City of York Local Plan Viability Study
Draft Report

Peter Brett Associates
September 2014
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1 INTRODUCTION

Introduction

1.1 City of York Council has commissioned Peter Brett Associates to undertake a strategic viability assessment of their emerging Local Plan in order to

- Understand the deliverability of the plan’s allocations in the context of general and local economic conditions and site specific infrastructure requirements
- Test the implications of Local Plan policy requirements on financial viability of these allocations
- Start to understand the broad levels of CIL overage that may be realisable to deliver the infrastructure plan

1.2 Following the completion of an initial high level viability assessment Peter Brett Associates (PBA) undertook on the Preferred Options for the City of York Local Plan, the City of York Council (herein known as the Council) have made a number of changes to policy requirements. They have also received greater detail regarding the strategic sites that will be necessary to deliver the housing numbers over the plan period.

1.3 Given the amendments that have been made to policy and the additional information that has been gathered, it is necessary for us to re-run the viability modelling to reflect the current proposed policy position.

1.4 In coming to the conclusions we will be testing the identified policy costs across a range of site typologies to reflect a range of potential sites that may come forward over the plan period. We will also be testing the strategic sites that have been allocated within the emerging Local Plan to understand the deliverability of these sites, and the impact of the emerging policies to ensure they remain viable within the renewed policy position.

1.5 There are complex questions, and the only way to make the decision properly is to explicitly understand the trade-offs being made between various policy choices. The modelling process has been iterative, with different packages of policy cost tested to inform revisions to the Plan as it evolves.

1.6 During the revisit we have also sought to update the evidence based behind the assumptions being made that will inform the modelling.

1.7 The approach being taken is very similar to that undertaken during the initial stages of the study with various combinations of policy costs being used to understand the varying level of impact on viabilities.
LEGAL REQUIREMENTS

2.1 The National Planning Policy Framework (NPPF) requires that ‘Plans should be deliverable’ and that the cumulative effects of policy should not render plans unviable. It is necessary, therefore, to demonstrate that York’s Local Plan is deliverable in the context of policy requirements. This section of the report summarises the relevant extracts of the NPPF in this regard.

2.2 The Community Infrastructure Levy (CIL) is a planning charge based on legislation that came into force on 6 April 2010. The levy allows local authorities in England and Wales to raise contributions from development to help pay for infrastructure that is needed to support planned development as a whole. It is still possible for S106 obligations to be used to fund site specific infrastructure, subject to limits on pooling obligations for particular purposes. Local authorities who wish to charge the levy must produce a draft charging schedule setting out CIL rates for their areas – which are to be expressed as pounds (£) per square metre, as CIL will be levied on the gross internal floorspace of the net additional liable development. Before it is approved by the Council, the draft schedule has to be tested by an independent examiner.

2.3 The requirements which a CIL charging schedule has to meet are set out in:
   - The CIL Regulations 2010, as amended in 2011 2, 20123, 20134 and 20145.
   - The National Planning Practice Guidance on CIL (NPPG CIL) issued under S221 of the Planning Act 2008, which is statutory guidance, i.e. it has the force of law and the authority must have regard to the guidance6.

2.4 Below, we summarise the key points from these various documents.

Plan Viability

National Planning Policy Framework

2.5 The National Planning Policy Framework (NPPF) advises that cumulative effects of policy should not combine to render plans unviable (our emphasis):

‘Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other

6 DCLG (June 2014) National Planning Practice Guidance: Community Infrastructure Levy (NPPG CIL)
requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable’.  

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

2.6.1. The NPPF aims to encourage the efficient use of land. This requires a level of responsiveness to market signals. The NPPF states that

- Employment land reviews should be ‘undertaken at the same time as, or combined with, Strategic Housing Land Availability Assessments and should include a reappraisal of the suitability of previously allocated land’;  
- That LPAs should ensure the optimal use of land in the area, and then ‘meet the housing, business and other development needs of an area, and respond positively to wider opportunities for growth. Plans should take account of market signals, such as land prices and housing affordability, and set out a clear strategy for allocating sufficient land which is suitable for development in their area’.  

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

Infrastructure in the NPPF

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

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

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

2.10 Encouraging the re-use of brownfield land is a Core Planning Principle of the NPPF (para 17), and National Planning Practice Guidance encourages authorities to incentivise brownfield development by looking ‘at the different funding mechanisms available to them to cover potential costs of bringing such sites back into use, when considering which sites to allocate’ (para 025). Given the fact that many brownfield sites are complex and of a significant scale, and therefore could only be fully developed beyond the relatively immediate timescales (typically no more than 5 years) over which confirmed public funding is made available to individual projects, the inference of these policies are clearly that reasonable assumptions around public funding availability can be factored into viability assessment of appropriate brownfield sites beyond the first five years of the plan.

**Deliverability and developability in the NPPF**

2.11 The NPPF creates the two concepts of ‘deliverability’ (which applies to sites which are expected in Years 0-5 of the plan) and ‘developability’ (which applies to year 6 onwards of the plan).

2.12 It is important to define these terms.

- To be deliverable, “sites should be available now, offer a suitable location for development now, and be achievable, with a realistic prospect that housing will be delivered on the site within five years and in particular that development of the site is viable.”

- To be developable, sites expected in Year 6 onwards should be able to demonstrate a “reasonable prospect that the site is available and could be viably developed at the point envisaged.”

2.13 The NPPF therefore advises that a more flexible approach may be taken to the sites coming forward in the period after the first five years. Sites coming forward after Year 6 might not be viable now – and might instead be only viable at that point in time. This recognises the impact of economic cycles and policy changes over time.

**Summarising the key points**

2.14 Standing back, then, it seems clear that the NPPF wishes Councils to ensure that they do not load policy costs onto land if it would hinder the land being developed, or withhold land for uses (say, employment) that may not come forward in the plan.

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period where market signals might suggest that other uses (say, residential) could be considered.

2.15 The key point is that policy costs are kept sensible, the overall amount of infrastructure needed to support the plan over time will be affordable, that plans are backed by a thought-through set of priorities and delivery sequencing that allows a clear narrative to be set up around how the plan will actually be paid for and delivered.

2.16 This study confines itself to the question of development viability. It is for other elements of the evidence base to investigate the other ingredients in the definition of developability (i.e., location and prospects for development). We do not directly consider infrastructure requirements, although draw on this information to look at the impact of infrastructure requirements on site viability where relevant.

National Planning Practice Guidance

2.17 National Planning Policy Guidance (NPPG) supports the NPPF and adds detail on how viability should be taken into account in plan making. It states that plans should be based on a clear and deliverable vision of the area. It identifies that viability assessment can assist with the development of plans and plan policies, providing high level assurance that plan policies are viable.

2.18 The guidance states that evidence on viability should be proportionate, to ensure plans are underpinned by a broad understanding of viability. It does not require individual testing of every site or assurance that individual sites are viable; site typologies may be used to determine viability at policy level.

2.19 The guidance suggests greater focus where viability is known to be in areas of known to be marginal or where viability might be an issue. This might include in relation to strategic sites which require high infrastructure investment and some brownfield sites, the re-use of which the guidance emphasises should continue to be a priority.

2.20 The over-arching message of the NPPG in respect of viability is that the cumulative cost of development should not cause development types or strategic sites to be unviable. This includes the costs imposed through national and local standards, local policies and the Community Infrastructure Levy, as well as a realistic understanding of the likely cost of Section 106 planning obligations and Section 278 agreements for highways works.

2.21 In re-enforcing this point, it also states that plan makers should not plan to the margin of viability but should allow for a buffer to respond to changing markets and to avoid the need for frequent plan updating. It also emphasises that current costs and values, rather than and expectation or projection of likely future change, should be considered when assessing the viability of plan policy.

Assumptions

2.22 Development viability is essentially a function of the relationship between the value generated by development and the cost associated in developing it. The guidance
discusses the key assumptions that must be made in assessing the viability of development.

2.23 In respect of development value, it states that Gross development Value (GDV) should be calculated by assessing total sales and/or capitalised rental income from developments and that values should be based on comparable, market information, using average figures based on the types of development that the plan is seeking to bring forward, where appropriate. Wherever possible, specific evidence from existing developments should be used after adjustment to take into account types of land use, form of property, scale, location, rents and yields.

2.24 In respect of development costs, NPPG states that the assessments should be based on robust evidence, reflect local market conditions and include all costs of development including:

- build costs;
- known abnormal costs;
- infrastructure costs;
- the cumulative costs of policy requirements and standards;
- finance costs; and
- professional, project management, sales and legal costs.

2.25 The guidance also recognises that consideration of land value is central to viability assessment. It states that the most appropriate way to assess land or site value will vary but there are common principles which should be reflected. These include that land value assumptions should reflect emerging policy requirements and planning obligations in all cases. In addition, the assumptions made will also need to allow for a competitive return to willing developers and land owners.

2.26 The NPG recognises that this return will vary between projects to reflect the size and risk profile of the development and the risks to the project. It states that ‘A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.’

**Community Infrastructure Levy**

2.27 Although it is not the purpose of this study to establish a CIL level or levels, further detailed work being required to assess this should the council seek to implement, the policy approach must be compliant with the requirements of CIL regulations, and the type and level of appraisal work undertaken will allow an early and very broad indication of the likely achievability and levels of CIL across the range of sites tested, to provide general reassurance and allow high level assessment of the infrastructure delivery plan.
Striking the appropriate balance

2.28 The revised Regulation 14 requires that a charging authority ‘strike an appropriate balance’ between:

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

2.29 By itself, this statement is not easy to interpret. The June 2014 statutory guidance explains its meaning. A key feature of the 2014 Regulations is to give legal effect to the requirement in this guidance for an authority to ‘show and explain...’ their approach at examination. This explanation is important and worth quoting at length:

‘The levy is expected to have a positive economic effect on development across a local plan area. When deciding the levy rates an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments. This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see Regulation 14(1)), charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area. As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened’.15

2.30 In other words, the ‘appropriate balance’ is the level of CIL which maximises the delivery of development and infrastructure in the area. If the CIL charging rate is above this appropriate level, there will be less development than planned, because CIL will make too many potential developments unviable. Conversely, if the charging rates are below the appropriate level, development will also be compromised, because it will be constrained by insufficient infrastructure.

2.31 Achieving an appropriate balance is a matter of judgement. It is not surprising, therefore, that charging authorities are allowed some discretion in this matter. Regulation 14 requires that in setting levy rates, the Charging Authority (our underlining highlights the discretion):

‘must strike an appropriate balance...’ i.e. it is recognised there is no one perfect balance;

and the June 2014 statutory guidance says

A charging authority must use ‘appropriate available evidence’... to inform their draft charging schedule... A charging authority’s proposed rate or rates should be

15 DCLG (June 2014) NPPG CIL (para.009)
reasonable, given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence… There is room for some pragmatism.’

2.32 The statutory guidance sets the delivery of development in the area firmly in the context of implementing the Core Strategy. This is linked to the plan viability requirements of the NPPF, particularly paragraphs 173 and 174. This point is given emphasis throughout the guidance. For example, in guiding examiners, the guidance makes it clear that the independent examiner should establish that:

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

2.33 This also makes the point that viability is not simply a site specific issue but one for the plan as a whole.

2.34 The revised Regulation 14 effectively continues to recognise that the introduction of CIL may put some potential development sites at risk. The focus is on seeking to ensure development envisaged by the Core Strategy can be delivered. Accordingly, when considering evidence the guidance requires that charging authorities should ‘use an area-based approach, involving a broad test of viability across their area’, supplemented by sampling ‘…an appropriate range of types of sites across its area…’ with the focus ‘…on strategic sites on which the relevant Plan… relies…’

2.35 This reinforces the message that charging rates do not need to be so low that CIL does not make any individual development schemes unviable. The levy may put some schemes at risk in this way so long as, in aiming strike an appropriate balance overall, it avoids threatening the ability to develop viably the sites and scale of development identified in the Core Strategy.

Keeping clear of the ceiling

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

‘It would be appropriate to ensure that a ‘buffer’ or margin is included, so that the levy rate is able to support development when economic circumstances adjust’

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

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

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16 DCLG (June 2014) NPPG CIL (para 019)
17 DCLG (June 2014) NPPG CIL (Para 038)
18 DCLG (June 2014) NPPG CIL (Para 019)
19 DCLG (June 2014) NPPG CIL (Para 019)
Varying the charge

2.38 CIL Regulations (Regulation 13) currently allow the charging authority to introduce charge variations by geographical zone in its area, by use of buildings, or both. (It is worth noting that the phrase ‘use of buildings’ indicates something distinct from ‘land use’). The 2014 Regulations also allow variations by ‘intended gross internal area of development’ (where ‘development’ means buildings) or by ‘the intended number of dwellings or units’. As part of this, some rates may be set at zero (which could still allow some infrastructure to be provided through S106 agreement(s), where appropriate). But variations must reflect differences in viability; they cannot be based on policy boundaries. Nor should differential rates be set by reference to the costs of infrastructure.

2.39 The guidance also points out that there are benefits in keeping a single rate, because that is simpler, and charging authorities should avoid ‘undue complexity’.

2.40 Moreover, generally speaking, ‘differential rates should not have a disproportionate impact on particular sectors, or specialist forms of development’; otherwise the CIL may fall foul of State Aid rules.

2.41 It is worth noting, however, that the guidance is clear that ‘If the evidence shows that the area includes a zone, which could be a strategic site, which has low, very low or zero viability, the charging authority should consider setting a low or zero levy rate in that area.’

Supporting evidence

2.42 The legislation requires a charging authority to use ‘appropriate available evidence’ to inform their charging schedules. The statutory guidance expands on this, explaining that the available data ‘is unlikely to be fully comprehensive’.

2.43 These statements are important, because they indicate that the evidence supporting CIL charging rates should be proportionate, avoiding excessive detail. One implication of this is that we should not waste time and cost analysing types of development that will not have significant impacts, either on total CIL receipts or on the overall development of the area as set out in the Local Plan. This suggests that the viability calculations may leave aside geographical areas and types of development which are expected to see little or no development over the plan period.

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20 The Regulations allow differentiation by “uses of development”. “Development” is specially defined for CIL to include only ‘buildings’, it does not have the wider ‘land use’ meaning from TCPA 1990, except where the reference is to development of the area, in which case it does have the wider definition. See S 209(1) of PA 2008, Reg 2(2), and Reg 6.
21 DCLG (June 2014) NPPG CIL (Para 021)
22 DCLG (February 2014) NPPG CIL (Para 021)
23 DCLG (February 2014) NPPG CIL (Para 021)
24 Section 211 (7A) of the Planning Act 2008
25 DCLG (February 2014) NPPG CIL (Para 019)
Chargeable floorspace

2.44 CIL will be payable on most buildings that people normally use. It will be levied on the net additional floorspace created by any given development scheme. Any new build that replaces existing floorspace that has been in use for six months in the last three years on the same site will be exempt from CIL, even if the new floorspace belongs to a higher-value use than the old.

What the examiner will be looking for

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

- The charging authority has complied with the requirements set out in legislation.
- The charging authority’s draft charging schedule is supported by background documents containing appropriate available evidence.
- The proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority's area.
- Evidence has been provided that shows the proposed rate would not threaten delivery of the relevant Plan as a whole.

Policy and other requirements

2.46 Above, we have dealt with legal and statutory guidance requirements which are specific to establishing a CIL. More broadly, the guidance says that charging authorities “should consider relevant national planning policy… when drawing up their charging schedules”. In addition, where consideration of development viability is concerned, the guidance draws specific attention to paragraphs 173 to 177 of the NPPF.

2.47 The only policy requirements which relate directly to CIL are set out at paragraph 175 of the NPPF, covering, firstly, working up CIL alongside the plan making where practical; and secondly placing control over a meaningful proportion of funds raised with neighbourhoods where development takes place. Since April 2013 this policy requirement has been complemented with a legal duty on charging authorities to pass a specified proportion of CIL receipts to local councils, to spend it on behalf of the neighbourhood if there is no local council for the area where development takes place. Whilst important considerations, these two points are outside the immediate remit of this study.

Summary

2.48 To meet legal requirements and satisfy the independent examiner, a CIL charging schedule published as a Draft for consultation should:

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26 DCLG (February 2014) NPPG CIL (para 002)
27 DCLG (June 2014) NPPG CIL (Para 038)
28 DCLG (June 2014) NPPG (Para 011)
‘strike an appropriate balance’ between the need to fund infrastructure and the impact of CIL; and

‘Not threaten delivery of the relevant plan as a whole’.

2.49 As explained in statutory guidance, this means that the net effect of the levy on total development across the area should be positive. CIL may reduce development by making certain schemes which are not plan priorities unviable. Conversely, it may increase development by funding infrastructure that would not otherwise be provided, which in turn supports development that otherwise would not happen. The law requires that the net outcome of these two impacts should be judged to be positive. This judgment is at the core of the charge-setting and examination process.

2.50 Legislation and guidance also set out that:

- Authorities should avoid setting charges up to the margin of viability for the bulk of sites.
- CIL charging rates may vary across geographical zones, building uses, and, under the 2014 Regulations, scale of development (and only across these three factors). But there are restrictions on this differential charging. It must be justified by differences in development viability, not by policy or by varying infrastructure costs; it should not introduce undue complexity; and it should have regard to State Aid rules.
- Charging rates should be informed by ‘appropriate available evidence’, which need not be ‘fully comprehensive or exhaustive’.

2.51 While charging rates should be consistent with the evidence, they are not required to ‘mirror’ the evidence\(^{30}\). In this, and other ways, charging authorities have discretion in setting charging rates.

2.52 In our analysis and recommendations, we aim both to meet these legal and statutory guidance requirements and to maximise achievement of the Councils’ own priorities, using the discretion that the legislation and guidance allow.

\(^{30}\) Planning Act 2008 (Section 212 (4) (b))
3 PLANNING AND DEVELOPMENT CONTEXT

Introduction

3.1 Below we set out a brief review of the emerging policy requirements that have been taken into account throughout the process of modelling to understand the broad viability of the emerging Local Plan.

City of York Local Plan

3.1 The Council is in the process of producing the publication draft Local Plan following the consultation on the Preferred Options document and further sites consultation.  

3.2 The Plan will cover the development in the City of York over the period to 2030, with adoption of the plan anticipated in 2015. The land uses which are likely to account for the vast majority of development, and hence are critical to the delivery of the Local Plan, comprise

- Residential;
- Offices;
- Retail;
- Industrial and Warehousing; and
- Public Services and Community Facilities.

3.3 Our viability assessments and the resulting recommendations have focussed on these key areas and types of development, aiming to ensure they remain broadly viable after all policy requirements have been taken into account.

3.4 Following the consultation process on the Preferred Options and further sites consultation, a large amount of information has been collected in relation to the strategic sites that have been identified to contribute towards the overall outcomes of the Local Plan. This information has been used to inform tailored viability modelling of these sites.

Policies Impacting on Viability

3.5 In the 12 months since the Preferred Options document went to public consultation a significant amount of work has been undertaken to understand the cost implications of proposed policies. The costs assumed for each policy requirement are set out in detail in Section 7 of this report, and summarised below. This will be identified later in the report however for the purpose of this section the broad categories they cover are listed below. We have focussed our assessments on those areas of policy and existing practice that have an impact on development costs and viability in the emerging policy package proposed by the Council.

3.6 We have worked closely with the Council and their consultants in establishing these requirements which can be summarised as follows:
Affordable housing provision – tested at proposed policy levels and tenure mix following the consultation and technical assessment of the Preferred Options document;

- BREEAM excellent – an uplift to achieve this level of sustainability is assumed on all commercial development;

- Open Space contributions – development sites should contribute towards the provision of open space, the cost of providing Open Space to standards set out in the plan has been informed by the on-going work undertaken by AMEC, and is reflected in modelling;

- Education contributions – development sites should contribute towards education provision. The policy cost has been informed by ongoing work and analysis undertaken by the Council;

- Strategic Infrastructure Improvements – developments should contribute towards the overall development of strategic infrastructure. This cost has been informed through work undertaken by the Council, and is reflected in ‘CIL overage’ component of model outputs;

- Surface Water Management – development sites are required in plan policy to manage and attenuate surface water flows to specific levels. This cost has been informed by technical analysis from government departments and the Council.

- Community and Health facilities – plan policy requires provision of new facilities where need cannot be accommodated in existing – a cost analysis informed by stakeholder assessment and Council analysis is factored into appraisal of ST sites only

- District heating – based on information provided by the Council and derived from ‘The Potential and Costs of District Heating Networks’, a report to the Department of Energy and Climate Change and the ‘Richmondshire Low Carbon and Renewable Energy Potential Study’.

- Lifetime Homes – cost assessment based on worked undertaken for the Department for Communities and Local Government – Assessing the Cost of Lifetime Homes Standards.

- Achieving Code for Sustainable Homes (CSH) standards – uplifts have been applied based on published research which highlights the additional cost of building homes to CSH standards relative to Part L of the 2013 Building Regulations. Following assessment of the viability implications of different levels of the standard, policy and viability assessments assume an uplift to code level 4 on all residential development.

3.7 In order show the potential impact of the proposed changes to mandatory construction standards associated with the zero carbon target in 2016, a separate assessment has been made based on the implementation of these higher standards. This is presented in the tables later in the report. However, it is important to note that ex-ante cost estimates of potential future policy requirements have historically been unreliable as technological advancements have driven down costs, particularly close to the point at which the requirement becomes law. In any case, it is also highly likely
that other development costs and values will have changed substantially in the interim, to the extent that the overall viability picture may well be markedly different to that shown for current market conditions. As such, the assessments of zero carbon and code level 6 are provided only for indicative purposes.

3.8 Alongside these central policy costs, there are a series of development costs associated to each of the Strategic Sites that have been submitted to us by their promoters. Whilst the vast majority of this information was provided in commercial confidence, it has been taken into account in the assessments where it is necessary and appropriate to do so.
4 RESIDENTIAL VIABILITY TESTING METHOD

Introduction

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

Development Appraisal

4.2 Central to the process of understanding the viability of the plan making process are viability assessments. The purpose of the assessments is to identify the implications of policy requirements on the viability of anticipated development. This is in order to ensure that policy costs do not put at risk, the overall development planned for the area.

4.3 The assessments undertaken in this study are based on development appraisals for both the strategic sites that are suggested for allocation as well as hypothetical scenarios of smaller sites that may come forward over the plan period. The modelling works on the basis of a residual valuation method, in line with accepted practices and as recommended by RICS guidance\(^\text{31}\) and the Harman Report\(^\text{32}\). Residual valuation is applied to different land uses and where relevant to different parts of the area, aiming to show typical values for each.

4.4 It is calculated on the following formula

\[
\text{Value of completed development scheme} \quad \text{less} \\
\quad \text{Development costs} \\
\quad \text{(including build costs, fees, finance costs etc.} \quad \text{less} \\
\quad \text{Developer's return (profit)} \\
\quad \text{(the minimum profit acceptable to undertake the scheme)} \quad \text{less} \\
\quad \text{Policy costs} \\
\text{Residual Land Value} \\
\text{(which in a well-functioning market should equal the value of the site with planning permission)}
\]

4.5 The residual method approach has been used across the entire study. For the hypothetical typologies, the strategic sites as well as the non-residential developments. This formula calculates a residual value, which is what the site should


\(^{32}\) Local Housing Delivery Group Chaired by Sir John Harman (2012) Viability Testing Local Plans
be worth once it has full planning permission. The residual value calculation requires a wide range of inputs, or assumptions, including the costs of development and the required developer’s return.

4.6 The arithmetic of a residual appraisal is straightforward, although the inputs to the calculation are hard to determine for a specific site (as demonstrated by the complexity of many S106 negotiations). The difficulties grow when they are required to make calculations that represent a typical or average site. Therefore our viability assessments are necessarily broad approximations, subject to a margin of uncertainty.

4.7 Where assessments are undertaken for strategic sites, developers and site promoters have been able to provide us with additional detail. In these cases we have been able to undertake a more thorough analysis of sites, however an element of caution should still be taken when reviewing the results given the broad nature of the combination of assumptions made.

4.8 Having estimated the residual value, we compare this residual value with the benchmark land value. The benchmark land value is the value at which a willing and reasonable land owner would sell to a prospective developer. This is the minimum land value the landowner will accept to release his or her land for the development specified. This process of comparison takes place in a series of summary tables that will be introduced later in the report.

4.9 Benchmark land values vary to reflect the landowner’s judgements, which might include the contextual nature of development, land and site conditions, the site density achievable, the approach to the delivery of affordable housing and other policy requirements and so on. There are a wide range of permutations here. In order to make progress, we have to assume a central value, even though there could be margin for error in practice. These values are discussed later in the report.

**Understanding the Results**

4.10 After the model has undertaken the calculations a residual value is calculated as described above. The key analysis that is undertaken in the summary tables is the difference in values between the residual and benchmark land values.

- If the residual land value shown by the appraisals is below the benchmark value, the development does not represent an ideal return to a typical landowner, based on the assumptions on which the appraisal makes. That means that unless the circumstances change, development is less likely to take place.

- If the residual land value and the benchmark values are equal, the development, on the basis of the inherent appraisals assumptions, is just viable, but there is no surplus value available for additional policy costs to be covered.

- If the residual land value shown by the appraisals is above the benchmark value, the development is viable. The excess of residual over benchmark values measures the maximum amount that may be potentially captured in developer contributions.
4.11 It is important to bear in mind that these calculations are no more than approximations, surrounded by margins of uncertainty but are based on best available evidence and judgement. In drawing the implications for the viability of the Local Plan, we take account of this uncertainty and use professional judgement to interpret the figures.

4.12 It is important to note that whilst this report and the accompanying appraisals have been prepared in line with RICS valuation guidance. No part of these documents is a formal 'Red Book' valuation (RICS Valuation - Professional Standards, March 2012) or should be relied upon as such.
5 RESIDENTIAL VIABILITY ASSUMPTIONS

Introduction

5.1 As the original report was produced approximately 12 months ago we have sought to undertake an update of the assumptions used in the modelling. This section provides a brief update of the residential market in York. This is based on primary analysis, secondary analysis from industry experts, and stakeholder engagement. It also sets out the evidence for, and the details of the assumptions we have made in respect of development archetypes, as well as the likely costs and revenues of development that feed into our viability assessments.

Market Overview

5.2 The initial study undertaken in June 2013 contained a comprehensive analysis of the residential market in York. We have not sought to replicate this analysis, however we have built upon and added to it to reflect a view of what current market conditions are considered to be,

5.3 York is widely acknowledged as having a relatively healthy housing market. This is driven by a range of factors including the high quality urban and rural environments allied with the historic nature of the area and the City’s core. The City provides easy access to high quality education and employment opportunities not only in York, but also in Leeds, which further drives the attractiveness of the City as a residential location.

5.4 Figure 5.1 below shows an update of the value heat mapping that was undertaken previously in the study. It is based on Land Registry data covering a two year period from April 2012 to April 2014. The achieved values are analysed at ward level, with outliers removed, the data is averaged and banded by price brackets. The results are shown separately for each house type. This ensures the data does not become skewed by an over-representation of a particular house type. Larger versions of the mapping are showed at Appendix A.
Figure 5.1 Sales Value Heat Mapping
5.5 Where there are areas of no shading in the apartment heat maps, this is as a result of a lack of data on which a meaningful result could be calculated.

5.6 The renewed mapping shows that centre of York is consistently achieving high values. The wards to the west of the city are showing higher values for the detached
and semi-detached properties however for terraced and flats the data appears more irregular.

Economic and Housing Market Context

5.7 The City of York continues to outperform the surrounding North Yorkshire region and England and Wales as a whole. This is highlighted in the table below where average monthly achieved prices consistently exceed the England and Wales average.

Table 5.1 Average Monthly Achieved Prices April 2012 to April 2014

<table>
<thead>
<tr>
<th>Date</th>
<th>First location Name</th>
<th>First location Average price (all)</th>
<th>Second location Name</th>
<th>Second location Average price (all)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr-12</td>
<td>York</td>
<td>£178,523</td>
<td>England and Wales</td>
<td>£159,245</td>
</tr>
<tr>
<td>May-12</td>
<td>York</td>
<td>£178,709</td>
<td>England and Wales</td>
<td>£160,114</td>
</tr>
<tr>
<td>Jun-12</td>
<td>York</td>
<td>£179,889</td>
<td>England and Wales</td>
<td>£160,461</td>
</tr>
<tr>
<td>Jul-12</td>
<td>York</td>
<td>£180,093</td>
<td>England and Wales</td>
<td>£161,852</td>
</tr>
<tr>
<td>Aug-12</td>
<td>York</td>
<td>£178,782</td>
<td>England and Wales</td>
<td>£161,748</td>
</tr>
<tr>
<td>Sep-12</td>
<td>York</td>
<td>£178,380</td>
<td>England and Wales</td>
<td>£160,836</td>
</tr>
<tr>
<td>Oct-12</td>
<td>York</td>
<td>£178,945</td>
<td>England and Wales</td>
<td>£159,987</td>
</tr>
<tr>
<td>Nov-12</td>
<td>York</td>
<td>£178,249</td>
<td>England and Wales</td>
<td>£159,747</td>
</tr>
<tr>
<td>Dec-12</td>
<td>York</td>
<td>£177,840</td>
<td>England and Wales</td>
<td>£159,782</td>
</tr>
<tr>
<td>Jan-13</td>
<td>York</td>
<td>£177,539</td>
<td>England and Wales</td>
<td>£161,234</td>
</tr>
<tr>
<td>Feb-13</td>
<td>York</td>
<td>£177,133</td>
<td>England and Wales</td>
<td>£161,144</td>
</tr>
<tr>
<td>Mar-13</td>
<td>York</td>
<td>£177,133</td>
<td>England and Wales</td>
<td>£159,933</td>
</tr>
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<td>£177,467</td>
<td>England and Wales</td>
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</tr>
<tr>
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<td>York</td>
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<td>England and Wales</td>
<td>£161,133</td>
</tr>
<tr>
<td>Jun-13</td>
<td>York</td>
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<td>England and Wales</td>
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</tr>
<tr>
<td>Jul-13</td>
<td>York</td>
<td>£177,973</td>
<td>England and Wales</td>
<td>£163,878</td>
</tr>
<tr>
<td>Aug-13</td>
<td>York</td>
<td>£178,990</td>
<td>England and Wales</td>
<td>£164,144</td>
</tr>
<tr>
<td>Sep-13</td>
<td>York</td>
<td>£180,112</td>
<td>England and Wales</td>
<td>£165,472</td>
</tr>
<tr>
<td>Oct-13</td>
<td>York</td>
<td>£182,323</td>
<td>England and Wales</td>
<td>£164,902</td>
</tr>
<tr>
<td>Nov-13</td>
<td>York</td>
<td>£181,955</td>
<td>England and Wales</td>
<td>£165,125</td>
</tr>
<tr>
<td>Dec-13</td>
<td>York</td>
<td>£182,214</td>
<td>England and Wales</td>
<td>£166,398</td>
</tr>
<tr>
<td>Jan-14</td>
<td>York</td>
<td>£182,696</td>
<td>England and Wales</td>
<td>£168,506</td>
</tr>
<tr>
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<td>York</td>
<td>£182,632</td>
<td>England and Wales</td>
<td>£169,394</td>
</tr>
<tr>
<td>Mar-14</td>
<td>York</td>
<td>£184,068</td>
<td>England and Wales</td>
<td>£169,243</td>
</tr>
<tr>
<td>Apr-14</td>
<td>York</td>
<td>£185,513</td>
<td>England and Wales</td>
<td>£171,384</td>
</tr>
</tbody>
</table>

5.8 Following the impact of the economic downturn in 2008, prices in York have continued to recover strongly and the trend continues as can be seen in the table.

5.9 As we look forward, the latest projections of house prices prepared by Savills in their Residential Property Focus (Q3 2014)\textsuperscript{33}, shown below, suggests that values across the Yorkshire and Humber region will continue to grow at a steadying pace. The data

\textsuperscript{33} http://www.savills.co.uk/research_articles/141285/178175-0
suggests that there will be strong growth of 4.5 - 5% in the next two years, with the rate slowing slightly to 3% in 2016 and 2017.

**Figure 5.2 Savills Residential Values Forecast**

<table>
<thead>
<tr>
<th>Mainstream markets</th>
<th>Five year forecast value, 2014-2018*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>UK</td>
<td>9.5%</td>
</tr>
<tr>
<td>London</td>
<td>15.0%</td>
</tr>
<tr>
<td>South East</td>
<td>12.0%</td>
</tr>
<tr>
<td>South West</td>
<td>11.0%</td>
</tr>
<tr>
<td>East of England</td>
<td>11.5%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>6.0%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>6.0%</td>
</tr>
<tr>
<td>North East</td>
<td>5.0%</td>
</tr>
<tr>
<td>North West</td>
<td>5.5%</td>
</tr>
<tr>
<td>Yorks &amp; Humber</td>
<td>5.0%</td>
</tr>
<tr>
<td>Wales</td>
<td>8.0%</td>
</tr>
<tr>
<td>Scotland</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

Source: Savills Residential Property Focus (Q3 2014)

5.10 It is important to note that this data covers the region of Yorkshire and Humber. Based on our understanding of the local market characteristics, it appears highly likely that the York market will outperform the region as a whole and may well be more akin to the data shown for the South East region where more robust value growth is projected.

5.11 For the purpose of this plan viability study, we must base our assumptions and calculations on current market conditions. We use this additional analysis with the view of ‘future-proofing’ the analysis to some extent and informing sales value scenarios. This will be discussed further below.

**Development Revenue and Cost Assumptions**

5.12 The viability assessments undertaken in this study are based on a wide range of assumptions on the revenues and costs generated by developments. These are discussed separately below. We have sought to test these assumptions through consultation processes to ensure the assumptions reflect what is happening on the ground. Our approach to engaging with key stakeholders is outlined later in this report.

**Archetype Sales Values**

5.13 In our original study we undertook detailed analysis of achieved sales values shown in Land Registry data and combined this with analysis of new build properties that
were on the market at the time. We tested our assumptions with the development industry to understand if the assumptions appeared correct. Following this process we arrived at the following assumptions;

**Houses**
- Lower value areas - £2,400 per sq. m;
- Moderate value areas - £2,600 per sq. m; and
- Higher value areas - £2,800 per sq. m.

**Townhouses**
- Lower value areas - £2,500 per sq. m;
- Moderate value areas - £2,700 per sq. m; and
- Higher value areas - £2,800 per sq. m.

**Apartments**
- Lower value areas - £2,400 per sq. m;
- Moderate value areas - £2,600 per sq. m; and
- Higher value areas - £2,900 per sq. m.

5.14 We have added more data to this analysis to include transactions and marketed properties that have appeared since the initial analysis was undertaken. The same analysis methodology has been applied.

5.15 Bringing together the findings of our analysis of new houses currently being marketed, the land registry data on new build sales and the feedback from consultations with developers and agents we have justification to revise the sales value assumptions that will feed into the modelling we are undertaking on the archetypes. The revised values are set out as follows:

**Houses**
- Lower value areas - £2,500 per sq. m;
- Moderate value areas - £2,750 per sq. m; and
- Higher value areas - £3,000 per sq. m.

**Townhouses**
- Lower value areas - £2,400 per sq. m;
- Moderate value areas - £2,600 per sq. m; and
- Higher value areas - £2,900 per sq. m.

**Apartments**
- Lower value areas - £2,750 per sq. m;
- Moderate value areas - £3,250 per sq. m; and
- Higher value areas - £4,000 per sq. m.

**Strategic Sites Sales Values**

5.16 For the strategic site testing a slightly different approach has been taken. Throughout this process we have been in discussions with the developers and site promoters for
each of the sites identified in the Preferred Options Local Plan document. We have liaised with them in order to understand the site specific detailed data that should be brought forward to assess each site, including sales values.

5.17 In many cases, the sales values suggested to us by the developers/site promoters were broadly in line with our own analyses. In some cases, no sales value assumptions were officially provided by consultees. In these cases, we assumed values in line with our own evidence.

5.18 In a small number of cases, the values stated by developers/promoters were out of line with those shown by our own evidence. Where that developer/promoter assumptions were not supported by evidence and were at odds with the evidence available to us, we have retained our own value assumptions.

Benchmark Land Values

5.19 As described above, the residential viability assessments undertaken as part of this study will show the residual land generated by each archetype. This is then compared against a benchmark land value to determine whether it is viable or not. Our assumptions on benchmark land value are informed by a range of sources.

5.20 Clearly, the value of a specific piece of land to a developer will vary significantly from one site to the next as a result of its unique characteristics, including:

- Size and shape;
- Topography and ground conditions;
- Location and potential sales values;
- Capacity of and ease of connection with surrounding infrastructure e.g. local utility networks;
- Whether the site is allocated in an adopted development plan and/or benefits from a suitable planning permission; and
- The nature of any planning permission and the level of any developer contributions that can reasonably be expected.

5.21 As such, it is inadvisable to be drawing detailed conclusions based on comparable evidence in isolation without: firstly a reasonable volume of transactions from which to consider averages and trends; and secondly without very detailed information on each of the transactions themselves that may help to explain why a particular value was achieved in that case.

5.22 Whilst our assessments seek to test a range of likely market conditions evident within York, we also seek to ensure that, as far as is possible in all other respects, we are comparing like with like. Therefore, our assumptions in terms of land are that all sites will be cleared and remediated (if they are brownfield) and fully serviced parcels (if they are greenfield) so that in either scenario they are readily developable. For sites that are not in this condition, these costs would be subtracted from the gross land value in the offer that any rational developer would make to a landowner in any case. This approach reflects what happens in practice in land transactions and is an approach that has been found sound in examinations elsewhere.
5.23 We have gathered details on comparable residential land transactions in the area. This information has informed our assumptions in respect of land values, but was provided on a confidential basis and as such cannot be included as part of this report.

5.24 In respect of residential development land prices/values, we also took account of recent Valuation Office Agency (VOA) reports covering this issue. The VOA’s Property Market Report includes data specific to York up until the July 2009 report at which time residential land values were considered to be £1.8m per ha, on a par with Leeds.

5.25 The most recent report (January 2011) only provides residential land values for Leeds within the Yorkshire region. It suggests land values in Leeds have fallen to £1.36m. It is reasonable to assume that the values for York will have suffered a broadly equivalent fall, suggesting 2011 values in York at c£1.36m per ha. This data must be qualified, however, as it is based on ‘market expectations’ in terms of the level of affordable housing and other policy costs, rather than the achievement of all policies including affordable housing in full, as is the case with our assessments. In this case, land values assuming policy requirements are met in full are likely to be lower than those suggested by the VOA’s residential land data.

5.26 As a further layer of analysis, we have considered existing and alternative use values and the uplift factors/multipliers that can be applied to them to inform conclusions on residential land values. Of course, it is difficult to generalise about existing or alternative use values across a whole local authority, but we have sought to consider the principal uses that may be relevant.

5.27 Some of the land on which new residential development will take place is likely to be agricultural. The VOA’s 2011 Property Market Report indicates that the highest average value agricultural land in Yorkshire is worth approximately £21,000 per ha. In order to inform residential land values, a multiplier of c15 times agricultural values, plus the cost servicing/on-site infrastructure is often applied. Assuming site servicing costs of £350,000 per ha, this suggests residential land values in the region of £665,000 per ha.

5.28 An alternative use for some sites being considered for residential development is for employment development. The 2009 VOA Property Market Report states that employment land in the borough typically has a value of £410,000 per ha. Allowing for value growth since that time (in line with nearby locations still covered in the latest version of the report) of 11%, this suggests current employment land values of £450,000 to £530,000 per ha. An uplift of c30% over this alternative use value is often as a proxy for considering residential land values. This suggests residential land values of £585,000 and £690,000 per ha.

5.29 We have sought to complement this information through consultation with local land agents and developers and have provided us with qualitative information on current perceptions in the local development industry of prevailing residential land values in York. This has been in the form of both informal telephone consultations as well as a formal stakeholder workshop.
5.30 Following this extensive analysis and consultation we have assumed the following land values:

- £1,500,000 per net developable ha in the City Centre and extensions to it; and
- £1,200,000 per net developable ha in all other areas.

5.31 It is clear that these assumed values are higher than those of the existing/alternative uses considered above, and is likely to provide a more than adequate return to motivate a reasonable landowner to sell. We consider that these assumptions reflect what a readily developable residential site might achieve in current market conditions given a reasonable seller and a reasonable buyer.

5.32 Notwithstanding the above, it is clear that some sites, including the larger strategic sites identified in the emerging Local Plan, will have high levels of abnormal development costs related to remediation and infrastructure issues. It is not the role of planning policy to make provision for specific interests to ameliorate the costs associated to their own use of their land in order to ensure it can be profitably developed.

5.33 However, the Council needs to be able to demonstrate that strategic sites are deliverable and is keen to work with strategic landowners to ensure that policy requirements do not place an unduly onerous burden on their sites, so that they can be viably developed. Site specific costs, as provided to us by site promoters, are taken into account in the assessments of the Strategic sites, where it is necessary and appropriate to do so and where they are not accounted for elsewhere in the assessments. Of course, developers would also have also recourse to negotiate affordable housing provision and any other S106 costs as part of any planning application process.

5.34 In addition to the above, we also asked developers and site promoters to provide opinions on benchmark land values, although the information provided was somewhat limited. Clearly, strategic sites by their nature are large sites that will deliver significant numbers of dwellings. Such large scale developments are inherently more risky and, as such, this risk is often factored in to the achievable land values. Taking account of both the information provided to us by the promoters of the strategic sites and our own research and analysis, we have assumed benchmark land values for the strategic sites of £1,000,000 per net developable ha.

Other Assumptions

5.35 There are a number of additional assumptions required to feed into the viability modelling being undertaken. These additional assumptions are set out below.

Build Costs

5.36 Whilst it is important to understand the value generated by a development scheme along with the cost of the site, it is integral to the assessment to understand the cost of bringing a development forward.

5.37 As with the previous stage of the study, we have used the Build Cost Information Service (BCIS) database to inform our build cost assumptions. The database
provides build cost data for all the relevant residential uses necessary for this study. The data is indexed for York and represents the build cost data at the time the data was accessed (August 2014). In the 12 months since the original study the build cost figures has increased significantly. The following build costs have been assumed:

- Houses - £900 per sq. m;
- Townhouses - £875 per sq. m; and
- Flats - £1,075 per sq. m.

**Densities**

5.38 Another key assumption to take into consideration when carrying out development viability modelling is the development densities. This will enable the total development floorspace to be calculated, a critical value in the overall calculation. The original study proposed a range of densities from 30 dwellings per ha (dph) in the rural and village areas up to 100 dph in the city centre. The proposed densities have broadly remained the same save some minor amendments.

- City centre and city centre extension – 100 dph;
- Urban – 50 dph;
- Suburban – 40 dph; and
- Rural and village – 35 dph.

5.39 For the strategic sites we have been provided with the emerging masterplan documents and the likely mix of residential accommodation that will be delivered on each site. Using this information we have been able to estimate site specific densities for each of the sites. Where development mixes are not yet known we have been provided with an assumed development area per ha.

**Standard Development Assumptions**

5.40 In addition to the assumptions above which are bespoke to the York appraisals, there are a number of other assumptions which feed into the modelling but are set at industry standard levels. These are set out below:

- External works – 10% of basic build costs;
- Professional fees – 10% of basic build costs plus external works;
- Contingency – 5% of basic build costs plus external works and professional fees;
- Finance costs – 7% per annum;
- Total site purchasers costs – 6.5% of site value;
- Profit - 20% of market housing GDV and 6% of affordable housing GDV

5.41 Profit levels are an important consideration when understanding viability assessments. They are often open to discussion as different developers approach profit in different ways. For the purpose of this study we have assumed the profit levels set out above. It is possible that lower profit margins are assumed in some cases and may well fluctuate over the plan period.
Stakeholder Engagement

5.42 There have been a range of consultation processes that have been used for testing the assumptions that have been made throughout the course of the study. The initial stage of consultations involved a process of informal telephone conversations with agents and developers who are active in the York area. A list of telephone consultees can be found in the appendices.

5.43 Following these initial consultations, the Local Plan Area Wide Viability Study went through a formal public consultation process where developers, agents and other stakeholders were able to make comment on the assumptions used within the modelling. Upon completion of the formal consultation process a workshop session was had with key developers and site promoters to discuss the findings of the viability work, which included the assumptions used.

5.44 The workshop session gave stakeholders an opportunity to make additional comment on the study work undertaken and to supply any additional information they felt necessary. It is important to note that where assertions had been made by individuals it was necessary to be supported by evidence. We have not relied on verbal comment to influence changing any of the assumptions. Where we have been given reason to make alterations, they have been made were necessary.
6 RESIDENTIAL SCENARIOS

Introduction

6.1 It has been alluded to earlier in the report that the City of York will rely on a combination of sites coming forward in an ad hoc fashion with strategic sites that have been identified through consultation processes. It is therefore important to understand how the different site types will be assessed as the strategic sites will need to be tested independently of the archetype sites.

Residential Archetypes

6.2 The residential assessments undertaken are based in modelling a series of site archetypes or typologies. For different areas of York we sought to define a series of typical forms of residential development, in terms of scale and nature. This has been based on analysis of existing committed residential sites and the range of sites submitted through the Council’s call for sites exercise. We have done this to ensure the range of archetypes matches the range of sites that may come forward over the Plan period.

6.3 The archetypes suggested in the original study have evolved over the course of the updating process to reflect additional comments received and our improved understanding of the types of sites likely to come forward.

Table 6.1 Site Archetypes

<table>
<thead>
<tr>
<th>Area</th>
<th>Site Type</th>
<th>Dwelling No.</th>
<th>Gross Site Size</th>
<th>Gross:Net Ratio</th>
<th>Net Site Size</th>
<th>Density</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Centre/</td>
<td>Large</td>
<td>95</td>
<td>1ha</td>
<td>95%</td>
<td>0.95ha</td>
<td>100dph</td>
</tr>
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<td>City Centre Extension</td>
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<td>50</td>
<td>0.5ha</td>
<td>100%</td>
<td>0.5ha</td>
<td>100dph</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>20</td>
<td>0.2ha</td>
<td>100%</td>
<td>0.2ha</td>
<td>100dph</td>
</tr>
<tr>
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<td>Large</td>
<td>45</td>
<td>1ha</td>
<td>95%</td>
<td>0.95ha</td>
<td>50dph</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>25</td>
<td>0.5ha</td>
<td>100%</td>
<td>0.5ha</td>
<td>50dph</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>10</td>
<td>0.2ha</td>
<td>100%</td>
<td>0.2ha</td>
<td>50dph</td>
</tr>
<tr>
<td>Suburban</td>
<td>Large</td>
<td>140</td>
<td>4ha</td>
<td>70%</td>
<td>3.5ha</td>
<td>40dph</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>38</td>
<td>1ha</td>
<td>95%</td>
<td>0.95ha</td>
<td>40dph</td>
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<tr>
<td></td>
<td>Small</td>
<td>8</td>
<td>0.2ha</td>
<td>100%</td>
<td>0.2ha</td>
<td>40dph</td>
</tr>
</tbody>
</table>
6.4 For each of the archetypes identified above we have applied indicative dwelling mixes of potential development scenarios that may come forward. The breakdown of development types have been drawn up based on the size of the site, its location as well as the nature of planning applications currently being received by the Council and consultation with developers.

6.5 Whilst these breakdowns are not directly based on the North Yorkshire SHMA, it is clear that it will have been a consideration at recent planning applications. We consider the breakdowns assumed to be reflective of the nature of development likely to come forward in York over the next few years.

6.6 The archetypes, by their nature need to cover a broad range of potential development scenarios. We feel that those listed above reflect likely development scenarios that may come forward over the plan period.

**Strategic Sites**

6.7 The Preferred Options Local Plan document sets out a range of strategic sites that will be required to deliver the housing numbers set out in the Plan. The allocated strategic sites will help to deliver over 15,000 dwellings over the plan period. Given the fact that the Council will be relying on these strategic sites to deliver the housing numbers, it is necessary to undertake site specific assessments to understand the policy implications on these sites.

6.8 The strategic sites are the following:

- ST1 – British Sugar
- ST2 – Former Civil Service Sports Ground Millfield Lane
- ST3 – Grain Stores
- ST4 – Land adj. Hull Road and Grimston Bar
- ST5 – York Central
- ST7 – Land East of Metcalfe Lane
- ST8 – Land North of Monks Cross
- ST9 – Land North of Haxby
- ST11 – Land at New Lane Huntington
- ST12 – Land at Manor Heath Road, Copmanthorpe
- ST13 – Land at Moor Lane, Copmanthorpe
- ST14 – Land North of Clifton Moor
6.9 We have had on-going discussions with the developers and site promoters that are promoting the site for inclusion within the Local Plan, once adopted. They have been able to provide us with levels of detail greater than those used for the archetypes. This includes data such as their opinions on the levels of development, achievable sales values, development costs and any identified abnormal costs as a sample of the acquired data.

6.10 Using this information we have been able to develop site specific assessments that will consider the policy implications of the proposed policy requirements. Given the significant scale of development that is likely to take place on the strategic sites we have undertaken a site assessment based on a single phase of development as opposed to each site in its entirety. The modelling approach that has been taken robustly covers the likely costs incurred in bringing forward development on strategic sites. This has enabled us to focus on the likely levels of development to come forward in the early stages of the Local Plan and that can be reasonably assessed based on current market conditions.
7 POLICY COSTS

Introduction

7.1 The central theme of understanding the viability of the emerging policy requirements to be set out in the Local Plan is to identify and understand the implications of the cost of policies on proposed developments.

7.2 A significant amount of work has been undertaken since the last assessment was undertaken. There is now a more in depth understanding of the individual cost implications attributed to each policy requirement.

7.3 The findings of these additional analyses are set out in this section.

Policy Areas Covered

7.4 There are a range of policy costs that have been covered in the analysis in the time since the last study, for ease of discussion they have been grouped into a set of categories. An overview of the broad categories is provided below.

Affordable Housing

7.5 Affordable housing is one of the most significant policy costs a developer can face when bringing forward development. The Council has a requirement to balance the need for development to take place with the need to provide affordable homes across York. Discussions have been ongoing with the Council in deciding where an effective policy level of affordable housing should be set.

7.6 The starting point has been to use the archetype assessments undertaken in the previous study. This tested indicative developments at a range of affordable housing provision. In the interim period between studies we have looked at other potential scenarios for affordable housing, and through discussions with the Council have come to a view as to where the best balance lies.

7.7 The scenarios have been tested with the following affordable housing rates:

- All sites of 2 – 4 homes: 15%
- All sites of 5 – 10 homes: 20%
- Brownfield sites of 11 or more homes: 25%
- Greenfield sites of 11 or more homes: 35%

7.8 The rates have been tested against the relative scenarios in the modelling. Where a decision has had to be made on whether a site is a greenfield or brownfield site (in relation to the archetypes), a view has been taken on a likely scenario that will come forward. For example, a scheme in an urban area is unlikely to be a greenfield site, whereas it is more likely that a development in the rural areas will be greenfield.

7.9 In respect of each level of affordable housing identified above, we have assumed a tenure split of 70% social rented and 30% intermediate/shared ownership. The value
attributed to social rented housing is 40% of open market value (OMV), whilst for intermediate/shared ownership products it is 70% of OMV.

**Infrastructure**

7.10 There are a range of different topics that come under the heading of ‘Infrastructure’. These can be broken down into strategic infrastructure improvements and local infrastructure improvements.

7.11 The strategic infrastructure improvements primarily relate to the provision of, and improvement of, the public transport network across the city. The range of policies proposed seeks to ensure the continued development, improvement and provision of services. There is also an identified need for improvements to strategic cycling and pedestrian networks. It is suggested that all sites that come forward for development will contribute towards these costs.

7.12 The local infrastructure improvements are primarily related to the strategic sites and mitigating their impact on the surrounding infrastructure network. The local infrastructure costs as focussed in the first instance on a global basis across all sites included both uncommitted and strategic sites. In addition to these overarching costs, three of the strategic sites have been identified as contributing additionally to site specific infrastructure items.

**Education and Community Facility Provision**

7.13 The Council has undertaken additional analysis on the provision of education facilities and community facilities and how the requirements will be funded over the plan period.

7.14 The approach to education facilities has been to work on the assumption of an averaged cost approach across all development. The cost has been applied to both archetype and strategic site scenarios and is calculated on a ‘per unit’ basis. In addition to the ‘per unit’ cost there is an additional assumption of a proposed land cost on a ‘per unit’ basis.

7.15 The approach to community facilities has been to identify the level of community facility provision required as a result of various scales of development and then break this figure down to a contribution that could be afforded by various development sites. The cost of bringing forward community facilities has been based upon requirements set out in various pieces of research and their basic build costs.

7.16 The facilities covered by the policy include GPs surgeries, dentist surgeries, community halls and courts. How each requirement is assessed is outlined below.

**Sustainability**

7.17 This category has the greatest number of costs associated with it as it covers a broad spectrum of potential policy costs. Those costs that have been assessed in the viability work cover the additional costs of building to Code for Sustainable Homes (CSH) Level 4, Zero Carbon homes, surface water attenuation as well as open space requirements.
7.18 Each of these has been considered individually and costed separately in order for sensitivity analyses to be undertaken to understand the ‘best value’ scenario for bringing forward the various sustainability policies.

**Policy Costs**

**Infrastructure**

**Site Specific**

7.19 In addition to the global costs outlined above, there are also three site specific costs that need to be applied to three of the strategic sites. These costs are associated primarily with public transport upgrades. The costs are as follows:

- ST7: £5m for public transport upgrades;
- ST14: £2m for bus priority measures on the A1237; and
- ST15: £2.5m public transport upgrades.

**Education and Community Facilities**

**Education**

7.20 The cost for bringing forward education provision and requirements has been worked out on an averaged basis with a figure arrived at through analysis undertaken by the Council. The initial figure has been calculated on a per unit basis and equates to £3,444 per unit, which has been applied across both archetype modelling and the strategic site modelling.

7.21 These assumptions have been applied across all scenarios tested in the modelling.

**Community Facilities**

7.22 There is are no set guidelines with regard to national requirements for the provision of community facilities however a number of studies have been undertaken recently including ‘Shaping Neighbourhoods Play and Informal Recreation’\(^ {34} \). Combined with Sports England’s ‘Village and Community Hall Design Guide’\(^ {35} \) and research undertaken by a number of other local authorities we have been able to come to a view on likely levels of provision required.

7.23 Based on a requirement of 0.44 community facilities per 1,000 population we have been able to identify a required number of facilities. Combined with a BCIS build cost we have been able to identify a basic cost for the provision of community facilities. This figure has then been split across the strategic sites as a cost per unit which equates to £1,500 per unit.


7.24 The Council has undertaken additional work in relation to the provision of facilities such as doctor’s surgeries, dentist surgeries and courts. The analysis identifies the following provision requirement:

- 133 sq. m of GP surgery space per 1,800 population;
- 99.75 sq. m of dentist surgery space per 2,000 population; and
- 133 sq. m of courts space per 1,000 population.

7.25 Based on these requirements, with a basic build cost taken from BCIS we have been able to calculate a cost per unit for bringing these services forward. The following costs have been applied to the modelling:

- GP surgery: £250 per unit;
- Dentist surgery: £150 per unit; and
- Courts: £650 per unit.

7.26 These figures have only been applied to the strategic site assessments.

**Sustainability**

**Code for Sustainable Homes**

7.27 The Code for Sustainable Homes (CSH) cost has been based on research undertaken in previous studies across the country. The research suggests that the cost of building to higher levels of CSH is coming down as the technologies improve. For the purpose of this study CSH levels have been tested at levels 4. The costs for the Code level are as follows:

- Level 4: £2,500 per unit;
- Level 5: £7,500 per unit;
- Level 6: £17,500 per unit

7.28 These different assumptions were applied to various iterations of the viability assessments and were used to inform the final policy package to be included within the Publication Draft Local Plan. Based on these iterations, the Council decided that it’s policy requirement in this respect should be for the achievement of Code level 4. As such this is the basis of the assessments.

**Zero Carbon Homes**

7.29 In order show the potential impact of the proposed changes to mandatory construction standards associated with the zero carbon target in 2016, a separate assessment has been made based on the implementation of these higher standards.

7.30 It is important to note, however, that ex-ante cost estimates of potential future policy requirements have historically been unreliable as technological advancements have driven down costs, particularly close to the point at which the requirement becomes law. In any case, it is also highly likely that other development costs and values will have changed substantially in the interim, to the extent that the overall viability picture

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36 Element Energy – Costs of Building to the Code for Sustainable Homes (Sept 2013)
may well be markedly different to that shown for current market conditions. As such, the assessments of the viability implications of zero carbon development are provided only for indicative purposes.

**Open Space**

7.31 Policy GI1 of the Local Plan identifies the requirements for developers and contributing towards York’s green infrastructure. AMEC has undertaken a detailed study of the likely requirements with regard to open space and the potential cost for delivering the requirements. Their study identified two costs that should be applied in order to meet the requirements outlined in the policy. The costs identified relate to the type of dwelling being built.

- Houses and townhouses: £2,800 per unit; and
- Flats: £756 per unit.

7.32 These assumptions have been applied across all scenarios tested in the modelling.

**Surface Water Attenuation**

7.33 Allowances need to be made on sites to ensure there is sufficient water attenuation and long term storage to ensure the runoff rate does not exceed the restricted rate. These design measures must be able to accommodate a 1 in 30 year storm event. We have therefore made an allowance for the design and construction of these facilities. The costs are broken down by site size, the costs applied in the modelling are:

- Small site: £11,150 per unit;
- Medium site: £8,450 per unit; and
- Large site: £8,150 per unit.

7.34 These assumptions have been applied across all scenarios tested in the modelling.

**Other Policy Costs**

7.35 Other policy costs that have been applied to the modelling cover contributions towards district heating and the cost of building houses to the lifetime homes standard. These costs have been based on those used in the original study. The costs are as follows:

- District heating (houses): £2,800 per unit
- District heating (townhouses): £2,350 per unit
- District heating (flats): £0 per unit
- Lifetime homes: £700 per unit

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37 Based on Defra requirements and guidelines
38 DCLG - Assessing the cost of Lifetime Homes Standards (July 2012)
**Policy Costs Summary**

7.36 The policy costs above have been tested in various iterations to understand various levels of policy package. Discussions with the Council have identified a preferred policy package which has been taken forward to the final viability assessments.

7.37 The policy package has been drawn from the Council’s competing requirements and the ability to ensure development, and importantly the strategic sites which have been allocated, remain deliverable.
8 RESIDENTIAL VIABILITY ASSESSMENTS

Introduction

8.1 Following the analysis work outlined in the previous sections, we have been able to undertake viability assessments based on the assumptions that have been calculated. This section provides a synopsis of the outputs of the viability assessments and the findings that can be concluded from them.

Policy Package Tested

8.2 Following discussions with the Council the preferred options policy package that has been tested in the modelling is as follows:

- Affordable housing at the rates and values set out in the previous section;
- Education;
- Open space;
- District heating (applied to strategic sites only);
- Code for Sustainable Homes Level 4;
- Lifetime Homes; and
- Surface water attenuation.

8.3 Each of these policies has been applied to each scenario in its respective form with the affordable housing contribution being the main policy that varies, as outlined in the previous section.

8.4 In addition to this we have also tested the modelling to understand the policy cost of introducing a requirement to bring forward development as zero carbon

Output Descriptions

8.5 Applying the assumptions set out above to the archetypes identified, the model shows the residual value that would be generated in each case; compares it to the benchmark land value and, where applicable, shows the overage produced by the tested this scheme. This figure represents the super profit over and above the assumed profit levels in the modelling.

8.6 The tables below show the results of the calculations for each archetype in respect of the indicative schemes that have been tested. The information contained within the tables, reading from left to right, reads as follows

- Scenario defines the scheme being tested;
- Number of units in the indicative scheme;
- Density of development;
- The net developable site area;
- The gross development floorspace of the scheme;
The CIL chargeable floorspace gross development floorspace less the affordable housing floorspace. This is the accommodation within the scheme that would be liable to a CIL (affordable housing is not liable to CIL);

Residual value per ha. This is the figure calculated by the model on the indicative scenario. The residual value, in brief terms, is the difference between the value of the completed development and the total cost of that development, including developer’s profit;

Residual value per sq. m is the residual value per ha divided by the CIL chargeable floorspace;

The benchmark value per ha is the estimated minimum value a developer would typically need to pay to secure a site of this kind;

The benchmark value per sq. m is the benchmark land value per ha divided by the CIL chargeable floorspace;

The CIL overage per ha is the difference between the residual value calculated for each scenario and the benchmark value assumption. This is the additional value theoretically viable after all other policy costs are taken into consideration.

The CIL overage per sq m figure is the CIL overage per ha divided by the total chargeable floorspace in each scenario tested.

**Archetypes Viability Testing Outputs**

8.7 Having undertaken the research outlined above, the assumptions have been applied to indicative archetype scenarios that are likely to come forward in York. The scenarios have been applied in accordance with those set out in section 6 above.

8.8 The output table for the scenarios tested is shown below.
### Table 8.1 Residential Archetype Viability Assessment Output with Code Level 4 Assumption

<table>
<thead>
<tr>
<th>Archetype</th>
<th>Number of dwellings</th>
<th>Net Site area ha</th>
<th>Density</th>
<th>Gross Floor Space sq.m</th>
<th>CIL Chargeable Floor Space sq.m</th>
<th>Residual Value Per Ha</th>
<th>Residual Value Per Epsm</th>
<th>Benchmark Per Ha</th>
<th>Benchmark Per Epsm</th>
<th>CIL Overage Per Ha</th>
<th>CIL Overage Per Epsm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>City Centre/City Centre Extension</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td>80</td>
<td>0.80</td>
<td>100 dph</td>
<td>6,141</td>
<td>4,606</td>
<td>£4,557,780</td>
<td>£646</td>
<td>£1,500,000</td>
<td>£195</td>
<td>£3,457,780</td>
<td>£601</td>
</tr>
<tr>
<td>Medium</td>
<td>43</td>
<td>0.43</td>
<td>100 dph</td>
<td>3,391</td>
<td>2,476</td>
<td>£4,582,722</td>
<td>£642</td>
<td>£1,500,000</td>
<td>£183</td>
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<td>100 dph</td>
<td>1,535</td>
<td>1,151</td>
<td>£5,490,637</td>
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<td>£1,500,000</td>
<td>£176</td>
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<td>£624</td>
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<td><strong>Urban</strong></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large</td>
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<td><strong>Suburban</strong></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>Large</td>
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<tr>
<td>Village expansion</td>
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<td>3.50</td>
<td>35 dph</td>
<td>11,690</td>
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<td>£1,858,989</td>
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<td>£362</td>
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</tr>
<tr>
<td>Large</td>
<td>28</td>
<td>0.80</td>
<td>35 dph</td>
<td>2,660</td>
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<td>£1,930,877</td>
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### Table 8.2 Residential Archetype Viability Assessment Output with Code Level 4 and Zero Carbon Assumptions

<table>
<thead>
<tr>
<th>Archetype</th>
<th>Number of dwellings</th>
<th>Net Site area ha</th>
<th>Density</th>
<th>Gross Floor Space sq.m</th>
<th>CIL Chargeable Floor Space sq.m</th>
<th>Residual Value Per Ha</th>
<th>Residual Value Per Epsm</th>
<th>Benchmark Per Ha</th>
<th>Benchmark Per Epsm</th>
<th>CIL Overage Per Ha</th>
<th>CIL Overage Per Epsm</th>
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<tbody>
<tr>
<td><strong>City Centre/City Centre Extension</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td>80</td>
<td>0.80</td>
<td>100 dph</td>
<td>6,141</td>
<td>4,606</td>
<td>£4,640,269</td>
<td>£504</td>
<td>£1,500,000</td>
<td>£196</td>
<td>£3,140,269</td>
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<tr>
<td>Medium</td>
<td>43</td>
<td>0.43</td>
<td>100 dph</td>
<td>3,391</td>
<td>2,476</td>
<td>£4,624,637</td>
<td>£500</td>
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<td>£190</td>
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<td>Small</td>
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</table>
8.9  The findings set out above show the cumulative impact of the policy costs anticipated as identified earlier in this section. Where the numbers in the final two columns are positive, then it is assumed that scenario is viable and can be considered viable in the context of the planned policy requirements.

8.10  It is clear to see in the table that all of the sites return a positive overage, albeit to varying degrees. This variance can be attributed to a range of differences between the various assumptions inputted into the model.

8.11  The cost of bringing forward zero carbon homes across the larger parcels of land has an impact on the overall viability of the scenarios that have been tested. The cost of delivering homes to zero carbon standards is higher than meeting those for CSH level 4. It is likely that as technologies improve and the introduction of zero carbon requirements becomes more commonplace that these costs will come down and will have less impact on the viability of development.

8.12  This is highlighted in the ‘Cost of Building to the Code for Sustainable Homes’ report as follows:

"The challenges of building to the highest level of the Code are largely due to the requirement to achieve net zero CO2 emissions (including unregulated emissions)."[1]

**Strategic Site Viability Testing Outputs**

8.13  Following the work undertaken to identify the site specific issues with the strategic sites we have been able to perform viability assessments on indicative phases that are likely to come forward in the early stages of the plan.

8.14  We have not sought to undertake assessments for the entire planned development that will take place on the strategic sites. Given the length of time it will take to develop every unit anticipated, it is highly likely that the key assumptions for the modelling i.e. the sales values, build costs and land values, will have changed. Therefore the assessments of later phases of development will not represent the likely position that would actually be achieved.

8.15  The assessments have been based upon the assumptions provided to us by each site promoter and developer. Where values have not been identified we have supplemented this information with our own data from the research we have undertaken.

8.16  The findings of our assessments on the strategic sites are shown below.

### Table 8.3 Strategic Site Viability Assessment Output with Code Level 4 Assumptions

<table>
<thead>
<tr>
<th>Number of dwellings</th>
<th>Net Site area ha</th>
<th>Density</th>
<th>Gross Floor Space sq.m</th>
<th>CIL Chargeable Floor Space sq.m</th>
<th>Residual Value</th>
<th>Benchmark</th>
<th>CIL Overage</th>
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<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td>Per £psm</td>
<td>Per Ha</td>
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### Table 8.4 Strategic Site Viability Assessment Output with Zero Carbon Assumptions

<table>
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<tr>
<th>Number of dwellings</th>
<th>Net Site area ha</th>
<th>Density</th>
<th>Gross Floor Space sq.m</th>
<th>CIL Chargeable Floor Space sq.m</th>
<th>Residual Value</th>
<th>Benchmark</th>
<th>CIL Overage</th>
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</table>
8.17 The findings set out above show the cumulative impact of the policy costs anticipated as identified earlier in this section. Where the numbers in the final two columns are positive, then it is assumed that scenario is viable and can be considered viable in the context of the planned policy requirements.

8.18 It is clear to see in the table that all of the sites return a positive overage, albeit to varying degrees. This variance can be attributed to a range of differences between the various assumptions inputted into the model.

8.19 The cost of bringing forward zero carbon homes across the larger parcels of land has an impact on the overall viability of the scenarios that have been tested. The cost of delivering homes to zero carbon standards is higher than meeting those for CSH level 4. It is likely that as technologies improve and the introduction of zero carbon requirements becomes more commonplace that these costs will come down and will have less impact on the viability of development.

8.20 This is highlighted in the report sourced previously:

‘The challenges of building to the highest level of the Code are largely due to the requirement to achieve net zero CO2 emissions (including unregulated emissions).’

8.21 Strategic site ST1 – British Sugar and its consultant team is currently in the process of finalising the outline planning application to enable the development of the British Sugar site in line with the principles of the draft Strategic Allocation ST1. At the current time, British Sugar Plc aims to submit the outline application in Autumn. The application submission will be accompanied by a full suite of application documents, including an open book viability appraisal to demonstrate the deliverability of the development. In this respect, the applicant has been engaged with Council officers and the District Valuer in the preparation of site specific viability information. Once discussions are concluded on this work, the information can be shared in order to inform the local plan process. We therefore have not been able to undertake a comprehensive assessment of the proposed development until further information is provided.

Summary

8.22 The evidence shows that the sites will be able to accommodate the principal policy requirements of the policies anticipated in the Local Plan. It is clear, therefore that when looked at cumulatively that the residential development and the policy requirements proposed to be placed on it should be considered viable.

8.23 In addition, these findings show that there is likely to be scope for CIL to be introduced for residential development in York, particularly on non-strategic development sites where on-site infrastructure requirements are lower. However, no decision has yet been made on whether CIL will be introduced in York, and further work is required to establish the extent of any charges should CIL be progressed.

8.24 Whilst the findings show that the policy requirements proposed in the Publication Local Plan can be met in full in general terms through the assessments of the archetypes and the strategic sites assessed, that is not to say that all potential development sites in York will be viable. Development is unavoidably uncertain and generic assessments of viability and some of the assumptions used have a significant margin of error attached to them. Some sites, by virtue of site-specific characteristics and constraints may well be unviable. That said one would expect the cost of putting right site-specific development constraints should be reflected in land values.
9 NON-RESIDENTIAL VIABILITY ASSUMPTIONS

Introduction

9.1 This section of the report looks to build on the assumptions for the non-residential viability appraisals that were obtained through the initial research. The figures required are different to those used in the residential appraisals however a similar residual value model is used to calculate the results.

Method

9.2 The previous study based the non-residential viability modelling on a single square metre of development. A very high level approach. Since the original study our approach to modelling non-residential developments has been greatly refined.

9.3 The modelling now bases its calculation on indicative schemes that represent a likely form of development that may come forward in York. The modelling takes an indicative scenario – a 2,000 sq. m retail store for example – applies rent and yield assumptions in order to calculate a capitalised value from which the development costs are subtracted. This will provide the residual land value of what a site would be worth. Comparing the residual against a benchmark value will determine whether we consider a development to be viable or not.

Information Sources

9.4 Through the process of this further study into the viability of development in York we have sought to refresh the data assumptions behind the modelling for each of the non-residential uses.

9.5 The approach taken has been the same as that undertaken in the initial appraisals. This has been to establish the likely values of new development by undertaking a review of recent rental and investment transactions across York. The transactional data is derived from the Focus/CoStar database, which provides details of the vast majority of transactions, broken down by use. The information includes the following information:

- The property location;
- The parties involved with the deal;
- The size of the property;
- The length of lease;
- Either, or, or both the quoting rent and achieved rent values; and
- The freehold sale value where applicable and achieved yields based on the investment.

9.6 The analysis of this transactional data has been used to inform the assumptions used within the modelling. Where there has not been adequate volumes of transactional data for comparable properties available, assumptions have been based on a
combination of the data that is available combined with our informed judgement. All of the assumptions that have been gathered through the process of our desk based research have been tested through consultation processes, this process is outlined below.

9.7 In addition to the transactional data which provides intelligence on prevailing yields for different property types in York, we have sought to supplement the data with additional research. Whilst some yield examples are provided in the transactional data, it is not always possible to draw strong conclusions on the information given low volumes of data. We therefore use additional research such as CBRE’s ‘Prime Rent and Yield Monitor’ to build a bigger picture and understanding of prevailing yield values. As necessary, adjustments are made to this dataset to take account of relative attractiveness of York with the prime locations listed in the monitoring documents.

9.8 The cost data has been sourced from the BCIS database, as with the residential assumptions above. This provides a wide range of different non-residential build cost data. We have narrowed the broad sets of data to those relevant to the development types being tested. In order to properly reflect the cost implications of the Council’s policy aspirations for BREEAM standards we have applied build cost uplifts. This is discussed further below in the policy cost section.

9.9 Our initial conclusions on the value and cost assumptions of the various non-residential development types were tested through a series of consultation processes, which are outlined below. Where necessary, and supported with evidence, we have made adjustments to the assumptions that have been made.

9.10 The assumptions on land and the cost of purchasing the land have been derived from the Valuation Office Agency’s (VOA) Property Market Reports. Specifically the latest versions of 2009 (the latest version with York-specific data) and 2011 which is currently the latest available document, however this version only provides data for the Leeds and Sheffield, and Yorkshire and The Humber region.

9.11 It is important to note these reports provide information on the values of a cleared development site situated in established locations for each development type assessed. The data covers areas of 0.5ha and 1ha.

9.12 In addition to this research we have supplemented the data with both formal and informal consultation processes.

**Market Analysis**

**Office**

9.13 In order to inform our viability assessments, PBA has undertaken an in-depth analysis of recent transactional data relating to lettings and sales of office floorspace in York. The aim of this analysis is to enable conclusions to be drawn principally with respect to prevailing rental values and the likely yields on office properties. This analysis is supplemented by detailed consultations with local commercial property agents and review of any other published information available.
9.14 Historically, employment uses associated with the city have had a strong link with the East Coast Mainline that passes through it and have primarily been of an industrial nature. However, as these industrial sectors have declined, the tertiary sector has developed and become one of the main employment sectors in the area, most notably the banking and finance sectors.

9.15 From PBA research, the market in York comprises a combination of national businesses as well as smaller local businesses, reflecting the wider structure of the local economy. The city is strategically located at a point that is within relatively close proximity to Leeds, as well as Middlesbrough and Newcastle. Combine this with its role as an economic driver for the smaller centres located around it, such as Malton and Selby, it provides an attractive proposition to a potential tenant.

9.16 A key characteristic of the city is its historic nature. The historic core means that there is limited scope for large scale office developments to be located centrally, and as such, many of the larger scale office developments are located on the edge of the city. Whilst there is still some office provision within the centre, the type and range of stock is more limited.

9.17 As mentioned above, the historical nature of the city has meant that new build office accommodation has had to be provided out of the centre. As a result of this, a number of key employment areas have developed where the majority of office space is located. The key areas identified include Clifton Moor, Monks Cross and York Business Park. These three areas are all located to the north of the city, and whilst a number of use classes are situated in these sites, office provision makes up a significant proportion.

9.18 Given the contrasts in office provision in York, research into recent transactions has shown a significant range in the rental values achieved - location, the quality of space and unit size will all have bearings on the rents achieved. Our research suggests that office rental values in both business park locations as well as in the city centre are in the region of £160 per sq. m (£15 per sq. ft) for good quality modern accommodation.

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

**Industrial**

9.20 As has been highlighted above, the industrial economy in York has been in decline for a number of years now. Manufacturing works associated with the railway are closing down, the once buoyant confectionary industry has also seen decline. The gaps that have been left in the employment market by this decline have been taken up by emerging office based businesses.
9.21 Researching recent transactions that have taken place it has been possible to gain an understanding of the prevalent market conditions that will inform the viability assessment. The transactional data has shown that there is a broad range of industrial stock that is being taken up across the city, ranging from small workshop units to larger industrial and distribution sheds.

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

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

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

**Retail**

*High street comparison retail*

9.25 With the exception of Central London, town centre (high street) comparison retailing in the UK is in a period of transition. The majority of comparison retail-led regeneration schemes have stalled due to a combination of weak consumer demand, constraints on investment capital and poor retail occupier performance. There have been a number of insolvencies, and the traditional high-street operators are frequently struggling, particularly in secondary retail locations such as those in York’s city centres. Colliers retail market report (Autumn 2011) states that ‘Secondary retail locations will continue to suffer as a result of the growing consumer trend of fewer shopping trips and the focus on the large retail destinations and online. Furthermore, daily/weekly shopping that would once have taken place in the local town centre is increasingly shifting to supermarkets, which now provide a wide range of comparison goods and services alongside the traditional convenience offer. Put simply, many towns do not need the same number of shops that historical trends justified and, thus, unless this outdated retail stock is converted into another use, the vitality of these town centres will continue to diminish’.

9.26 Developers in the sector have therefore been going through a process of redesigning existing schemes in order to make them deliverable in the current economic climate and more appropriate to future consumer demand. This has often involved reducing the scale of potential developments and targeting better quality, financially stable retail operators.

9.27 York could be considered to be bucking the trend of other retail centres. The high quality of the built environment, the link with the historical origins of the city as well as the unique architecture makes for an attractive area which shoppers are drawn to. The retail experience that is on offer in the centre is different to that of the other retail
centres in close proximity and therefore provides a unique option for retailers to locate.

9.28 From the market research that has been carried out it can be seen that the retail market is one that is particularly buoyant with a significant number of transactions taking place. The data collected provides detailed information in relation to both town centre and out of centre retail.

9.29 Town centre retail units have shown rents that are currently being achieved in York range from £150 per sq. m (on an overall basis) at the bottom end of the scale up to, in some cases c£400 per sq m (overall) and above. Clearly, 'Zone A' rents will be significantly higher as these relate only to the most valuable floorspace closest to the frontage of the unit.

9.30 The data collected highlights a number of national multiple retailers that have taken space within the town centre. These include the likes of WHSmith, Go Outdoors, Joules Clothing, Hotel Chocolat as well as Wagamama and YO! Sushi. This shows that there is a level of confidence in the retail sector in the city compared to other locations. Add to this a number of smaller local retailers, a bespoke shopping experience is offered that helps the centre to compete with the larger ones surrounding it.

9.31 York City Centre, whilst providing a unique opportunity through the historic backdrop, also experiences constraints from this same factor. In order for the centre to be able to maintain its competitive edge over other retail centres it needs to be able to evolve. The historic nature of the centre restricts this possibility though of bringing forward modern retail space as there are too many constraints restricting developments.

9.32 One particular problem that is arrived at when trying to assess market values for retail premises in central locations is the impact on zonal rents, especially in an historic centre such as York’s. To overcome this, the research that has been carried out is in relation to the overall rents that are achieved for retail premises so that rent zones are removed from the equation, thus simplifying the methodology.

**Retail warehousing**

9.33 York has two predominant retail warehousing/out of town retail locations. The first at Foss Islands Retail Park and the other located at Clifton Moor. Both these areas provide a range of retail provision. Foss Island Retail Park has a Morrisons superstore, a Waitrose supermarket as well as other national multiples including Wickes and Halfords. Clifton Moor Retail Park contains a number of national multiples that would be expected in this location, including a Tesco superstore, Toys’R’Us, Maplin, Argos, B&Q and PoundStretcher to name a few.

9.34 Nationally, retail warehouse operations (and larger retail parks) are performing better than in-town retailing. This is reflected in historical performance. The Portas report states that ‘Shoppers have been flocking out of town. This shows up starkly in the statistics – in the last decade the amount of out-of-town retail floorspace has risen by 30% while that in-town has fallen by 14%.'
9.35 While the long term trend suggests that out-of-town (and online) shopping is doing considerably better than in-town retail The sector has had difficulties, with the failure of retailers such as Focus DIY and Allied Carpets, but the market is gradually reabsorbing vacant space. Colliers research reports that across the retail warehouse sector as a whole, vacancy rates improved slowly from 5.8% to 3.5% from 2010 to 2011.

9.36 Much depends on the specifics of any scheme. Colliers report that when well located, high quality sites come to the market, ‘competition is fierce’, but this is not a consistent picture. Colliers research states that ‘added value can usually only be achieved by the construction of new rentalised space or substantial sub-division, creating a number of new smaller units that attract much higher rents per square foot’.

9.37 Discussions with local agents provided mixed and varied views with respect to the out of town retail market sector within York. Appropriate rental levels, with respect to stand alone out of town retail units are in the range of £170 per sq. m, whilst incentives offered to tenants often range from 9 to 18 month rent free periods.

9.38 Yields are very dependent on tenant covenant strength and length of lease, but with a number of notable failures amongst out of centre retailers, hey have risen in recent years and are likely to range from 7%- 8.25%.

**Supermarket and Neighbourhood Convenience Retail**

9.39 Convenience retailing operates in a very different market segment to comparison retailing. The convenience retail sector continues to perform well, with operators seeking to continually expand market share by the development of new store formats and the securing of prime locations both in town and out of town.

9.40 IGD (international food and grocery analysts) state that the UK convenience sector is projected to increase sales by 5.8% per year to £42.6bn in 2015.35 Local Data Company analysis shows that Tesco, Morrisons and Waitrose are all opening, or planning to open, new stores. Morrisons in particular has announced plans to open 300 ‘M Local’ convenience stores across the UK by 2015.36 These levels of activity nationally suggest that there may be applications for permission for this type of retail in future.

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

9.42 Leases to the main supermarket operators (often with fixed uplifts) command premiums with investment institutions.

**Non-Residential Assumptions**

9.43 Having completed the desk-based research and consultations we have been able to come to a view on the prevailing values of non-residential development across York.
The data shown below has been assumed for the likely non-residential development typologies to come forward over the plan period. These are:

- Town centre and business park office;
- Industrial and warehousing; and
- High street comparison retail, retail warehousing, supermarket and neighbourhood convenience retail.

9.44 For the range of retail uses listed we have provided clear definitions of how they differ from each other. These definitions are provided below in the section relating to retail viability.

**Values**

9.45 For each of the development types we have assumed the following values of an indicative development scenario. The values are based on a speculative development scenario. It is likely that there are cases where a pre-let has been arranged before development starts, which will improve the values of development. The values shown are considered to be a reference case scenario.

**Table 9.1 Non-Residential Development Values**

<table>
<thead>
<tr>
<th>Development Type</th>
<th>Assumption</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town centre office</td>
<td>Rent (per sq. m)</td>
<td>£160</td>
</tr>
<tr>
<td></td>
<td>Yield</td>
<td>8.00%</td>
</tr>
<tr>
<td>Business park office</td>
<td>Rent (per sq. m)</td>
<td>£160</td>
</tr>
<tr>
<td></td>
<td>Yield</td>
<td>8.00%</td>
</tr>
<tr>
<td>Industrial and warehousing</td>
<td>Rent (per sq. m)</td>
<td>£65</td>
</tr>
<tr>
<td></td>
<td>Yield</td>
<td>8.50%</td>
</tr>
<tr>
<td>High street comparison retail</td>
<td>Rent (per sq. m)</td>
<td>£250</td>
</tr>
<tr>
<td></td>
<td>Yield</td>
<td>7.00%</td>
</tr>
<tr>
<td>Retail warehousing</td>
<td>Rent (per sq. m)</td>
<td>£170</td>
</tr>
<tr>
<td></td>
<td>Yield</td>
<td>7.50%</td>
</tr>
<tr>
<td>Supermarket</td>
<td>Rent (per sq. m)</td>
<td>£220</td>
</tr>
<tr>
<td></td>
<td>Yield</td>
<td>5.50%</td>
</tr>
<tr>
<td>Neighbourhood convenience retail</td>
<td>Rent (per sq. m)</td>
<td>£160</td>
</tr>
<tr>
<td></td>
<td>Yield</td>
<td>6.50%</td>
</tr>
</tbody>
</table>

**Build Costs**

9.46 The build cost assumptions have been taken from the BCIS database. The values are based on a single square metre and have been indexed to York. The BCIS database provides a broad range of build costs for different non-residential developments. We have sought to apply the most relevant build cost figure to the relevant development typologies.
Table 9.2 Non-Residential Development Build Costs

<table>
<thead>
<tr>
<th>Development type</th>
<th>Build cost (per sq. m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town centre office</td>
<td>£1,230</td>
</tr>
<tr>
<td>Business park office</td>
<td>£1,140</td>
</tr>
<tr>
<td>Industrial and warehousing</td>
<td>£650</td>
</tr>
<tr>
<td>High street comparison retail</td>
<td>£925</td>
</tr>
<tr>
<td>Retail warehousing</td>
<td>£560</td>
</tr>
<tr>
<td>Supermarket</td>
<td>£1,250</td>
</tr>
<tr>
<td>Neighbourhood convenience retail</td>
<td>£1,100</td>
</tr>
</tbody>
</table>

Land Values

Following a review of the VOA's reports as set out above we have been able to draw conclusions on benchmark land values for each of the development types. There are a range of factors that have an influence on the land value assumptions, which have been taken into consideration. The values have been tested through consultations and where necessary alterations have been made. The benchmark land values assumed are as follows:

Table 9.3 Non-Residential Development Benchmark Land Values

<table>
<thead>
<tr>
<th>Development type</th>
<th>Benchmark Land Value (per ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town centre office</td>
<td>£1,500,000</td>
</tr>
<tr>
<td>Business park office</td>
<td>£340,000</td>
</tr>
<tr>
<td>Industrial and warehousing</td>
<td>£380,000</td>
</tr>
<tr>
<td>High street comparison retail</td>
<td>£10,000,000</td>
</tr>
<tr>
<td>Retail warehousing</td>
<td>£2,000,000</td>
</tr>
<tr>
<td>Supermarket</td>
<td>£2,700,000</td>
</tr>
<tr>
<td>Neighbourhood convenience retail</td>
<td>£1,000,000</td>
</tr>
</tbody>
</table>

Common Assumptions

In addition to the assumptions above which are bespoke to the York appraisals, there are a number of other assumptions which feed into the modelling but are set at industry standard levels. These are set out below:

- External works – 10% of basic build costs;
- Professional fees – 8% of basic build costs plus external works;
- Contingency – 5% of basic build costs plus external works and professional fees;
- Finance costs – 7% per annum;
- Site survey costs – 1% of land value;
- Site legal costs – 0.75% of land value;
- Marketing – £25,000;
- Letting agent fee – 10%;
- Letting legal fees – 5%; and
- Profit - 20% of development costs
10 NON-RESIDENTIAL POLICY COSTS

Introduction

10.1 The policy costs for non-residential uses are more straightforward compared to residential development. The assumptions for policy costs are outlined below. The only policy cost that has been identified for non-residential development has been meeting BREEAM standards.

BREEAM Standards

10.2 Council policy identifies that non-residential development should aim to achieve BREEAM levels when bringing development forward. Similar to the costs of building to Code for Sustainable Homes levels, there is an additional cost associated with achieving the different levels of BREEAM levels. Following direction from the Council we have adopted percentage uplifts to the basic build cost for each development type. Different development types are going to incur different percentage uplifts as a result of their build complexities and the requirements for each level in different scenarios.

10.3 The following percentage uplifts have been tested for each level of BREEAM:

- Very good: 0.17% for office development; 0.04% for warehouse development; 0.24% for supermarket development; and 0.14% for mixed use developments.
- Excellent: 0.77% for office development; 0.4% for warehouse development; 0.24% for supermarket development; and 1.58% for mixed use development.
- Outstanding: 9.8% for office development; 4.8% for warehouse development; 10.1% for supermarket development; and 4.96% for mixed use development.

10.4 The policy costs identified above were applied to various iterations of the viability assessments. Following analyses of the findings of these iterations, the Council has decided to incorporate a requirement for ‘BREEAM Excellent’ across all non-residential development types tested.
11 OFFICE VIABILITY

Introduction

11.1 Following the analysis work outlined in the previous sections, we have been able to undertake viability assessments based on the assumptions that have been calculated. This section provides a synopsis of the outputs of the viability assessments and the findings that can be concluded from them.

11.2 In the previous iteration of the study the non-residential modelling was undertaken at a very high level of assessing an individual square metre of development. Using the individual square metre to represent the overall picture of a development scenario

11.3 Since the original report was completed the modelling approach to non-residential development has been updated and improved. The modelling now undertaken is the same as the residential where an indicative scheme is tested in a cashflow model and a residual land value is generated. This value is then compared against a benchmark land value arrived at through our research.

11.4 For the archetypes it is important to highlight that these are based on speculative development scenarios. There are cases where a developer might be able to attract a pre-let or a scheme is brought forward on an owner occupier basis. These types of schemes will have different development characteristics and will therefore generate varying results.

Archetype Viability Assessment Outputs

Development Typologies

11.5 For the archetype appraisals we have modelled two separate types of office unit – a town centre office development and a business park office development. The two types of office development have slightly different development and market characteristics and therefore we have sought to model these differences.

11.6 We have used the assumptions that have been arrived at through our research and consultation, as outlined in previous sections, and applied it to an indicative development scenario. For the town centre office development we have tested a 6,000 sq. m development on a 0.25ha site and the business park development at 4,000 sq. m on a 0.50ha site. The output table for the assessment is shown below.

Findings

Table 11.1 Office Archetype Viability Assessment Output

<table>
<thead>
<tr>
<th></th>
<th>GIA</th>
<th>NIA</th>
<th>Net site area ha</th>
<th>Residual value</th>
<th>Benchmark</th>
<th>CIL Overage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Per Ha</td>
<td>Per £psm</td>
<td></td>
</tr>
<tr>
<td>Town Centre Office</td>
<td>6,000</td>
<td>5,100</td>
<td>0.25</td>
<td>£13,152,917</td>
<td>£548</td>
<td>£1,500,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-£14,652,917</td>
</tr>
<tr>
<td>Business Park Office</td>
<td>4,000</td>
<td>3,400</td>
<td>0.50</td>
<td>£2,075,344</td>
<td>£259</td>
<td>£380,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-£2,455,344</td>
</tr>
</tbody>
</table>
It is clear from table 11.1 that bringing forward a speculative office scheme is unlikely to be viable in current market conditions. This result is not specific to York; similar results can be seen around the country. Experience has shown that speculative office development, in the current economic climate, is only viable within London. Schemes of this nature across the rest of the country are wholly unviable.

As previously identified, where a developer can attract a significant pre-let; or if space is sought by an owner occupier whose property requirements cannot be met by existing stock, then office development may take place.

It is also likely that wider economic conditions will improve over the plan period. This will have a materially beneficial impact on the viability of office development in York because the perceived risk will fall, with yields falling accordingly. Rental values are also likely to rise as businesses seek to grow, demand more space and look to invest more. Relatively small changes in rental values and yields, which are certainly within the range of foreseeable market changes over the next five years, could well see a return to viability of speculative office development in York.

Strategic Sites Viability Assessment Outputs

Sites Tested

In addition to the archetype assessments, office development is proposed at some of the strategic sites. For Strategic Site ST 18 – North of Monks Cross, the site promoters have provided limited information on development costs and values. As such, we have assumed that development in this location will share the characteristics of the generic assessments set out above.

We have undertaken an assessment of the viability of the office uses on site ST5 – York Central, based on the information provided to us. The findings of this assessment are shown below.

The University of York also provided information regarding office development related to their campus expansion. We have dealt with the University expansion separately in a later section.

Findings

Below we set out the findings for the office development aspects of the sites identified above.

Table 11.2 ST5 York Central Viability Assessment Output

<table>
<thead>
<tr>
<th></th>
<th>GIA</th>
<th>NIA</th>
<th>Net site area ha</th>
<th>Residual value</th>
<th>Benchmark</th>
<th>CIL Overage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per Ha</td>
<td>Per £/psm</td>
<td>Per Ha</td>
<td>Per £/psm</td>
<td>Per Ha</td>
<td>Per £/psm</td>
</tr>
<tr>
<td>Town Centre Office</td>
<td>110,400</td>
<td>93,840</td>
<td>5.00</td>
<td>-£41,335,703</td>
<td>-£1,872</td>
<td>£1,000,000</td>
</tr>
</tbody>
</table>

As with the archetype assessments, office developments are currently showing to be unviable. This is as a result of a range of market factors. The emerging policy requirements are not considered to have a material impact on the viability of the developments.
Summary

11.15 The fact that speculative development is not currently viable is not as a result of existing or proposed policy requirements set out by the Council. The costs associated with the policy requirements are minimal in any case. The wider economic conditions and their impact on development values is the driving force behind the unviability.
12 INDUSTRIAL AND WAREHOUSING VIABILITY

Introduction

12.1 Following the analysis work outlined in the previous sections, we have been able to undertake viability assessments based on the assumptions that have been calculated. This section provides a synopsis of the outputs of the viability assessments and the findings that can be concluded from them.

12.2 As set out in the previous section, the viability assessments have been undertaken using a more fine grained assessment method.

Archetype Viability Assessment Outputs

Development Typology

12.3 For the archetype appraisals we have modelled a single type of industrial/warehousing unit. The type of development covers the broad types of industrial and warehouse developments that may come forward.

12.4 We have used the assumptions that have been arrived at through our research and consultation, as outlined in previous sections, and applied it to the indicative development scenario. We have tested a development scenario of a 4,000 sq. m unit located on a 1ha site. The output table for the assessment is shown below.

Findings

Table 12.1 Industrial Archetype Viability Assessment Output

<table>
<thead>
<tr>
<th></th>
<th>GIA</th>
<th>NIA</th>
<th>Net site area ha</th>
<th>Residual value Per Ha</th>
<th>Per £psm</th>
<th>Benchmark Per Ha</th>
<th>Per £psm</th>
<th>CIL Overage Per Ha</th>
<th>Per £psm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>4,000</td>
<td>3,800</td>
<td>1.00</td>
<td>-£1,197,164</td>
<td>-£299</td>
<td>£380,000</td>
<td>£95</td>
<td>-£1,577,164</td>
<td>-£394</td>
</tr>
</tbody>
</table>

12.5 It is clear from table 12.1 that bringing forward a speculative industrial scheme is unlikely to be viable in current market conditions. This result is very similar to speculative office developments and is not specific to York; similar results can be seen around the country. Experience has shown that speculative office development, in the current economic climate, is only viable within London. Schemes of this nature across the rest of the country are wholly unviable.

12.6 As previously identified, where a developer can attract a significant pre-let; or if space is sought by an owner occupier whose property requirements cannot be met by existing stock, then office development may take place.

12.7 It is also likely that wider economic conditions will improve over the plan period. This will have a materially beneficial impact on the viability of office development in York because the perceived risk will fall, with yields falling accordingly. Rental values are also likely to rise as businesses seek to grow, demand more space and look to invest more. Relatively small changes in rental values and yields, which are certainly within
the range of foreseeable market changes over the next five years, could well see a return to viability of speculative office development in York.

12.8 There are two areas of land that have been identified as areas that will accommodate industrial and warehousing floorspace. These are ST25 – Land South of the Designer Outlet and ST26 – Airfield Business Park.

**Strategic Site Viability Assessment Outputs**

12.9 The promoters of site ST25 have provided limited information regarding the potential costs and values associated with bringing forward each of the employment sites. Where information has been provided they assumptions have been based upon the same assumptions as the archetype assessment for industrial and warehousing, for example assuming BCIS build costs. Because of this, ST25 have been assumed to follow the same results as the archetype assessments.

12.10 We have received information regarding ST26 including both anticipated values generated by the development as well as the basic build costs to bring development forward. The results generated by the assessment are broadly in line with those generated for the archetype assessments.

12.11 The results are shown in table 12.2 below

<table>
<thead>
<tr>
<th>Table 12.2 ST26 Industrial Viability Assessment Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>GIA</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Industrial</td>
</tr>
</tbody>
</table>

**Summary**

12.12 The fact that speculative development is not currently viable is not as a result of existing or proposed policy requirements set out by the Council. The costs associated with the policy requirements are minimal in any case. The wider economic conditions and their impact on development values is the driving force behind the unviability.
13 RETAIL VIABILITY

Introduction

13.1 Following the analysis work outlined in the previous sections, we have been able to undertake viability assessments based on the assumptions that have been calculated. This section provides a synopsis of the outputs of the viability assessments and the findings that can be concluded from them.

13.2 We have undertaken viability assessments on a range of retail development types that reflect the range of retail development typologies. In order to understand what each assessment typology covers we have provided definitions for each development scenario.

Retail Definitions

13.3 The types of development assessed are:

- High Street Comparison Retail – High street comparison retail development will usually involve redevelopment of existing buildings to provide new retail accommodation that better meets the demands of modern retail businesses. Typically such development will provide a wide range of unit sizes, including one or two large spaces for ‘anchor tenants’ and a much larger number of small spaces. They will typically have frontage on to areas of high footfall, aiming to capture the passing trade of shoppers on foot, who are also likely to visit other stores and other parts of the centre, many of whom will arrive in the centre by non-car modes.

- Retail Warehouses – Retail warehouses are usually large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods. They can be stand-alone units, but are also often developed as part of retail parks. In either case, they are usually located outside of existing town centres and cater mainly for car-borne customers. As such, they usually have large adjacent, dedicated surface parking.

- Supermarkets – Supermarkets are large convenience-led stores where the majority of custom is from people doing their main weekly food shop. As such, they provide a very wide range of convenience goods, often along with some element of comparison goods. In addition to this, the key characteristics of the way a supermarket is used include:
  - The area used for the sale of goods will generally be above 500 sq. m.
  - The majority of customers will use a trolley to gather a large number of products;
  - The majority of customers will access the store by car, using the large adjacent car parks provided; and
- Servicing is undertaken via a dedicated service area, rather than from the street.

- Neighbourhood Convenience - Neighbourhood convenience stores are used primarily by customers undertaking ‘top-up’ shopping. They sell a limited range of convenience goods and usually do not sell comparison goods. The key characteristics of their use include:
  - Trading areas of less than 500 sq. m;
  - The majority of customers will buy only a small number of items that can be carried around the store by hand or in a small basket;
  - The majority of customers will access the store on foot and as such there is usually little or no dedicated parking; and
  - Servicing is often undertaken from the street, rather than dedicated service areas.

13.4 In addition to the above, some development of smaller scale convenience retail space in out of centre locations may take place, although it is unlikely to be as significant in scale. Often, such uses occupy buildings being converted to retail use, rather than the new development providing net additional floorspace. As such, these developments would not attract a CIL charge if one was put in place. These stores tend to be located within residential areas and provide only a limited range of convenience goods. Their catchment is very localised and they cater principally for ‘top-up shopping’ comprising a small number of items that can be carried by hand or in a small basket. The vast majority of custom will access the store on foot and as such there are no large adjacent car parks. Any development of this type is unlikely to generate significant value as a commercial property proposition to warrant specific assessment for the purposes of CIL.

**Archetype Viability Assessment Outputs**

**Development Typologies**

13.5 Having clearly identified the different types of retail development that may come forward we now set out the development typologies that have been tested:

- High street comparison retail: 6,000 sq. m development on 0.5ha;
- Retail warehouse: 4,000 sq. m development on 1ha;
- Supermarket: 4,000 sq. m development on 1ha; and
- Neighbourhood convenience: 1,200 sq. m on 0.2ha.

13.6 We consider these scenarios to broadly reflect the types of retail development that may come forward in York. The output table for the retail developments is shown below.
Findings

Table 13.1 Retail Archetype Viability Assessment Outputs

<table>
<thead>
<tr>
<th>Retail Archetype</th>
<th>GIA</th>
<th>NIA</th>
<th>Net site area Ha</th>
<th>Residual value</th>
<th>Benchmark</th>
<th>CIL Overage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Per Ha</td>
<td>Per £psm</td>
<td>Per Ha</td>
</tr>
<tr>
<td>High Street Comparison Retail</td>
<td>5,000</td>
<td>5,100</td>
<td>0.50</td>
<td>£10,965,532</td>
<td>£839</td>
<td>£10,000,000</td>
</tr>
<tr>
<td>Retail Warehouse</td>
<td>4,000</td>
<td>3,600</td>
<td>1.00</td>
<td>£2,678,774</td>
<td>£979</td>
<td>£2,000,000</td>
</tr>
<tr>
<td>Supermarket</td>
<td>4,000</td>
<td>3,800</td>
<td>1.00</td>
<td>£3,597,247</td>
<td>£899</td>
<td>£2,706,008</td>
</tr>
<tr>
<td>Neighbourhood Convenience</td>
<td>1,200</td>
<td>1,980</td>
<td>0.20</td>
<td>£1,116,262</td>
<td>£186</td>
<td>£1,000,000</td>
</tr>
</tbody>
</table>

13.7 The modelling that has been undertaken shows that high street comparison retail still remains on the margins of viability, due mostly as a result of very high lend acquisition costs as opposed to proposed policy requirements. Therefore the likelihood of any development being brought forward in the near future is limited.

13.8 Retail warehousing and convenience retail are one of the few commercial development types that are maintaining viability. Each shows viabilities to varying degrees with supermarkets showing the greatest viability followed by retail warehousing then neighbourhood convenience retail.

Strategic Site Viability Assessment Outputs

13.9 In addition to the archetype assessments we have been provided with information relating to the retail use elements of strategic sites.

13.10 The assessments undertaken have been based on the information supplied to us by the site promoters and developers. Where we have not been provided a specific piece of data, we have supplemented it with our own assumptions in order to undertake the assessments.

13.11 We have undertaken assessments for the retail uses on sites ST5 – York Central, the only site to offer clearly defined assumptions.

Findings

Table 13.2 ST 5 Retail Viability Assessment Outputs

<table>
<thead>
<tr>
<th>Retail Archetype</th>
<th>GIA</th>
<th>NIA</th>
<th>Net site area Ha</th>
<th>Residual value</th>
<th>Benchmark</th>
<th>CIL Overage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Per Ha</td>
<td>Per £psm</td>
<td>Per Ha</td>
</tr>
<tr>
<td>Neighbourhood Convenience</td>
<td>400</td>
<td>360</td>
<td>0.10</td>
<td>£307,857</td>
<td>£77</td>
<td>£1,000,000</td>
</tr>
</tbody>
</table>

13.12 It is clear from the table above that the assessment that the outputs show a very different picture to those produced from the archetype assessments. The value assumptions use for the modelling are broadly similar. However, there is a significant difference in the assumed build cost data. The site promoters suggest a build cost for the retail element of ST 5 of £1,467 per sq. m, whereas BCIS data suggests build costs of £1,064 - £1,209 per sq. m. This discrepancy accounts for the differences between the findings based on the PBA assumptions and those set out for ST5 above. It remains our view that neighbourhood convenience retail development in York remains viable, albeit relatively marginally so.
Summary

13.13 The fact that speculative development is currently showing as viable, based on our assumptions, suggests existing or proposed policy requirements set out by the Council are not overly onerous on retail development.
14 UNIVERSITY OF YORK CAMPUS EXTENSION

Introduction

14.1 In addition to the strategic sites identified above, both residential and employment allocations, we have been provided information by the University of York relating to the expansion of their campus. They have provided information on the three key elements of the expansion – faculty buildings, employment buildings and student accommodation.

14.2 The expansion covers an area of 28ha and will provide a range of academic, employment and student accommodation buildings. This is based on the masterplan that has been drawn up to guide the future expansion of the campus.

14.3 We have looked at the viability of each development type below.

Viability Assessment Outputs

Faculty Buildings

14.4 The University provided details of the level of development of faculty buildings anticipated in the expansion. This information is based upon the illustrative masterplan that has been drawn up for the expansion. The masterplan identifies a total of 10 new faculty buildings that will be delivered through the masterplan. In total this will equate to a development floorspace of 63,170 sq. m.

14.5 We have not sought to undertake viability assessments for the faculty buildings. It is not possible to identify a market value of the faculty buildings due to their very nature of being non-market buildings. They are built to meet a specific demand identified by the University. It is assumed that this development will be funded through various revenue streams and grants that will enable their delivery.

Employment Buildings

14.6 The University provided details on the level of employment development anticipated in the masterplan and the expansion of the campus. The masterplan identifies a total of 13 new buildings being brought forward, providing a total of 71,550 sq. m of floorspace. We have broken this down to a single building for the purpose of this assessment. This has simply been done by dividing the total floorspace by the number of buildings. This provides a figure of 5,500 sq. m for a single building.

14.7 The University were able to provide details regarding the cost of bringing forward the development, however were not able to provide anticipated values. To this end we have applied the archetype assumptions used in the previous office assessment section above. The results of the assessment are shown below.
The assessment shows the office element, in current market conditions, to be significantly unviable. This result is broadly in line with the other office assessments undertaken.

One point to note is that the assumed build cost figure is significantly higher than the assumed building cost based on our research. This is one of the reasons why the output shows the scheme tested to be more unviable than the schemes tested in the archetype assessments.

It is also likely that, given the direct physical and practical associations with the university and the benefits to tenants these associations will provide, there will be some rental value premium on the floorspace that is developed here. It is not possible to robustly quantify the extent of this value premium, and no uplift has been included in the assessments above, it is likely that the development of employment floorspace as part of the University’s masterplan will be more viable than shown in this assessment.

This premium, allied to a wider improvement in the wider economy and market conditions as the economic conditions improve following the recent recession, may well mean that this development becomes viable within the foreseeable future.

### Student Accommodation

The third strand of the University expansion is the provision of student accommodation. The University was able to provide us with details relating to the total amount of development anticipated in the masterplan and the various costs of bringing development forward. As with the employment uses however, we have not been provided with value assumptions.

In order to come to a view on the likely values generated by such development we have undertaken a review of typical rents for student accommodation asked for by the University applied it to a typical unit size in order to identify a rent assumption. We have also applied a cautious yield assumption to the development, a yield which in reality is likely to be lower.

Having applied the assumptions the viability assessment provides the following output table

### Table 14.2 Student Accommodation Viability Assessment Output

<table>
<thead>
<tr>
<th>GIA</th>
<th>NIA</th>
<th>Net site area ha</th>
<th>Residual value Per Ha</th>
<th>Residual value Per £psm</th>
<th>Benchmark Per Ha</th>
<th>Benchmark Per £psm</th>
<th>CIL Overage Per Ha</th>
<th>CIL Overage Per £psm</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,000</td>
<td>8,400</td>
<td>1.00</td>
<td>£1,710,763</td>
<td>£1,952</td>
<td>£1,000,000</td>
<td>£1,333</td>
<td>£5,502,763</td>
<td>£458</td>
</tr>
</tbody>
</table>

As can be seen from the output table, student accommodation remains a highly valuable development product and shows strong viability. The policies proposed in the Local Plan have a limited impact on the viability of the overall scheme.
14.16 The value of the student accommodation elements of the masterplan also raise the prospect of using development returns to cross-fund the speculative development of some of the planned employment space that is currently shown to be unviable, as set out above.

**Summary**

14.17 Having undertaken assessments of the developments expected to come forward over both the Plan and masterplan period, it is considered that both the academic and student accommodation elements of the masterplan are demonstrable viable and deliverable.

14.18 Whilst the employment development is shown to be currently unviable, this relates more to current market and wider economic conditions than any site-specific development constraints or proposed policy costs. Indeed, it is likely that the value premium to tenants of associations with the university, along with improvements in the wider economy and the scope for cross-funding the delivery of employment development from surpluses in the development of student accommodation, means that the university expansion project as a whole should be considered broadly viable and deliverable over the plan period.
**15 CONCLUSION AND NEXT STEPS**

**Conclusions**

15.1 This study provides an area-wide and broad brush assessment of the viability of development, covering all of the broad types and locations of development likely to come forward over the plan period. It also provides a more fine grained analysis of the strategic sites that are anticipated to be allocated in the Local Plan.

15.2 Its purpose is to aid the understanding of whether emerging local plan can be considered viable and whether the policy requirements of the plan (either individually or cumulatively) are likely to render development as envisaged unviable.

15.3 Our findings are that the policy requirements tested through this study would not render development unviable either individually or cumulatively. The vast majority of residential development archetypes are demonstrable viable taking account of all policy requirements including affordable housing.

15.4 Speculative office and industrial development is shown to be currently unviable in York, as is the case in most parts of the country. However, some development may still occur where pre-lets are secured, by owner-occupiers or in cases where site development characteristics are particularly favourable. The cause of these uses being unviable is not policy requirements, but rather wider economic conditions, which are projected to improve over the plan period. Such improvement should mean the viability of office and industrial uses will also improve and may well do so to a point where speculative development becomes a possibility again.

15.5 Retail uses, particularly supermarket developments and retail warehousing are shown to be viable in current market conditions and in the context of policy requirements upon them. High street retail development is assessed to be of marginal viability. As ever, the challenge in bringing forward such developments is the very high cost of assembling development sites.

**Next Steps**

15.6 It is understood that the Council are considering using CIL as a means for funding the various infrastructure projects that will need to be delivered in order for the Plan to be delivered.

15.7 Having undertaken additional analysis on the impacts of the various policy requirements we have been able to identify a maximum overage figure. This figure is the starting point for future discussions on the implementation of CIL and can give an indication as to potential rates.

15.8 Additional analysis will be required to understand the most suitable way for the Council to bring forward a potential CIL charge and the likely form it would take. This analysis will be undertaken at a later date.