

# Shropshire Council

## Analysis of CIL and Affordable Targets Final Report August 2010

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# 1. Scope of the work

## Introduction

- 1.1 Fordham Research was commissioned by the five Shropshire Districts in 2008 to produce guidance on the financial viability implications of alternative targets and size thresholds for affordable housing provision within the combined area. Since then, Local Government reorganisation has combined the authorities into a single Unitary Authority, Shropshire Council. As an extension to that work Shropshire Council has commissioned additional work to inform the Core Strategy:
- A. **Contributions from all development** - To address objections that policy CS9 is neither justified nor effective, for such a low threshold (namely single dwellings, and all employment land). Evidence is required regarding whether small scale development of all types will remain viable.
  - B. **CIL (Community Infrastructure Levy) rates** - To inform the emerging CIL charging schedule, regarding what level of financial contribution is viable. Differential CIL rates are expected for Shrewsbury, the Market Towns and the rural area, and for different types of development (housing, employment, retail, leisure, etc).
  - C. **Community benefit in villages** - To address objections that policy CS4 is neither justified nor effective, due to insufficient evidence that development will remain viable if it has to contribute significant community benefit. Evidence is required regarding whether villages can support higher levels of contributions without jeopardising deliverability.
- 1.2 In addition the Council requires that the target for affordable housing to be provided by new developments should be updated. It is important to note that the parts of this study looking at the amount of CIL that can be charged are not recommending a target as such – they are however looking at what amounts of CIL may be afforded by developers whilst still allowing a scheme to make a profit.
- 1.3 This report is written as an Annex to the Affordable Housing Viability Study (AHVS) dated April 2010 and is designed to be read in conjunction with that report. Much of the work carried out is an extension to the earlier study and based on the same methodology and assumptions. It should be noted that the bulk of the study work was carried out during the autumn of 2008.
- 1.4 The brief for this study is contained in Appendix 6.

- 1.5 We take this opportunity to make the important and fundamental observation that the ability of a site to contribute to CIL will depend, in part on a wide range of factors – including the range of planning policies adopted by the Council. The more affordable housing, or the higher eco standards, or the higher design standards required all add to the cost of a development and thus reduce the ability to contribute. This study does not look at how these factors interact and how changes in one element may alter another.

### General approach

- 1.6 The general approach taken within this report has been discussed with Shropshire Council and falls in three parts. The affordable housing target will be updated (from its base date of November 2008) using the Dynamic Viability Model contained in the April 2010 AHVS.
- 1.7 The ability of residential development to contribute CIL is considered separately for the three distinct areas (Shrewsbury, the Market Towns and Rural). It will be assessed primarily through re-analysing the financial data behind the AHVS. However, the AHVS included only four rural sites, and so some additional financial appraisals have been prepared in order to provide sufficient support in respect of the rural Community Benefit issue.
- 1.8 The ability of commercial development to contribute to CIL will be assessed through modelling typical types of development found within Shropshire. Guidance will be provided as £ per m<sup>2</sup> and by the three distinct areas (Shrewsbury, the Market Towns and Rural).

### Report structure

- 1.9 This report is divided into the following principal sections:-
- Chapter 2 – Outline of the CIL Guidance
  - Chapter 3 – Updating the affordable Housing Target
  - Chapter 4 – CIL Contributions – Residential Development
  - Chapter 5 – CIL Contributions – Commercial Development
  - Chapter 6 – Implications of the results

## 2. The CIL Guidance

### National guidance

- 2.1 Guidance on affordable housing policy issues is now provided by PPS3. This was commented on in the AHVS and will not be repeated here (although PPS3 was subject to very minor wording changes in June 2010).
- 2.2 Section 206 of the Planning Act 2008 gives to Local Authorities, such as Shropshire Council, the power to charge CIL subject to certain conditions.
- 2.3 The general point about CIL is that it much resembles affordable housing. It is an evidence based tax which is also means tested: it is not intended to prevent development.

### CIL Guidance

- 2.4 In March 2010 CLG published Community Infrastructure Levy Guidance, Charge setting and charging schedule procedures. This guidance requires the Council to publish a 'Charging Schedule'. The present study will inform the preparation of the Charging Schedule.
- 2.5 The Charging Schedule will sit within the Local Development Framework; however, it will not form part of the statutory development plan nor will it require inclusion within a Local Development Scheme. The guidance says:

*Charging authorities must express CIL rates as pounds per square metre, as CIL will be levied on the gross internal floorspace of the net additional liable development. The published rate(s) within an authority's charging schedule will enable liable parties to anticipate their expected CIL liability.*

- 2.6 The Guidance goes on to say when preparing the rates of CIL:

*The initial stage of preparing a charging schedule focuses on determining the CIL rate(s). When a charging authority submits its draft charging schedule to the CIL examination, it must provide evidence on economic viability and infrastructure planning ...*

*...complied with the requirements under Part 11 of the Act, including the requirements governing the setting of CIL rates. Regulation 14 requires that a charging authority, in setting CIL rates, 'must aim to strike what appears to the charging authority to be an appropriate balance between' the desirability of funding infrastructure from CIL and 'the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area'*

2.7 On preparing the evidence base on economic viability the Guidance says:

*Charging authorities should use an area-based approach, which involves a broad test of viability across their area as the evidence base to underpin their charge. Charging authorities should take a strategic view across their area and should not focus on the potential implications of setting a CIL for individual development sites within a charging authority's area. Regulation 14 recognises that the introduction of CIL may put some potential development sites at risk. It is for charging authorities to decide what CIL rate, in their view, sets an appropriate balance between the need to fund infrastructure, and the potential implications for the economic viability of development across their area.*

#### **Economic valuation**

*There are a number of valuation models and methodologies available to charging authorities to help them in preparing evidence on the potential effects of CIL on the economic viability of development across their area. There is no requirement to use one of these models, but charging authorities may find it helpful in defending their CIL rates to use one of them.*

#### **Appropriate available evidence**

*The legislation (section 212 (4)(b)) requires a charging authority to use 'appropriate available evidence' to inform their draft charging schedule. It is recognised that the available data is unlikely to be fully comprehensive or exhaustive. Charging authorities need to demonstrate that their proposed CIL rate or rates are informed by 'appropriate available' evidence and consistent with that evidence across their area as a whole.*

*A charging authority should thus draw on existing data wherever it is available. Charging authorities may consider a range of data, including:*

- *values of land in both existing and planned uses (see, for example, VOA Property Market Reports); and*

- *property prices (e.g. house price indices and rateable values for commercial property).*

*In addition, a charging authority may want to sample directly a few sites across its area in order to supplement existing data. The focus should only be on a limited number of sites, particularly those sites where the impact of CIL on economic viability is likely to be more significant. Where a charging authority is proposing to set differential rates, they may want to undertake more fine-grained sampling (of a higher percentage of total sites), to identify a few data points to use in estimating the boundaries of particular zones, or different categories of intended use. The focus in regulation 14(1)(b) on an area based approach to viability means that charging authorities need rely only on a limited approach to sampling, whether they are setting a uniform or a differential rate.*

*In considering the effect of CIL on residential development, charging authorities in England may want to draw on the work done to inform their Strategic Housing Land Availability Assessments (SHLAAs) on maintaining a deliverable supply of land for housing, as required by PPS3. The methodology undertaken for the SHLAA and the knowledge it has given of viability in the local area should inform an authority's approach, but a charging authority may need to revisit their SHLAA to update it to reflect more recent changes that have an impact on viability across their area, (usually without changing the methodology). Charging authorities will also need to supplement their SHLAA with information about non-housing sectors, such as the retail and commercial sectors (for example, information on rental yields and property values), depending on the balance of development within their area.*

- 2.8 In relation to evidence, this report draws heavily on the Shropshire Affordable Housing Viability Study (AHVS) published April 2010 and other sources of secondary evidence.

### Key elements of CIL

- 2.9 Para 29 of the CLG's publication, "Community Infrastructure Levy: An Overview" sets out that

*charging schedules may include differential rates of CIL, where they can be justified on the basis of the economic viability of development in different parts of the authority's area or by reference to the economic viability of different types of development within the area'*

- 2.10 This is important in Shropshire, as there are major differences in viability both across the major sub-areas and within them.



- 2.11 Para 53 contains perhaps the most important statements about CIL, under the heading 'Exceptional Circumstances':

*Given the importance of ensuring that CIL does not prevent otherwise desirable development, the draft regulations provide that charging authorities have the option to offer a process for giving CIL relief in exceptional circumstances where a specific scheme cannot afford to pay CIL. A charging authority wishing to offer exceptional circumstances relief in its area must first give notice publicly of its intention to do so. A charging authority can then consider claims for relief on chargeable development from landowners on a case by case basis, provide the following conditions are met. Firstly, a section 106 agreement must exist on the planning permission permitting the chargeable development. Secondly, the charging authority must consider that the cost of complying with the section 106 agreement is greater than the CIL charge and that paying the charge would have an unacceptable impact on the development's economic viability. Finally relief must not constitute a notifiable State aid.*

- 2.12 The use of exceptional circumstances is likely to be important in an area with as variable viability as Shropshire.

## Summary

- 2.13 CIL, unlike planning gain, is designed to generate funding to pay for infrastructure that is generally required across an area. It is not addressed to the site specific impacts of a given development, as planning gain is.
- 2.14 Once set, it takes the form of a schedule which applies to given types of planning application, or given sub-areas within the Council area.
- 2.15 It is not designed to impede viability. In other words it is means tested like affordable housing. Like an affordable housing target for a district, which is set on a 'broad brush' principle that it will work on a majority of sites, the CIL schedule is capable of being operated selectively, to allow for variations in viability.

## 3. Affordable housing target

### Introduction

- 3.1 The principal outputs of the April 2010 report were firstly a deliverable affordable housing target and secondly a method for adjusting that target to reflect the prevailing conditions in the housing market during the Plan period. The April 2010 report concluded (para 7.10) that 20% was the highest target that could be supported across Shropshire as at November 2008 market conditions. It then went on to indicate that an updated target as at January 2010 would be 25%.
- 3.2 This chapter sets out a formal update to the 20% target using the Dynamic Viability model proposed and the most up to date market indices.

### Methodology

- 3.3 The principles of Dynamic Viability and the approach to updating were explained in detail in Chapter 8 (and Appendix 5) of the April 2010 Study, so will not be repeated here. However Appendix 2 of the present report includes a Dynamic Viability Manual to provide a step by step explanation of the update procedure.
- 3.4 Essentially, however, Dynamic Viability takes account of the impact of changes in three key market parameters, on a development's ability to deliver a particular level of affordable housing. In order to do this, the approach uses a single 'benchmark' development generally agreed to be reasonably representative of the range of sites across the area. The three parameters are market house prices, build costs and alternative use value. In each case readily available indices are used to measure movements in these parameters.
- 3.5 The Benchmark Site proposed as typical of prospective future development in Shropshire was Site A2a: Greenfield Road, Craven Arms, a site whose alternative use value is agricultural.
- 3.6 Details of the indices to be used in updating were set out in Table 8.1 of the AHVS, and repeated in Appendix 5.
- 3.7 That table appears below.

Table 3.1 Indices for automatic updating of Dynamic Viability		
Variable	Proposed index	Starting value
House Price	Halifax House Price Index National Monthly Index Seasonally Adjusted	November 2009 = 529.0
Source	Halifax House Price Index (free, monthly) <a href="http://www.lloydsbankinggroup.com/media1/research/halifax_api.asp">http://www.lloydsbankinggroup.com/media1/research/halifax_api.asp</a>	
Build cost	BCIS General Building Cost Index	November 2009 = 290.9
Source	BCIS Review Online (subscription only, monthly) Produced by the Royal Institute of Chartered Surveyors <a href="http://www.bcis.co.uk/online">http://www.bcis.co.uk/online</a>	
Alternative use value	Agricultural Land (Equipped Mixed) with vacant possession West Midlands Region.	January 2009 = £7,036 per acre/£17,379 per ha
Source	Valuation Office Agency: Property Market Reports (free, six monthly) <a href="http://www.voa.gov.uk/publications/property_market_report/pmr-jan-2010/index.htm">http://www.voa.gov.uk/publications/property_market_report/pmr-jan-2010/index.htm</a>	

Note: This appears as Table 8.1 and Table A5.1 of the April 2010 Affordable Housing Viability Study for Shropshire

- 3.8 The most recent update values for the three indices are compared with the above starting values, in the Table below. It should be noted that since the AHVS report was published, the coverage of land values in the VOA's Property Market Report has changed. An average figure covering Shropshire is now available, and a West Midlands overall average - proposed for updating purposes in the AHVS – is no longer published. The Shropshire figure has been used in its place.

Table 3.2 Index values for update to target				
	Index	Starting Value	Current Value	% change
House Price	Halifax Price Index England & Wales (Seasonally adjusted)	November 2008 = 529.0	May 2010 = 542.3	+2.5%
Build Cost	BCIS Build Cost Index	November 2008 = 290.9	May 2010 = 294.7	+1.0%
Alternative Use Value	VOA Property Market Report Mixed Equipped Agricultural Land West Midlands (Shropshire)	January 2009 = £7,036 per ha	(Jan 2010 = £7,250 per ha)	+3.0%

Source: Table contains references to sources

- 3.9 It can be seen from the Table that whilst both costs and prices rose between late 2008 and the present time, prices (+2.5%) rose more than costs (+1.0%): Alternative use value rose slightly, though in absolute terms the increase is very small.
- 3.10 The overall impact we would expect to see from these changes is a slight improvement in viability.

- 3.11 The use of these matrices to update the target is described in the manual provided as Appendix 2. Following this procedure it will be seen that if the example review date of May 2010 were used, the target proposed as deliverable in the AHVS would be updated from 20% to 25%.

### Conclusion

- 3.12 An informal update of the November 2008 based target from the AHVS using the Dynamic Viability procedure indicates that as at May 2010 market conditions, a higher target of 25% would now be deliverable.
- 3.13 The Council should publish arrangements for future regular updates of the target using Dynamic Viability. The market continues to be highly volatile, with as yet no clear direction. It is suggested that this target should be reviewed annually.



# 4. CIL contributions - residential development

## Introduction

- 4.1 In this chapter, we use the analysis of development viability to consider the scale of Community Infrastructure Levy that Residential Development could afford to contribute across Shropshire.
- 4.2 This work builds directly on the viability analysis previously carried out as part of the Affordable Housing Viability Study. That study of course assessed a representative range of sites across the County area. By incorporating information from the update index values outlined in the previous chapter, we can provide a view of current (May 2010) viability on those sites.

## Methodology: AHVS appraisals

- 4.3 In the AHVS we undertook appraisals, for a number of development scenarios, on a total of 20 development sites. The appraisals were designed to establish the Residual Value for each site. We then compared this Residual Value with the Existing Use Value or Alternative Use Value to assess the viability of development coming forward.
- 4.4 The residual valuation analysis enabled an assessment to be made:

*Given the likely land values, will a development including X% target for affordable housing be viable?*
- 4.5 The calculation involved gathering basic information about the site to complete the appraisal. The 'likely land value' is a difficult topic since clearly a landowner will never be entirely frank about the price that would be acceptable: always seeking a higher one. This is one of the areas where an informed assumption has to be made about the 'cushion': the margin above the 'existing use value' which would make the landowner sell.
- 4.6 Neither the present study, nor the April 2010 AHVS attempts to assess the specific price that could or should be paid for each site. The appraisal worked out what land on a site may be worth if a range of scenarios were to occur, and then compares that amount with its value in some other use to which it could be put. The study does not attempt to predict when a particular landowner may sell a given site, or even if they will sell, since that is a very site specific matter.

- 4.7 The residual value (RV) results for the 20 individual AHVS sites are summarised in Table 4.1 (from Table 6.1 of the AHVS). It should be noted that, with the study commissioned originally by five separate Councils, the majority of the sites are in the Market Towns, and only four sites fall within the Rural category. For the present study, to ensure fuller coverage in this category and of smaller rural sites in particular, it was decided that these four should be supplemented by adding some additional sites.
- 4.8 Additional notional sites were created based upon the nature and built form of an existing site. Site D3, Station Rd Much Wenlock, was felt to best represent the typical rural development with comparatively low floorspace density and relatively large dwelling size. Accordingly notional sites of eight, five and three dwellings were modelled from D3 – the first the same size as D3, and the two latter by scaling down. Appraisals were produced as for the AHVS with a November 2008 cost/price basis. Two rural price levels were selected. The key assumptions and the full appraisal results are set out in Appendix 1, with the headline RV results corresponding to those in Table 4.1, shown in Table 4.2 overleaf.

Table 4.1 Appraisal results for five affordable options						
Zero grant:						
No	Site	Residual value £k per acre for affordable option:				
		No aff	20%	30%	40%	50%
A1	SE Oswestry	-58	-204	-279	-354	-430
A2a	Greenfield Rd Craven Arms	296	107	11	-89	-190
A3	Farcroft Mead Mkt Drayton	112	-19	-85	-153	-221
A5	Mont Way Shrewsbury	183	24	-57	-138	-220
A9	Station Rd Ditton Priors	498	273	160	43	-72
B2	Gobowen Rd Oswestry	87	-175	-310	-445	-580
C2	Royal Hospital Shrewsbury	558	320	198	78	-47
C4	High St Highley	184	-1	-97	-194	-289
C4a	New St Wem	204	51	-29	-109	-190
C5	Burway Rd Church Stretton	159	-67	-183	-299	-418
D1	Gay Meadow Shrewsbury	613	176	-46	-277	-511
D2	Arthurs Garage Oswestry	-34	-273	-394	-517	-640
D3	Station Rd Much Wenlock	599	377	260	140	19
E3	Castle St Ludlow	1,684	114	-689	-1,490	-2,302
E4	Nightingale Ho Baschurch	761	411	231	54	-128
F1	Mill St Bridgnorth	807	418	225	19	-192
F3	Mardol Shrewsbury	131	-804	-1,278	-1,761	-2,239
H1	Queens Park Sch Oswestry	-38	-246	-388	-532	-679
I1	Manor Farm Silvington	963	385	93	-204	-504
J2	Bank Ho Farm Tibberton	100	7	-40	-87	-135

Source: Fordham Research, AHVS April 2010

Table 4.2 Appraisal results for five additional sites						
Zero grant:						
Site	No dwgs	Residual value £k per acre for affordable option:				
		No aff	20%	30%	40%	50%
Rural site 1 – higher price	8	545	344	236	127	19
Rural site 1 – lower price	8	455	266	167	67	-36
Rural site 2 – higher price	5	490	280	174	67	-42
Rural site 2 – lower price	5	399	204	106	5	-97
Rural site 3 – higher price	3	442	237	130	23	-85
Rural site 3 – lower price	3	353	161	62	-38	-139

Source: Fordham Research 2010

### Scope for CIL

- 4.9 In order to assess whether or not a contribution to CIL can be made a calculation needs to be undertaken to establish the ‘*additional profit*’.
- 4.10 *Additional Profit* is the amount of profit over and above the normal profit made by the developers having purchased the land, developed the site and sold the units. Our approach to calculating this was to complete the appraisal using the same base cost and price figures, and other financial assumptions, as used in the AHVS - but instead of calculating the residual value as normal, incorporating the viability threshold value (alternative use value plus cushion) into the cost side of the appraisal to show the resulting profit (or loss).
- 4.11 The amount by which the resulting profit exceeds the target level of profit (previously established as part of the RV calculation), represents the ‘*additional profit*’ and provides a measure of the scope for contributing to CIL without impairing development viability. CIL contributions can viably be paid out of this additional profit.
- 4.12 The starting point of these calculations is to base them on the affordable housing target. The following formula was used:



**Gross Development Value**

(The combined value of the complete development  
Including X% affordable housing)

LESS

**Cost of creating the asset, including a profit margin**

(land\* + construction + fees + finance charges + developers profit\*)

=

**Additional Profit**

*\*(Where 'land' is the Alternative Use Value, cushion and 'developers profit' is as per the April 2010 AHVS (Paras 5.23, 5.24 and Table 5.6))*

**Developer contributions**

- 4.13 In preparing appraisals for the AHVS it was necessary to make assumptions about the level of developer contributions under s106, across the range of sites. The assumptions we made (see AHVS paras 3.15 to 3.20) were based upon the levels of contributions typically made under the then current, i.e. pre-CIL, regime.
- 4.14 In moving forward to CIL there will remain scope for specific contributions, but the scope will be considerably limited, so as to minimise overlap and avoid the possibility that developers would have to pay twice over. Only site specific matters would therefore qualify.
- 4.15 The assumptions made in the AHVS in respect of developer contributions are summarised in the table below:

**Table 4.3 Developer contributions**

No	Site	No dwgs	total cost £k per dwg				Total
			OS	Transport	Education	Other	
A1	SE Oswestry	750	2.0	5.0	4.4	2.0	13.4
A2a	Greenfield Rd Craven Arms	50	2.0	2.0	4.6		8.6
A3	Farcroft Mead Mkt Drayton	45	2.0	2.0	5.2		9.2
A5	Mont Way Shrewsbury	5	2.0	0.0	0.0		2.0
A9	Station Rd Ditton Priors	7	2.0	0.0	0.0		2.0
B2	Gobowen Rd Oswestry	31	2.0	2.0	0.0		4.0
C2	Royal Hospital Shrewsbury	125	2.0	2.0	0.0		4.0
C4	High St Highley	9	2.0	0.0	0.0		2.0
C4a	New St Wem	14	2.0	2.0	0.0		4.0
C5	Burway Rd Church Stretton	9	2.0	0.0	0.0		2.0
D1	Gay Meadow Shrewsbury	156	2.0	2.0	0.0	3.5	7.5
D2	Arthurs Garage Oswestry	16	2.0	2.0	5.2		9.2

Table 4.3 Developer contributions						
No	Site	No dwgs	total cost £k per dwg			
			OS	Transport	Education	Other
D3	Station Rd Much Wenlock	8	2.0	0.0	0.0	2.0
E3	Castle St Ludlow	4	2.0	0.0	0.0	2.0
E4	Nightingale Ho Baschurch	11	2.0	2.0	0.0	4.0
F1	Mill St Bridgnorth	30	2.0	2.0	0.0	4.0
F3	Mardol Shrewsbury	2	2.0	0.0	0.0	2.0
H1	Queens Park Sch Oswestry	12	2.0	2.0	0.0	4.0
I1	Manor Farm Silvington	3	2.0	0.0	0.0	2.0
J2	Bank Ho Farm Tibberton	1	2.0	0.0	0.0	2.0

Notes: 1. The figure for 'other' in the case of Gay Meadow is an estimate for flood prevention works

2. Additional sites rural 1, 2, + 3 were assumed to be as D3 Station Rd Much Wenlock

Source: Fordham Research, AHVS April 2010

- 4.16 The view we took was that generally speaking, and for the purpose of forming a strategic view, it would be reasonable to assume that the contributions for open space, education, and transport would be subsumed within a general CIL charge, with the exception of the additional transport charge of £3.0 k per dwelling at Site A1, SE Oswestry – a major urban extension with specific traffic impacts on the adjoining A5 highway.
- 4.17 Consequently, in running new appraisals we allowed only for this and the two charges in the 'Other' column – one also for Site A1, and the other for D1 Gay Meadow. All of the remaining contributions were removed, effectively adding these sums to the CIL's additional profit 'pot'.

### Market values update

- 4.18 In preparing revised appraisals to explore the scope for CIL, it is appropriate to reflect current (May 2010) market values – in particular, build costs market prices and alternative use values.
- 4.19 In fact the index values set out in Chapter 3 (Table 3.1) provide a basis for updating build costs, sale values for market (and discount market) housing, and alternative use value for sites with an industrial use value basis. The view we have taken is that with the exception of alternative use value for sites where industrial value is not the appropriate alternative use value, no other update information is necessary. In the appraisals many other costs and allowances are linked either to build costs or to sales values, and therefore automatically move in line with changes in these two.

4.20 The table below shows revised alternative use values for each site. Industrial values were reduced by 7.7% in line with the Table 3.1 figure. Agricultural values were left unchanged, as were the two agricultural barns, and also the unique value for Gay Meadow. Site values for E4 Nightingale House and H1 Queens Park were based on estimated residential values and were therefore increased by 2.5% as per Table 3.1. The two office buildings at E3 and F3 were assumed to have enjoyed a small increase in rent values, keeping them in line with the assessment of commercial rents in the next chapter, but offset by a movement in yields from 6% towards nearer 7%, producing an overall drop in capital values, reducing £300k to £285k (E3, Ludlow) and £250k to £240k (F3, Shrewsbury).

4.21 The 2008 value of £50k per acre/£125k per ha ascribed to the paddock land assumed for rural Sites 1 to 3 (See Appendix 1) was, as with agricultural value, left unchanged.

**Table 4.4 Alternative use value figures**

No	Site	Item	Alternative use value £k per acre		
			Gross	Abnormal cost adj	Net of abnormal
A1	SE Oswestry	Agricultural	£10k	-	£10k
A2a	Greenfield Rd Craven Arms	Agricultural	£10k	-	£10k
A3	Farcroft Mead Mkt Drayton	Agricultural	£10k	-	£10k
A5	Mont Way Shrewsbury	Agricultural	£10k	-	£10k
A9	Station Rd Ditton Priors	Agricultural	£10k	-	£10k
B2	Gobowen Rd Oswestry	Industrial	£161k	£55k-	£106k
C2	Royal Hospital Shrewsbury	Industrial	£185k	£14k	£171k
C4	High St Highley	Industrial	£138k	£106k	£32k
C4a	New St Wem	Industrial	£138k	-	£138k
C5	Burway Rd Church Stretton	Industrial	£138k	£126k	£12k
D1	Gay Meadow Shrewsbury	Unique	£125k	-	£125k
D2	Arthurs Garage Oswestry	Industrial	£162k	£70k	£92k
D3	Station Rd Much Wenlock	Industrial	£138k	-	£138k
E3	Castle St Ludlow	Unique	£9,082k	-	£9,082k
E4	Nightingale Ho Baschurch	Unique	£1,436k	-	£1,436k
F1	Mill St Bridgnorth	Industrial	£162k	£51k	£111k
F3	Mardol Shrewsbury	Unique	£9,163k	-	£9,163k
H1	Queens Park Sch Oswestry	Unique	£1,333k	-	£1,333k
I1	Manor Farm Silvington	Unique	£34k	-	£34k
J2	Bank Ho Farm Tibberton	Unique	£32k	-	£32k
R1	Rural site 1	Paddock	£50k	-	£50k
R2	Rural site 2	Paddock	£50k	-	£50k
R3	Rural site 3	Paddock	£50k	-	£50k

Source: Fordham Research and AHVS Table 5.8

## Results

- 4.22 Additional Profit was calculated for each site using the updated costs and values, for both the AHVS original target of 20% affordable housing, and the updated target of 25%. It should be noted that, in line with the original AHVS approach, it was assumed that zero affordable housing grant or subsidy is available.
- 4.23 Before considering the results it would be sensible to provide a framework for analysis. As the AHVS made clear, there are major differences in viability between different locations and different forms of development. The Council wishes to see a geographical breakdown between Shrewsbury, rural areas, and market towns.
- 4.24 Accordingly Table 4.5 is set out according to the three geographical sub-divisions of Shropshire, and three categories (colour coded) for the viability performance of each site. The viability categories in the fourth and fifth column of the table summarise whether the particular scheme is:
- Viable at 20% (or 25%) affordable housing
  - Viable with 0% affordable housing but not capable of taking a 20% affordable target
  - Not viable at 0% affordable housing (or sometimes 'marginal' at 0%).

Table 4.5 Site viability by sub-area

No	Site	status	Category		ref	No dwgs	ave net floor area	
			20% affordable	25% affordable			sq ft	sq m
<b>Shrewsbury</b>								
C2	Royal Hosp Shrewsbury	BF	viab 20%	viab 25%	1	125	889	83
A5	Mont Way Shrewsbury	GF	viab 0% marg 20%		2	5	885	82
D1	Gay Meadow Shrewsbury	BF	viab 0% marg 20%		2	156	1,105	103
F3	Mardol Shrewsbury	BF	not viab 0%		3	2	650	60
<b>Rural</b>								
A9	Station Rd Ditton Priors	GF	viab 20%	viab 25%	1	7	825	77
I1	Manor Farm Silvington	BF	viab 20%	viab 25%	1	3	1,500	139
R1H	Rural site 1 – higher price	GF	viab 20%	viab 25%	1	8	995	92
R1L	Rural site 1 – lower price	GF	viab 20%	viab 25%	1	8	995	92
R2H	Rural site 2 – higher price	GF	viab 20%	viab 25%	1	5	995	92
R2L	Rural site 2 – lower price	GF	viab 20%	viab 25%	1	5	995	92
R3H	Rural site 3 – higher price	GF	viab 20%	viab 25%	1	3	995	92
R3L	Rural site 3 – lower price	GF	viab 20%	viab 25%	1	3	995	92
E4	Nightingale Ho Baschurch	BF	not viab 0%		3	11	737	68
J2	Bank Ho farm Tibberton	BF	marg 0%		3	1	1,420	132
<b>Market towns</b>								
A2A	Greenfd Rd Craven Arms	GF	viab 20%	viab 25%	1	50	1,011	94
D3	Station Rd Much Wenlock	BF	viab 20%	viab 25%	1	8	995	92
F1	Mill St Bridgnorth	BF	viab 20%	viab 25%	1	30	752	70
A3	Farcroft Mead Mkt Drayton	GF	viab 20%	marg 25%	2	45	858	80
C4	High St Highley	BF	viab 0% unviab 20%		2	9	809	75
C5	Burway Rd Ch Stretton	BF	viab 0% unviab 20%		2	9	681	63
A1	SE Oswestry	GF	not viab 0%		3	750	831	77
B2	Gobowen Rd Oswestry	BF	not viab 0%		3	31	955	89
C4A	New St Wem	BF	marg 0%		3	14	726	67
D2	Arthurs Gar Oswestry	BF	not viab 0%		3	16	851	79
E3	Castle St Ludlow	BF	not viab 0%		3	4	528	49
H1	Queens Pk Sch Oswestry	BF	not viab 0%		3	12	613	57

Source: Fordham Research 2010

4.25 The additional profit figures are set out below, for both targets, as totals but with per dwelling figures to aid comparison. They are set out in the same order as in the previous table.

Table 4.6 Capacity to carry affordable targets and CIL					
No	Site	Additional profit		Additional profit	
		20% total	25% total	20% per dwg	25% per dwg
<b>Shrewsbury</b>					
C2	Royal Hosp Shrewsbury	1,956,060	1,191,672	15,648	9,533
A5	Mont Way Shrewsbury	-5,194	-24,531	-1,039	-4,906
D1	Gay Meadow Shrewsbury	-3,182,669	-4,420,774	-20,402	-28,338
F3	Mardol Shrewsbury	-339,848	-347,527	-169,924	-173,764
<b>Rural</b>					
A9	Station Rd Ditton Priors	130,781	100,179	18,683	14,311
I1	Manor Farm Silvington	69,230	42,342	23,077	14,114
R1H	Rural site 1 high priced	231,522	183,243	28,940	22,905
R1L	Rural site 1 low priced	165,277	120,321	20,660	15,040
R2H	Rural site 2 high priced	111,547	81,497	22,309	16,299
R2L	Rural site 2 low priced	70,214	42,236	14,043	8,447
R3H	Rural site 3 high priced	52,119	34,035	17,373	11,345
R3L	Rural site 3 low priced	27,208	10,374	9,069	3,458
E4	Nightingale Ho Baschurch	-458,421	-501,307	-41,675	-45,573
J2	Bank Ho farm Tibberton	-28,046	-36,358	-28,046	-36,358
<b>Market towns</b>					
A2A	Greenfd Rd Craven Arms	863,849	591,225	17,277	11,825
D3	Station Rd Much Wenlock	189,482	136,262	23,685	17,033
F1	Mill St Bridgnorth	532,892	371,169	17,763	12,372
A3	Farcroft Mead Mkt Drayton	148,428	-22,712	3,298	-505
C4	High ST Highley	-33,351	-66,615	-3,706	-7,402
C5	Burway Rd Ch Stretton	-48,993	-83,036	-5,444	-9,226
A1	SE Oswestry	-10,237,277	-12,742,952	-13,650	-16,991
B2	Gobowen Rd Oswestry	-526,698	-756,581	-16,990	-24,406
C4A	New St Wem	-81,164	-125,958	-5,797	-8,997
D2	Arthurs Gar Oswestry	-237,372	-346,032	-14,836	-21,627
E3	Castle St Ludlow	-297,562	-311,103	-74,391	-77,776
H1	Queens Pk Sch Oswestry	-352,740	-802,304	-29,395	-66,859

Source: Fordham Research 2010

- 4.26 When looking at either total or per dwelling results, it is clear that there are large variations in viability both between and within sub-areas. Each of the three geographical areas has sites of each viability category.
- 4.27 Clearly the third category of sites, unviable at 0%, is out of contention since there is no likelihood of commercial house builders initiating schemes which produce no return: they will have to await an upturn in the market, or some publicly subsidised scheme. It will be recalled that we have used the conservative 'zero grant' approach.
- 4.28 As the 'traffic light' colour coding in Table 4.5 confirmed, the outcomes are very varied indeed.

Table 4.7 Capacity to carry CIL by sub-area			
Viability level	Shrewsbury	Rural	Market towns
1. Capable of carrying 25% affordable target and CIL	1	8	3
2. Capable of carrying 20% affordable target and CIL, but not 25% affordable and CIL	0	0	1
3. Incapable of supporting 20% target and CIL	2	0	2
4. Incapable of profitable development in present market	1	2	6
Total	4	10	12

Source: Fordham Research 2010

- 4.29 Of the 26 sites, nine could not be developed at present. There are only 17 sites which are 'live'. Of these
1. 12 could provide 25% of affordable housing and CIL
  2. One could provide 20% and CIL, but not 25%
  3. Four could provide either some affordable housing less than 20% or some CIL
- 4.30 All of these matters will be for policy decision once the infrastructure assessment which is being carried out in parallel with this study is completed. In the meantime average figures from the sites in groups (1) and (2) above can be used to provide some indication as to what levels of CIL might be put into the Schedule. The following table provides the CIL sums in pounds per square foot and metre that are equivalent to the values in Table 4.6, for those sites which are in groups (1) and (2) and hence achieve a positive outcome.

Table 4.8 Capacity to carry CIL per square foot/metre according to affordable target					
No	Site	20% per sq ft	25% per sq ft	20% per sq m	25% per sq m
<b>Shrewsbury</b>					
C2	Royal Hosp Shrewsbury	17.6	10.7	189	115
Average		17.6	10.7	189	115
<b>Rural</b>					
A9	Station rd Ditton Priors	22.6	17.3	244	187
I1	Manor Farm Silvington	15.4	9.4	166	101
R1H	Rural site 1 high priced	29.1	23.0	313	248
R1L	Rural site 1 low priced	20.8	15.1	223	163
R2H	Rural site 2 high priced	22.4	16.4	241	176
R2L	Rural site 2 low priced	14.1	8.5	152	91
R3H	Rural site 3 high priced	17.5	11.4	188	123
R3L	Rural site 3 low priced	9.1	3.5	98	37
Average		18.9	13.1	203	141
<b>Market towns</b>					
A2A	Greenfd Rd Craven Arms	17.1	11.7	184	126
D3	Station Rd Much Wenlock	23.8	17.1	256	184
F1	Mill St Bridgnorth	23.6	16.5	254	177
A3	Farcroft Mead Mkt Drayton	3.8	n/app	41	n/app
Average		17.1	15.1	182	162

Source: Fordham Research 2010

- 4.31 Looking at sites which can afford the target level of affordable housing and a CIL contribution, the average figures in £ per sq m are summarised in the following table. They range from £115 per sq m (Shrewsbury 25% affordable) to £203 per sq m (Rural 20% affordable).

Table 4.9 Potential for CIL			
Schedule level of CIL	Shrewsbury	Rural	Market towns
Based on projects that can achieve 20% affordable housing and CIL	£189 per sq m	£203 per sq m	£184 per sq m
Based on projects that can achieve 25% affordable housing and CIL	£115 per sq m	£141 per sq m	£162 per sq m

Source: Fordham Research 2010

- 4.32 It should be noted that as the affordable target increases from 20% to 25% the average payment falls back less for the market towns than for the other two sub-areas. That is because Site A3, which at 20% can afford only a very modest contribution, drops out of the 25% average figure.



- 4.33 The figures in Table 4.9 as they stand do not provide guidance as to the levels of CIL which could be applied in Shropshire without undermining viability. They will need to be adjusted, in two respects.
- 4.34 Firstly, the calculated additional profit figures have to cover both the cost of a potential CIL payment, and the element of developer's profit on that cost. The latter (19% on cost at 20% affordable, 18.75% on cost at 25%) needs to be netted out. Secondly, throughout the figures have been calculated as though they applied to all dwellings, market and affordable. In practice the guidance suggests that CIL will only be levied on market dwellings, with affordable homes being exempt from contributing. The first of these adjustments will reduce the potential CIL figure, and the second will increase it by a little more, leading to a slightly higher figure overall.
- 4.35 The adjusted figures are shown on the next Table.

Table 4.10 Possible schedule levels of CIL			
Schedule level of CIL	Shrewsbury	Rural	Market towns
Based on projects that can achieve 20% affordable housing and CIL	£199 per sq m	£213 per sq m	£193 per sq m
Based on projects that can achieve 25% affordable housing and CIL	£129 per sq m	£159 per sq m	£182 per sq m

Source: Fordham Research 2010

- 4.36 On the evidence of the sites examined, and ignoring the ones which clearly will not come forward commercially in the present market, the figures above appear to be deliverable on sites that can carry the due affordable housing target (i.e. 20% or 25%). Clearly the other sites, just less than half of the viable ones, which cannot afford these levels of affordable housing plus CIL, will have to be treated as 'Exceptional'. It will therefore be important for the Council to follow CIL Guidance and establish the principle that it will listen to arguments regarding exceptions.
- 4.37 The effect of a Schedule based on the above suggestions would be an average yield of CIL that is below the figures stated in the table. The outcome would depend on the balance of more profitable and less profitable sites. But if the principle in the CIL Guidance is followed, that development should not be prevented by CIL, in the same way that it should not be prevented by affordable housing targets, the overall yield of CIL will be less than the figures shown. However the yield of CIL across all sites should be significant.
- 4.38 The figures proposed in Table 4.10 are expressed on a per dwelling basis (i.e. all dwellings, including affordable) in Table 4.11. This shows amounts ranging from £7,950 per dwelling (Shrewsbury 25% affordable) at the lower end to £16,550 per dwelling (rural 20% affordable) at the upper end. These figures can be compared to the roof tax figures of £17,500 and £18,000 per dwelling reportedly sought in the major growth points of Ashford and Milton Keynes.

Table 4.11 Possible CIL levels: £ per dwelling

<i>Schedule level of CIL</i>	<i>Shrewsbury</i>	<i>Rural</i>	<i>Market towns</i>
20% affordable and CIL	£13,000	£16,550	£11,450
25% affordable and CIL	£7,950	£11,550	£10,100

Note: Figures in Table 4.10 applied to ave dwg size for all sites in sub-area, & rounded to nearest £50

Source: Fordham Research 2010

- 4.39 Clearly, any schedule which proposed these sorts of figures would require an ‘exceptions’ policy to work. The variations in viability across sites is very sharp and if it were attempted to set a CIL value which could be afforded by all sites it would be zero. This would be contrary to the spirit of the Guidance and common sense: there will need to be an exceptions policy for a sensible outcome to be achieved.

### Response to points A and C (Chapter 1)

- 4.40 The brief for the research was to consider the viability of requiring contributions from large and small sites as expected in Core Strategy Policy CS9 and higher contributions in villages as expected in Core Strategy Policy CS4.
- 4.41 The table above shows clearly that:
- Both large and small sites can provide both affordable housing and CIL
  - That small rural sites can provide both affordable housing and CIL
  - That at 20% affordable sites in the rural sub-area could afford a higher charge than the other two sub-areas, whilst at 25% the charge is intermediate between the other two.
- 4.42 Thus both draft policies have a sound foundation of evidence.

### Summary

- 4.43 Using the AHVS and reversing the normal calculation we have shown what could be afforded in the way of CIL. Instead of the usual procedure to maximise the land value residual, we used our proprietary software to maximise the profit, subject to the land value exceeding the alternative use value (plus cushion), and therefore producing a viable scheme.
- 4.44 Some nine of the 26 sites were not viable at all. Of the remaining 17, 13 (12) could carry both a 20% (25%) affordable target and CIL, and the remaining five (six) could carry either a sub-20% (sub-25%) affordable target or some CIL.

- 4.45 The suggested possible rates of CIL are between £193-£213 per square metre at 20% affordable, reducing to £129-£182 per square metre when overall viability is reduced by a 25% affordable target.
- 4.46 In our experience and from knowledge of locations where a roof tax is in operation these sums are broadly comparable and are felt to offer potential to cover significant infrastructure provision costs across the County.

## 5. CIL contributions – commercial

### Introduction

- 5.1 In order to develop policies around the payment of CIL the Council needs to gather an evidence base to assess the requirements for the levy. We are not instructed to assess what the amount of CIL should be and we are not asked to recommend a target as such. We are asked to look at what amounts of CIL may be afforded by developers whilst still allowing a scheme to make a profit.
- 5.2 In Chapter 3 the data and results of the AHVS were taken and used to calculate the Additional Profit for each of the 20 residential development sites that were examined in that study, plus an additional six small rural sites. No such similar exercise has been carried out in relation to commercial property. Each of the districts that amalgamated to form the Unitary Shropshire Council completed an Employment Land Review in 2007. These have all been published as part of the LDF Evidence Base.
- 5.3 These employment land reviews do not include any work in relation to the commercial viability of bringing the sites forward. We understand that work is now being carried out to bring these studies together and to consider which sites may and may not be viable over the Plan period. They include useful information to assist with the preparation of this assessment.

### Issues to consider

- 5.4 Just as for residential development discussed in the previous chapter the viability of commercial development can be calculated from the value of the product (rental or capital) the cost of delivery (land, construction, fees, interest and developers reasonable profit). It is therefore necessary to assess property market conditions in the study area in order to provide a reasonable guide as to likely values to use in evaluating different development proposals.
- 5.5 Having considered the guidance, Shropshire's requirements and the Shropshire wide market we believe that the most appropriate way forward is through developing a limited number of modelled site typologies that are representative of the commercial development in the area and then assessing whether or not the development of those sites generates an 'additional profit'.
- 5.6 As in the previous Chapter *Additional Profit* is the amount of profit over and above the normal profit made by the developers having purchased the land, developed the site and sold the units. This is calculated through completing an appraisal. CIL can be paid out of this additional profit.

- 5.7 Although development schemes do have similarities, every scheme is unique, even schemes on neighbouring sites. While market conditions in general will broadly reflect a combination of national economic circumstances and local supply/demand factors, even within a town there will be particular localities, and ultimately site specific factors, that generate different values and costs. There are indeed quite significant value variations in different parts of the study area – however having said that the values of commercial property across the County are remarkably consistent.
- 5.8 Property market forces are in a constant state of flux and assessments of viability can change over relatively short periods of time, in response to broader economic fluctuations such as the impact of changes in interest rates on the costs of borrowing, the actual availability of funding, and the outlook in the employment market. Equally significant, sub-area market conditions are often changed by local factors.

### Development typologies

- 5.9 The market for commercial space across Shropshire, to some extent, reflects national trends. For the purpose of this study we have assessed the following types of space. It is important to remember that this assessment is looking at the ability of new projects to bear an element of CIL – it is only therefore necessary to look at the main types of development likely to come forward in the future
- i) **Large offices.** These are more than 2,500 sq ft, will be of steel frame construction, be over several floors and will be located on the larger business parks around Shrewsbury and occasionally the market towns. It is worth noting that much larger space in the area has been developed at Telford rather than within the County of Shropshire. Typical larger units in the County are around 5,000 sq ft – we will use this as the basis of our modelling.
  - ii) **Small offices.** Modern offices of less than 2,500 sq ft. These will normally be built of block and brick, will be of an open design and be on a market town edge or in a more rural situation. Typical small office units in the County are around 1,000 sq ft – we will use this as the basis of our modelling.
  - iii) **Large industrial.** Modern industrial units of over 5,000 sq ft. There is relatively little new space being constructed. Typical larger units in the county are around 15,000 sq ft – we will use this as the basis of our modelling.
  - iv) **Small industrial.** Modern industrial units of less than 5,000 sq ft. These will normally be on a small business park and be of simple steel frame construction, the walls will be of block work and insulated cladding and there will be a small office area. Typical small units in the County are around 2,000 sq ft – we will use this as the basis of our modelling.

v) **Rural commercial conversions.** Over the last 15 or so years there have been numerous schemes of high quality conversions in the Shropshire countryside. Many of these schemes have been of high quality offices and workshops in traditional farm buildings that are no longer required for agricultural purposes. The buildings are often of high historical value and of high importance to the landscape. Having said this there has also been a trend in the increasing number of ‘modern’ farm buildings being converted to non-agricultural uses. These ‘modern’ buildings are typically steel or concrete portal framed and were built in the second half of the twentieth century.

- The conversion of historic farm buildings is carried out for a wide range of reasons which are, often, not purely commercial. For example, the landowner may wish to see a farm yard conserved rather than simply to allow it to become derelict and may seek to convert it to a new employment use to fund the refurbishment work – and generate an income, rather than residential to generate capital receipts. The decision making process is not commercial and the project may not make a positive return (without grant) in the short to medium-term although in due course this is normally the ultimate intention of the owner.
- The conversion of modern buildings has arisen through the older buildings no longer being suitable for modern farming (for factors such as the ability to exclude pests and vermin) or through the consolidation of farms into larger units. In the case of these buildings, it is often the case that little actual work is required. A disused potato shed, grains store or chicken house, may be used for low grade storage or some form of B1 use.
- Such development has been seen as a vital part of the diversification of the rural economy (both for the individual farm / estate and more widely) and had been encouraged through planning policies and subsidies.
- We have not included rural commercial conversions into employment space in this appraisal. As these schemes are often subsidised we do not believe that they are viable without subsidy and therefore would not be able to bear an element of CIL.

5.10 There are of course other types of commercial development such as leisure, hotels, alternative energy generation, petrol filling stations and retail. We have not included these in this high level study due to the great diversity of project that may arise. In the retail sector the developments may range from a small single farm shop to market town high street development through to very large out of town ‘destination’ retail centres including supermarkets and the like. The viability of such developments will range hugely.

- 5.11 The large retail schemes require special mention as they are likely to generate significant uplifts in land value (from the existing use value), particularly when they are consented on greenfield sites. We would anticipate that large scale retail development would have a site/scheme specific development brief and would recommend that the viability to contribute CIL should be looked at on a site by site basis during the preparation of the development brief.
- 5.12 In developing these Typologies we have made assumptions about the site coverage and density of development on the sites. We have assumed 66% coverage on the large industrial sites and 60% coverage on the small industrial and large offices, and on the small offices we have assumed 50% coverage. On the offices we have assumed two story construction. We have not looked at the plethora of other types of commercial and employment development beyond office and industrial/storage uses in this study.

### **The commercial property market**

- 5.13 We had expected to find a number of distinct market areas across Shropshire broadly following those we found in the affordable housing work – however this was not the case. The market is strongly influenced by Telford where there is a large amount of both office and industrial space available – probably an oversupply. There are two distinct markets within the County – the Shrewsbury area and the remaining rural areas. Having said this we found that the values around Ludlow were marginally lower than values in the rest of the County.
- 5.14 Employment within the County is quite local with most employers being small companies (less than 25 people) and being locally owned and staffed by people living locally.
- 5.15 We analysed various sources of market information. The principle sources being the information held by local agents, research published by national agents, and through the Estates Gazette's EGI database. Over 80% of the commercial property that we identified as being available was for rent rather than for sale. Appendix 3 includes a schedule of commercial space that is currently available throughout Shropshire. Clearly much of this commercial space is 'second-hand' and not of the configuration, type and condition of new space that may come forward in the future and be subject to CIL so is likely to command a lesser rent than new property in a convenient well accessed location with car parking and that is well suited to the modern business environment. With this in mind we have used the following rents in reaching our views about commercial capital values:

Table 5.1 Typical rents by former Council area

Area	£/sq ft/year			
	Large industrial	Small industrial	Large office	Small office
Bridgnorth	£k 5.00	4.75	13.00	11.00
North Shropshire	£k 5.00	4.50	10.00	11.00
Oswestry	£k 5.00	4.50	10.00	11.00
Shrewsbury & Atcham	£k 5.50	5.00	14.50	13.00
South Shropshire	£k 5.00	4.00	10.75	8.20

Source: Fordham Research 2010,

- 5.16 Through analysing the available rental space and the space for sale we have formed a view as the capital value of industrial and office space. In capitalising the rents we have assumed a yield of 7% (a Year's Purchase of 14.5). [Note: The capitalisation of rents using the yields and Year's Purchase is widely used by chartered surveys and others. The Year's Purchase is the factor by which the rent is multiplied to calculate the capital value (calculated at 1/ yield)]. We acknowledge that the yield will vary from property to property and will depend on the terms of the lease and the standing of the tenant, however, we believe that this a fair figure across the market. The only exception to these is for the large industrial and office space in Shrewsbury which we have identified as being more attractive to institutional investors and here we have assumed a lower yield of 6.5% (Year's Purchase of 15.5).
- 5.17 We have summarised the capital values for new property across Shropshire in the following table:

Table 5.2 Capitalised typical rents by former Council area

Area	£/sq ft			
	Large industrial	Small industrial	Large office	Small office
Bridgnorth	£k 72.5	68.87	188.5	159.5
North Shropshire	£k 72.5	65.25	145	159.5
Oswestry	£k 72.5	65.25	145	159.5
Shrewsbury & Atcham	£k 85.25	72.5	224.75	188.5
South Shropshire	£k 72.5	58	155.87	118.9

Source: Fordham Research 2010

### Price assumptions for financial appraisals

- 5.18 Inevitably the data in Tables 5.1 and 5.2 does not match perfectly with the asking prices of properties in the market. We have therefore looked at further sources of information (such as the council's Employment Land Availability Assessments) to produce the following results that we have used in our appraisals:



**Table 5.3 Typical prices by former Council area**

Area		£/sq ft			
		Large industrial	Small industrial	Large office	Small office
Bridgnorth	£k	75	70	180	160
North Shropshire	£k	75	70	145	160
Oswestry	£k	75	70	145	160
Shrewsbury & Atcham	£k	90	80	200	185
South Shropshire	£k	75	60	160	130

Source: Fordham Research 2010

### Land values

- 5.19 In order to assess development viability it is necessary to analyse current land values. We have considered general figures from the Valuation Office Agency (VOA) relating to commercial land values. Land values vary dramatically depending upon the development characteristics (size and nature of the site, density permitted etc.) and any affordable or other development contribution. The VOA publishes figures for in the Property Market Report. These cover areas which generate sufficient activity to discern a market pattern. That means locally we have figures for the West Midland Region as a whole, and for Telford – but no greater level of detail. For the West Midlands Industrial and warehouse land values as at 1 July 2009 range from £230,000/ha (£93,000/acre) to £1,200,000/ha (£486,000/acre) – with typical values being around £505,000/ha (£204,000/acre).

**Table 5.4 VOA Industrial and warehouse land values as at 1 July 2009 for West Midlands**

	From £s per ha	To £s per ha	Typical £s per ha
Birmingham	450,000	1,200,000	800,000
Coventry	275,000	625,000	575,000
Sandwell	325,000	540,000	430,000
Wolverhampton	350,000	600,000	500,000
Tamworth	250,000	550,000	400,000
Telford	230,000	400,000	300,000
Stoke/Stafford	250,000	500,000	325,000
Leamington Spa	500,000	675,000	650,000
Redditch	450,000	800,000	625,000
Dudley	325,000	540,000	430,000

Values reported by District Valuers together with the typical value for each region.

Source: VOA

- 5.20 These values can only provide broad guidance of the values of land with planning consent for industrial or office uses – however CIL will arise from the grant of planning consent from such other use. With this in mind we have also looked at alternative use values and following the principles adopted in the AHVS considered these. The figures above are the values of land with the benefit of planning consent. In this study we are in fact looking at the value that arises for the grant of a planning consent it is more appropriate to look at the current use value of the land. Current use values refer to the value of the land in its current use, for example, as agricultural land. Alternative use values refer to any potential use for the site. For example, a brownfield site may have an alternative use as industrial, residential or leisure land.
- 5.21 To assess the ability to contribute to CIL, the scheme must generate an Additional Profit. In calculating this we use the alternative use value. If the appraisal does not generate an Additional Profit then the development is unable to contribute to CIL.
- 5.22 For the purpose of the present study, it is necessary to take a comparatively simplistic approach to determining the alternative use value. In practice a wide range of considerations could influence the precise value that should apply in each case, and at the end of extensive analysis the outcome might still be contentious. We have therefore prepared appraisals for two alternatives – previously developed land - i.e. brownfield sites, and not previously developed – i.e. greenfield sites.
- 5.23 As for the value of the developed commercial space (and residential units) the values of land vary across the County. The West Midlands as a whole shows quite a wide range of values. It seems likely that much of Shropshire, rural in nature, might have figures closer to the bottom than to the top of the range. However the data also indicates that Telford, just outside the area but providing a reasonably active market benchmark, has fairly modest values, with a typical figure of around £121,000/acre (£300,000/ha). The figures for Wolverhampton are rather better but that is a major employment centre.
- 5.24 We have found only very limited evidence of industrial land for sale, with a reported price of £175k/£430k per acre/ha for land at Tern Valley Business Park, Market Drayton. We have evidence of land sales at £110k and £150k per acre (£270k and £370k per ha). For the purposes of the present study, we assumed the values shown in the table below.
- 5.25 Agricultural values have risen lately, after a long period of stability. They are around £5-10k per acre (£15-25k per ha) depending upon the specific use. A benchmark of £10k per acre (£25k per ha) is assumed to apply here.
- 5.26 It was noted earlier that some of the brownfield sites may face ‘abnormal costs’ if they are to be redeveloped for residential use. Some of those costs, but not necessarily all, might also arise if the site were redeveloped for industrial use. The alternative use value would need to be reduced to allow for those costs that would still arise in that situation.
- 5.27 The VOA’s typical industrial land values for the region and nearby towns are set out in the Table below. The nearest location for which data is available is Telford.

**Table 5.5 Land values by former Council area**

Area		Ave price (£/acre)	
		Agricultural (Greenfield)	Industrial (Brownfield)
Bridgnorth	£k	10,000	175,000
North Shropshire	£k	10,000	175,000
Oswestry	£k	10,000	175,000
Shrewsbury & Atcham	£k	10,000	210,000
South Shropshire	£k	10,000	175,000

Source: Fordham Research 2010

5.28 In the AHVS we discussed the concept of the cushion – being the amount over and above the existing use that a landowner may be induced to sell their land (see from section 6.14 of that report). The theory will not be discussed further here – but we will follow the same principle. After consideration we took the view that a broad average figure of £75,000 per acre should be used for the greenfield sites and £45,000 per acre for the brownfield sites.

### Cost assumptions for viability analysis

5.29 The costs associated with a development need to be considered so that they can feed into the financial appraisals. These are summarised below – and considered in more detail in Appendix 4.

5.30 In this study we have used the published information from (BCIS) data. The costs are specific to different built forms (office types etc). On the basis of these cost figures, it is possible to draw up appropriate cost levels for constructing newbuild employment space in Shropshire at a base date. The following have been used:

**Table 5.6 Averaged prices by former Council area**

	Large industrial	Small industrial	Large office	Small office
£/m2	36.51	65.68	87.79	87.79

Source: BCIS

5.31 We have given careful consideration as to the costs of achieving higher environmental performance (as defined by BREEAM) – particularly through reference to the BRE / Cyril Sweett research reported in their publication ‘*Putting a Price on Sustainability*’. Considerable improvements can be made through design, some of which actually reduce the cost of delivery (i.e. substituting air conditioning with natural ventilation). We have therefore not made further adjustments to the BCIS figures quoted above.

- 5.32 In addition to the per sq ft/m build cost figures described above, allowance needs to be made for a range of infrastructure costs – roads, drainage and services within the site; parking, footpaths, landscaping and other external costs; off site costs for drainage and other services, and so on. Many of these items will depend on individual site circumstances, and can only properly be estimated following a detailed assessment of each site. We made an allowance of 15% of build costs for each scheme to cover infrastructure costs.
- 5.33 In some cases where the site involves redevelopment of land which was previously developed, there is the potential for abnormal costs to be incurred. Abnormal development costs might include demolition of substantial existing structures; piling or flood prevention measures at waterside locations; remediation of any land contamination; remodelling of land levels, and so on. We have run a scenario where the site is on previously developed land. With this variable we have increased the costs by an additional 15% cost.
- 5.34 We have assumed professional fees amount to 8% of build costs, in each case.
- 5.35 For previously undeveloped and otherwise straightforward sites, we would normally allow a contingency of 2.5%, with a higher figure of 5% on more risky brownfield types of development.
- 5.36 For simplicity it has been assumed throughout, as with most financial appraisals, that either VAT does not arise, or its effect can be ignored.
- 5.37 Our appraisals assume 7% pa for interest on outgoings. In line with the ‘high level’ nature of this study we have used the developer’s rule of thumb to calculate the interest – being the amount due over one year on half the total cost. We accept that is a simplification of the reality.
- 5.38 For the purpose of the present study a six month void period is assumed for all sites – we have increased the interest to reflect this.
- 5.39 The appraisals are assumed to have been prepared using prices and costs at a base date of June 2010, with an immediate start on site. A pre-construction period of three months is assumed. Each unit is assumed to be built over a nine month period.
- 5.40 Each site is assumed to proceed immediately and so, other than interest on the site cost during construction, there is no allowance for holding costs, or indeed income, arising from ownership of the site.
- 5.41 Acquisition costs include stamp duty at 4% on site values of £0.5 million and above (reduced below this level), together with an allowance of 1.5% for acquisition agents’ and legal fees.

**Results**

5.42 Having assimilated the information as described above individual site appraisals have been run for the different site typologies in the different areas across Shropshire. These are summarised in the table below and contained in Appendix 5:

Table 5.7 Appraisal results showing additional profit and approximate residual value					
<u>GREENFIELD</u>					
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
Bridgnorth	Additional Profit	35,918	-116,237	125,052	-12,610
	Residual Value	87,363	-95,732	140,712	-3,155
North Shropshire	Additional Profit	35,918	-116,237	-49,948	-12,610
	Residual Value	87,363	-95,732	-27,547	-3,155
Oswestry	Additional Profit	35,918	-116,237	-43,207	-12,610
	Residual Value	87,363	-95,732	-27,547	-3,155
Shrewsbury & Atcham	Additional Profit	252,251	-96,237	231,793	12,390
	Residual Value	303,696	-76,503	236,860	20,882
South Shropshire	Additional Profit	35,918	-136,237	31,793	-42,610
	Residual Value	87,363	-114,962	44,564	-31,999

Source: Fordham Research 2010

Table 5.8 Appraisal results showing additional profit and approximate residual value					
<u>BROWNFIELD</u>					
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
Bridgnorth	Additional Profit	-188,519	-172,275	9,779	-36,323
	Residual Value	-67,279	-131,115	38,399	-23,763
North Shropshire	Additional Profit	-188,519	-172,275	-165,221	-36,323
	Residual Value	-67,279	-131,115	-129,860	-23,763
Oswestry	Additional Profit	-188,519	-172,275	-158,480	-36,323
	Residual Value	-67,279	-131,115	-129,860	-23,763
Shrewsbury & Atcham	Additional Profit	36,481	-152,275	116,520	-11,323
	Residual Value	143,915	-113,406	133,593	45
South Shropshire	Additional Profit	-188,519	-192,275	-83,480	-66,323
	Residual Value	-67,279	-150,345	-57,749	-52,608

Source: Fordham Research 2010

- 5.43 The above results largely reflect the difficult state of the property sector and the situation within Shropshire with relatively little development happening (because it is not attractive to do so). It is however apparent that the larger schemes do generate some positive values. In order to make meaningful comparisons, and to reflect the CIL guidance, the additional profit figures need to be converted to a £ per sq m charge basis. Additionally, as with the residential analysis in the previous Chapter, the element of profit on cost has to be removed. The resulting figures, set out in the following two table, then show a potential level of CIL charge.

Table 5.9 Appraisal Results showing potential CIL payment £ per sq m				
<u>GREENFIELD</u>				
	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
Bridgnorth	21	0	224	0
North Shropshire	21	0	0	0
Oswestry	21	0	0	0
Shrewsbury & Atcham	151	0	416	111
South Shropshire	21	0	57	0

Source: Fordham Research 2010

**Table 5.10 Appraisal results showing potential CIL payment £ per sq m**

**BROWNFIELD**

	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
Bridgnorth	0	0	18	0
North Shropshire	0	0	0	0
Oswestry	0	0	0	0
Shrewsbury & Atcham	22	0	209	0
South Shropshire	0	0	0	0

Source: Fordham Research 2010

5.44 There are stark differences in the viability of developing commercial space across Shropshire and sectors in the market as well as between greenfield and brownfield sites. Large office and industrial both – broadly – generate an Additional Profit as does development around Shrewsbury. Only large sites are viable around Shrewsbury. Small industrial sites do not generate an additional profit and small offices only do around Shrewsbury.

5.45 As the policies in respect of the introduction of CIL will have a long life we have considered potential improvements in the commercial property market and re-run the calculation assuming a 10% increase in values. This gave rise to the following results:

**Table 5.11 Appraisal results showing potential CIL payment £ per sq m**

**GREENFIELD and Plus 10%**

	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
Bridgnorth	86	0	379	25
North Shropshire	90	0	34	25
Oswestry	86	0	48	25
Shrewsbury & Atcham	228	0	590	271
South Shropshire	86	0	195	0

Source: Fordham Research 2010

Table 5.12 Appraisal results showing potential CIL payment £ per sq m <u>BROWNFIELD and plus 10%</u>				
	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
Bridgnorth	0	0	173	0
North Shropshire	0	0	0	0
Oswestry	0	0	0	0
Shrewsbury & Atcham	100	0	383	59
South Shropshire	0	0	0	0

Source: Fordham Research 2010

- 5.46 These revised results show an improved set of results with large sites generating an Additional Profit across the higher value areas and small offices also generating an Additional Profit over a wider range of sites. Small sites remain unable to generate a significant Additional Profit

## Conclusions

- 5.47 Recommendations for levels of CIL charge for commercial sites derived from the foregoing analysis are provided in the final chapter.



## 6. Implications of the results

### Introduction

- 6.1 We have carried out two sets of analysis, on residential and commercial sites, to suggest possible CIL levels. In the case of housing we already had the AHVS data and have simply reanalysed this, setting the programme to maximise profit level subject to producing a commercial land value, rather than the other way round. In the case of commercial sites we carried out a fresh analysis as they were not included in the previous study.

### Recommendations for CIL on housing sites

- 6.2 Our initial assessment is that the affordable housing target proposal of 20%, in late 2008, could in principle be raised as of May 2010 to 25%. However alternatively the affordable target could be maintained at 20%, and the difference sought as CIL contributions by means of a CIL schedule.
- 6.3 The CIL Guidance sets out procedures for assessing CIL. The charge has the same character as affordable housing targets: they should not prevent otherwise viable development and should be means tested on a site by site basis if there is any question of the overall amount (Schedule or affordable target level) not being affordable on a particular site. The CIL Guidance allows for 'exceptions' to the CIL level where a CIL contribution at Schedule value would impede development. This proves to be an important flexibility in Shropshire.
- 6.4 The original survey included 20 sites in representative locations across Shropshire. We added a further six notional sites to extend the coverage of small rural sites. In present housing market circumstances a substantial fraction of the total of 26 (9) are not considered viable, and so could not be expected to produce either affordable housing or CIL contributions since they will not be developed at all. The sample sites vary wildly in their viability. Of the 17 sites which are profitable enough to be developed now (ignoring detailed issues such as whether the buyers could obtain mortgages etc) about two thirds can afford a CIL provision as well as affordable housing, while five sites can afford either an affordable contribution less than 20%, or a CIL contribution.
- 6.5 In suggesting a Schedule level of CIL (subject of course to its justification through the separate infrastructure study) we have used the more profitable sites: the group that could afford both 20% and some CIL. We have assumed that the Council will adopt an Exceptions policy under the Guidance to permit sites that cannot afford that level to produce either none or some lower level of CIL.
- 6.6 The levels of CIL charge that are compatible with viability for a 25% affordable target are set out in Table 6.1.

Table 6.1 Possible schedule levels of CIL

<i>Schedule level of CIL</i>	<i>Shrewsbury</i>	<i>Rural</i>	<i>Market towns</i>
With 25% affordable target	£129 per sq m	£159 per sq m	£182 per sq m

Source: Fordham Research 2010

- 6.7 These figures need to be considered against an assessment of overall infrastructure requirements. However a significant proportion of sites will not pay the full contribution. Alternatively retaining the 20% target would enable a larger scale of CIL contribution to be sought, as shown in Table 6.2.

Table 6.2 Possible schedule levels of CIL

<i>Schedule level of CIL</i>	<i>Shrewsbury</i>	<i>Rural</i>	<i>Market towns</i>
With 20% affordable target	£199 per sq m	£213 per sq m	£193 per sq m

Source: Fordham Research 2010

### Recommendations for CIL on commercial sites

- 6.8 Having considered the above results and the state of the market we are of the opinion that Shropshire Council could set CIL levels up to the following maximum amounts in the current market (May 2010).

Table 6.3 Maximum levels of CIL now in Shropshire in £ per sq m  
(Current values)

		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
Bridgnorth	Greenfield	20	0	220	0
	Brownfield	0	0	17	0
North Shropshire	Greenfield	20	0	0	0
	Brownfield	0	0	0	0
Oswestry	Greenfield	20	0	0	0
	Brownfield	0	0	0	0
Shrewsbury & Atcham	Greenfield	150	0	410	110
	Brownfield	0	0	205	0
South Shropshire	Greenfield	20	0	55	0
	Brownfield	0	0	0	0

Source: Fordham Research 2010.

- 6.9 These figures have been obtained by rounding down the figures set out in Tables 5.9 and 5.10.
- 6.10 We take this opportunity to stress that these recommendations take into account the rise in value of a parcel of land from the grant of planning consent – either on a greenfield site (i.e. agricultural) or brownfield site. Where a change of use has already been established – maybe through an outline consent for a business park – then the change of use and subsequent rise in value will have already occurred and the new scheme will not give rise to the increase in land value from which the CIL may be paid.
- 6.11 Having considered the above results and the state of the market we have considered the results for the appraisals that were prepared with a 10% increase in values and are of the opinion that Shropshire Council is able to set CIL levels up to the following maximum amounts. This takes both the current economics of developing commercial space and a hoped for modest improvement in prices.

Table 6.4 Maximum recommended long-term levels of CIL in Shropshire					
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
Bridgnorth	Greenfield	50	0	300	12
	Brownfield	0	0	100	0
North Shropshire	Greenfield	50	0	12	12
	Brownfield	0	0	0	0
Oswestry	Greenfield	50	0	12	12
	Brownfield	0	0	0	0
Shrewsbury & Atcham	Greenfield	200	0	475	200
	Brownfield	50	0	300	30
South Shropshire	Greenfield	50	0	100	0
	Brownfield	0	0	0	0

Source: Fordham Research (2010).

- 6.12 Having made these recommendations we would urge some caution as the commercial property market remains highly volatile and uncertain. We take this opportunity to repeat the important and fundamental observation that was made at the beginning of this report, that the ability of a site to contribute to CIL will depend, in part on a wide range of factors – including the range of planning policies adopted by the Council. The more affordable housing or the higher eco-standards, or the higher design standards required all add to the cost of a development and thus reduce the ability to contribute. This study does not look at how these factors interact and how changes in one element may alter another.



# Appendices



# Appendix 1: Additional sites – appraisal assumptions

## Relationship to AHVS

- A1.1 In developing appraisal assumptions for additional small rural sites, it was sensible to aim for consistency with the previous work, and assumptions were designed to be consistent with and/or derivative from those in the earlier study
- A1.2 This Annex provides details of the site specific assumptions used to produce appraisals for the additional sites. The bulk of the appraisal assumptions followed from those used generally across the SHLVA study, and are not repeated here. Where specific assumptions are identified below, to aid reading we have followed as far as possible the sequence of topic headings used in introducing them in the earlier report.

## The new sites

- A1.3 To improve coverage of small rural sites across the County it was agreed with the Council that notional sites should be created based on one of the existing smaller sites. After consideration Site D3, Station Rd Much Wenlock (8 dwellings) was felt to provide a form of development closest to typical rural small developments, combining a relatively large dwelling size with relatively low density.
- A1.4 It was decided to create three notional sites, each in a higher and lower priced rural location, providing six sites in all. The largest was identical in size to Site D3, with eight dwellings on some 0.24 ha. Two smaller sites were created by scaling down to five and three dwellings respectively. The site details are set out in the table below. Floorspace density declines slightly with size, reflecting constraints on site utilisation.

Table A1.1 Actual site details

Site No	Name	Net resid area ha	No of dwgs	Density	
				net (dw/ha)	net sq ft/acre
R1	Rural site 1	0.240	8	33.3	13,400
R2	Rural site 2	0.151	5	33.1	13,315
R3	Rural site 3	0.092	3	32.6	13,200

Source: Affordable Housing Viability Update Fordham Research 2010

### Planning assumptions

- A1.5 The sites were assumed to have the same development characteristics as site D3 – all houses, with an average dwelling size of 993 sq ft net (88 sq m). The sites were assumed to be greenfield rather than the industrial/warehousing brownfield situation that applied in Much Wenlock for site D3.

### Affordable housing assumptions

- A1.6 Appraisals were produced as for the AHVS sites for 20%, 30% & 40% options, again with tenure split as the AHVS 50/25/25 social rented/intermediate/discount market housing. The financial terms – the prices at which RSLs would purchase affordable housing provided by a developer - were as per AHVS, with the assumption of zero grant support.

### Other developer contributions

- A1.7 The main SHLVA study assumed developer contributions at £2,000 per dwelling for site D3, and also the very small sites I1 & J2. This figure was used for all three new sites.
- A1.8 As with the figures for the sites in the main study, we must emphasise that these figures cannot be assumed to reflect the contributions that would arise in practice, either in amount or topic coverage.

### Price assumptions for financial appraisals

- A1.9 We considered what November 2008 price levels should apply to the two sets of rural sites. They were Houses in the two small fully rural sites, I1 & J2, were priced in the AHVS at £215 per sq ft/£2,315 per sq m, whereas in Ditton Priors, a substantial settlement with a strong local industrial area close to the site, a more modest level of £195 per sq ft (£2,100 per sq m) was assumed. In the north of the County the flats at Baschurch (E4) had been valued at £210 per sq ft (£2,260 per sq m) and the houses also at £195.
- A1.10 After consideration it was decided that the higher priced rural sites should match I1 & J3 at £215 sq ft and the lower priced should be set at £205/£2,205 per sq ft/sq m.

### Current and Alternative Use Values

- A1.11 It was agreed with the Council that the new sites should be on greenfield land. This could be simply agricultural. However we felt it was more appropriate to assume a somewhat greater value as paddock or nursery land, or similar. This was given a value of £50k per acre (£15k per ha).



## Development costs

### (i) Construction costs

A1.12 Build costs for the new sites were assumed to be on the same base as D3. A 'small site' premium of 7.25% was added for the 8 dwellings at D3 in the AHVS, as set out below. This was increased to 12% for the 5 dwellings at R2, and to 16% for the 3 units at R3.

### (ii) Other normal development costs

A1.13 The allowance of 13% for D3 for infrastructure costs – roads, drainage and services within the site; parking, footpaths, landscaping, off site costs for drainage and other services, and so on, was carried over unchanged to the three new sites.

### (iii) Abnormal development costs

A1.14 Abnormal costs were assumed for D3 but none were assumed to apply for the greenfield sites R1 land at R1 to R3.

## Financial and other appraisal assumptions:

### Phasing and timetable

A1.15 A pre-construction period of six months is assumed for all three sites. The ceiling rate of completions at D3, 3 dwellings per quarter, was used for R1 and reduced to 2 and 1 respectively for R2 & R3.

## Results of viability analysis

A1.16 The results of the six new appraisals for prices as at November 2008 are set out below.

Table A1.2 Appraisal results for five affordable options						
No	Site	Residual value £k per acre for affordable option:				
		No aff	20%	30%	40%	50%
R1H	Rural 1 higher price	545	344	236	127	19
R1L	Rural 1 lower price	455	266	167	67	-36
R2H	Rural 2 higher price	490	280	174	67	-42
R2L	Rural 2 lower price	399	204	106	5	-97
R3H	Rural 3 higher price	442	237	130	23	-85
R3L	Rural 3 lower price	353	161	62	-38	-139

Source: Affordable Housing Threshold Study Fordham Research 2010

A1.17 Table 11 shows that with no requirement for affordable housing the sites deliver residual land values between £350k and £550k per acre (£0.86m-£1.36m per ha).

**Alternative use benchmarks**

A1.18 The results from the above table have to be compared with the alternative use value in order to show whether the site is viable. To be viable the site has to deliver more value than the alternative use, and by a margin that provides some incentive to the landowner. That margin was called the ‘cushion’ in the SHLVA, here. Values for the cushion were set at £75k per acre across all of the AHVS sites (except for two sites with additional relocation costs) and this figure is used here.

A1.19 The viability threshold is therefore £125k per acre for all six new sites. Comparing the results from Table 11 with the alternative use values identified above, we obtain a view of the likely viability of the affordable options for each site. It is set out below. As in the AHVS, a site is only viable if it produces a Residual Value fully equalling the alternative use value plus cushion. If it achieves Alternative Use Value plus only part of the cushion, it is considered marginal; the landowner may not receive sufficient incentive to bring the site forward.

Table A1.3 Appraisal outcomes: base appraisals							
No	Site	Alt use value	Value £k per acre				
			No affordable	20%	30%	40%	50%
R1H	Rural 1 higher price	50-125	545	344	236	127	19
			VIABLE	VIABLE	VIABLE	VIABLE	NOT VIAB
2	Rural 1 lower price	50-125	455	266	167	67	19
			VIABLE	VIABLE	VIABLE	MARGINAL	NOT VIAB
3	Rural 2 higher price	50-125	490	280	174	67	-42
			VIABLE	VIABLE	VIABLE	MARGINAL	NOT VIAB
4	Rural 2 lower price	50-125	399	204	106	5	-97
			VIABLE	VIABLE	MARGINAL	NOT VIAB	NOT VIAB
5	Rural 3 higher price	50-125	442	237	130	23	-85
			VIABLE	VIABLE	VIABLE	NOT VIAB	NOT VIAB
8	Rural 3 lower price	50-125	353	161	62	-38	-139
			VIABLE	VIABLE	MARGINAL	NOT VIAB	NOT VIAB

Source: Affordable Housing Threshold Study Fordham Research 2010

## Comparison results

- A1.20 With zero affordable housing, all six sites are comfortably viable. All remain viable at 20%.
- A1.21 At 30% the two smaller lower priced sites become marginal. At 40% these two and one other become unviable and two more become marginal, leaving only the largest higher priced site still viable. At 50% affordable contribution, all the sites are unviable.



## Appendix 2: Dynamic Viability manual

### Manual: Updating Dynamic Viability targets (Shropshire July 2010)

The table in the bottom half of this page sets out the stages involved; the worked example overleaf illustrates the details. The main inputs are the data in the viability report, and the index numbers from the three sources listed at the start of Appendix 5 of the original AHVS. Two of them are free online, and the third BCIS is an RICS product available on subscription, though we can pass it on, as can most developers.

**Coarse** matrix of targets. This shows Halifax Price Index x BCIS (the RICS building cost index). The indexes are shown by 10% gaps to provide affordable target numbers across a very wide price/cost range. There are eight tables because the ‘third dimension’ of the price/cost calculation is Alternative Use Value. This is the value of the Benchmark Site in the best alternative land uses to housing. The Alternative Use value may sometimes be higher than housing for the Benchmark site (and so remove the affordable target), and sometimes it may reduce the feasible target. The Coarse matrix is important because it shows the full range of possible change over the Plan period, but it does not come into the updating process at least until several years have elapsed.

**Fine** matrix of targets. This parallels the Coarse matrix (x8 tables) with narrower gap in the indexes: 4%. It covers only part of the Coarse range, and can be moved around it. The Fine matrix contains targets that are roughly at 5% intervals. This is about as big a target change as seems feasible at the annual review point. The Coarse matrix provides the background, and the Fine matrix provides the operational targets. These alter as the prices and costs in the housing market alter.

Table A2.1 Updating the affordable target

#### Step 1

The starting point is the Alternative Use Value Fine Matrix Table F1. Does the current value of the Alternative use index mean that another page rather than the base page should be used? If so this is the reference for the further steps.

#### Step 2

Using the appropriate Fine matrix table, decided by Step 1, check the changes in the HPI and the BCIS. If either or both of these has changed by more than half the interval to the next step, then the target cell will change. This may or may not involve a target change, since some of the targets will be the same in several cells.

#### Step 3

Publish the change in some suitable format such as the Annual Monitoring report.

Source: Fordham Research 2010

- A2.1 In the example below, we use the latest published index numbers to illustrate how the updating works. They do not represent a formal update. In practice the updating period requires to be determined through the LDF process, since there is no automatically determined period for it.

### Worked example: Shropshire Council Viability Study

- A2.2 This is designed to illustrate the (annual) updating process. The base indexes are shown in the identical Tables 8.1/A5.1 of the AHVS report. The tables are repeated for convenience of reference.
- A2.3 The process is described below. It solely uses the Fine matrix outputs.

#### **Step 1: checking the alternative use value**

- A2.4 The Benchmark Site (A2a at Craven Arms) is agricultural. We took £10k per acre as an initial round value figure as a broad approximation. Turning to Table F1 in Appendix 5 of the AHVS, it is headed '*Alternative Use Value: 0% change -£10,000 per acre*'. The headings to Tables F2 to F8 show other % changes and resulting per acre values.
- A2.5 The initial value for indexing purposes of agricultural land (West Midlands Region) at January 2009 was £7,036 per acre. There is in fact no directly equivalent update figure, as the Property Market Report coverage has now changed. There is now a Shropshire figure, which is £7,250 per acre. We believe it is reasonable to take this figure, suggesting an increase of 3.0%. This would make the update value for the Benchmark site £10,300 per acre (1.03 x £10k).
- A2.6 For updating purposes we have to choose between Tables F1 to F8 to find the nearest rounded figure to £10,300 per acre. In fact it is clear we need to stay with Table F1, since £10,000 per acre is the closest figure of those available.

#### **Step 2: Check the HPI and BCIS to see if a target change is implied**

- A2.7 Having established, as above, that Table F1 is the correct one to use in terms of alternative use value, we should now consider price. At the stakeholder meeting to discuss the Shropshire Viability Study in early 2010, stakeholders asked whether the updating could be done using regional HPI rather than the national figure. The disadvantage to this approach is that the regional HPI figures are published quarterly, and the national figures are published monthly. The national figures are therefore more up to date, at some points markedly so.

- A2.8 Using the national **HPI** the latest figure published at this informal review point in July 2010 is the May 2010 value of 542.3. This stands some 2.5% above its starting value at November 2008 of 529.0. (Table A5.1 and the identical Table 8.1 show the link). From inspection of Table F1, the closest column to this value is the next column to the right of the zero change one. The exact value for that column is 550.2; however a move to that column is warranted where the new index value is more than halfway towards it (whether upward or downward).
- A2.9 Turning to cost, the latest **BCIS** figure we have for May 2010 is 294.7. (It is provisional, as the original one was, but it still represents the best estimate at the time the update was carried out). The original value was 290.9 as shown in Table F1 on the left hand side at 0%. Build cost has therefore risen by 1.0%. The current value is much closer to the zero change figure than to 302.5 which is the row below. Thus there is no reason to change the BCIS row.
- A2.10 The net result of this step is that the target in Table F3 moves one column to the right, but does not move rows. The new target is therefore moves from 20% to 25%.
- A2.11 It should be emphasised that this is an example and not a formal target change

**Step 3: Install the new target**

- A2.12 The new target (unchanged in this example) is to be installed in a formal Council document.





# Appendix 3: Commercial space available in Shropshire

Table A3.1 Commercial space available in Shropshire: market data

<i>Address</i>	<i>Place</i>	<i>Post Code</i>	<i>Unit type</i>	<i>Sq ft</i>	<i>Rent</i>	<i>YP</i>	<i>Freehold</i>	<i>£/sq ft - Rent</i>	<i>£/sq ft - Freehold</i>
8 Maesbury Rd	Oswestry	SY10 8NN	Shed	3,157	12,000	12	144,000	3.80	45.61
3 Maesbury Rd	Oswestry	SY10 8RA	Shed	5,399	13,500	12	162,000	2.50	30.01
Old Malthouse	Oswestry	SY11 1AJ	Workshop	2,336	17,928	12	215,136	7.67	92.10
2 Old Mill Yd	Market Drayton		B1	697	6,480	12	77,760	9.30	111.56
Abbots House	Shrewsbury	SY1 1UW	Shed	840	4,200	12	50,400	5.00	60.00
Arch 1	Shrewsbury	SY1 2EE	Workshop and Compound	689	7,930	12	95,160	11.51	138.11
Arch 4	Shrewsbury	SY1 2EG	Workshop	910	3,640	12	43,680	4.00	48.00
3-5 Castle Business Pk	Shrewsbury	SY1 2EG	Workshop	910		12	0	4.00	0.00
Greenwood Ind	Shrewsbury	SY1 3TB		1,000		12	0	2.00	0.00
1-45 Ketley B Pk	Telford	TF1 5JD	Shed	1,000		12	0	4.25	0.00
1-45 Ketley B Pk	Telford	TF1 5JD		25,000		12	0	4.24	0.00
Arch 5	Shrewsbury	SY1 2EG	Workshop	1,110	4,440	12	53,280	4.00	48.00
10 Annscroft	Shrewsbury	SY5 8AN	B1	1,199	7,200	12	86,400	6.01	72.06
8 Annscroft	Shrewsbury	SY5 8AN	B1	1,200	7,200	12	86,400	6.00	72.00
6 Old Smithfield	Shifnal	TF11 8DT	Ind Unit	1,282		12	0	4.29	0.00
Arch 3	Shrewsbury	SY1 2EG	Workshop	1,325	5,300	12	63,600	4.00	48.00
Arch 7	Shifnal	TF11 9AX	Workshop	1,350	2,995	12	35,940	2.22	26.62
8 Sweetlake	Shrewsbury	SY3 9EW	Shed	1,389		12	180,000	0.00	129.59
Hortonwood 2	Telford	TF1 7GW	Shed	5,000		12	0	2.00	0.00
Arch 6	Shifnal	TF11 8DW	Workshop	1,440	3,600	12	43,200	2.50	30.00
Craven Arms Bus Pk	Craven Arms	SY7 8PF	Ind Unit	1,475	6,500	12	78,000	4.41	52.88
5 Marlow Ct	Whitchurch	SY13 1OR	Ind Unit	1,625		12	149,950	0.00	92.28

Table A3.1 Commercial space available in Shropshire: market data

Address	Place	Post Code	Unit type	Sq ft	Rent	YP	Freehold	£/sq ft - Rent	£/sq ft - Freehold
Court 2000	Telford	TF7 4JB	Ind Unit	2,500		12	0	4.00	0.00
A Broad Oak	Whitchurch	SY13 3AQ	Ind Unit			12	0	#DIV/0!	#DIV/0!
1 Waymills	Whitchurch	SY13 1TT	Ind Unit	1,732	7,950	12	95,400	4.59	55.08
2 Waymills	Whitchurch	SY13 1TT	Ind Unit	1,744	7,950	12	95,400	4.56	54.70
Ennerdale Rd	Shrewsbury	SY1 iLD	Ind Unit	1,841	10,000	12	120,000	5.43	65.18
6 Edgebold	Shrewsbury	SY5 8NY	Ind Unit	1,929		12	0	4.50	0.00
Court Works	Telford	TF7 4JB	Ind Unit	2,036	8,114	12	97,368	3.99	47.82
36 Coleman	Shrewsbury	SY3 7BU	Ind Unit	2,441	10,000	12	120,000	4.10	49.16
Hortonwood 7	Telford	TF1 7GP	Ind Unit	2,523		12	0	5.25	0.00
G3 Courtworks	Madeley	TF7 4JB	Ind Unit	3,114	12,465	12	149,580	4.00	48.03
Leighton	Welshpool	SY21 8HH	Ind Unit	3,175	12,000	12	144,000	3.78	45.35
B4 Courtworks	Madeley	TF7 4JB	Ind Unit	3,330	13,320	12	159,840	4.00	48.00
Old Coleman	Shrewsbury	SY3 7BP	Ind / retail Unit	3,364		12	300,000	0.00	89.18
8 Knights Pk	Shrewsbury		Ind Unit	3,572		12	0	5.00	0.00
Hortonwood 10	Telford	TF1 7ES	Ind Unit	3,604	15,000	12	180,000	4.16	49.94
Stafford Pk 11	Telford	TF3 3AY	Ind Unit	4,465		12	0	3.00	0.00
D2 Court Wks	Madeley	TF7 4JB	Ind Unit	4,468	17,872	12	214,464	4.00	48.00
Walford Heath	Shrewsbury	SY4 3AZ	Ind Unit - Farm	4,565	25,000	12	300,000	5.48	65.72
Salop St	Bridgnorth	WV16 5BH	Ind Unit	4,575		12	0	5.46	0.00
Battlefield	Shrewsbury	SY1 3EH	Ind Unit	4,845		12	275,000	0.00	56.76
Knights Pk	Shrewsbury	SY1 3AB	Ind Unit	7,500		12	0	5.00	0.00
March Way	Shrewsbury	SY1 3JE	Ind Unit	5,025		12	325,000	0.00	64.68

Table A3.1 Commercial space available in Shropshire: market data

<i>Address</i>	<i>Place</i>	<i>Post Code</i>	<i>Unit type</i>	<i>Sq ft</i>	<i>Rent</i>	<i>YP</i>	<i>Freehold</i>	<i>£/sq ft - Rent</i>	<i>£/sq ft - Freehold</i>
Halesfield 23	Telford	TF7 4NY	Ind Unit	5,048	16,000	7.90%	202,500	3.17	40.11
Halesfield 24	Telford	TF7 4NY	Ind Unit	5,050	16,000	7.90%	202,500	3.17	40.10
Yeomanry	Shrewsbury	SY1 3EH	Ind Unit	5,586	20,000	12	240,000	3.58	42.96
Hortonwood 32	Telford	TF1 7EX	Ind Unit	5,835	31,000	12	372,000	5.31	63.75
Hortonwood 33	Telford	TF1 7EX	Ind Unit	6,645	28,250	12	339,000	4.25	51.02
Lancaster Rd	Shrewsbury	SY1 3TP	Ind Unit	7,114		12	0	4.00	0.00
Atcham Bus Pk	Shrewsbury	SY4 4UG	Ind Unit	7,500		12	0	5.20	0.00
Knights Pk	Shrewsbury	SY1 3AB	Ind Unit	7,617	29,950	12	359,400	3.93	47.18
Coton Hill	Shrewsbury	SY1 3AB	Ind Unit	7,700		12	295,000	0.00	38.31
St Geoges Rd Ind	Donnington	TF2 7RA	Ind Unit	8,374		12	200,000	0.00	23.88
Hortonwood 7	Telford	TF1 7GX	Ind Unit	8,884	42,500	12	510,000	4.78	57.41
46 Atcham Bus Pk	Atcham	SY4 4UG	Ind Unit	10,021	42,000	12	504,000	4.19	50.29
3 Civic Pk	Whitchurch	SY13 1TT	Ind Unit	10,125	39,500	12	474,000	3.90	46.81
Winstay Tech Pk	Wrexham	LL14 6EN	Ind Unit	11,732		12	0	0.00	0.00
70 Ennerdale Rd	Shrewsbury	SY1 3LD	Ind Unit	12,088	36,000	12	432,000	2.98	35.74
Cartmel Drive	Shrewsbury	SY1 3TB	Ind Unit	12,615	51,000	12	612,000	4.04	48.51
Maer Lane	Market Drayton	TF9 3SH	Ind Unit	13,907	68,500	12	822,000	4.93	59.11
Battlefield	Shrewsbury	SY1 3TG	Ind Unit	15,475		12	875,000	0.00	56.54
101 Longdon Rd	Shrewsbury	SY3 9EB	Ind Unit	22,357		12	650,000	0.00	29.07
Lightwood Green	Wrexham	LL13 0HY	Ind Unit	30,000	175,000	12		5.83	0.00
Westbury	Shrewsbury	SY59RG	Yard	30,928	3,500	12	42,000	0.11	1.36
Hortonwood 30	Telford	TF1 7YE	Ind Unit	58,977		12	2,450,000	0.00	41.54

Table A3.1 Commercial space available in Shropshire: market data

Address	Place	Post Code	Unit type	Sq ft	Rent	YP	Freehold	£/sq ft - Rent	£/sq ft - Freehold
Harlescote Lane	Shrewsbury			223,898		12	1,500,000	0.00	6.70
Grange Bus Pk	Shrewsbury	SY1 3LG	Ind Unit	829,144	34,500	12	414,000	0.04	0.04
39 Wem Bus Pk	Wem	SY4 5JX		1,851	8,500	12	102,000	4.59	55.11
Monkmoor Rd	Shrewsbury	SY2 5TF		2,750	15,000	12	180,000	5.45	65.45
Higher Heath	Whitchurch	SY13 2HX	Motor Centre	4,573	22,000	12	264,000	4.81	57.73
Stafford Pk 4	Telford	TF3 3BA	Ind Unit	5,005	16,266	12	195,192	3.25	39.00
25 Castle St	Shrewsbury	SY1 1DA	Office	129		12	0	20.00	0.00
25 Castle St	Shrewsbury	SY1 1DA	Office	301		12	0	20.00	0.00
Sitka Drive	Shrewsbury	SY2 6LG	Office	151	4,625	12	55,500	30.63	367.55
Wrekin Prof Centre	Wellington	TF1 2EH	Office	161	5,000	12	60,000	31.06	372.67
High St	Wem	SY4 5AA	Office	161	1,000	12	12,000	6.21	74.53
Sansaw Bus Pk	Shrewsbury	SY4 4AS	Office	182		12	0	10.00	0.00
Sansaw Bus Pk	Shrewsbury	SY4 4AS	Office	1,378		12	0	10.00	0.00
Shrewsbury Bus Pk	Shrewsbury	SY2 6LG	Office	247		12	0	12.00	0.00
Shrewsbury Bus Pk	Shrewsbury	SY2 6LG	Office	3,482		12	0	12.00	0.00
Coalport High ST	Telford	TF8 7HT	Office	280		12	0	50.00	0.00
Gains Pk	Shrewsbury	SY3 5HF	Office	318	3,750	12	45,000	11.79	141.51
Wyle Cop	Shrewsbury	SY1 1UT	Office	334	2,850	12	34,200	8.53	102.40
Wyle Cop	Shrewsbury	SY1 1XB	Office	334	2,250	12	27,000	6.74	80.84
Wyle Cop	Shrewsbury	SY1 1UT	Office	398	3,800	12	45,600	9.55	114.57
Shoplatch	Shrewsbury	SY1 1HF	Office	407	2,500	12	30,000	6.14	73.71
High St	Shrewsbury	SY1 1SP	Office	463	3,500	12	42,000	7.56	90.71

Table A3.1 Commercial space available in Shropshire: market data

<i>Address</i>	<i>Place</i>	<i>Post Code</i>	<i>Unit type</i>	<i>Sq ft</i>	<i>Rent</i>	<i>YP</i>	<i>Freehold</i>	<i>£/sq ft - Rent</i>	<i>£/sq ft - Freehold</i>
Annscroft	Shrewsbury	SY5 8AN	Office	482	4,500	12	54,000	9.34	112.03
Longden Coleman	Shrewsbury	SY3 7DN	Office	484	8,500	12	102,000	17.56	210.74
Stika Drive	Shrewsbury	SY2 6GL	Office	495	7,500	12	90,000	15.15	181.82
Old Creamery	Wem	SY4 5BA	Office	560	3,000	12	36,000	5.36	64.29
Dogpole	Shrewsbury	SY1 1ES	Office	570	4,300	12	51,600	7.54	90.53
Dogpole	Shrewsbury	SY1 1ES	Office	581	3,750	12	45,000	6.45	77.45
Wyle Cop	Shrewsbury	SY1 1UX	Office	614	5,500	12	66,000	8.96	107.49
Swann Hill	Shrewsbury	SY1 1NP	Office	678	7,535	12	90,420	11.11	133.36
Walk Mill Bus Pk	Market Drayton		Office	698	6,480	12	77,760	9.28	111.40
Castle St	Shrewsbury	SY1 2BB	Office	732	6,500	12	78,000	8.88	106.56
Market St	Shrewsbury		Office	756	7,000	12	84,000	9.26	111.11
Cherry Orchard	Shrewsbury	SY2 5EU	Office	758		12	150,000	0.00	197.89
Hills Ln	Shrewsbury	SY1 1PS	Office	764	4,600	12	55,200	6.02	72.25
Bellstone	Shrewsbury	SY1 5UN	Office	807	6,000	12	72,000	7.43	89.22
Sansaw Bus Pk	Hadnall	SY4 4AJ	Office	814	16,000	12	192,000	19.66	235.87
Swann Hill	Shrewsbury	SY1 1NP	Office	829	7,500	12	90,000	9.05	108.56
Abbey Lawn	Shrewsbury	SY2 5DE	Office	850	9,350	12	112,200	11.00	132.00
Bellstone	Shrewsbury	SY1 1HU	Office	850	5,250	12	63,000	6.18	74.12
Abbey Lawn	Shrewsbury	SY2 2DE	Office	872	9,625	12	115,494	11.04	132.45
Castle Foregate	Shrewsbury		Office	890		12	90,000	0.00	101.12
High St	Wem	SY4 5AA	Office	915	5,500	12	66,000	6.01	72.13
Chester St	Shrewsbury	SY1 1NX	Office	918	4,500	12	54,000	4.90	58.82

Table A3.1 Commercial space available in Shropshire: market data

<i>Address</i>	<i>Place</i>	<i>Post Code</i>	<i>Unit type</i>	<i>Sq ft</i>	<i>Rent</i>	<i>YP</i>	<i>Freehold</i>	<i>£/sq ft - Rent</i>	<i>£/sq ft - Freehold</i>
Shrewsbury Bus Pk	Shrewsbury	SY2 6LG	Office	936	12,500	12	150,000	13.35	160.26
New ST	Frankwell	SY3 8LN	Office	958	9,000	12	108,000	9.39	112.73
Battlefield Eny Pk	Shrewsbury	SY1 3AF	Office	962	9,000	12	108,000	9.36	112.27
Shrewsbury Bus Pk	Shrewsbury	SY1	Office	970		12	0	13.00	0.00
Shrewsbury Bus Pk	Shrewsbury	SY1	Office	9,941		12	0	13.00	0.00
Hadley Pk East	Telford	TF1 6QJ	Office	1,044		12	0	13.00	0.00
Hadley Pk East	Telford	TF1 6QJ	Office	5,336		12	0	13.00	0.00
Old Malt House	Oswestry	SY11 1AJ	Office	1,119	17,928	12	215,136	16.02	192.26
Longbow Close	Shrewsbury	SY1 3GZ	Office	1,298	11,950	12	143,400	9.21	110.48
Duke St	Wellington	TF1 1BJ	Office	1,313	7,500	12	90,000	5.71	68.55
Sycamore House	Shrewsbury	SY2 6LG	Office	1,331		12	0	13.00	0.00
Hollinswood	Telford	TF3 3DE	Office	1,367	12,500	12	150,000	9.14	109.73
Sweetlake Bus Village	Shrewsbury	SY3 9EW	Office	1,389		12	180,000	0.00	129.59
Severn St	Welshpool	SY21 1PT	Office	1,442		12	195,000	0.00	135.23
Craven Arms Bus Pk	Craven Arms	SY7 8DU	Office	1,442		12	99,500	0.00	69.00
St Marys St	Shrewsbury	SY1 1ED	Office	1,453	9,500	12	114,000	6.54	78.46
Stokewood Rd	Craven Arms	SY7 8PF	Office	1,475	6,500	12	78,000	4.41	52.88
High St	Wem	SY4 5DG	Office	1,615		12	99,500	0.00	61.61
Whitchurch Bus Pk	Whitchurch	SY13 1QR	Office	1,625		12	149,950	0.00	92.28
Esse House	Hadley	TF1 6QJ	Office	1,645		12	0	12.50	0.00
Esse House	Hadley	TF1 6QJ	Office	6,720		12	0	12.50	0.00
Annscroft	Shrewsbury	SY5 8AN	Office	1,785	13,500	12	162,000	7.56	90.76

Table A3.1 Commercial space available in Shropshire: market data

<i>Address</i>	<i>Place</i>	<i>Post Code</i>	<i>Unit type</i>	<i>Sq ft</i>	<i>Rent</i>	<i>YP</i>	<i>Freehold</i>	<i>£/sq ft - Rent</i>	<i>£/sq ft - Freehold</i>
Talbot House	Shrewsbury	SY3 1LG	Office	2,303	42,000	12	504,000	18.24	218.84
Watling St	Wellington	TF1 2HN	Office	2,329		12	325,000	0.00	139.54
Claremont St	Shrewsbury	SY1 1HS	Office	2,454		12	0	0.00	107.50
Sansaw Bus Pk	Shrewsbury	SY4 4AS	Office	2,497	30,000	12	360,000	12.01	144.17
New ST	Newport	TF10 7AX	Office	2,580	23,000	12	276,000	8.91	106.98
New ST	Wellington	TF1 3DA	Office	2,691	16,250	12	195,000	6.04	72.46
The Burbage	Market Drayton	TF9 1EG	Office	2,960	29,500	12	354,000	9.97	119.59
Shrewsbury Bus Pk	Shrewsbury	SY2 6LG	Office	3,244	22,500	12	270,000	6.94	83.23
The Tower	Market Drayton	TF9 1AE	Office	4,596		12	259,950	0.00	56.56
Sommerfield Rd	Telford	TF1 5RY	Office	4,712		12	0	0.00	0.00
Talbot House	Shrewsbury	SY1 1LG	Office	4,908	40,000	12	480,000	8.15	97.80
Talbot House	Shrewsbury	SY1 1LG	Office	4,982	40,000	12	480,000	8.03	96.35
The Square	Shrewsbury	SY1 1JZ	Office	6,200	65,000	12	780,000	10.48	125.81
The Square	Shrewsbury	SY1 1JZ	Office	6,566	85,000	12	1,020,000	12.95	155.35
Shrewsbury Bus Pk	Shrewsbury	SY2 6LG	Office	7,535	97,500	7.50%	1,300,000	12.94	172.53
Shrewsbury Bus Pk	Shrewsbury	SY2 6AL	Office	9,860	115,000	12	1,380,000	11.66	139.96
Leaton Forest Offices	Shrewsbury	SY4 3HX	Office	335		12	0	11.00	0.00
Leaton Forest Offices	Shrewsbury	SY4 3HX	Office	939		12	0	11.00	0.00
Upton Magna Business Pk	Upton Magna	SY4 4TT	Office	367	4,404	12	52,848	12.00	144.00
Sugnall Business Centre	Stafford	ST21 6NF	Office	400	4,400	12	52,800	11.00	132.00
Upton Magna Business Pk	Upton Magna	SY4 4TT	Office	408	4,896	12	58,752	12.00	144.00
Upton Magna Business Pk	Upton Magna	SY4 4TT	Office	506	6,072	12	72,864	12.00	144.00



Table A3.1 Commercial space available in Shropshire: market data

Address	Place	Post Code	Unit type	Sq ft	Rent	YP	Freehold	£/sq ft - Rent	£/sq ft - Freehold
Sugnell Business Centre	Stafford	ST21 6NF	Office	530	6,360	12	76,320	12.00	144.00
Upton Magna Business Pk	Upton Magna	SY4 4TT	Office	543	6,516	12	78,192	12.00	144.00
Upton Magna Business Pk	Upton Magna	SY4 4TT	Office	592	7,104	12	85,248	12.00	144.00
Upton Magna Business Pk	Upton Magna	SY4 4TT	Office	684	8,208	12	98,496	12.00	144.00
Upton Magna Business Pk	Upton Magna	SY4 4TT	Office	703	8,436	12	101,232	12.00	144.00
High St	Wem	SY4 5DG	Office	1,249	16,000	12	192,000	12.81	153.72
Stafford Pk	Telford	TF3 3BA	Dev land	3,696		12	0	5.00	0.00
Stafford Pk	Telford	TF3 3BA		5,005	16,266	12	195,192	3.25	39.00
Stafford Pk	Telford	TF3 3BA		5,148	16,731	12	200,772	3.25	39.00
Stafford Pk	Telford	TF3 3BA		14,957	48,500	12	582,000	3.24	38.91
Il Eco Park	Ludlow	SY8 1FD	Offices			12	0	#DIV/0!	125.00
Upper Teme Pk	Tenbury Wells	WR15 8HB	Industrial	110,868	459,000	12	5,508,000	4.14	49.68
Priors Halton	Ludlow		Warehouse	10,265	15,000	12	180,000	1.46	17.54
Craven Court	Craven Arms	SY7 8PF	Industrial	22,651	115,000	12	1,380,000	5.08	60.92
Alliance Ct	Ludlow	SY8 1ES	Offices	1,530	12,500	12	150,000	8.17	98.04
The Bull Ring	Ludlow	SY8	Offices	1,600		12	160,000	0.00	100.00
Eco Park	Ludlow	SY8 1FD	Offices	5,113	55,000	8.46%	650,000	10.76	127.13
Upper Teme Pk	Tenbury Wells	WR15 8HB	Offices	110,868	459,000	12	5,508,000	4.14	49.68



# Appendix 4: Commercial development costs and assumptions

## **Construction costs**

- A4.1 In this study we have used the published information from (BCIS) data. The costs are specific to different built forms (office types etc). On the basis of these cost figures, it is possible to draw up appropriate cost levels for constructing newbuild employment space in Shropshire at a base date.

Table A4.1 BCIS Build Costs – Shropshire

£/sq ft

<i>Building function</i>	<i>Sub class</i>	<i>Mean</i>	<i>Quartile 1</i>	<i>Decile 5</i>	<i>Quartile 3</i>	<i>Decile 10</i>
Factories for mechanical engineering		732		665		1197
Factories for electrical engineering		667		640		721
Builders yards, Local Authority maintenance depots		666	562	577	670	1055
Factories	Generally	661	390	580	820	1907
Factories	Up to 500m2 GFA	830	580	707	1142	1536
Factories	500 to 2000m2 GFA	646	380	580	800	1907
Factories	Over 2000m2 GFA	612	373	496	813	1342
Advance factories	Generally	536	373	511	646	1142
Advance factories	Up to 500m2 GFA	686	573	629	714	1142
Advance factories	500 to 2000m2 GFA	530	375	471	665	1126
Advance factories	Over 2000m2 GFA	419	319	393	490	646
Advance Factories/Offices - mixed facilities (class B1)	Generally	715	425	663	932	1536
Advance Factories/Offices - mixed facilities (class B1)	Up to 500m2 GFA	957	639	780	1386	1536
Advance Factories/Offices - mixed facilities (class B1)	500 to 2000m2 GFA	702	443	686	902	1259
Advance Factories/Offices - mixed facilities (class B1)	Over 2000m2 GFA	592	412	500	794	958
Purpose built factories	Generally	687	416	610	838	2345
Purpose built factories	Up to 500m2 GFA	847	614	749	1165	1298
Purpose built factories	500 to 2000m2 GFA	684	439	546	779	2345
Purpose built factories	Over 2000m2 GFA	670	394	639	844	1849
Purpose built factories/Offices - mixed facilities		659	475	609	754	1489
Warehouses/stores	Generally	508	351	419	550	1908
Warehouses/stores	Up to 500m2 GFA	776	565	706	741	1697
Warehouses/stores	500 to 2000m2 GFA	567	361	494	701	1140
Warehouses/stores	Over 2000m2 GFA	461	343	385	491	1908
Advance warehouses/stores		387	333	362	394	748
Cold stores/Refrigerated stores		830	616	715	1118	1140
Local admin buildings		1278	1111	1244	1481	2128
Offices	Generally	1175	910	1115	1335	3674
Offices	Air-conditioned	1313	1032	1188	1419	3674
Offices	Air-conditioned	1141	925	1116	1297	2168
Offices	Air-conditioned	1330	1104	1193	1413	3674

Table A4.1 BCIS Build Costs – Shropshire						
£/sq ft						
Building function	Sub class	Mean	Quartile 1	Decile 5	Quartile 3	Decile 10
Offices	Air-conditioned	1730	1249	1518	1973	3129
Offices	Not air-conditioned	1080	843	1007	1228	2217
Offices	Not air-conditioned	992	779	945	1136	1921
Offices	Not air-conditioned	1152	930	1090	1285	2217
Offices	Not air-conditioned	1477		1536		1675
Artist's studios		964		1047		1194
Banks/Building Society branches		1626	1432	1557	1756	2460
Mixed commercial developments		1059	582	1308	1425	1434
Retail warehouses	Generally	570	430	498	592	1710
Retail warehouses	Up to 1000m2	742	538	561	638	1710
Retail warehouses	1000 to 7000m2 GFA	550	421	486	599	1141
Retail warehouses	7000 to 15000m2	501	436	490	521	665
Retail warehouses	Over 15000m2 GFA	393		377		547
Shopping centres		849		803		1111
Hypermarkets, supermarkets	Generally	1018	717	1023	1322	1769
Hypermarkets, supermarkets	Up to 1000m2	1041		909		1649
Hypermarkets, supermarkets	1000 to 7000m2 GFA	1042	734	1099	1339	1769
Hypermarkets, supermarkets	7000 to 15000m2	749	693	717	819	857
Shops	Generally	732	491	639	850	1868
Shops	1-2 storey	736	483	623	867	1868
Shops	3-5 storey	694	584	688	779	889
Shops with domestic, office accommodation		1035	811	902	1237	1982

Source: BCIS June 2010

A4.2 The above is a very wide range and in this study is based on four modelled typologies. In this study the following constructions costs are used:

Table A4.2 Averaged prices by former Council area				
Area	Ave price (£k & % index)			
	Large industrial	Small industrial	Large office	Small office
£/m2	36.51	65.68	87.79	87.79

Source: BCIS

**Other normal development costs**

- A4.3 In addition to the per sq ft/m build cost figures described above, allowance needs to be made for a range of infrastructure costs – roads, drainage and services within the site; parking, footpaths, landscaping and other external costs; off site costs for drainage and other services, and so on. Many of these items will depend on individual site circumstances, and can only properly be estimated following a detailed assessment of each site. This is not practical within the present study, and would require at least a design/layout for each site.
- A4.4 Nevertheless, it is possible to generalise. Drawing on experience it is possible to determine an allowance related to total build costs. This is normally lower for higher density than for lower density schemes, since there is a smaller area of external works, and services can be used more efficiently. Large greenfield sites are also more likely to require substantial expenditure on bringing mains services to the site. In the light of these considerations we made an allowance of 15% of build costs for each scheme.

**(iii) Abnormal development costs**

- A4.5 In some cases where the site involves redevelopment of land which was previously developed, there is the potential for abnormal costs to be incurred. Abnormal development costs might include demolition of substantial existing structures; piling or flood prevention measures at waterside locations; remediation of any land contamination; remodelling of land levels, and so on.
- A4.6 The majority of the sites are on previously developed land. We have therefore run a variable for each type on brown field land with an additional 15% cost.

**(iii) Fees**

- A4.7 We have assumed professional fees amount to 8% of build costs, in each case.

**(iv) Contingency**

- A4.8 For previously undeveloped and otherwise straightforward sites, we would normally allow a contingency of 2.5%, with a higher figure of 5% on more risky types of development, previously developed land and central locations.

## Financial and other appraisal assumptions

### **(i) VAT**

- A4.9 For simplicity it has been assumed throughout, as with most financial appraisals, that either VAT does not arise, or its effect can be ignored. This assumption is believed accurate for the newbuild sites, whilst VAT on the conversion elements might not be recoverable unless the building was Listed. It is normal for a developer of commercial office or industrial space to 'waive the exemption' (these classes of sales would normally be exempt from VAT) to allow them to recover the VAT expended on construction. This is normally cost neutral as most businesses can recover the VAT that they pay in there rent or on the purchase of the property. This does not apply to financial services companies who's supplies are not subject to VAT.

### **(ii) Interest rate**

- A4.10 Our appraisals assume 7% pa for interest on both outgoings and receipts.

### **(iii) Developers profit**

- A4.11 We normally assume that the developer requires a return of 20% on Total Costs (equivalent to 16.7% of the Net Development Value) to reflect the risk of undertaking the development. That assumes that the costs are estimates of costs, as they are indeed here intended to be, rather than contract prices which would include a profit element.

### **(iv) Void**

- A4.12 On a commercial development scheme units are often built to the specification of the end user – or at least only when an end user had been identified – however this is not always the case – particularly with the smaller units at the lower end of the market. For the purpose of the present study a six month void period is assumed for all sites.

### **(v) Phasing and timetable**

- A4.13 The appraisals are assumed to have been prepared using prices and costs at a base date of June 2010, with an immediate start on site. A pre-construction period of six months is assumed. Each unit is assumed to be built over a nine month period.
- A4.14 The phasing programme for an individual site will reflect market take-up, and would in practice be carefully estimated taking into account the site characteristics and, in particular, size and the expected level of market demand.

## Site acquisition and disposal costs

### *(i) Site holding costs and receipts*

A4.15 Each site is assumed to proceed immediately and so, other than interest on the site cost during construction, there is no allowance for holding costs, or indeed income, arising from ownership of the site.

### *(ii) Acquisition costs*

A4.16 Acquisition costs include stamp duty at 4% on site values of £0.5 million and above (reduced below this level), together with an allowance of 1.5% for acquisition agents' and legal fees.

### *(iii) Disposal costs*

A4.17 For the market housing, sales/promotion and legal fees are assumed to amount to some 3.5% of receipts.



# Appendix 5: Commercial property appraisal

Table A5.1 Bridgnorth									
		Greenfield				Brownfield			
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
<b>Income:</b>									
	Sq ft	15,000	2,000	5,000	1,000	15,000	2,000	5,000	1,000
	£/Sq ft	75	70	180	160	75	70	180	160
<b>CAPITAL VALUE:</b>		<b>1,125,000</b>	<b>140,000</b>	<b>900,000</b>	<b>160,000</b>	<b>1,125,000</b>	<b>140,000</b>	<b>900,000</b>	<b>160,000</b>
<b>Costs:</b>									
Land used		0.517	0.153	0.096	0.023	0.517	0.153	0.096	0.023
	£/acre	10,000	10,000	10,000	10,000	175,000	175,000	175,000	175,000
	Cushion	75,000	75,000	75,000	75,000	45,000	45,000	45,000	45,000
	Cost	43,945	13,005	8,160	1,955	113,740	33,660	21,120	5,060
Strategic promotion		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Planning		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Misc. land		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Construction	Per sq ft	40.00	65.68	87.79	87.79	40.00	65.68	87.79	87.79
	£	600,000	131,360	438,950	87,790	600,000	131,360	438,950	87,790
Infrastructure	15.00%	90,000	19,704	65,843	13,169	90,000	19,704	65,843	13,169
Abnormals	15.00%					90,000	19,704	65,843	13,169
Fees	8.00%	48,000	10,509	35,116	7,023	48,000	10,509	35,116	7,023
Contingency	2.5% & 5%	15,000	3,284	10,974	2,195	30,000	6,568	21,948	4,390

Table A5.1 Bridgnorth									
	Greenfield				Brownfield				
	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>	
Finance costs	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	
Sales	3.00%	33,750	4,200	27,000	4,800	33,750	4,200	27,000	4,800
Misc. financial	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	
<b>Subtotal</b>	<b>848,195</b>	<b>199,562</b>	<b>603,542</b>	<b>134,431</b>	<b>1,022,990</b>	<b>243,205</b>	<b>693,319</b>	<b>152,900</b>	
Interest	7.00%	59,374	13,969	42,248	9,410	71,609	17,024	48,532	10,703
Profit % costs	20.00%	181,514	42,706	129,158	28,768	218,920	52,046	148,370	32,721
<b>COSTS:</b>	<b>1,089,082</b>	<b>256,237</b>	<b>774,948</b>	<b>172,610</b>	<b>1,313,519</b>	<b>312,275</b>	<b>890,221</b>	<b>196,323</b>	
Additional profit	35,918	-116,237	125,052	-12,610	-188,519	-172,275	9,779	-36,323	
Residual land worth (APPROX)	87,363	-95,732	140,712	-3,155	-67,279	-131,115	38,399	-23,763	
£/1000 sq ft	2,395	-58,119	25,010	-12,610	-12,568	-86,137	1,956	-36,323	

Table A5.2 North Shropshire									
		Greenfield				Brownfield			
		Large industrial	Small industrial	Large office	Small office	Large industrial	Small industrial	Large office	Small office
<b>Income:</b>									
	Sq ft	15,000	2,000	5,000	1,000	15,000	2,000	5,000	1,000
	£/Sq ft	75	70	145	160	75	70	145	160
<b>CAPITAL VALUE:</b>		<b>1,125,000</b>	<b>140,000</b>	<b>725,000</b>	<b>160,000</b>	<b>1,125,000</b>	<b>140,000</b>	<b>725,000</b>	<b>160,000</b>
<b>Costs:</b>									
Land used		0.517	0.153	0.096	0.023	0.517	0.153	0.096	0.023
	£/acre	10,000	10,000	10,000	10,000	175,000	175,000	175,000	175,000
	Cushion	75,000	75,000	75,000	75,000	45,000	45,000	45,000	45,000
	Cost	43,945	13,005	8,160	1,955	113,740	33,660	21,120	5,060
Strategic promotion		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Planning		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Misc. land		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Construction	Per sq ft	40.00	65.68	87.79	87.79	40.00	65.68	87.79	87.79
	£	600,000	131,360	438,950	87,790	600,000	131,360	438,950	87,790
Infrastructure	15.00%	90,000	19,704	65,843	13,169	90,000	19,704	65,843	13,169
Abnormals	15.00%					90,000	19,704	65,843	13,169
Fees	8.00%	48,000	10,509	35,116	7,023	48,000	10,509	35,116	7,023
Contingency	2.5% & 5%	15,000	3,284	10,974	2,195	30,000	6,568	21,948	4,390

Table A5.2 North Shropshire									
		Greenfield				Brownfield			
		Large industrial	Small industrial	Large office	Small office	Large industrial	Small industrial	Large office	Small office
Finance costs		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Sales	3.00%	33,750	4,200	21,750	4,800	33,750	4,200	21,750	4,800
Misc. financial		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
<b>Subtotal</b>		<b>848,195</b>	<b>199,562</b>	<b>598,292</b>	<b>134,431</b>	<b>1,022,990</b>	<b>243,205</b>	<b>688,069</b>	<b>152,900</b>
Interest	7.00%	59,374	13,969	41,880	9,410	71,609	17,024	48,165	10,703
Profit % costs	20.00%	181,514	42,706	128,035	28,768	218,920	52,046	147,247	32,721
<b>COSTS:</b>		<b>1,089,082</b>	<b>256,237</b>	<b>774,948</b>	<b>172,610</b>	<b>1,313,519</b>	<b>312,275</b>	<b>890,221</b>	<b>196,323</b>
Additional profit		35,918	-116,237	-49,948	-12,610	-188,519	-172,275	-165,221	-36,323
Residual Land Worth (APPROX)		87,363	-95,732	-27,547	-3,155	-67,279	-131,115	-129,860	-23,763
£/1000 sq ft		2,395	-58,119	-9,990	-12,610	-12,568	-86,137	-33,044	-36,323

Table A5.3 Oswestry									
		Greenfield				Brownfield			
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
<b>Income:</b>									
	Sq ft	15,000	2,000	5,000	1,000	15,000	2,000	5,000	1,000
	£/Sq ft	75	70	145	160	75	70	145	160
<b>CAPITAL VALUE:</b>		<b>1,125,000</b>	<b>140,000</b>	<b>725,000</b>	<b>160,000</b>	<b>1,125,000</b>	<b>140,000</b>	<b>725,000</b>	<b>160,000</b>
<b>Costs:</b>									
Land Used		0.517	0.153	0.096	0.023	0.517	0.153	0.096	0.023
	£/Acre	10,000	10,000	10,000	10,000	175,000	175,000	175,000	175,000
	Cushion	75,000	75,000	75,000	75,000	45,000	45,000	45,000	45,000
	Cost	43,945	13,005	8,160	1,955	113,740	33,660	21,120	5,060
Strategic Promotion		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Planning		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Misc Land		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Construction	Per Sq ft	40.00	65.68	87.79	87.79	40.00	65.68	87.79	87.79
	£	600,000	131,360	438,950	87,790	600,000	131,360	438,950	87,790
Infrastructure	15.00%	90,000	19,704	65,843	13,169	90,000	19,704	65,843	13,169
Abnormals	15.00%					90,000	19,704	65,843	13,169
Fees	8.00%	48,000	10,509	35,116	7,023	48,000	10,509	35,116	7,023
Contingency	2.5% & 5%	15,000	3,284	10,974	2,195	30,000	6,568	21,948	4,390

Table A5.3 Oswestry									
		Greenfield				Brownfield			
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
Finance Costs		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Sales	3.00%	33,750	4,200	21,750	4,800	33,750	4,200	21,750	4,800
Misc. financial		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
<b>Subtotal</b>		<b>848,195</b>	<b>199,562</b>	<b>598,292</b>	<b>134,431</b>	<b>1,022,990</b>	<b>243,205</b>	<b>688,069</b>	<b>152,900</b>
Interest	7.00%	59,374	13,969	41,880	9,410	71,609	17,024	48,165	10,703
Profit % Costs	20.00%	181,514	42,706	128,035	28,768	218,920	52,046	147,247	32,721
<b>COSTS:</b>		<b>1,089,082</b>	<b>256,237</b>	<b>768,207</b>	<b>172,610</b>	<b>1,313,519</b>	<b>312,275</b>	<b>883,480</b>	<b>196,323</b>
Additional profit		35,918	-116,237	-43,207	-12,610	-188,519	-172,275	-158,480	-36,323
Residual land worth (APPROX)		87,363	-95,732	-27,547	-3,155	-67,279	-131,115	-129,860	-23,763
£/1000 sq ft		2,395	-58,119	-8,641	-12,610	-12,568	-86,137	-31,696	-36,323

Table A5.4 Shrewsbury and Atcham									
		Greenfield				Brownfield			
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
<b>Income:</b>									
	Sq ft	15,000	2,000	5,000	1,000	15,000	2,000	5,000	1,000
	£/Sq ft	90	80	200	185	90	80	200	185
<b>CAPITAL VALUE:</b>		1,350,000	160,000	1,000,000	185,000	1,350,000	160,000	1,000,000	185,000
<b>Costs:</b>									
Land used		0.517	0.153	0.096	0.023	0.517	0.153	0.096	0.023
	£/acre	10,000	10,000	10,000	10,000	210,000	210,000	210,000	210,000
	Cushion	75,000	75,000	75,000	75,000	45,000	45,000	45,000	45,000
	Cost	43,945	13,005	8,160	1,955	131,835	39,015	24,480	5,865
Strategic promotion		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Planning		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Misc land		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Construction	Per sq ft	40.00	65.68	87.79	87.79	40.00	65.68	87.79	87.79
	£	600,000	131,360	438,950	87,790	600,000	131,360	438,950	87,790
Infrastructure	15.00%	90,000	19,704	65,843	13,169	90,000	19,704	65,843	13,169
Abnormals	15.00%					90,000	19,704	65,843	13,169
Fees	8.00%	48,000	10,509	35,116	7,023	48,000	10,509	35,116	7,023
Contingency	2.5% & 5%	15,000	3,284	10,974	2,195	30,000	6,568	21,948	4,390



Table A5.4 Shrewsbury and Atcham									
	Greenfield				Brownfield				
	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>	
Finance costs	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	
Sales	3.00%	40,500	4,800	30,000	5,550	40,500	4,800	30,000	5,550
Misc financial	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	
<b>Subtotal</b>	<b>854,945</b>	<b>200,162</b>	<b>606,542</b>	<b>135,181</b>	<b>1,047,835</b>	<b>249,160</b>	<b>699,679</b>	<b>154,455</b>	
Interest	7.00%	59,846	14,011	42,458	9,463	73,348	17,441	48,977	10,812
Profit % costs	20.00%	182,958	42,835	129,800	28,929	224,237	53,320	149,731	33,053
<b>COSTS:</b>	<b>1,097,749</b>	<b>256,237</b>	<b>768,207</b>	<b>172,610</b>	<b>1,313,519</b>	<b>312,275</b>	<b>883,480</b>	<b>196,323</b>	
Additional profit	252,251	-96,237	231,793	12,390	36,481	-152,275	116,520	-11,323	
Residual land worth (APPROX)	303,696	-76,503	236,860	20,882	143,915	-113,406	133,593	45	
£/1000 sq ft	16,817	-48,119	46,359	12,390	2,432	-76,137	23,304	-11,323	

Table A5.5 South Shropshire									
		Greenfield				Brownfield			
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
<b>Income:</b>									
	Sq ft	15,000	2,000	5,000	1,000	15,000	2,000	5,000	1,000
	£/Sq ft	75	60	160	130	75	60	160	130
<b>CAPITAL VALUE:</b>		<b>1,125,000</b>	<b>120,000</b>	<b>800,000</b>	<b>130,000</b>	<b>1,125,000</b>	<b>120,000</b>	<b>800,000</b>	<b>130,000</b>
<b>Costs:</b>									
Land used		0.517	0.153	0.096	0.023	0.517	0.153	0.096	0.023
	£/acre	10,000	10,000	10,000	10,000	175,000	175,000	175,000	175,000
	Cushion	75,000	75,000	75,000	75,000	45,000	45,000	45,000	45,000
	Cost	43,945	13,005	8,160	1,955	113,740	33,660	21,120	5,060
Strategic promotion		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Planning		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Misc. land		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Construction	Per sq ft	40.00	65.68	87.79	87.79	40.00	65.68	87.79	87.79
	£	600,000	131,360	438,950	87,790	600,000	131,360	438,950	87,790
Infrastructure	15.00%	90,000	19,704	65,843	13,169	90,000	19,704	65,843	13,169
Abnormals	15.00%					90,000	19,704	65,843	13,169
Fees	8.00%	48,000	10,509	35,116	7,023	48,000	10,509	35,116	7,023
Contingency	2.5% & 5%	15,000	3,284	10,974	2,195	30,000	6,568	21,948	4,390

Table A5.5 South Shropshire									
		Greenfield				Brownfield			
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>	<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office</i>	<i>Small office</i>
Finance costs		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Sales	3.00%	33,750	3,600	24,000	3,900	33,750	3,600	24,000	3,900
Misc. financial		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
<b>Subtotal</b>		<b>848,195</b>	<b>198,962</b>	<b>600,542</b>	<b>133,531</b>	<b>1,022,990</b>	<b>242,605</b>	<b>690,319</b>	<b>152,000</b>
Interest	7.00%	59,374	13,927	42,038	9,347	71,609	16,982	48,322	10,640
Profit % costs	20.00%	181,514	42,578	128,516	28,576	218,920	51,917	147,728	32,528
<b>COSTS:</b>		<b>1,089,082</b>	<b>256,237</b>	<b>768,207</b>	<b>172,610</b>	<b>1,313,519</b>	<b>312,275</b>	<b>883,480</b>	<b>196,323</b>
Additional profit		35,918	-136,237	31,793	-42,610	-188,519	-192,275	-83,480	-66,323
Residual land worth (APPROX)		87,363	-114,962	44,564	-31,999	-67,279	-150,345	-57,749	-52,608
£/1000 sq ft		2,395	-68,119	6,359	-42,610	-12,568	-96,137	-16,696	-66,323



## Appendix 6: Project brief

### Background – reasons for additional work

- A6.1 **Contributions from all development.** To address objections that policy CS9 is neither justified nor effective, for such a low threshold (namely single dwellings, and all employment land). Evidence is required that small scale development of all types will remain viable.
- A6.2 **CIL rates.** To inform the emerging CIL charging schedule, regarding what level of financial contribution is viable. Differential CIL rates are expected for Shrewsbury, the Market Towns and the rural area, and for different types of development (housing, employment, retail, leisure, etc).
- A6.3 **Community benefit in villages.** To address objections that policy CS4 is neither justified nor effective, due to insufficient evidence that development will remain viable if it has to contribute significant community benefit. Evidence is required that villages can support higher levels of contributions without jeopardising deliverability.

### Timing

- A6.4 The work must be complete in time to inform the Council's decision on the Core Strategy on 22<sup>nd</sup> July, and submission to the Secretary of State by 31<sup>st</sup> July.

### Phased approach

- A6.5 Due to time and budget constraints, the work is staged as follows, with the latter stages optional depending on time available (if not complete, they may be done in-house at a later date):

#### **Stage A. Other contributions: basic model**

- A6.6 The CIL Guidance (March 2010 paragraphs 23-26) recommends that the evidence base on viability employs existing data on property prices and land values. Site sampling need only be a limited number of sites, to supplement existing data. These should be sites where the impact of CIL on economic viability is likely to be more significant.
- A6.7 Consequently the additional viability research can use the data already in Shropshire Viability Study, with regard to methodology, construction costs, market prices and alternative land use values.

- A6.8 The research need only model the viability of typical sites at the least viable end of the market. The consultants' report should briefly explain what, in their professional judgement, is the least viable end of the housing and employment premises market, in terms of type of development (e.g. house type and density; type of employment use, such as industrial/office). For employment sites, the model of "typical" lower viability could be one or more scenarios, dependent on the consultants' advice.
- A6.9 Regard should be had to the fact that policy CS4 only allows development that "makes sufficient contribution" to community benefit in villages. In order to meet this policy, it may be reasonable to assume a different house type in villages compared to market towns, for example, detached rather than terraced. Such an assumption would also reflect policy CS4's requirement that development in villages must be "of a scale and design that is sympathetic to the character of the settlement and its environs...."
- A6.10 In setting up a "least viable" scenario, the model should assume a brownfield site (alternative land use being industrial) in the market towns and Shrewsbury. In the rural area, the model should assume a greenfield site (alternative land use being agricultural).
- A6.11 Concerns have been raised by objectors to the Core Strategy that small scale development is less viable than large scale development. As CIL applies from a threshold of 100sqm for employment and one dwelling, we propose that this threshold is used as the scale of development in the basic model.
- A6.12 For residential sites, the model should be run twice, firstly with a 20% affordable housing contribution, and secondly with a 25% affordable housing contribution.
- A6.13 The modelled sites need to represent typical low market properties for each of the three levels in the settlement hierarchy referred to in Policy CS1, namely:
- Shrewsbury
  - Market towns
  - Rural area
- A6.14 The total number of modelled results are therefore in the region of nine to twelve, namely the three spatial zones multiplied by:
- One dwelling at 20% affordable housing contribution
  - One dwelling at 25% affordable housing contribution
  - 100 sq m employment development
  - and potentially (if recommended) 100sqm alternative employment use.

A6.15 For each of the modelled sites, we need a “surplus” value once construction costs, land costs, affordable housing, development and design costs, contingency and other costs have been deducted. This “surplus” provides evidence of how much CIL could be charged for each modelled sites.

**Stage B. Other contributions: extensions of basic model**

A6.16 The model should also be run for different sizes and types of development, in the following order of priority:

- Medium-scale employment development
- Small development of 2-5 dwellings
- Development of 5+ dwellings
- Greenfield development on the edge of the market towns and Shrewsbury.

**Stage C. Other contributions: checking**

A6.17 A small number of sample sites will be used to check the modelled results and to demonstrate to developers the accuracy of the model.

A6.18 The results of the study will be discussed with the LDF Developer Panel.

**Data sources**

A6.19 For residential market values, the Council can provide lower quartile (or any other centile) 2009 figures by these geographical areas, using data it has purchased from the Land Registry.

A6.20 Average construction costs may need to be disaggregated rural / urban and across Shropshire, by use of samples or by asking builders directly.

A6.21 Average land values for the rural area will need to assume that land is more readily available than has been the case in the past, to replicate future policy rather than existing policy. This may be achieved by using sample sites in villages that currently have good land availability, or by building in assumptions about increased supply when estimating land values, or by simply using agricultural land values. Consultants to advise.