. On residential schemes for example, this means that the maximum CIL rates are determined by reference to the private floor area only, with affordable housing floorspace excluded from the calculation. This provides a significant number of results, depending on other factors tested, most notably the level of affordable housing.

6.2 Development value is finite and in areas where development is primarily sourced from previously developed sites it is rarely enhanced through the adoption of new policy requirements. This is because existing use values are to a degree relatively high prior to development. In contrast, areas such as Welwyn Hatfield, which have significant greenfield sites/previously undeveloped land, there is clearly greater scope to secure an uplift in land value through the planning process. However, there are clearly limits to the extent that this is possible as reductions in land value may result in lower land supply. In setting its policy requirements, the Council will need to prioritise its requirements due to finite development value.

6.3 The CIL regulations state that in setting a charge, local authorities *must 'strike an appropriate balance"* between securing sufficient revenue to fund necessary infrastructure on the one hand and the potentially adverse impact of CIL upon the viability of development across the whole area on the other. Our recommendations are that:

- Firstly, councils should take a strategic view of viability. There will always be variations in viability between individual sites, but viability testing should establish the most typical viability position; not the exceptional situations.
- Secondly, councils should take a balanced view of viability – residual valuations are just one factor influencing a developer's decision making – the same applies to local authorities.
- Thirdly, while a single charge is attractive, it may not be appropriate for all authorities, particularly in areas where sales values vary between areas.
- Fourthly, markets are cyclical and subject to change over short periods of time. Sensitivity testing to sensitivity test levels of CIL to ensure they are robust in the event that market conditions improve over the life of a Charging Schedule is essential.
- Fifthly, local authorities should not set their rates of CIL at the limits of viability. They should leave a margin or contingency to allow for change and site specific viability issues.

6.4 CIL rates should not necessarily be determined solely by viability evidence, but should not be logically contrary to the evidence. Councils should not follow a mechanistic process when setting rates – appraisals are just a guide to viability and are widely understood to be a less than precise tool.

6.5 This conclusion follows guidance in paragraph: Para 020 Ref ID: 25-020-20190901 of the PPG on CIL, which states that *'there is no requirement for a proposed rate to exactly mirror the evidence… There is room for some pragmatism'*. Further, Para: 022 Ref ID: 25-022-20190901 of the PPG identifies that, *'a charging authority that plans to set differential levy rates should seek to avoid undue complexity'*.

Assessment – residential development

6.6 As CIL is intended to operate as a fixed charge, the Council will need to consider the impact on two key factors. Firstly, the need to strike a balance between maximising revenue to invest in infrastructure on the one hand and the need to *minimise* the impact upon development viability on the other. Secondly, as CIL will effectively take a 'top-slice' of development value, there is a potential impact on the percentage or tenure mix of affordable housing that can be secured. This is a change from the historic system of negotiated financial contributions, where the planning authority can weigh the need for contributions against the requirement that schemes need to contribute towards affordable housing provision.

6.7 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable *regardless* of the level of CIL (including a nil rate) and schemes that are viable *prior* to the imposition of CIL at certain levels. If a scheme is unviable before CIL is levied, it is unlikely to come forward and CIL would not be a critical or determining factor. We have therefore disregarded the 'unviable' schemes in recommending an appropriate level of CIL as these schemes would be unlikely to come forward and CIL would not therefore be payable. The unviable schemes will only become viable following a degree of real house price inflation, or in the event that the Council agrees to a lower level of affordable housing for particular sites in the short term[16].

Determining maximum viable rates of CIL for residential development

6.8 As noted in paragraph 6.7, where a scheme is unviable the imposition of CIL at a zero level will not make the scheme viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. For the purposes of establishing a maximum viable rate of CIL, we have had regard to the development scenarios that are currently viable and that might, therefore, be affected by a CIL requirement. All the results summarised below assume that current affordable housing requirements are met in full.

6.9 In the main, site types 1 and 2 (which are below the affordable housing threshold of 10 units) generate residual values that are higher than the benchmark land values and can viably support a CIL charge of £325 per square metre across the Borough.

Table 6.9.1: Maximum CIL rates - Site type 1 (1 house)

Site type	T1 - 1 House			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V[17]	325	325	325
2- Hatfield and Birchwood	N/V	325	325	325
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	100	325	325	325
4- Welwyn, Oaklands, Mardley Heath and Digswell	250	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

[16] However, as shown by the sensitivity analyses (which test reduced affordable housing levels) even a reduction in affordable housing does not always remedy viability issues. In these situations, it is not the presence or absence of planning obligations that is the primary viability driver – it is simply that the value generated by residential development is lower than some existing use values. In these situations, sites would remain in their existing use.

[17] N/V = Not Viable

Table 6.9.2: Maximum CIL rates - Site type 2 (5 houses)

Site type	T2 - 5 Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	125	325	325	325
2- Hatfield and Birchwood	250	325	325	325
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	325	325	325	325
4- Welwyn, Oaklands, Mardley Heath and Digswell	325	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

6.10 Site Type 3 is a housing scheme of 10 units and consequently is required to deliver affordable housing. This scheme demonstrates good viability in all areas up to £325 per sq m.

Table 6.10.1: Maximum CIL rates - Site type 3 (10 houses) - 25% Affordable

Site type	T3 - 10 Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	275	300	325
2- Hatfield and Birchwood	N/V	325	325	325
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	325	325	325
4- Welwyn, Oaklands, Mardley Heath and Digswell	30	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

Table 6.10.2: Maximum CIL rates - Site type 3 (10 houses) - 30% Affordable

Site type	T3 - 10 Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	150	200	275
2- Hatfield and Birchwood	N/V	275	325	325
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	325	325	325
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

Table 6.10.3: Maximum CIL rates - Site type 3 (10 houses) - 35% Affordable

Site type	T3 - 10 Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	30	90	150
2- Hatfield and Birchwood	N/V	175	225	275
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	300	325	325
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

6.11 Site Type 4 is a higher density scheme; it includes a mix of flats and houses but includes a limited number of houses. This identifies viability to be challenging in all but the highest value areas in the Borough, which demonstrate viability up to £325 per sq m.

Table 6.11.1: Maximum CIL rates - Site type 4 (12 Flats and houses) - 25% Affordable Housing

Site type	T4 - 12 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	N/V
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	N/V	N/V	N/V
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	N/V	N/V	N/V
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	175	325	325	325

Table 6.11.2: Maximum CIL rates - Site type 4 (12 Flats and houses) - 30% Affordable Housing

Site type	T4 - 12 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	N/V
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	N/V	N/V	N/V

Site type	T4 - 12 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	N/V	N/V	N/V
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	0	325	325	325

Table 6.11.3: Maximum CIL rates - Site type 4 (12 Flats and houses) - 35% Affordable Housing

Site type	T4 - 12 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	N/V
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	N/V	N/V	N/V
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	N/V	N/V	N/V
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	N/V	150	175	200

6.12 Site Types 5 and 8 are the highest density schemes tested reflecting wholly flatted developments. This identifies viability to be challenging for such development across the Borough (Tables 6.12.1 and 6.12.2). Looking at the results of the appraisals assuming no affordable housing (6.12.3 and 6.12.4), we note that there is some viability in the highest value area. However we understand that it is unlikely that such dense development will come forward in these locations. Notwithstanding this, the Council have advised that in its experience of live schemes in the urban areas of the Borough, there are a number of higher density flatted development schemes that have been delivered, consented and coming forward and for which planning permission is being pursued. This evidence of actual schemes demonstrates the complexity of delivering developments and that despite the results of this testing developers are able to make such schemes work in the Borough.

Table 6.12.1: Maximum CIL rates - Site type 5 (24 Flats) - 25% Affordable Housing

Site type	T5 - 24 Flats			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	N/V
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	N/V	N/V	N/V
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	N/V	N/V	N/V
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	N/V	N/V	N/V	0

Table 6.12.2: Maximum CIL rates - Site type 8 (100 Flats) - 25% Affordable Housing

Site type	T8 - 100 Flats			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	N/V
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	N/V	N/V	N/V
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	N/V	N/V	N/V
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	N/V	0	20	50

Table 6.12.3: Maximum CIL rates - Site type 5 (24 Flats) - 0% Affordable Housing

Site type	T5 - 24 Flats			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	N/V
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	N/V	N/V	N/V
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	N/V	N/V	N/V
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

Table 6.12.4: Maximum CIL rates - Site type 8 (100 Flats) - 0% Affordable Housing

Site type	T8 - 100 Flats			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	N/V
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	N/V	N/V	N/V
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	N/V	N/V	N/V
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

6.13 Site Type 7 and 9 are housing developments of 70 units and 160 units respectively with a similar density. The results of our appraisals identify the viability of such schemes to be good across the Borough accommodating CIL rates of up to £325 per sq m, with the exception of South Hatfield, where viability is identified as being lower, particular measured against higher value existing uses.

Table 6.13.1: Maximum CIL rates - Site type 7 (70 Houses) - 25% Affordable Housing

Site type	T7 - 70 Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	100	175	250
2- Hatfield and Birchwood	N/V	225	300	325
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	325	325	325
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

Table 6.13.2: Maximum CIL rates - Site type 9 (160 Houses) - 25% Affordable Housing

Site type	T9 - 160 Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	150	200	250
2- Hatfield and Birchwood	N/V	250	300	325
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	325	325	325
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

Table 6.13.3: Maximum CIL rates - Site type 7 (70 Houses) - 30% Affordable Housing

Site type	T7 - 70 Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	0	70	150
2- Hatfield and Birchwood	N/V	125	175	300
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	250	300	325

Site type	T7 - 70 Houses			
	BLV1	BLV2	BLV3	BLV4
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	300	325	325	325

Table 6.13.4: Maximum CIL rates - Site type 9 (160 Houses) - 30% Affordable Housing

Site type	T9 - 160 Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	30	100	175
2- Hatfield and Birchwood	N/V	150	200	300
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	275	325	325
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

Table 6.13.5: Maximum CIL rates - Site type 7 (70 Houses) - 35% Affordable Housing

Site type	T7 - 70 Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	50
2- Hatfield and Birchwood	N/V	0	70	175
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	125	200	300
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	300	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	90	325	325	325

Table 6.13.6: Maximum CIL rates - Site type 9 (160 Houses) - 35% Affordable Housing

Site type	T9 - 160 Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	50
2- Hatfield and Birchwood	N/V	50	100	175

Site type	T9 - 160 Houses			
	BLV1	BLV2	BLV3	BLV4
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	150	225	300
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

6.14 Site Type 10 is a development of 200 flats (25%) and houses (75%). (The results of our appraisals identify that the inclusion of flats, which incur higher build costs, impact on the viability of such schemes by comparison to the previous wholly housing typologies. However, there is still good viability demonstrated across the borough.

Table 6.14.1: Maximum CIL rates - Site type 10 (200 Flats and Houses) - 25% Affordable Housing

Site type	T10- 200 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	50	100	150
2- Hatfield and Birchwood	N/V	200	225	300
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	325	325	325
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

Table 6.14.2: Maximum CIL rates - Site type 10 (200 Flats and Houses) - 30% Affordable Housing

Site type	T10- 200 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	30
2- Hatfield and Birchwood	N/V	70	100	175
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	200	250	300
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	325	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

Table 6.14.3: Maximum CIL rates - Site type 10 (200 Flats and Houses) - 35% Affordable Housing

Site type	T10- 200 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	30
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	50	100	175
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	250	300	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	325	325	325	325

6.15 Site Type 11 is a development of 400 flats and houses with a smaller percentage of flats than Typology 10, but a greater number of family homes i.e. 3, and 4+ bed houses. It also includes an additional allowance for site opening up/servicing costs. The results of our appraisals identify that the inclusion of an additional cost per unit towards onsite services and a greater number of family houses appears to have an impact on viability, given the opportunity cost when such units are delivered as affordable housing. For this development typology, viability is identified as being more challenging in value areas 1 and 2 and against higher benchmark land values in value area, whilst there is reasonable viability in value areas 3, 4 and 5 against the appropriate affordable housing target and lower benchmark land values.

Table 6.15.1: Maximum CIL rates - Site type 11 (400 Flats and Houses) - 25% Affordable Housing

Site type	T11 - 400 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	70
2- Hatfield and Birchwood	N/V	N/V	50	200
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	70	175	325
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	250	325	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	N/V	325	325	325

Table 6.15.2: Maximum CIL rates - Site type 11 (400 Flats and Houses) - 30% Affordable Housing

Site type	T11 - 400 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	100

Site type	T11 - 400 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	N/V	70	225
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	125	225	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	N/V	325	325	325

Table 6.15.3: Maximum CIL rates - Site type 11 (400 Flats and Houses) - 35% Affordable Housing

Site type	T11 - 400 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	N/V
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	N/V	N/V	100
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	N/V	100	275
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	N/V	325	325	325

6.16 Site Type 13 reflects the large strategic sites and is a development of 1,000 flats and houses. As with Typology 11 this development is predominantly large family houses and allows for an additional cost per unit towards onsite services. Such developments are likely to come forward around Hatfield and Welwyn Garden City, achieving sales values within value area 3 and requiring a provision of 30% affordable. The results of this testing suggest a CIL charge of up to £175 per sq m could be accommodated where such developments come forward on greenfield sites.

Table 6.16.1: Maximum CIL rates - Site type 13 (1,000 Flats and Houses) - 30% Affordable Housing

Site type	T13 - 1,000 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
1- South Hatfield	N/V	N/V	N/V	N/V
2- Hatfield and Birchwood	N/V	N/V	N/V	50
3- Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City and north west of Hatfield, Welham Green and Woolmer Green	N/V	N/V	0	175

Site type	T13 - 1,000 Flats and Houses			
	BLV1	BLV2	BLV3	BLV4
4- Welwyn, Oaklands, Mardley Heath and Digswell	N/V	30	150	325
5- Brookman's Park, Little Heath, Cuffley, Essendon and surrounding rural area	N/V	325	325	325

Sensitivity growth in sales values and increases in build costs

6.17 As noted in Section 5, we carried out further analyses which considered the impact of increases in sales values, accompanied by an increase in build costs. This data is illustrative only, as the future housing market trajectory is uncertain. However, if such increases were to occur, the tables contained within Appendix 3 set out the results of consequential impacts on how increased levels of CIL might be absorbed by developments. It is also worth noting that given the predicted recovery of the economy and market in the medium term, viability is anticipated to improve.

Suggested CIL rates

6.18 Although the results show a wide variation in maximum CIL rates, and that residential development is currently challenging in certain locations and on certain types of development, it should be possible for rates of CIL to be levied across all areas, subject to allowing for a buffer or margin to address risks to delivery. There are several key considerations for rate setting purposes. Firstly, the PPG requires that rates are not set at the maximum level, with most councils setting their CIL rates at no more than 5% of development costs and with a buffer of 20% to 50% from the maximum potential rates. The second consideration is that sales values vary between different parts of the Borough and there are at times no clear delineations between areas, which might indicate where zonal boundaries should be drawn. One of the key distinctions is between greenfield sites and previously developed land and the bulk of sites in the latter category will be in the urban area. Thirdly, following the changes to the CIL regulations in September 2019, authorities have significantly more flexibility in the use of Section 106 obligations, which reduces the need to focus on securing contributions towards infrastructure from CIL. Fourthly, the Council has set a target of 25% - 35% affordable housing and this is an important policy objective which should be balanced against the provision of infrastructure contributions.

6.19 It is also important to consider that where a scheme is shown as unviable before the application of CIL, it will be other factors such as sales values and build costs that will need to adjust for the scheme to become viable.

6.20 In arriving at a conclusion on suggested rates, it is necessary to consider the different weight that should be attached to appraisal results tested against each of the four benchmark land values. Where the appraisals indicate that the residual values generated by residential schemes are unlikely to outperform specific benchmark land values these buildings are more likely to remain in their existing use in these parts of the borough, rather than be redeveloped.

6.21 The maximum rates of CIL indicated by our appraisals are outlined below. Given the range of results above, and the risk factors outlined in the previous paragraph, our conclusion is that the rates of CIL that the Council might set – having regard to the range of the results and taking account of viability across the Borough as a whole – should be set at a discount of circa 30% to the maximum rates, as shown in Table 6.21.1.

Table 6.21.1: Maximum and potential residential CIL rates

Area / type of development	Maximum CIL indicated by appraisals (£s per sq m)	CIL after 30% buffer (£s per sq m)
1 South Hatfield	£150	£105
2 Hatfield and Birchwood	£150	£105
3 Welwyn Garden City, Panshanger, Hall Grove, Hatfield Hyde & Mill Green, The Ryde, Hatfield House and Park area (circa postcode area AL9 5), Hatfield Garden Village, Ellenbrook, rural area to south west of Welwyn Garden City, north west of Hatfield, Welham Green and Woolmer Green.	£200	£140
4 Welwyn, Oaklands, Mardley Heath and Digswell	£325	£228
5 Brookman's Park, Little Heath Cuffley, Essendon and surrounding rural area	£325	£228
Sites under the affordable housing threshold across the borough	£325	£228

6.22 In determining the maximum levels of CIL and the potential rates above, we have based our assessment on current costs and values only. We have run a set of appraisals that show the impact of an increase in sales values, accompanied by an increase in build costs (the results are set out at **Appendix 3**). These appraisals provide an indication of the likely movement in viability that any 'buffer' below the maximum rates would need to accommodate.

6.23 Should the Council wish, it would be possible to combine areas thereby simplifying the charging schedule into fewer charging areas.

Housing for the elderly

6.24 **Retirement housing** developments are housing schemes consisting of flats or bungalows in a block, or on a small estate, where all the other residents are older people (usually restricted to purchasers over 55) built for sale. These developments provide independent, self-contained homes with their own front doors and often offer an ability to buy in care. Such schemes have lower gross to net ratios due to the need to provide communal facilities (residents' lounge, guest suite, laundry, etc.). Given the restricted market such schemes are identified as taking additional time to sell the accommodation by comparison to standard housing. However this will differ from scheme to scheme and the demand for such units in the area, and where there is high demand and not much supply such developments may sell largely off plan. We also note that such schemes achieve premium values over standard housing.

6.25 We have appraised a 40 unit scheme allowing for affordable housing and the following assumptions where they differ from the inputs in our standard housing appraisals:

- amending the unit mix to 40% 1 bed units and 60% 2 bed units;
- a gross to net floorspace ratio of 70%;
- a cautious reduced sales rate of circa 3 units per month; and
- a higher average sales value reflecting £5,597 per square metre (£520 per square foot).

6.26 **Extra Care Housing** can be precisely defined (and differentiated from other types of residential institutions) by reason of some specific characteristics, as set out in the RTPI Good Practice Note. The RTPI defines Extra Care Housing as, 'purpose-built accommodation in which varying amounts of care and support can be offered and where some services are shared'. People who live in Extra Care Housing have their own self-contained homes, their own front doors and a legal right to occupy the property. It comes in many built forms, including blocks of flats, bungalow estates and retirement villages. It is a popular choice among older people because it can sometimes provide an alternative to a care home. In addition to the communal facilities often found in retirement housing Extra Care often includes a restaurant or dining room, health & fitness facilities, hobby rooms and even computer rooms. Domestic support and personal care are available, usually provided by on-site staff.

6.27 As with retirement housing it is recognised that Extra Care developments have significantly different viability considerations to standard residential dwellings. These arise due to an even lower gross to net ratio of such developments than retirement housing (due to the need for more communal facilities) as well as the additional time that it takes to sell the accommodation due to the restricted market for that type of unit. In our experience such units also achieve premium value.

6.28 We have re-appraised the 40 unit scheme allowing for affordable housing and the following assumptions where they differ from the inputs in our standard housing appraisals:

- amending the unit mix to 50% 1 bed units and 50% 2 bed units;
- a gross to net floorspace ratio of 60%;
- a reduced sales rate of circa 3 units per month; and
- a higher average sales value reflecting £5,597 per square metre (£520 per square foot).

6.29 The results of our appraisals demonstrate the viability of retirement housing and Extra Care schemes in the Borough to be challenging (see **Appendix 4**). Given the results we would recommend that the Council considers applying a nil or nominal CIL rate (say £20 per sq m) to such developments, which would account for circa 0.7% - 0.8% of development costs. Such a rate is unlikely to be a significant factor in developers' decision making and could be absorbed without having a significant impact on viability across the borough, whilst contributing towards the delivery of necessary infrastructure to support development.

Assessment – commercial development

6.30 Our appraisals indicate that the potential for commercial schemes to be viably delivered varies between different uses and between areas across the Borough.

6.31 As noted in section 4, the level of rents that can be achieved for commercial space varies according to exact location; quality of building; and configuration of space. Consequently, our appraisals adopt a 'base' position based on average rents for each type of development and show the results of appraisals with lower and higher rents. This analysis will enable the Council to consider the robustness of potential CIL charges on commercial uses, including the impact that changes in rents might have on viability.

Offices

6.32 Our research on offices in the borough (using online databases such as Co-star Suite as well as discussions with local agents) indicates that the highest rental levels achieved are in Welwyn Garden City and Hatfield at circa £24.50 per sq ft. We understand that newer offices elsewhere in the borough are achieving circa £17 per sq ft. We have allowed for rent free and void periods of 18 months. (See **Appendix 5** for our Appraisals).

6.33 The results of our appraisals indicate that the viability of office developments is likely to be challenging, unless rents increase and yields harden significantly over the life of the Charging Schedule. Given this position we would recommend that the Council considers adopting a nil or nominal CIL rate on such uses. At a nominal rate of £20 per sq m this amounts to circa 0.33% of development costs.

Science park lab enabled offices

6.34 We understand that there has been increased interest in the delivery of lab enabled office space in science parks around Welwyn Hatfield's area. Our research on such space (using online databases such as Co-Star Suite as well as discussions with local agents) has identified that there is limited amounts of this space in the immediate surrounding area and Borough. We understand however that new space delivered in Sycamore House on Gunnels Wood Road in Stevenage is currently on the market at an asking rent of £42.50 per sq ft. The highest rents for such space are achieved in locations with synergies to other laboratory or businesses or higher education facilities such as Oxford and Cambridge.

6.35 From our discussions with agents currently marketing such space across the London and the East of England, we understand that they consider that lab enabled space would likely achieve a lower rent than that being sought in Stevenage, at circa £35 per sq ft. This is still at a significant premium to rents achieved on standard office space, however due to the higher build costs and or larger rent free periods offered to cover fit out, our appraisals indicate that the viability of such developments is likely to be challenging in the borough. (See **Appendix 5** for our Appraisals). Given this position we would recommend that the Council considers adopting a nil or nominal CIL rate on such uses. At a nominal rate of £20 per sq m this amounts to circa 0.28% of development costs.

Supermarkets and Superstores and Retail Warehousing

6.36 The supermarket and superstore[18] and retail warehousing[19] market has seen significant shifts in yields over the last year, which has reduced the capital values of such assets and this coupled with build cost inflation has resulted in new developments of these uses in the borough now reflecting challenging viability. Given this, we recommend that the Council considers adopting a nil or nominal CIL rate on such uses. At a nominal rate of £20 per sq m this amounts to circa 0.5% of development costs.

All other Retail

6.37 Our research of all other retail in the Borough has identified that the highest rents are being achieved in the prime shopping location of Welwyn Garden City with overall rents of circa £40 per sq ft. With respect to retail in Hatfield town centre and the rest of the borough our research has identified that rents of circa £25 to £17.50 per sq ft are being achieved. Yields on retail space have shifted out significantly, particularly on shopping centre space, which has had a marked impact on capital values for retail space. In addition we note that there a number of vacant units currently on the market for the prime retail space in the Howard Shopping Centre in Welwyn Garden City. Our appraisals of retail units in Borough are set out in **Appendix 5**. This shows that the viability of such retail developments is currently challenging. We would recommend that the Council considers adopting a nil or nominal CIL rate for such uses. At a nominal rate of £20 per sq m this amounts to circa 0.36% of development costs.

Industrial and Warehousing

6.38 The Industrial and warehousing market has seen significant rental growth and yield compression since 2019. However due to the softening of yields from Q4 2023, which has resulted in a reduction in capital values and the increase in build costs, our appraisals identify that such developments delivered speculatively in the Borough are at the margins of viability at current rents and yields see Figure 6.37.1 below and **Appendix 5**. We recommend that the Council consider adopting a nil or nominal CIL rate for industrial and warehouse uses. At a nominal rate of £20 per sq m this amounts to circa 0.83% of development costs.

[18] Superstores/supermarkets are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit.
[19] Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for mainly car-borne customers.

Hotel

6.39 Our appraisal of hotel development is attached at **Appendix 5**. This indicates that at current values hotel developments are unlikely to generate significant residual land values. On this basis we recommend that the Council considers adopting a nil or nominal CIL rate for such uses. At a nominal rate of £20 per sq m this amounts to circa 0.48% of development costs.

Student Accommodation

6.40 Our appraisal of student accommodation developments is attached at **Appendix 5**. This indicates that at current values such developments are unlikely to generate significant residual land values. On this basis we recommend that the Council considers adopting a nil or nominal CIL rate for such uses. At a nominal rate of £20 per sq m this amounts to circa 0.59% of development costs.

All other uses

6.41 Should the Council wish to do so, it would be able to set a nominal rate of CIL on all other uses of say £20 per square metre. A nominal rate is unlikely to be a significant factor in developers' decision making and could be absorbed without having a significant impact on viability across the Borough. In addition, the Council could consider excluding uses such as healthcare, emergency services facilities and education from this category. Should the Council not wish to proceed with a nominal rate on all other uses, a nil rate would apply by default unless a rate has been explicitly set. The uses include all use classes not mentioned above as well as those which are advised to set a nil or nominal rate.

7 Strategic Sites

Background to strategic sites viability and CIL charges

7.1 As identified in Section 1, this report should be read in conjunction with the viability work undertaken specifically considering the viability of four largest strategic sites in the Borough in December 2016. The Strategic Sites Testing Update December 2016 was prepared with the particular purpose of testing the cumulative impact of the Council's emerging requirements on the identified strategic sites including affordable housing, on-site Section 106 obligations, the Council's proposed CIL charges and on-site infrastructure and sustainability measures.

7.2 This testing demonstrates that three of the four strategic sites tested, including SDS2 (WGC 5) South East Welwyn Garden City - Birchall Garden Suburb ('SDS2 Birchall Garden Suburb'), are viable and deliverable having regard to the Council's then emerging LP 2016 planning policies and CIL requirements. However due to the significant S106 requirements on Site SDS5 (HAT1) - North West Hatfield ('SDS5 North West Hatfield') our assessment indicated that the viability of the site was more challenging than the other strategic sites tested.

7.3 In light of the results of our testing, we recommended that the Council considers applying its CIL charges as proposed to all the strategic sites with the exception of Site SDS5 North West Hatfield where, as identified earlier, the S106 contribution requirements are likely to be significant. We consequently suggested that the Council considers the merits of adopting a nil CIL rate and seeking all infrastructure contributions through a S106 agreement for SDS5 North West Hatfield.

7.4 Both Welwyn Hatfield's PDCS May 2017 and DCS September 2020 adopted a nil rate of CIL for development on SDS5 North West Hatfield.

SDS2 Birchall Garden Suburb

Updated LP 2016 allocation

7.5 Since this testing and the publication of the DCS in September 2020, the allocation on SDS2 Birchall Garden Suburb in the LP 2016 has changed significantly as a result of more detailed work carried out on the Site's development through the production of the Birchall Garden Suburb Masterplan. We note that the production of a Masterplan is a requirement of Policy SP 19, which allocates SDS2 Birchall Garden Suburb for development in LP 2016. Officers reported the Masterplan to the Cabinet Planning and Parking Panel on 17 August 2023[20] and the Cabinet approved it at the meeting held on 5 September 2023 and it is now a material consideration for Development Management purposes[21].

7.6 The key change to the allocation on SDS2 Birchall Garden Suburb since it was tested in December 2016 is LP 2016 Inspector's recommendations which concluded that it would not be a sound outcome to allocate the fields to the immediate north of the A414 for residential development. As a result, the number of dwellings in the Welwyn Hatfield portion of the site has been reduced by 50% i.e. from 1,200 homes to 600 homes. Subsequently, the connection to the A414 has been removed for general traffic. The Inspector specifically noted that the land to the south would not provide a sound outcome because of the impact such development would have on the visual openness of the wider Green Belt and the consequent experience of users of the open countryside to the south, as well as the potential harm to the setting of heritage assets.

[20] Birchall Garden Suburb Masterplan Reported to Cabinet Planning and Parking Panel 17 August 2023: https://democracy.welhat.gov.uk/ieListDocuments.aspx?CId=266&MId=1641
[21] Birchall Garden Suburb Masterplan June 2023 - https://www.welhat.gov.uk/downloads/file/755/bsg-masterplan

7.7 In addition, we understand that the Masterplanning exercise has enabled further analysis and information on SDS2 Birchall Garden Suburb's constraints and opportunities. In particular with respect to the site's former mineral extraction and subsequent landfill operations use. We also understand from the Masterplan that, *"Central Herts Green Corridor Group (CHGC) have identified areas of Leachate breakout, as a result of the former landfill waste disposal operations"* (page 42). In addition to this SDS2 Birchall Garden Suburb contains a network of water bodies including ditches and ponds. The site is located on higher ground, between the River Mimram to the north, and the River Lea to the south. The River Mimram flows south easterly to meet the River Lea in Hertford and consequently the development of the Site needs to ensure no leaching into the watercourses. Part of the SDS2 Birchall Garden Suburb area is therefore identified as having significant contamination constraints that need to be thoroughly understood at the detailed masterplaning stage to inform designs along with the production of a detailed assessment and remediation strategy. This land has consequently not been allocated for housing, but will be used as a substantial area of parkland.

7.8 SDS2 Birchall Garden Suburb also includes land currently in use as a waste facility to the south of Birchall Lane, straddling the boundary between Welwyn Hatfield and East Hertfordshire which is allocated in the Hertfordshire Waste Site Allocations Document, July 2014 alongside The Holdings, an area of land previously used for waste operations. These sites are not in the same ownership as most of the rest of SDS2 Birchall Garden Suburb, but they are quite close to its centre. It is for these reasons that these sites are included within Policy SP 19 as an employment area. Given that some Class B uses, and particularly waste operations, can be noisy and produce dust, it is important that there is appropriate mitigation to protect the proposed housing and that development does not take place within the proposed employment area that is likely to prevent new housing being built or adversely affect the amenities of existing housing.

Viability analysis

7.9 In the previous testing of SDS2 Birchall Garden Suburb, we only considered the development in Welwyn Hatfield Borough Council's administrative area given the significant allocation of homes and infrastructure being delivered on this Site. This testing allowed for the following development on the Site:

- 1,200 Homes;
- 1 x Primary School;
- Retail;
- Community Buildings.

7.10 The assessment acknowledged the likely requirement for remediation/decontamination works and allowed for a sum of £2 million.

7.11 With respect to site specific infrastructure costs, we made the following allowances:

Table 7.11.1 Site specific infrastructure costs - SDS2 Birchall Garden Suburb - Dec 2016 testing

Site Specific Infrastructure Contributions	Total Cost
Transport Infrastructure	£8,000,000
Education	£18,000,000
Community Facilities	£3,000,000
Green Infrastructure	£2,000,000
Total	**£31,000,000**

7.12 The reduced allocation on the Welwyn Hatfield portion of Birchall Garden Suburb results in the allocation of the total site (i.e. in both Welwyn Hatfield and East Hertfordshire's areas) for approximately 1,950 new homes. The infrastructure requirement across the entire Birchall Garden Suburb Site also requires the delivery of a second primary school and a secondary school along with the more significant noise, dust and visual amenity mitigation measures identified by the Inspector to the LP 2016 and identified in the Masterplan. This is in addition to the community facilities, transport and green infrastructure contributions.

7.13 Considered in this light, the extent of the infrastructure and S106 mitigation requirements for the delivery of the Birchall Garden Suburb are more comparable to those identified and tested for at the SDS5 North West Hatfield Site. As a consequence of this and added impact of mitigating for contamination and topography issues, the viability of the SDS2 Birchall Garden Suburb will be more challenging and in line with that of the SDS5 North West Hatfield Site.

Suggested CIL rates

7.14 We note that East Hertfordshire District Council has not adopted or commenced work on adopting a CIL Charging Schedule. The scale of the infrastructure required to be delivered by the allocation to mitigate the impact of the proposed development of the Birchall Garden Suburb would be more effectively delivered through a S106 Agreement.

7.15 We consequently suggest that the Council considers the merits of adopting a nil CIL rate and seeking all infrastructure contributions through a S106 agreement for both SDS5 North West Hatfield and SDS2 Birchall Garden Suburb.

9 Conclusions and recommendations

9.1 The NPPF states that *"Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the delivery of the plan"* (Paragraph 34). This report and its supporting appendices test the ability of development typologies in Welwyn Hatfield to support local plan policies while making contributions to infrastructure that will support growth through CIL.

9.2 The study takes account of the cumulative impact of the Council's current planning requirements, in line with the requirements of the NPPF, PPG and the Local Housing Delivery Group guidance 'Viability Testing Local Plans: Advice for planning practitioners' (2012).

9.3 The suggested CIL rates for the Borough are summarised in Table 9.3.1, which corresponds to the map at **Appendix 6**.

Table 9.3.1: Suggested CIL rates

Use	Residential Zone 1 CIL Charge (£ per sq m)	Residential Zone 2 CIL Charge (£ per sq m)	Residential Zone 3 CIL Charge (£ per sq m)	Identified sites
Residential at and above the Affordable Housing threshold[22]	£100	£140	£230	NIL
Residential below the Affordable housing threshold	£230			
All other uses[23]	£20			

9.4 Although we have tested schemes with a range of affordable housing percentages, the suggested rates above are based on the appraisal outputs which also include the relevant percentage in Policy SP 7 (i.e. 25% in Hatfield, 30% in Welwyn Garden City and on major development sites and 35% in the excluded villages on sites of 10 new dwellings or a site of 0.5 Ha or more).

9.5 The suggested rates are also set at a significant discount to the maximum rates, in line with the requirements set out in the PPG. Consequently, there is sufficient flexibility for schemes to be able to withstand the impact of economic cycles over the life of the Charging Schedule. That said, current mainstream forecasts are that residential values will increase over the next five years.

9.6 As this is Welwyn Hatfield's first charging schedule, we have also had regard to the fact that the proposed CIL contribution sought will not be a new cost burden on development. It is largely replacing much of the financial contributions currently secured in through s106 Agreements. Consequently, it is unlikely to be the determining factor in scheme viability. In this context, we consider the proposed rates to be appropriate.

9.7 Our testing indicates that the proposed CIL rates will have a relatively modest impact on residual land values in most cases. Where it is not possible to pass the cost of increased CIL rates back to the landowner through a reduction in land value (for example, due to high existing use values), the increase will have a modest impact on affordable housing levels

[22] Excluding retirement housing and Extra Care housing

[23] Excluding uses such as healthcare, emergency services facilities and education

that can be delivered. We consider that for residential schemes, the application of CIL of is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme value, the suggested CIL rates will be a modest amount, typically accounting for between 1.59% and 5.69% of development costs across the Borough and an average of 2.33% of costs in Zone 1, 3.01% in Zone 2 and 4.14% in Zone 3. It is worth noting that some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these schemes as they are unlikely to come forward unless there are significant changes to main appraisal inputs.

9.8 There is clearly a need to balance the need to deliver affordable housing with the need to secure contributions to fund community infrastructure that will support development and growth. The Council cannot seek to prioritise securing affordable housing to the exclusion of securing funding for infrastructure and vice versa. In our view, the proposed rates strike this balance appropriately.

9.9 With regards to commercial development, our testing has identified that at current values and costs viability is challenging on offices, science park lab enabled office space, hotels, industrial and warehousing, 'all other retail', supermarkets/superstores, retail warehousing and student accommodation schemes in the Borough. We therefore suggest that the Council sets a nil or nominal rate of £20 per square metre on such development, which would equate to less than 1% of development costs.

9.10 Should the Council wish to do so, they would be able to set a nominal rate of CIL on all other uses of say £20 per square metre. This would ensure that all development is contributing towards infrastructure required to support this growth. Such a charge would be in line with the requirements of Regulation 14, which identifies that when deciding the levy rates, an authority must strike an appropriate balance between additional investment to support development and the potential effect on the viability of developments.

9.11 A nominal CIL charge is unlikely to be a significant factor in developers' decision making being less than 1% of development costs and could therefore be absorbed without having a significant impact on the viability of developments across the Borough, whilst making an important contribution towards the delivery of much needed supporting infrastructure. In addition, the Council could consider excluding uses such as healthcare, emergency services facilities and education from this category. Should the Council not wish to proceed with a nominal rate on all other uses, a nil rate would apply by default unless a rate has been explicitly set. As set out above, we have advised that the Council includes office, science park lab enabled office space, all retail (including supermarkets/superstores and retail warehousing), industrial and warehousing, hotel, student accommodation and retirement and extra care housing within this category.

9.12 We have identified that the viability for the delivery of both of the SDS2 Birchall Garden Suburb and SDS5 North West Hatfield sites is more challenging than other strategic sites given the extent of the infrastructure and S106 mitigation requirements along with other site complications such as contamination, topography and cross border delivery of development. Subsequently, we suggest that the Council considers the merits of adopting a nil CIL rate and seeking all infrastructure contributions through a S106 agreement for both SDS5 North West Hatfield and SDS2 Birchall Garden Suburb.

Additional observations

9.13 Viability measured in present value terms is only one of several factors that determine whether a site is developed. Developers need to maintain a throughput of sites to ensure their staff are utilised and they can continue to generate returns for their shareholders. Consequently, small adjustments to residual land values resulting from the introduction of CIL can be absorbed in almost all circumstances by developers taking a commercial view on the impact. However, in most cases the impact on land value is sufficiently modest that this can be passed onto the land owner at the bid stage without adversely impacting on the supply of land for development.

9.14 In most cases, the changes in residual land values required to accommodate the increased CIL rates is very modest and the CIL itself accounts for a very small proportion of overall development costs (typically well below 5%). The imposition of CIL is therefore not the critical factor in determining whether or not a scheme will come forward.

9.15 In considering the outputs of the appraisals, it is important to recognise that some developments will be unviable regardless of the Council's requirements. In these cases, the value of the existing building will be higher than a redevelopment opportunity over the medium term. However, this situation should not be taken as an indication of the viability (or otherwise) of the Council's policies and requirements.

9.16 Notwithstanding the results of the testing in this study of higher density developments reflecting challenging development there are a number of flatted development schemes that have been delivered, consented and coming forward and for which planning permission is being pursued. This evidence of actual schemes demonstrates the complexity of delivering developments and that despite the results of this testing developers are able to make such schemes work in the Borough.

9.17 It is worth noting that the results of this viability exercise, which identify certain commercial development as not viable, do not mean that sites will not be developed within the Borough for these uses as viability is only one of many factors which affect whether a site is developed. For example, owner occupiers such as a logistics company, may wish to locate in Welwyn Hatfield as it both complements their existing locations and provides good links to the strategic highway network. Alternatively, a business may wish to develop their own premises by reference to their own cost benefit analysis, which will bear little relationship to the residual land value calculations that a speculative landlord developer may undertake.

9.18 It is critical that developers do not over-pay for sites such that the value generated by developments is paid to the landowner, rather than being used to provide affordable housing. The Council should work closely with developers to ensure that landowners' expectations of land value are appropriately framed by the local policy context and adjusted for the proposed CIL rates. There may be instances when viability issues emerge on individual developments, even when the land has been purchased at an appropriate price (e.g. due to extensive decontamination requirements). In these cases, some flexibility may be required subject to submission of a robust site-specific viability assessment.

9.19 This study demonstrates that the proposed CIL charges are set at a level which will ensure an appropriate balance between delivering affordable housing, sustainability objectives, necessary infrastructure and the need for landlords and developers to achieve a return in line with the NPPF.

BNP PARIBAS REAL ESTATE

Appendix 1 - Accessibility standards

Accessibility standards

DCLG - Housing Standards Review - Cost impacts (September 2014)

Note: The percentage uplifts generated by this analysis (final table on this page) are applied to contemporary construction costs to provide a current cost of meeting accessibility standards.

Cost per dwelling (Table 45)					
	1B flat	2B flat	2B House	3B House	4b House
Cat 2	£940	£907	£523	£521	£520
Cat 3(a)	£7,607	£7,891	£9,754	£10,307	£10,568
Car 3(b)	£7,764	£8,048	£22,238	£22,791	£23,052

Dwelling construction costs (Tables 12 and 12b)					
Size sq m	50	67	72	96	117
Cost per unit	£81,966	£94,520	£78,044	£95,741	£121,045
Cost per sq m	£1,639.32	£1,410.75	£1,083.94	£997.30	£1,034.57

Standards as % of construction costs					
	1B flat	2B flat	2B House	3B House	4b House
Cat 2	1.15%	0.96%	0.67%	0.54%	0.43%
Cat 3(a)	9.28%	8.35%	12.50%	10.77%	8.73%
Cat 3(b)	9.47%	8.51%	28.49%	23.80%	19.04%

Cost uplifts applied in study		
	Flats	Houses
Cat 2	1.15%	0.54%
Cat 3(a)	9.28%	10.77%
Cat 3(b)	9.47%	23.80%

Appendix 2 - Residential appraisal results (Social Rent and Affordable Rent) at base costs and values

Appendix 3 - Residential appraisal results (Social rent and Affordable Rent) sensitivity at growth values and costs

Appendix 4 - Retirement housing and Extra Care

Appendix 5 - Commercial appraisal results

Appendix 6 - Suggested residential CIL map