LOCAL PLAN &
COMMUNITY INFRASTRUCTURE LEVY
ECONOMIC VIABILITY STUDY

PREPARED ON BEHALF OF
WIRRAL BOROUGH COUNCIL

By

ARUP

APRIL 2014

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1.0 INTRODUCTION

1.01 Wirral Council is currently working towards the production of its new Core Strategy Local Plan and has recently completed the "Proposed Submission Draft" consultation stage. The final version of the Core Strategy is expected to be published for public comment during 2015. Once completed, the Core Strategy will provide strategic planning policy for the development of Wirral over a 15 year plan period. Alongside the adoption of the Core Strategy the Council wishes to consider the introduction of a Community Infrastructure Levy (CIL) to assist in the delivery of essential infrastructure in Wirral.

1.02 Keppie Massie, in conjunction with Tweeds Quantity Surveyors (part of the WYG Group) and ARUP have been commissioned by Wirral Council to consider the economic viability of new development in the Borough. Our work seeks to determine the likely profitability of each form of typical future development set within the existing planning policy framework. This will establish the baseline viability position and consider the level of development "surplus" or "headroom" that is available to meet planning policy obligations.

1.03 The study will then consider the key policies in the emerging Local Plan that have implications for financial viability. It seeks to assess the likely cost to development of the key policy options and provide conclusions and recommendations about which policy options could be taken forward, including the potential introduction of a CIL tariff, without undermining the viability of future development.

1.04 The outcomes of the study are presented in 2 separate reports. This Part 1 Interim Report outlines the background to this process, the methodology adopted, the forms of development tested, the assumptions made together with the results of the baseline viability testing. It then considers the prospect for introducing a CIL tariff against the baseline policy position.

1.05 The Part 2 – Final Report will include policy options testing, and conclusions and recommendations based on this regarding the viability of these policies and their impact on the delivery of the plan. In addition we will provide final conclusions and recommendations regarding the CIL and a Preliminary Draft Charging Schedule.

1.1 Economic Viability Requirements

1.1.1 The National Planning Policy Framework (NPPF)[1] (paragraph 173) states that:-

"*Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.*"

1.1.2 In addition to the above, the NPPF (paragraph 174) states that:-

"Local Planning Authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards.

In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence."

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf

1.1.3 This report provides an analysis of the deliverability and economic viability (satisfying the requirements of the NPPF) of development in Wirral, to inform the emerging Wirral Core Strategy Local Plan. It considers the current viability position in the context of existing policy requirements and identifies the extent to which it may be possible to introduce a CIL charge. The Part 2 Report will consider in further detail the viability of the emerging plan policies and will provide overall conclusions regarding Local Plan viability and as appropriate a Draft Preliminary Charging Schedule.

1.1.4 The Local Housing Delivery Group has recently published advice for planning practitioners titled "Viability Testing Local Plans" (June 2012). This guidance recommends that (page 10):-

"The approach to assessing plan viability should recognise that it can only provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability. It cannot guarantee that every development in the plan period will be viable, only that the plan policies will be viable for the sufficient number of sites upon which the plan relies in order to fulfil its objectively assessed needs."

1.1.5 In compliance with the advice set out within the NPPF (paragraph 175) which states that *"where practical, CIL charges should be worked up and tested alongside the Local Plan"*, this report will consider the appropriateness of implementing a CIL tariff in the context of development viability.

1.2 Community Infrastructure Levy

1.2.1 The Community Infrastructure Levy (CIL) was introduced by the Planning Act 2008. The CIL Regulations came into force on 6 April 2010 and were subsequently amended on 6 April 2011, 28 November 2012 25 April 2013 and 25 February 2014.

1.2.2 CIL is a tool for local authorities in England and Wales to help deliver infrastructure to support the development of the area. The charges raised may be used to fund infrastructure that the Council, local community and neighbourhoods need, whether it be new roads, schools or park improvements.

1.2.3 As a result of the CIL Regulations, Charging Authorities (for Wirral, this is Wirral Council) are able to set a development charge on a net additional floor area basis for the creation of new dwellings and for all other uses above 100sq.m (subject to minimum requirements and exceptions), provided that the economic viability of development is not compromised.

1.2.4 CLG's National Planning Practice Guidance (NPPG), revised June 2014, states that, *"when deciding the levy rates, an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments."* Furthermore it notes that *"balance is at the centre of the charge-setting process"* and that *"charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area."* (Paragraph: 009 Reference ID: 25-009-20140612).

1.2.5 CIL rates should therefore be related to what the property market can afford to pay, given the economic viability of development within the subject Charging Authority boundary.

1.2.6 The NPPG does not prescribe when a review of a Charging Schedule should take place, however it notes that *"charging authorities must keep their charging schedules under review and ensure that levy charges remain appropriate over time."* (Paragraph: 043 Reference ID: 25-043-20140612). The guidance suggests that charging schedules should take account of changes in market conditions and remain relevant to the funding gap for the infrastructure needed in support of the development of the area. In order to fully capture changing economic circumstances and property market variations, we would expect a Charging Schedule to be under constant review. However, a change to a Charging Schedule requires further public consultation and must be examined by an independent examiner. The legislation does however allow for an annual inflationary increase in accordance with the national Tender Price Index of construction costs, published by the Building Cost Information Service (BCIS) of the Royal Institution of Chartered Surveyors (RICS).

1.2.7 If introduced, the Charging Schedule needs to be relevant and appropriate to the Borough. As it is not possible to anticipate significant changes in the property market in future years, it is anticipated that, if implemented, any Charging Schedule would be subject to continued monitoring. This is complementary to the "plan, monitor, manage" approach which the Council will be seeking to apply through the implementation of its Local Plan policies.

1.3 **Format of Report**

1.3.1 For ease of reference the report is structured based on the following sections:-

1.3.2 ***Section 2 – Planning Policy Context***

This section provides an overview of existing planning policy.

1.3.3 ***Section 3 – Overview of Wirral***

This section provides general information about the social and economic characteristics of Wirral together with an overview of both the residential and non-residential property markets.

1.3.4 ***Section 4 – Methodology and Baseline Development Scenarios***

This section outlines the financial appraisal methodology that has been adopted together with the rationale for the development scenarios tested.

1.3.5 ***Section 5 – Financial Appraisal Assumptions***

Based on the existing planning policy framework, Section 5 outlines the key assumptions made in preparing the financial assessments.

1.3.6 ***Section 6 – Baseline Viability Results and Findings***

This section provides in tabular form the results of both the residential and non-residential viability testing, together with a commentary on the results, including future economic trends and sensitivity.

1.3.7 ***Section 7 – Stakeholder Consultation***

Here we provide a commentary regarding the information provided by stakeholder during the consultation.

1.3.8 ***Section 8 – Prospects for the Introduction of CIL***

Here we consider the prospects for introducing CIL in Wirral.

2.0 PLANNING POLICY CONTEXT

2.01 In preparing our assessments we have had regard to the existing local planning policy framework in the UDP, adopted Supplementary Planning Documents and guidance, The Wirral Investment Strategy, the Wirral Employment Land and Premises Study Update 2012, the Wirral Retail Study Update 2012, Wirral's Town District and Local Centres Study (2011), Wirral's Housing Strategy (2011), the Affordable Housing Viability Study (2010), the SHLAA 2012 update, the Housing Market Assessment (2010) and the Wirral Heritage Strategy. The forms of development tested and their location reflect these existing and emerging planning documents and any potential identified within them. The assumptions made in relation to the form and density of development tested are also compliant with these planning policy requirements. For completeness we have briefly summarised the key planning documents as follows:-

2.02 ***National Planning Policy Framework (NPPF)***

2.03 Adopted in March 2012, the NPPF (paragraphs 1 and 2):-

"*Sets out the Government's planning policies for England and how these are expected to be applied. It sets out the Government's requirements for the planning system only to the extent that it is relevant, proportionate and necessary to do so. It provides a framework within which local people and their accountable Councils can produce their own distinctive local and neighbourhood plans, which reflect the needs and priorities of their communities.*

Planning law requires that applications for planning permission must be determined in accordance with the development plan, unless material considerations indicate otherwise. The National Planning Policy Framework must be taken into account in the preparation of local and neighbourhood plans, and is a material consideration in planning decisions. Planning policies and decisions must reflect and where appropriate promote relevant EU obligations and statutory requirements."

2.04 In the context of the above, there are a number of policies contained within the NPPF which warrant further attention including the presumption in favour of sustainable development. Within the NPPF, sustainable development is defined as having three dimensions which give rise to the need for the planning system to perform a number of different roles, as follows (paragraph 7):-

An economic role - *contributing to building a strong, responsive and competitive economy, by ensuring that sufficient land of the right type is available in the right places and at the right time to support growth and innovation, and by identifying and coordinating development requirements, including the provision of infrastructure;*

A social role - *supporting strong, vibrant and healthy communities, by providing the supply of housing required to meet the needs of present and future generations, and by creating a high quality built environment with accessible local services that reflect the community's needs and support its health, social and cultural well-being; and*

An environmental role - *contributing to protecting and enhancing our natural, built and historic environment; and, as part of this, helping to improve biodiversity, use natural resources prudently, minimise waste and pollution, and mitigate and adapt to climate change including moving to a low carbon economy.*

2.05 The NPPF therefore advocates that all policies in Local Plans must follow a presumption in favour of sustainable development, and therefore have regard to the above 'role' of the planning system.

2.06 ***National Planning Practice Guidance (NPPG)***

2.07 On 6 March 2014 DCLG launched the National Planning Practice Guidance. This is a web-based resource which brings together planning practice guidance for England in an accessible and usable way.

2.08 The NPPG suggests that *"Viability assessment should be considered as a tool that can assist with the development of plans and plan policies. It should not compromise the quality of development but should ensure that the Local Plan vision and policies are realistic and provide high level assurance that plan policies are viable."* (Paragraph: 005 Reference ID: 10-005-20140306).

2.09 The NPPG goes on to say that "*Viability assessments should be proportionate, but reflect the range of different development, both residential and commercial, likely to come forward in an area and needed to deliver the vision of the plan*." (Paragraph: 009 Reference ID: 10-009-201400306). Noting the requirements of The National Planning Policy Framework the guidance suggests *"that local planning authorities, when requiring obligations, should be sufficiently flexible to prevent planned development being stalled,"* and *"that Planning obligations policies should reflect local viability."* (Paragraph: 010 Reference ID: 10-010-201400).

2.1 Current Development Plan Status

2.1.1 The Unitary Development Plan adopted by Wirral Council in February 2000 will remain the statutory development plan for Wirral until it is replaced by policies contained within a new-style Local Plan.

2.1.2 These documents include the Core Strategy Local Plan, the most recent version of which is the Proposed Submission Draft dated December 2012, and the Joint Waste Local Plan for Merseyside and Halton which was adopted in July 2013.

2.2 The Core Strategy Local Plan (Proposed Submission Draft Core Strategy December 2012)

2.2.1 Wirral Council currently intends to prepare a Core Strategy Local Plan followed by a site specific Local Plan which will replace the site specific designations contained within the existing Unitary Development Plan. The Core Strategy will set the overall framework for future land use planning decisions over the next 10-15 years for Wirral and will replace the strategic policies and proposals in the Unitary Development Plan for Wirral. The Core Strategy has been the subject of public consultation since 2005. Consultation on the Proposed Submission Draft Core Strategy ended in February 2013 and on initial proposed modifications in September 2013.

2.2.2 It is anticipated that a Revised Proposed Submission Draft along with its evidence base and supporting assessments, will be published and submitted for examination during 2015. This study forms a key part of that evidence base. The Revised Proposed Submission Draft Core Strategy will be accompanied by a Delivery Framework, an Infrastructure Plan, and a Monitoring Plan which will be used to guide and monitor the future delivery of the Core Strategy.

2.3 Supplementary Planning Documents

2.3.1 A number of Supplementary Planning Documents (SPDs) and earlier guidance notes have been adopted by Wirral Council which provide more detail on specific planning issues. It is anticipated that replacement and additional SPDs will be produced, to support the Core Strategy Local Plan. The following adopted SPDs are particularly relevant to this study:-

2.3.2 ***SPD4 – Parking Standards***

2.3.3 SPD 4 Parking Standards outlines the local requirements for parking provision in relation to new development. In particular the SPD provides advice on the design, layout, minimum requirements for cycle parking and disabled parking bays and maximum levels of parking provision for motor vehicles necessary to serve new development or changes of use for retail, residential, industrial, non-residential institutions, and assembly and leisure uses.

2.3.4 ***SPD2 – Designing for Self Contained Flat Development and Conversions***

2.3.5 Reference to this SPD has been made for the purpose of calculating sales rates and build costs for flats and conversions in our appraisals, as this SPD provides information on the preferred locations for self-contained flats and design issues, e.g. the layout of sites.

2.3.6 At present, the Council is preparing four new SPDs to support the implementation of the Core Strategy Local Plan. These are as follows:-

- Residential Development SPD
- Employment Uses SPD
- Town Centre Uses SPD
- Telecommunications Development SPD

2.3.7 At the time of writing, public consultation on the scope of the prospective contents of these documents had just ended and their likely final contents were not yet available.

2.3.8 We have also had regard to more historic SPGs in so far as they are relevant, that deal with matters such as Commercial Development (SPG1), Sheltered Housing and Care Homes (SPG 9), Backland Development (SPG10), Roads and Footpaths (SPG 14), Landscaping (SPG16) and Trees (SPG17). In preparing our development typologies for testing and associated cost assessments regard has been had to the requirements of these documents, as appropriate.

2.4 **Core Strategy Evidence Base**

2.4.1 A number of evidence base documents, prepared to support the Core Strategy, have influenced some of our assumptions in this report and our findings in relation to both baseline viability and Core Strategy policy viability. The key documents are as follows.

2.4.2 ***Housing***

2.4.3 The Wirral Strategic Housing Land Availability Assessment Update 2012 (SHLAA) illustrates the availability of residential development sites throughout Wirral as required by the National Planning Policy Framework (NPPF). NPPG states that the SHLAA has three functions: to identify sites with potential for housing; assess their housing potential; and assess when they are likely to be developed (Paragraph: 001 Reference ID: 3-001-20140306). The Wirral SHLAA Update 2012 identified a total of 689 sites that could deliver 9,788 units over a 15 year period to 2028. The results of the SHLAA have helped to inform our conclusions about the likely forms, size and location of residential development in the future.

2.4.4 Wirral Council has drawn together the above evidence, along with other sources of evidence to establish its position in relation to housing need (including specialist forms of housing) and land availability. This is reflected in policies CS18 – CS23 of the emerging Local Plan.

2.4.5 ***Employment Land***

2.4.6 The Wirral Employment Land and Premises Study Update 2012 (ELPS) provides the latest information on land available for employment uses across the Borough and has been used by the Council to plan for longer term employment needs. The study found that there is over 264 hectares of potential employment land across 116 sites, with a substantial portion in Bromborough. However, it found that over 75% of this potential land is constrained for at least the medium term through a variety of physical constraints including a lack of servicing. The study concluded that there was insufficient immediately available, developable land throughout the Borough to accommodate the employment development required to meet needs to 2030.

2.4.7 ***Retail***

2.4.8 The Wirral Retail Study Update 2012 provides an assessment of the future capacity for retail related developments across the Borough. The report highlights the current and future roles of town, district and local centres, in order that the Borough's centres play an appropriate role to serve local needs. This particular study has informed assumptions about the type, scale and location of future retail developments in the Borough.

2.4.9 ***Spatial Vision***

2.4.10 The Community Strategy for Wirral (Wirral 2025 "More Equal More Prosperous - A Sustainable Community Strategy") is reflected in the Spatial Vision contained in the emerging Core Strategy Local Plan. This identifies:-

- that the focus of new development and investment will be on improving and regenerating the Borough's existing urban areas; tackling social, health, economic and environmental disparity; re-using existing buildings and previously developed land; and on strengthening and enhancing the distinctive assets of the Borough; supported by a tight Green Belt to focus development into the existing built-up area and achieve a sustainable pattern of development.
- that sustainable economic regeneration will be driven by the major economic hubs of Birkenhead, Bromborough and the Ports; supported by a thriving network of town, district and local centres providing retail, office, leisure, service, cultural, community and visitor facilities to meet the everyday needs of local communities.
- that development and investment will be expected to support and encourage a more sustainable pattern of development and travel that will reduce emissions; improve air quality; increase use of public and alternative forms of transport; and there will be a greater emphasis on securing sustainable approaches across a multitude of sectors.

2.4.11 ***Annual Monitoring Report 2013***

2.4.12 The Annual Monitoring Report is a statutory document setting out progress on the delivery of Local Plans and the extent to which national and local priorities are being achieved. The most recent report for Wirral available at the time of writing covered the period of twelve months ending on 31 March 2013. The key indicators from this most recent report that are relevant to this study are summarised below:-

- The 2011 Census showed a growth in the local population, up by 2.4% since 2001 to 319,800 people;

- Economic activity within the local population continued to recover to 75.6% during 2012/13, compared with the previous high of 76.4% in 2007 and the number of residents who were economically inactive decreased further to 45,900;
- The completion of new employment floor space has, however, continued to be suppressed and was only just above the level of the previous low point in 2009/10.
- The amount of new retail floor space completed had slowed after the previous significant increase during 2011/12 but the amount of new completed leisure floor space was only slightly lower than in 2011/12;
- While the proportion of new retail floor space located within an existing centre had continued to increase, to just over half, the vast majority of new leisure projects were continuing to take place outside existing centres;
- Gross housing completions increased to 640 in 2012/13 but were still almost a quarter lower than the levels achieved during the previous market peak in 2007/08;
- Net performance has continued to be affected by a high number of demolitions, which increased to 355 in 2012/13, as part of a targeted programme to remove poor quality social housing stock;
- A higher number of completions have begun to be recorded within the west of the Borough, following the revocation of the Council's Interim Planning Policy for New Housing Development in October 2012 and the proportion of dwellings completed on previously developed land has continued to exceed 80%;
- The completion of new affordable dwellings was only slightly lower than the level achieved in 2011/12, at 96 units.

3.0 OVERVIEW OF WIRRAL

3.01 The Wirral peninsula lies between Liverpool and North Wales and is bounded by the Dee and Mersey Estuaries. The Metropolitan Borough of Wirral forms the northern most part of the peninsula. The land area extends to approximately 60 square miles and contains one of the largest metropolitan areas in England, which is home to approximately 320,000 people and over 8,000 businesses providing employment for approximately 96,000 people.

3.02 Wirral is bounded by the neighbouring authorities of Cheshire West and Chester to the south east, Liverpool on the opposite bank of the Mersey to the east and Flintshire on the opposite bank of the Dee to the west.

3.03 The majority of the developed area of the Borough lies along the Mersey coast and east of the M53 Motorway. The major urban centres of Birkenhead and Wallasey lie to the east of the Borough. The areas to the west and south are more rural. The area to the west of the M53 motorway contains a series of suburban settlements (such as Heswall, West Kirby, Hoylake, Moreton, Greasby, Leasowe and Upton) and smaller rural villages separated by areas of Green Belt.

3.04 The Borough has good transportation links with access to both Liverpool and Manchester airports which serve the wider region, the Port of Liverpool and the Manchester Ship Canal, the commuter/leisure ferry services between Liverpool and Woodside/Seacombe, the national and local rail network and Chester and North Wales. The M53 motorway runs along the middle of the peninsula and the Borough is also accessible by road from Liverpool via the Mersey tunnels at Wallasey (Kingsway) and Birkenhead (Queensway).

3.1 Property Market Evidence

3.1.1 *Residential*

3.1.2 Following national trends, average house prices in Wirral declined from a high of £140,333 in October 2007 to a low of £110,708 in December 2012. The volume of transactions reduced from an average of around 550 per month in 2007 towards an average of around 250 per month throughout 2012.

3.1.3 Table 3.1 indicates that, in general, house prices in Wirral are below that of the national average yet above that of the regional average. The national average dwelling price of most unit types is above that of the Wirral average. In Wirral, detached dwellings average £251,034, semi-detached dwellings average £126,023, terraced dwellings average £72,557 and flats average £92,700.

Area	Detached	Semi Detached	Terraced	Maisonette /Flat	All
Wirral	£251,034	£126,023	£72,557	£92,700	£112,388
North West England	£213,730	£112,215	£66,237	£104,470	£110,001
England & Wales	£260,985	£157,194	£126,210	£161,221	£167,063

Table 3.1: Comparison of average house prices in Wirral against the regional and national averages (Source: Land Registry House Price Index, September 2013)

3.1.4 In 2012 most property sales in Wirral involved semi-detached properties which sold for on average £151,783. Terraced properties sold for an average price of £104,407, while detached properties achieved £259,929.

3.1.5 Wirral had an overall average price of £156,620 during 2012 and sold prices in Wirral were 3% down on the previous year and 5% down on 2008 when the average house price was £164,609. (Source: Rightmove).

3.1.6 Our analysis of prices achieved for new homes across Wirral suggests that there are spatial differences in terms of value. New build schemes in the Bromborough area have achieved sales values in excess of £2,260 per sq.m (£210 per sq.ft), whilst developments in Birkenhead are at values of below £1,615 per sq.m (£150 per sq.ft). Due to a lack of new build developments on the west side of the Borough, it has also been necessary to consider modern properties that have been re-sold in recent years. Our analysis has shown for example that modern properties in West Kirby have achieved values in excess of £2,420 per sq.m (£225 per sq.ft).

3.1.7 There are a number of new residential developments within Wirral which are currently being built out or have recently been completed. These developments include the following:-

- St Joseph's Place, Birkenhead (Keepmoat Homes)

- Fountain Court, Birkenhead (Lovell)
- Sevenoaks, Rock Ferry (Lovell)
- Langdale Mews, Bebington (Macbryde Homes)
- Chandlers Walk, Bebington (Barratt Homes)
- Dibbin Brook, Bromborough (Redrow Homes)
- Watermill Gardens, Bromborough (Taylor Wimpey)

3.1.8 St Joseph's Place comprises a development by Keepmoat Homes in Birkenhead. The first phase of the scheme has recently been completed and features a total of 68 dwellings; including 20 affordable homes. Sale prices achieved to date have been between £1,184 per sq.m (£110 per sq.ft) and £1,518 per sq.m (£141 per sq.ft); net of incentives.

3.1.9 Fountain Court, located in Birkenhead, comprises a development of 56 units built by Lovell. At the time of writing the sale of around 12 units has been reported at Land Registry. The development comprises a mixture of 2, 3 and 4 bed dwellings, with a high proportion of 3 bed detached and semi-detached units. The prices achieved to date have been between £1,410 per sq.m (£131 per sq.ft) and £1,787 per sq.m (£166 per sq.ft).

3.1.10 Sevenoaks in Rock Ferry comprises a development of 114 dwellings, including 15 affordable units and 45 homes for rent. According to site plans, there is another future phase of development that is yet to commence. The existing development comprised a mixture of 2, 3, and 4 bed mews homes. The units sold based on Land Registry data have achieved prices between £1,345 per sq.m (£125 per sq.ft) and £1,916 per sq.m (£178 per sq.ft).

3.1.11 Langdale Mews comprises a development of twelve 4 bed town houses in Bebington, constructed by Macbryde Homes. According to Land Registry, a total of 7 units have sold at prices between £1,862 per sq.m (£173 per sq.ft) and £2,400 per sq.m (£223 per sq.ft).

3.1.12 Chandlers Walk comprises a development by Barratt Homes in New Ferry. A total of 69 dwellings have been constructed, which include 2, 3 and 4 bed houses and a small number of apartments. A large number of units have been sold according to Land Registry data, with achieved values between £1,442 per sq.m (£134 per sq.ft) for a two and a half storey 3 bed town house and £2,131 per sq.m (£198 per sq.ft) for a 3 bed end terrace.

3.1.13 Dibbin Brook in Bromborough is the completed second phase of a larger development by Redrow Homes. The development comprises 69 dwellings, the majority of which are 3 and 4 bed detached houses. According to Land Registry a large number of units have sold, with reported values of between £2,067 per sq.m (£192 per sq.ft) and £2,669 per sq.m (£248 per sq.ft).

3.1.14 Watermill Gardens comprises a development of 86 dwellings, including 8 affordable units and 16 apartments. Located in Bromborough, the majority of the scheme is comprised of 2, 3 and 4 bed mews dwellings and 4 bed detached dwellings. The units have been sold at prices equating to between £1,927 per sq.m (£179 per sq.ft) and £2,465 per sq.m (£229 per sq.ft), according to Land Registry information.

3.1.15 As noted at paragraph 3.1.6 due to the lack of current new build developments in the central and west side of the Borough, we have also considered the resale values achieved on modern properties which have been built within the last 20 years.

3.1.16 Analysis of re-sale values achieved on modern properties on the west side of the Borough from 2010 onwards incorporated a number of different dwelling types. Areas that were considered on the west side of the Borough include Hoylake, Meols, West Kirby, Irby, Thingwall, Caldy and Heswall. As would be expected a broad range in sales prices across this area were observed due to differences in the size and type of the properties considered; however on average, modern resale prices are in the order of £2,260 per sq.m (£210 per sq.ft). These areas are considered to be among the more affluent in the Borough, and so property prices are generally higher than the in the rest of the Borough.

3.1.17 Moving towards the central and south east areas of the Borough we have also observed modern sale transactions in Oxton, Bebington, Bromborough, Eastham and Greasby. Recent modern resale values throughout these areas generally appear to be in the order of £2,045 per sq.m (£190 per sq.ft).

3.1.18 We have also analysed recent modern resale transactions in a number of areas surrounding Birkenhead; including Wallasey, Leasowe, Moreton, Upton, Bidston and Rock Ferry. Across these areas the average sales rate was around £1,722 per sq.m (£160 per sq.ft). A summary of the average prices per sq.ft for modern re-sales is contained in table 3.2.

Area	Location	Average price per sq.ft	Overall Average per sq.ft
North/East	Wallasey	£168.54	
	Leasowe	£160.49	
	Moreton	£155.63	
	Upton	£159.37	
	Bidston	£153.42	£159.49
Central/East	Oxton	£170.36	
	Bebington	£199.23	
	Bromborough	£192.58	
	Eastham	£183.83	
	Greasby	£188.80	£186.96
West	Meols	£203.13	
	West Kirby	£224.91	
	Irby	£201.08	
	Thingwall	£202.71	
	Caldy	£225.81	
	Heswall	£199.64	£209.55

Table 3.2: Summary of the average price per sq.ft observed for modern resale properties across Wirral from 2010 onwards

3.1.19 Appendix 1 contains an overview of the research that we have undertaken in relation to the Residential Property Market in Wirral and the immediately surrounding areas, with specific reference to new build developments and re-sales of modern properties.

3.1.20 ***Non-Residential***

Overview

3.1.21 The wider economy has a significant impact on the market for commercial property both nationally and also on a regional basis. As a result in undertaking this viability assessment it is important to gain an understanding of wider economic circumstances and in turn how they might impact on the local property market. We have therefore provided an overview of current economic circumstances before considering in turn the local market indicators for the various commercial market sectors.

3.1.22 Economic growth has improved in Q2 2013 at a rate of 0.6%, double the figure for Q1. These figures have given cause for optimism that recovery from recession is finally underway. Despite the UK economy emerging from recession in the latter half of 2012 with quarterly economic growth reported at 1.0% (the highest rate of growth since Q3 2007), most commentators remained cautious and pointed to one off events during 2012 such as the timing of Olympics and Paralympics tickets sales for the acceleration in growth, in addition to the effect of the extended Bank Holiday period in Q2. The latest figures give substance to the idea of a sustained economic recovery as Q2 2013 growth was broad based with all main sectors showing positive growth; particularly Construction, Manufacturing, Business Services and Finance. Unsurprisingly, economic growth forecasts have been revised to 1% for 2013 and 1.7% for 2014; a notable increase on previous forecasts.[2]

3.1.23 As at 2013 Q1, employment growth remained surprisingly strong despite a limited effect on output. This is possibly due to the fact that companies have retained or expanded their staff anticipating a bounce back from the worst of the recession. In addition, unemployment had fallen to its lowest level for 14 months at around 2.5 million[3].

[2] GVA 'Economic & Property Market Review'; Q3 2013

[3] GVA 'Economic & Property Market Review'; Q1 2013

3.1.24 According to the latest Annual Monitoring Report (2013) in Wirral the Gross Value Added per capita measuring economic activity is the lowest of any NUTS3 area in England and Wales, however between 2010 and 2011 growth in the area was above both the regional and national averages with an increase from £10,987 to £11,167 equating to an increase of 1.6% between 2010 and 2011. Economic activity within the area had continued to recover with an increase from 74.9% in 2012 to 75.6% in 2013. Unemployment within Wirral has decreased from 46,900 in 2012 to 45,900 in 2013

3.1.25 There has also been positive news relating to the performance of the Eurozone, the UK's largest trading partner. GDP growth of 0.3% in Q2 2013 finally brought an end to six consecutive quarters of economic contraction and this figure was expected to increase to 1% in 2014 and 1.5% in 2015-17.The road to recovery is likely to be long and arduous and unemployment was expected to peak at 20 million in 2014. However, other signs of growth are also beginning to suggest a more positive outlook for the Eurozone than in recent years[4].

3.1.26 Nationally, development activity remains at a historic low, with the construction sector contracting by 9.3% over the past year[2]. However, UK employment figures as a whole are reported to be back above the pre-recession peak which has provided a boost to the property market and has kept vacancy rates lower than expected. In terms of rental figures for all properties, on average the market is forecast to grow modestly by 0.7% in 2013, rising to 1.4% in 2014 and to more than 3.0% pa in 2017. In Wirral, new housing completions are beginning to recover but are still 25% below market peak. Completed new employment floor space is still only just above the previous low point in 2009/10.

3.1.27 In terms of investment yields; CBRE state that prime rents have grown by 0.6% over the previous quarter, and that UK prime yields have fallen slightly to 6.08% for the quarter[5].

[3] Ernst & Young 'Eurozone Forecast'; September 2013

[5] CBRE 'UK Prime Rents and Yields'; Q3 2013

Industrial and Warehousing

3.1.28 GVA's Industrial Intelligence Report states that average rental values have shown modest falls over the past 3 years, although positive growth is expected from 2014. Prime rents on the other hand, remained largely unchanged throughout 2012 and increased slightly in markets with a shortage of stock. Notwithstanding the above, the report suggests that the North West and Midlands have outperformed other regions over the past year. For example, in terms of logistics accommodation new-build space only accounts for 9% of overall availability in the North West[5].

3.1.29 Due to the current economic conditions including constraints on bank lending there are few new developments in the pipeline from a nationwide outlook. In the medium and long term this is likely to lead to a shortage of supply as industrial sites are beginning to increase in occupancy levels whilst available stock is diminishing[6].

3.1.30 Jones Lang LaSalle's UK Industrial Property Trends report states that the current rental levels which are being achieved for prime industrial accommodation in the North West of England are between £4.50 and £6.00 per sq.ft; with slightly higher rents being achieved for some smaller units of 1,500 – 2,000 sq.ft[7].

3.1.31 When comparing the incentive levels for new and second hand accommodation these have increased at the higher end of the scale, to maintain the headline rents of £4.50 - £6.00 per sq.ft across the term. These headline rents are achievable for smaller units of less than 10,000 sq.ft, although for units above this size rents are generally lower at between £3.00 - £4.00 per sq.ft. However, it is also stated that a lack of supply of good quality industrial units is encouraging landlords to reduce incentives and maintain headline rents as voids are met. For more secondary accommodation, rental incentives are generally already reflected in the rents at £2.00 - £3.50 per sq.ft[6].

[6] GVA ' Industrial Intelligence'; Spring 2013

[7] Jones Lang LaSalle ' UK Industrial Property Trends'; March 2013

3.1.32 According to the ELPS and data from the Valuation Office Agency industrial floor space within Wirral totalled 1,440,000 sq.m in 2008 with vacancy rates at 13.6% based on overall floor space available. We understand this was the last information collated to establish industrial floor space within the borough.

3.1.33 According to the AMR 2013 industrial floor space and storage and distribution floor space has decreased since 2012 from 1,218,000 sq.m to 1,201,000 sq.m , although office accommodation and retail accommodation has increased from 220,000 sq.m and 593,000 sq.m to 222,000 sq.m and 614,000 sq.m respectively.

3.1.34 Birkenhead and the surrounding urban areas grew as a trading port and shipbuilding centre over the course of the 20th Century. Due to increased containerisation and foreign competition in the shipbuilding industry production decreased significantly. This decrease in activity has resulted in a decrease in the demand for related industrial buildings.

3.1.35 In overall terms the demand for industrial space has reduced over time. This is evidenced by the loss of industrial floor space to other uses highlighted within the AMR. This may have been accentuated by the recession and stunted recovery.

3.1.36 According to the ELPS, there was an increasing demand across Wirral for smaller industrial premises as average company size continues to decrease, and an increasing demand for higher quality accommodation. In terms of supply, the report states that industrial supply throughout Wirral is predominantly centred on Bromborough and Birkenhead.

3.1.37 In addition, the ELPS identified the need to provide additional smaller, quality sub-assembly light manufacturing space in the range of 94 to 930 sq.m (1,012 to 10,010 sq.ft) and new workshops up to 93 sq.m (1,001 sq.ft), based on the anticipated future growth of small and medium sized enterprises.

3.1.38 In reference to the industrial market, the ELPS suggests that vacancy rates for accommodation in Wirral totalled almost 200,000 sq.m (2,152,780 sq.ft) in 2008. We understand that this was the last study on vacancy rates undertaken by the Council.

3.1.39 In our experience there are a small number of key modern industrial developments in the Borough that provide the best evidence of the values that may be achieved for newly constructed B2/B8 accommodation. These developments are summarised below and in addition we have also considered Millennium Court which is situated close by in neighbouring Cheshire West and Chester:-

- Riverview Business Park, Bromborough
- The Gateway, Bromborough
- Maritime Business Park, Birkenhead
- Woodway Court, Bromborough
- Counterpoint, Bromborough
- Millennium Court, Neston

3.1.40 The evidence that we have considered; coupled with our experience and discussions with active agents; indicates freehold capital values of around £540 per sq.m (£50.00 per sq.ft) and rents of around £55 per sq.m (£5.00 per sq.ft) for modern high quality industrial units in the Borough. These values are in line with similar secondary locations in the North West, excluding the hotspots areas such as Warrington, South Manchester and Trafford Park and specific well located and accessible business parks along the M6, M62 and M60.

3.1.41 Appendix 1 contains an overview of the research that we have undertaken in relation to the Industrial Property Market in Wirral. In some instances where appropriate this has been supplemented by information from the surrounding localities outside of the Borough.

Offices

3.1.42 Jones Lang LaSalle within their annual UK Office Market Outlook state that market activity picked up in Q4 2012, with letting volumes increasing by 3.5% year on year. Notwithstanding this, JLL report that vacancy rates increased from 12.3% to 12.6% and remain above the 10 year average of 10.6%[8].

[8] Jones Lang LaSalle ' UK Office Market Outlook'; Q4 2012

3.1.43 GVA report that prime headline City Centre rents in regional cities range between £21 per sq.ft and £29.50 per sq.ft ('Big Nine Review of Regional Office Markets Q3 2013'), which includes an analysis of the Manchester, Glasgow, Birmingham, Bristol, Leeds, Edinburgh, Newcastle, Cardiff and Liverpool markets. Prime office rents in Liverpool are currently at around £21 per sq.ft, whilst out of town accommodation achieves rents of around £11/ft^2. It is reported that total take up activity in Q3 2013 was 10% above the five year quarterly average, whilst average rental values were expected to grow by 0.6% in 2013, rising to 1.6% in 2014 and 2.5% pa by 2017[9].

3.1.44 Recent office lettings and marketing rents in 2013 suggest that office rents in Wirral are broadly similar to the rental levels achieved for out of town office accommodation in Liverpool. Notwithstanding this, the office market in Wirral is characterised by an abundance of out-dated older stock. There are very few modern units within the Borough, although in determining likely rents we have looked at the following transactions and marketed units:-

- Modern units at Prenton Business Park are available at a headline rent of £124 per sq.m (£11.50 per sq.ft) which we understand is net of incentives.
- Office Units at Gateway House on New Chester Road in Bromborough of between 111 sq.m (1,200 sq.ft) and 2,991 sq.m (32,200 sq.ft) are available at rents of £81 per sq.m (£7.50 per sq.ft).
- Grade A office space of between 102 sq.m (1,098 sq.ft) and 762 sq.m (8,203 sq.ft) at Oak House in Bromborough is currently being marketed at rents of £81 per sq.m (£7.50 per sq.ft).
- Office units extending towards 1,058 sq.m (11,387 sq.ft) at Haymarket Court on Hinson Street in Birkenhead are currently being marketed with Smith and Sons at rents of £124 per sq.m (£11.50 per sq.ft). The units comprise 5 separate suites with shared kitchen facilities.
- Units at the Lauries Centre on Claughton Road in Birkenhead ranging from 50 sq.m (538 sq.ft) and 211 sq.m (2,271 sq.ft) are currently available at rents of £108 per sq.m (£10 per sq.ft). It is understood that the offices are situated over 3 floors and were built out in 2005. Tenants include Age Concern, Sure Start, Wirral PCT and both Liverpool and Manchester Universities.

[9] GVA ' The Big Nine: Review of the Regional Office Occupier Markets'; Q3 2013

- A single ground floor office suite comprising 256 sq.m (2,754 sq.ft) at Europa House on Conway Street in Birkenhead is currently being marketed by Smith and Sons at a rent of £27,500. The asking rent equates to a value of around £108 per sq.m (£10 per sq.ft).
- Modern office units of between 30 sq.m (312 sq.ft) and 390 sq.m (4,203 sq.ft) let at Riverside Park between 2010 and 2013 on rents of between £102 per sq.m (£9.50 per sq.ft) and £203 per sq.m (£18.84 per sq.ft). Smaller units of between 30 and 45 sq.m (312 and 480 sq.ft) let at higher rents on an area basis as a result of their size.

3.1.45 The evidence suggests that rents for Grade A office accommodation in the Borough are at around £118 per sq.m (£11 per sq.ft), and freehold capital values are at around £1,160 per sq.m (£105 per sq.ft); net of incentives.

Retail

3.1.46 In recent years, growth in retail rents at both national and regional level appears to have stalled in the wake of a series of major high street retailers entering into administration. This has included brands such as Clinton Cards, Game, HMV, Peacocks, Jessops and Blockbuster. Colliers report that trading conditions have worsened amidst increased inflation and stagnant wage growth, which has culminated in reduced disposable income and reduced sales. This, combined with the continuous growth of online retail has had a negative effect on the UK retail property market. Despite this, Colliers summer 2013 figures have shown that the market as a whole is showing signs of recovery; with vacancy rates falling for the first time in 18 months, coupled with increased revised estimates of GDP growth[10].

3.1.47 Whilst larger retail destinations such as the Trafford Centre, Liverpool One and Cheshire Oaks have continued to trade well, Colliers predict that secondary retail locations will continue to suffer as a result of fewer shopping trips and continued competition from supermarkets and online retailers. It is becoming more important for major retailers to establish a presence in major retail destinations, often at the expense of stores in smaller and medium sized towns.

[10] Colliers ' Midsummer Retail Report'; 2013

Birkenhead

3.1.48 The Pyramids Shopping Centre[11] which was built in 1978 (and renovated in 1995) in Birkenhead comprises the largest town centre shopping centre in Wirral. According to CoStar data the shopping centre extends to 596,243 sq.ft, of which around 28,685 sq.ft remains vacant. Occupancy rates are therefore at around 95.2% of the retail space. In addition to the above, the shopping centre contains around 1,100 car parking spaces.

3.1.49 Following trends elsewhere across the North West, smaller more localised tenants are moving into units in shopping centres which were once occupied by national multiple retailers. This is evident within the Pyramids Shopping Centre, with CoStar reporting recent lettings of smaller units to West Wirral Works, Chopstix, Town Centre Café, Mums and Midwives Awareness Academy and Doctor Jones Watch Repairs. Recent lettings to national multiple retailers include the letting of 1,268 sq.m (13,650 sq.ft) to H&M Hennes and Mauritz UK Ltd in May 2013 at a rent of £295,000 per annum equating to £233 per sq.m (£21.61 per sq.ft) on an overall basis, and the letting of 154 sq.m (1,654 sq.ft) to Card Express at a rent equating to £325 per sq.m (£30.23 per sq.ft) when analysed on an overall basis.[12]

3.1.50 Notwithstanding this, the Pyramids Shopping Centre appears to be trading well. A high proportion of the larger units remain occupied by larger national multiple retailers including M&S, Next, Argos, H&M and River Island, and CoStar report that asking rents have increased above the 5 year average whilst vacancy rates have fallen below 5 year average rates.

[11] now comprises both the original 'Pyramids' enclosed shopping centre and the outdoor 'Grange' shopping precinct

[12] For the avoidance of doubt all rents quoted within the report comprise overall rents (as opposed to comparison on a £/per sq.ft ITZA basis). Whilst the measurement of rents on an ITZA basis is considered preferable for the valuation of prime high street retail units, overall rents are used for convenience retail and often in secondary and tertiary retail locations. For comparative purposes and on the basis that this report comprises a high level study in assessing the viability of development across the Borough we have applied rents on an overall basis.

3.1.51 Table 3.3 below outlines the current asking rents for available units within the Pyramids Shopping Centre, which on an overall basis range from £47 per sq.m (£4.48 per sq.ft) to £852 (£79.14 per sq.ft). The average asking rent is around £343 per sq.m (£31.85 per sq.ft), whilst the average size of the available units amounts to around 147 sq.m (1,584 sq.ft).

Floor/Suite	sq.ft Available	Rent PA	Term	Rent per sq.m	Rent per sq.ft
19	1,774	£65,000	10	£394	£36.64
32-36	3,011	£65,000	10	£232	£21.59
15	468	£25,000	10	£575	£53.42
10	947	£22,500	10	£256	£23.76
19-21	2,136	£50,000	10	£252	£23.41
30	962	£27,750	10	£311	£28.85
8	973	£22,500	10	£249	£23.12
16-18	2,305	£37,500	10	£175	£16.27
SU10	1,352	£50,000	10	£398	£36.98
18	1005	£22,500	10	£241	£22.39
4	10,281	£45,000	10	£47	£4.38
115	941	£15,000	10	£172	£15.94
12	537	£20,000	10	£401	£37.24
PGR	1,063	£27,000	10	£273	£25.40
12	537	£42,500	10	£852	£79.14
32	1,698	£78,000	10	£495	£45.94
17	1,002	£22,500	10	£242	£22.46
14	962	£22,500	10	£252	£23.39
11	765	£45,000	10	£633	£58.82
8	1,979	£70,000	10	£381	£35.37
16	964	£26,000	10	£290	£26.97
31	951	£25,000	10	£283	£26.29
2	873	£50,000	10	£616	£57.27
5	510	£20,000	10	£422	£39.22
36	1,359	£65,000	10	£515	£47.83
3	1,979	£26,500	10	£144	£13.39
12	997	£23,000	10	£248	£23.07
21	1,821	£72,000	10	£426	£39.54
29	954	£25,000	10	£282	£26.21
26	3,054	£65,000	10	£229	£21.28
Average	**1,578**	**£39,092**		**£342**	**£31.85**

Table 3.3: The Pyramids Shopping Centre Asking Rents in April 2014 (CoStar)

3.1.52 In addition to lettings in the in the Pyramids Shopping Centre, surrounding streets including Grange Road West, Oxton Road and Argyle Street make up the prime retail location in Birkenhead and in Wirral. Sayers took a lease at 239-241 Grange Road off an asking rent of £268 per sq.m (£24.93 per sq.ft) in January 2013; the unit comprised 93 sq.m (1,003 sq.ft). All other lettings within the immediate vicinity over the course of the last 18 months including those to Hamilton's Café, (22 Argyle Street), Birkenhead Computer Repair (29/29a Argyle Street) and Home Farm Business Centre (253 Grange Road) have achieved rents or let off asking rents of around £108 per sq.m (£10 per sq.ft). Other lettings including those to Nuevo Hair and Beauty (63-69 Argyle Street, Inspiring Minds Training Academy) have taken place at rents of around £86 per sq.m (£8 per sq.ft). Retail rents vary significantly according to footfall and location, and the lettings cited above tend to illustrate that retail rents decline significantly in Birkenhead outside of the Pyramids Shopping Centre.

3.1.53 According to the Proposed Submission Draft Core Strategy (which replicates the findings of Wirral's Town, District and Local Centres Study and Delivery Framework dated June 2011) Birkenhead Town Centre comprises the only 'sub-regional centre' within the Borough. According to the Hierarchy of Centres Heswall, Liscard, Moreton and West Kirby comprise 'town centres', whilst Bromborough Village, Hoylake and Woodchurch Road (Prenton) comprise District Centres.

3.1.54 <u>Heswall</u>

3.1.55 According to local agents Heswall achieves the highest rents in Wirral (outside Birkenhead) at around £430 per sq.m (£40 per sq.ft). The high street includes national multiple retailers including HSBC, Barclays, Boots, Lloyds Pharmacy, M&S food, Halifax and Sayers. Notwithstanding this, recent lettings have been significantly below this at between £225 per sq.m (£21 per sq.ft) and £290 per sq.m (£27 per sq.ft), as indicated in the deals highlighted below:-

- 69 Telegraph Road let to Computer 64 at a rent of £14,000 per annum, which equated to a rent of around £281 per sq.m (£26.12 per sq.ft) in January 2013.

- The Curve on Telegraph Road let to WH Smith Plc for £45,000 per annum, which equated to a rent of around £217 per sq.m (£21.15 per sq.ft) in July 2012.
- 254 Telegraph Road let to St John's Hospice for £18,000 per annum, which equated to a rent of around £285 per sq.m (£26.51 per sq.ft) in November 2011.
- 182 Telegraph Road let to Liverwire Wirral Ltd at a rent of £12,000, which equated to a rent of around £231 per sq.m (£21.43 per sq.ft) in October 2011.
- 155-157 Telegraph Road let to Claire House at a rent of £25,000, which equated to a rent of £362 per sq.m (£33.60 per sq.ft).

3.1.56 However, as in the case of Birkenhead, rents drop off fairly quickly away from the main retail pitch. The most recent lettings along Telegraph Road and Pensby Road illustrate this trend, and show the variation in rents apparent within the area:-

- 224-230 Telegraph Road was let to Savers Health and Beauty Limited at a rent of £37,500 which equated to around £79.22 per sq.m (£7.36 per sq.ft) in September 2013.
- 79 Pensby Road was let to Wirral Dog Grooming at a rent of £7,000, which equated to around £173 per sq.m (£16.06 per sq.ft) in September 2013.
- 385 Pensby Road was let to Mode at a rent of £6,240 which equated to a rent of £193 per sq.m (£17.93 per sq.ft) in September 2013.
- 411-413 Pensby Road was let to Skyline Catering at a rent of £12,700, which equated to £66 per sq.m (£6.11 per sq.ft) in June 2013.

3.1.57 <u>Liscard</u>

3.1.58 The Cherry Tree Shopping Centre in Liscard comprises around 16,522 sq.m (177,846 sq.ft) of retail accommodation. Around 1,286 sq.m (13,846 sq.ft) remains vacant, meaning that vacancy rates are currently at around 7.8% as a proportion of overall space. The Cherry Tree Shopping Centre does retain a significant proportion of national multiple retailers, albeit the retail offer tends to be more budget orientated. Tenants include Boots, Primark, Costa, Home Bargains, Bon Marche, Iceland and WH Smith.

3.1.59 Recent lettings include the following:-

- The Moneyshop took a lease of 29 Liscard Way at a rent of £25,000 per annum in June 2012, which equated to a rent of £172 per sq.m (£16.02 per sq.ft).
- Boots took a lease of 26 Liscard Way at a rent of £48,000 per annum in May 2011, which equated to a rent of £100 per sq.m (£10.76 per sq.ft).
- Poundstretcher took a lease of 26 Liscard Way at a rent of £20,000 per annum in June 2011, which equated to a rent of £77.52 per sq.m (£7.20 per sq.ft). Notwithstanding this, given the asking rent was £46,500 per annum it is considered likely that a stepped rental was agreed in this instance.

3.1.60 Table 3.4 indicates that average asking rents in the Cherry Tree Shopping Centre according to CoStar are around £296 per sq.m (£27 per sq.ft) on an overall basis, which is below the £343 per sq.m (£31.85 per sq.ft) identified in respect of the Pyramids Shopping Centre in Birkenhead.

Floor/Suite	sq.ft Available	Rent PA	Term	Rent per sq.m	Rent per sq.ft
22	535	£19,000	Negotiable	£382	£36
27	405	£15,500	Negotiable	£412	£38
26	506	£15,000	Negotiable	£319	£30
29/30	1,671	£42,500	Negotiable	£274	£25
24	701	NA	Negotiable		
46	1,029	£27,500	Negotiable	£288	£27
3	701	£12,500	Negotiable	£192	£18
45	1,138	£30,000	Negotiable	£284	£26
2	696	£12,500	Negotiable	£193	£18
32	896	£27,500	Negotiable	£330	£31
3-5	3,000	NA	Negotiable		
B/C	360	NA	Negotiable		
F	180	NA	Negotiable		
44	797	£27,500	Negotiable	£371	£35
41	1,231	£40,000	Negotiable	£350	£32
4/4a	1,391	£20,000	Negotiable	£155	£14
Average	**952**			**£296**	**£27**

Table 3.4: Cherry Tree Shopping Centre Asking Rents in April 2014 (CoStar)

3.1.61 There have also been relatively few lettings along Wallasey Road and Liscard Village in the 18 months to September 2013, which sit immediately opposite the Cherry Tree Shopping Centre and comprise the non-shopping centre prime pitch in Liscard. CoStar report that Wallasey Cards Ltd took a lease of 20/20b Liscard Village for £5,200, which equated to a rent of £147 per sq.m (£13.68 per sq.ft).

3.1.62 Moreton

3.1.63 The main retail offer in Moreton fronts Hoylake Road, although sections of Upton Road and Pasture Land are also included. National multiples present along the high street include Thomson, HSBC, Iceland, Superdrug, Boots and Home Bargains.

3.1.64 According to CoStar there have been a number of recent lettings in Moreton over the course of the last 24 months, which includes the following transactions:-

- 217 Hoylake Road let for £12,000 per annum in September 2011. The unit amounted to 50 sq.m (536 sq.ft), meaning that the rent on an overall basis equated to £241 per sq.m (£22.39 per sq.ft).
- 117 Hoylake Road let at a rent of £18,000 per annum in January 2011. The unit amounted to 46 sq.m (493 sq.ft), meaning that the rent equated to £393 per sq.m (£36.51 per sq.ft) overall.
- 281-283 Hoylake Road let at a rent of £15,000 in November 2012. The rent equated to £140 per sq.m (£12.99 per sq.ft) based on a floor area of 107 sq.m (1,155 per sq.ft).

3.1.65 As detailed above in respect of other retail areas, there is a degree of variability in the levels of rent that have been achieved. This is illustrated within the following deals including 17-29 Pasture Road which let for £8,000 per annum in May 2013 (£84.39 per sq.m, £7.84 per sq.ft), 290 Hoylake Road which left for £13,000 in February 2012 (£57.91 per sq.m, £5.38 per sq.ft) and 145-147 Hoylake Road which let for £10,000 in January 2011 (£135 per sq.m, £12.50 per sq.ft).

3.1.66 West Kirby

3.1.67 The prime retail pitch in West Kirby fronts Banks Road, The Crescent and Grange Road. Very few properties appear to be vacant, although nos. 34, 25-35 and 40-42 Grange Road are either for sale or to let.

3.1.68 National multiples present within West Kirby include the National Westminster Bank, Superdrug, Santander, Boots, HSBC, Barclays, Lloyds and Sayers.

3.1.69 Recent lettings have taken place at rents ranging between from £86 per sq.m (£7.96 per sq.ft) to £274 per sq.m (£25.45 per sq.ft). Summaries of each of the recent transactions are reported below:-

- 83 Banks Road let at a rent of £17,000 per annum in January 2013, which equated to a rent of £122 per sq.m (£11.33 per sq.ft)
- 3 Banks Road let at a rent of £19,750 per annum in October 2012, which equated to a rent of £212 per sq.m (£19.77 per sq.ft)
- 86 Banks Road let at a rent of £16,000 per annum in June 2012, which equated to a rent of £218 per sq.m (£20.23 per sq.ft)
- 12 Banks Road let at a rent of £20,000 per annum in May 2012, which equated to a rent of £274 per sq.m (£25.45 per sq.ft).
- 15 The Crescent let at a rent of £19,000 per annum in December 2011, which equated to rent of £153 per sq.m (£14.23 per sq.ft).
- 11 Grange Road let at a rent of £17,000 per annum in June 2011, which equated to a rent of £86 per sq.m (£7.96 per sq.ft).
- 91 Banks Road let at a rent of £8,000 per annum, which having regard to the size of the unit at 72 per sq.m (771 per sq.ft) equated to a rent of £112 per sq.m (£10.38 per sq.ft).

3.1.70 Having regard to the above, prime rents in West Kirby appear to top out at slightly above £215 per sq.m (£20 per sq.ft) overall, and fall back to below £108 per sq.m (£8 per sq.ft) off the main retail pitch once footfall starts to decline.

3.1.71 The rents and yields attributed to convenience retail accommodation are generally more uniform across the North West region, with rents typically ranging between £160 per sq.m (£15 per sq.ft) and £225 per sq.m (£21 per sq.ft), and yields of between 6.5% and 8.0%. There appears to be little fluctuation in rents achieved on a per sq.ft basis between larger and smaller units. Retail warehouses typically command similar rents, albeit at higher yields reflecting the amount of high profile retailers that have recently ceased trading.

3.1.72 Limited information is available in respect of rental levels at the Croft Retail Park, which comprises around 41,800 sq.m (450,000 sq.ft) of retail warehousing accommodation. Recent lettings include a 372 sq.m (4,000 sq.ft) unit to Bank Fashion Ltd in August 2012 and a 697 sq.m (7,500 sq.ft) unit to 99p Stores Ltd, although no rental evidence is provided on CoStar. In addition, we understand from CoStar that the Croft Retail Park is fully let. No units are currently being marketed, and no asking rents are therefore available for analysis also.

3.1.73 Appendix 1 contains an overview of the Commercial Property Research that we have undertaken and the transactional evidence that we have considered in the preparation of this assessment.

4.0 METHODOLOGY AND BASELINE DEVELOPMENT SCENARIOS

4.01 To arrive at fully informed conclusions regarding the baseline viability of development in Wirral and hence the levels of development surpluses, it has been necessary to prepare in the first instance an evidence base that is robust, legible and fully supported by facts. Our approach has been to undertake extensive research into the variables, both cost and revenue, that a developer would consider in financially appraising any development scheme. We have then utilised an industry recognised appraisal tool and method to test the viability of each of the development types having regard to the current planning policy framework. A detailed overview of our methodology is contained at 4.1 below.

4.02 In deciding the most appropriate forms of development to test, we have had regard to typical uses and forms of development in the Wirral Council area. This has involved analysing historic planning permissions and reviewing future development sites identified in the SHLAA, the ELPS, the Wirral Retail Study Update and the Proposed Submission Draft Core Strategy. In conjunction with Council Officers, we have then assessed the type and size of schemes that are anticipated to come forward during the Local Plan period, so that we could formulate hypothetical schemes to test that are relevant and typical to the Borough or are expected to be relevant or typical in the future.

4.1 Appraisal Methodology

4.1.1 In preparing the baseline viability assessments, we have adopted the Residual Valuation Approach. This is where the value of the completed development is assessed and the cost of undertaking the development (including the cost of land, finance and planning obligations) is deducted, along with a target developer's profit return. The residual sum that is left represents the development surplus or "headroom". Consideration of this then allows an informed decision to be made about the viability of the development in general, and in particular, the ability to fund other planning policy options, involving additional costs for development, including developer contributions policies and the prospect for the introduction of a CIL tariff.

4.1.2 Table 4.1 provides a simple diagram illustrating this approach:-

Gross Development Value (value of the completed development scheme)
Less
Cost of Development (inclusive of build costs, fees, finance, land cost)
Less
Other Costs (inclusive of existing planning obligations)
Less
Developers Target Profit
= Development Surplus or "Headroom"

Table 4.1: Residual Valuation Approach

4.1.3 This residual methodology is recognised and supported by the Royal Institution of Chartered Surveyors (RICS) in relation to the valuation of development land and the Harman Guidance (Viability Testing Local Plans) also suggests a residual approach. The RICS Guidance Note 'Financial Viability in Planning' (August 2012) defines viability for planning purposes as (paragraph 2.1.1) *"an objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the land owner and a market risk adjusted return to the developer in delivering that project".*

4.1.4 The RICS Guidance Note also defines site value as (paragraph 2.3.1) follows: *"site value should equate to the market value subject to the following assumption; that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan".*

4.1.5 When undertaking area wide viability testing, the RICS Guidance Note suggests that a second assumption needs to be applied to this definition, namely (paragraph 2.3.3): *"Site value may need to be further adjusted to reflect the emerging policy/CIL charging level. The level of the adjustment assumes that site delivery would not be prejudiced."*

4.1.6 We have also adopted the RICS definition of Market Value in relation to assessing the values of the completed developments that we have tested, namely (paragraph E.1.1): *"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".*

4.1.7 The document Viability Testing Local Plans (Local Housing Delivery Group, 2012) suggests that viability testing of Local Plans does not require a detailed viability appraisal of every site anticipated to come forward over the plan period. As a consequence of the potentially widely different economic profiles of sites within the local area, it suggests (page 11): *"A more proportionate and practical approach in which local authorities create and test a range of appropriate site typologies reflecting the mix of sites upon which the plan relies."*

4.1.8 In preparing the baseline residual appraisals, it has been necessary to make certain assumptions, both in relation to the form of development and also the variables adopted in each of the appraisals based upon a significant quantity of data. Inevitably, given the diverse character of the property market in Wirral, the data does not necessarily fit all eventualities and every development site will be unique. It has therefore been necessary to draw upon our development experience and use our locally-based professional knowledge to derive a data set that best fits the typical characteristics of development in the Borough and can be considered reasonable.

4.1.9 It should be noted that when adopting the Residual Valuation Approach, the end result is extremely sensitive to even the smallest of changes in any of the assumptions which feed into the appraisal process. We are satisfied however that our approach and the assumptions that we have made are appropriate to typical property market characteristics within Wirral and represent the most reasonable approach given the available evidence at the time of preparing this study. This assumption is fully justified within the main body of this study.

4.1.10 The NPPG notes that there is no standard answer to questions of viability, nor is there a single approach to assessing viability. It suggests that the NPPF sets out the policy principles relating to viability, whilst a range of sector led guidance on viability methodologies in plan making and decision taking is widely available. In this respect our study follows the methodologies contained in these sector led guidance documents and in particular the Harman Guidance 'Viability Testing Local Plans – Local Housing Delivery Group (June 2012).

4.1.11 The NPPG also identifies 3 underlying principles for understanding viability in planning[13], which are:-

Evidence based judgement: assessing viability requires judgements which are informed by the relevant available facts. It requires a realistic understanding of the costs and the value of development in the local area and an understanding of the operation of the market.

Collaboration: a collaborative approach involving the local planning authority, business community, developers, landowners and other interested parties will improve understanding of deliverability and viability. Transparency of evidence is encouraged wherever possible.

A consistent approach: local planning authorities are encouraged to ensure that their evidence base for housing, economic and retail policy is fully supported by a comprehensive and consistent understanding of viability across their areas.

4.1.12 These principles have been adopted by us in preparing this study and particularly in respect of the evidence base on which our viability assessment is based.

[13] (Paragraph: 004 Reference ID: 10-004-20140306)

4.2 Baseline Development Scenarios

4.2.1 *Residential*

4.2.2 Residential development in Wirral typically falls into two distinct categories. The majority is small infill development, usually on previously developed sites and typically ranging in size from 3 dwellings up to nearer 50 dwellings. The second category comprises (historically fewer) larger scale residential developments of over 100 units. Having regard to the sites that have been identified in the SHLAA and the level of growth outlined within the Proposed Submission Draft Core Strategy, it is anticipated that a number of significant development sites may be realised for development during the life of the Local Plan and in some cases could provide in excess of 250 dwellings.

4.2.3 Characteristically the form of residential development within the Borough differs significantly depending on location. Whilst the Commercial Core retains a dense urban character, reflecting a need for a 'high' density housing mix; it is anticipated that development in Wallasey, Birkenhead, Bromborough, Eastham and the 'Mid Wirral' areas will be at a slightly lower density in keeping with the surrounding urban areas. In the majority of locations, it is anticipated that a mix of 'family' housing will mainly be provided.

4.2.4 In the higher value areas of Hoylake, West Kirby, Heswall and the Rural Areas it is considered likely that some schemes may be built at a lower density and may comprise an increased proportion of solely detached dwellings. In such instances, the market is likely to focus on 3, 4 and 5 bed dwellings which will provide a more 'executive' type of development.

4.2.5 We have analysed recent planning applications across the Borough to inform our assumptions as to the density of development likely to come forward in the future. The SHLAA update 2012 has assumed that the majority of future residential development sites will be developed at 30 dwellings per hectare (dph) with a limited number at lower densities in higher value areas and 50 dph in the Commercial Core. We have therefore undertaken baseline viability testing for housing developments at a density of 30 dph across all areas. We have also carried out testing based on 50 dph in the lower value areas; and 20 dph in the higher value areas.

4.2.6 In discussions with the Council and having regard to analysis of previous planning permissions across the Borough, we have derived a typical mix of house types.

4.2.7 Based on the above, we have adopted the following market dwelling mix for the housing developments tested at 30 dph:-

No Bedrooms	**1**	**2**	**3**	**4**	**5**
% Market Housing	5%	30%	45%	15%	5%

Table 4.2: Dwelling Mix for Housing at 30dph

4.2.8 For the 'high density' housing developments tested at 50 dph, we have adopted the following mix:-

No Bedrooms	**1**	**2**	**3**	**4**	**5**
% Market Housing	5%	35%	60%	0%	5%

Table 4.3: Dwelling Mix for Housing at 50 dph

4.2.9 In addition to the above, we have formulated a dwelling mix for 'executive' type developments within the more affluent higher value areas in the Borough at 20 dph. In this instance, the following dwelling mix has been adopted:-

No Bedrooms	**1**	**2**	**3**	**4**	**5**
% Market Housing	0%	0%	20%	50%	30%

Table 4.4: Dwelling Mix for Housing at 20dph

4.2.10 Having regard to both the property market and planning policy evidence base, we have considered viability testing for apartments based on the following mix:-

No of Units	**No. of Bedrooms**		
	1	**2**	**3**
10	3 (30%)	7 (70%)	0 (0%)
50	10 (20%)	30 (60%)	10 (20%)

Table 4.5: Dwelling Mix for 'Apartments'

4.2.11 We also expect that a number of new homes delivered during the Local Plan period will involve the conversion of existing buildings. These may be redundant shops, pubs or larger houses. Every conversion will be unique, however in order to gain an understanding of development viability we have considered the size and form of typical conversion properties and based on this have undertaken viability testing involving conversions to provide 3, 6 and 12 units. In each case we have assumed that the conversion scenarios tested will comprise 2 bed apartments at 70 sq.m (750 sq.ft).

4.2.12 The hypothetical development scenarios we have formulated for the baseline residential viability testing are therefore reflective of the form of residential development, either recently undertaken or anticipated to be completed in Wirral in future years.

4.2.13 Tables 4.6 & 4.7 illustrate the dwelling sizes that we have adopted for the purpose of the baseline testing. These have been prepared having regard to the Housing Quality Indicators used as a measure by the Homes & Communities Agency, and also with reference to the sizes of dwellings within new developments throughout the Borough as evidenced by our analysis of planning permissions and verified by consultation with stakeholders. These dwelling sizes have been adopted for all of the densities tested.

Houses	1 bed	2 bed	3 bed	4 bed	5 bed
sq.m	46.45	65.03	85.94	116.13	157.94
sq.ft	500	700	925	1,250	1,700

Table 4.6: Summary of House Sizes (Gross Internal Area)

Apartments	1 bed	2 bed	3 bed
sq.m	55.74	69.68	102.19
sq.ft	600	750	1,100

Table 4.7: Summary of Apartment Sizes (Gross Internal Area)

4.2.14 Tables 4.8, 4.9 and 4.10 below summarise the number of dwellings, mix and total floor space of each hypothetical development scheme tested at each density; including apartment and conversion schemes. Tables 4.11 and 4.12 respectively contain details of the apartment and conversion typologies tested:

Scheme	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	Total Units	Total (sq.m)	Total (sq.ft)
2	0	1	2	1	0	4	353	3,800
3	0	3	5	2	0	10	857	9,225
4	1	8	11	4	1	25	2,135	22,981
5	2	15	23	7	3	50	4,332	46,629
6	5	30	45	15	5	100	8,582	92,376
7	12	75	113	37	13	250	21,496	231,381
8	25	150	225	75	25	500	42,911	461,890
9	37	225	338	112	38	750	64,406	693,260

Table 4.8: Summary of Residential Schemes tested at 30 dph

Scheme	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	Total Units	Total (sq.m)	Total (sq.ft)
2	0	1	3	0	0	4	323	3,475
3	0	4	6	0	0	10	776	8,350
4	1	9	15	0	0	25	1,921	20,675
5	2	18	30	0	0	50	3,842	41,350
6	5	35	60	0	0	100	7,665	82,500
7	12	88	150	0	0	250	19,171	206,350
8	25	175	300	0	0	500	38,324	412,516
9	37	263	450	0	0	750	57,495	618,871

Table 4.9: Summary of Residential Schemes tested at 50 dph

Scheme	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	Total Units	Total (sq.m)	Total (sq.ft)
1	0	0	0	1	1	2	274	2,950
2	0	0	1	2	1	4	476	5,125
3	0	0	2	5	3	10	1,226	13,200
4	0	0	5	13	7	25	3,045	32,775
5	0	0	10	25	15	50	6,132	66,000
6	0	0	20	50	30	100	12,263	132,000

Table 4.10: Summary of Residential Schemes tested at 20 dph

Apartments:

Scheme	1 Bed	2 Bed	3 Bed	Total Units	Total (sq.m)	Total (sq.ft)
10	3	7	0	10	658	7,083
11	10	30	10	50	3,680	39,611

Table 4.11: Summary of Apartment Schemes

Conversions:

Scheme	1 Bed	2 Bed	3 Bed	Total Units	Total (sq.m)	Total (sq.ft)
12	0	3	0	3	210	2,260
13	0	6	0	6	420	4,520
14	0	12	0	12	840	9,040

Table 4.12: Summary of Conversion Schemes

4.2.15 ***Non-Residential Uses***

4.2.16 In preparing a schedule of non-residential development types to be tested, we have reviewed recent planning applications and discussed the forms of development that are likely to come forward during the Local Plan period with the Council. In addition we have also had regard to the various evidence base studies that have been undertaken including:-

- Wirral Employment Land and Premises Study Update (September 2012)
- Wirral Retail Study Update (March 2012)

- Wirral's Town, District and Local Centres Study (June 2011)

4.2.17 This has been supplemented by discussions with agents and developers in order to fully assess the type of non-residential development that is likely to be built during the anticipated lifetime of the Core Strategy Local Plan. Such discussions have further influenced the assumptions made in terms of the likely size and specification of the development typologies tested.

4.2.18 Based on existing and emerging planning policy documents, the evidence base and discussions with Council Officers, we have considered baseline development scenarios for the Borough based on retail, offices and industrial and for leisure related development including a hotel and gymnasium. In addition, we have considered various miscellaneous developments including a car showroom, recycling centre and residential institutional uses.

4.2.19 Table 4.17 contains a summary of the non-residential developments that have been tested as part of the baseline viability assessment together with details of the overall development floor space and site size assumed.

4.3 Development Scenario Site Areas

4.3.1 For each residential and non-residential development scenario, we have calculated the typical area of land required to undertake the development. This site area is then used to inform the land acquisition costs and also the cost of external site works. In calculating the relevant site areas, we have had regard to planning policy requirements on matters such as density, car parking and open spaces.

Residential

4.3.2 In relation to the residential development sites we have adopted an approach based on the methodology for the SHLAA Update 2012 to arrive at an appropriate gross and net developable site area. This methodology is summarised in Table 4.13.

Total Site Area	Net Developable Area
Less than 0.4 ha	100% of developable area
0.4 ha to 2 ha	90% of developable area
Sites over 2 ha	75% of the developable area

Table 4.13: Net Developable Areas (based on methodology for SHLAA Update 2012)

4.3.3 For residential developments the net developable area has been calculated at densities of 20, 30 and 50 dph, and the gross site area calculated with reference to Table 4.13. The respective site areas are contained in Table 4.14, 4.15 and 4.16.

Scheme	No Units	Total Built Area (sq.m)	Net Site Area (ha)	Gross Site Area (ha)
2	4	353	0.13	0.13
3	10	857	0.33	0.33
4	25	2,135	0.83	0.93
5	50	4,332	1.67	1.85
6	100	8,582	3.33	4.44
7	250	21,496	8.33	11.11
8	500	42,911	16.67	22.22
9	750	64,406	25.00	33.33

Table 4.14: Gross and Net Site Areas at 30 dph

Scheme	No Units	Total Built Area (sq.m)	Net Site Area (ha)	Gross Site Area (ha)
2	4	323	0.08	0.08
3	10	776	0.20	0.20
4	25	1,921	0.50	0.56
5	50	3,842	1.00	1.11
6	100	7,665	2.00	2.66
7	250	19,171	5.00	6.67
8	500	38,324	10.00	13.33
9	750	57,495	15.00	20.00

Table 4.15: Gross and Net Site Areas at 50 dph

Scheme	No Units	Total Built Area (sq.m)	Net Site Area (ha)	Gross Site Area (ha)
1	2	274	0.10	0.10
2	4	476	0.20	0.20
3	10	1,226	0.50	0.56
4	25	3,045	1.25	1.39
5	50	6,132	2.50	3.33
6	100	12,263	5.00	6.67

Table 4.16: Gross and Net Site Areas at 20 dph

Non-Residential

4.3.4 In relation to the non-residential developments, we have had regard to relevant planning policy and SPD 4 - Parking Standards (June 2007). In addition based on both our and Tweeds' experience, together with an analysis of previous developments in the Borough, we have analysed typical development footprints in comparison with site areas to form a view as to the ratio of built footprint compared to site area.

4.3.5 For the non-residential developments we have summarised the development scenarios, built areas and the assumed site areas for the development in Table 4.17. These include town centre (TC) and out of centre (OOC) developments:-

Development Type	Built Area (sq.m)	Built Area (sq.ft)	Land Area (sq.m)
Industrial B2/B8	464	5,000	789
Industrial B2/B8	929	10,000	1,525
Industrial B2/B8	1,857	20,000	3,024
Industrial B2/B8	4,643	50,000	7,543

Industrial B2/B8	13,930	150,000	22,551
Development Type	**Built Area (sq.m)**	**Built Area (sq.ft)**	**Land Area (sq.m)**
Offices (TC)	464	5,000	524
Offices (TC)	1,857	20,000	2,098
Offices (OOC)	464	5,000	622
Offices (OOC)	1,857	20,000	2,411
Offices (OOC)	4,643	50,000	6,158
Non-food retail (TC)	279	3,000	348
Non-food retail (OOC)	929	10,000	2,246
Non-food retail (OOC)	2,786	30,000	6,890
Retail (Convenience) (TC)	279	3,000	698
Retail (Convenience) (OOC)	279	3,000	774
Retail (Convenience) (OOC)	929	10,000	2,782
Retail (Convenience) (OOC)	2,786	30,000	8,547
Retail (Convenience) (OOC)	4,643	50,000	14,076
Bingo	464	5,000	754
Bowling Alley	929	10,000	1,964
Gymnasium	743	8,000	1,587
Gymnasium	1,857	20,000	4,038
Cinema	1,857	20,000	3,432
Hotel	1,857	20,000	2,485
Food and Drink (TC)	697	7,500	2,777
Food and Drink (OOC)	697	7,500	4,164
Car Showroom	929	10,000	2,158
Recycling Centre	929	10,000	3,556
Garden centre	9,287	100,000	22,101
Residential Institutional (30 Bed)	1,672	18,000	1,582
Nursing Home (30 Bed)	1,045	11,250	878
Stables	139	1,500	350
Equestrian Centre	464	5,000	1,138
Agricultural Building	232	2,500	2,702
Rural Industries	186	2,000	5,666

Table 4.17: Summary of Non-Residential Development Site Areas

5.0 FINANCIAL APPRAISAL ASSUMPTIONS

5.01 In this section, we have outlined the assumptions that have been adopted in our appraisals, both in relation to the Residential and Non-Residential Development Scenarios. We have provided at Appendix 1 details of the available evidence in relation to land and development values that has informed our assumptions.

5.1 Land Values

5.1.1 Land value is difficult to assess for a number of reasons. Firstly, development land value is a derived value, with land being bought as a factor of production in the course of development. The price is generally determined by the development potential of the site. Secondly, the comparison of land value in terms of prices paid for sites is extremely difficult because of the large number of site specific variables that will impact upon the price paid. For example, the amount of remediation or other abnormal costs are likely to differ from site to site. Hence, any evidence of land transactions needs to be treated with a degree of subjectivity as adjustments may be necessary for factors such as abnormal site conditions, contamination and development density.

5.1.2 The document 'Viability Testing in Local Plans' (Local Housing Delivery Group, 2012) advocates the use of 'threshold land value'. This should represent the value at which a typical willing landowner is likely to release land for development, before the payment of taxes. Viability Testing in Local Plans suggests that threshold land value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations, and therefore using a market value approach as a starting point carries the risk of building in assumptions of current policy costs rather than helping to inform the potential for future policy. As a result it suggests that market values can be a useful 'sense check' and suggests that the threshold land value is based on a premium over current use values and credible alternative use values. The latter would be most appropriate where there is competition for land among a range of alternative uses such as in town centres.

5.1.3 The RICS Guidance Note 'Financial Viability in Planning' (August 2012) explains that for a development to be financially viable, any uplift from the current use value of land that arises when planning permission is granted should be able to meet the cost of planning obligations, whilst at the same time, ensuring an appropriate site value for the land owner and a risk adjusted return to the developer for delivering the project. The return to the land owner will be in the form of a land value increase in excess of current use value. The land value will be based on market value which will be risk adjusted, so it will normally be less than current market prices for development land on which planning permission has been secured and planning obligation requirements are known. The RICS guidance note recognises that the market value will be by definition at a level at which the landowner would be willing to sell.

5.1.4 In arriving at our assessments of 'threshold land values' in Wirral, we have had regard to available transactional evidence both in Wirral, and also in the wider North West area where relevant and similar market conditions exist. We have undertaken extensive research using Land Registry data and other databases such as Estates Gazette Interactive (EGi). We have also had regard to Valuation Office Property Market Surveys and have undertaken interviews with agents active in the local area.

5.1.5 ***Residential Land Values***

5.1.6 Residential development sites within the Borough are likely to be either previously developed sites, or greenfield sites located within and around the existing urban settlements in the Borough.

5.1.7 Having regard to the characteristics of Wirral, a typical urban site will have been previously developed and most likely would have been in previous residential or commercial use. A number of development sites will have been former schools and in a number of instances significant areas of cleared former housing or redundant industrial estates. Smaller sites may have been subject to some form of leisure or institutional use. There is also the prospect of previously undeveloped sites coming forward for development during the life of the Core Strategy, for example former school playing fields, agricultural land and small areas of undeveloped open space. This also reflects the sites which constitute the current iteration of the SHLAA.

5.1.8 We have identified two possible development scenarios on previously developed and greenfield urban sites. We have had regard to these classifications for the purpose of our testing.

5.1.9 In arriving at a 'threshold land value' for previously developed land, both the land owner and the developer would have regard to a site's current use value, albeit a landowner would be seeking uplift in value above this level. Conversely, a developer would be reluctant to pay a full residential value for the site, having regard to the risk and cost involved in obtaining planning consent and the likely developer contributions being sought by the Council. In arriving at an assessment of the 'threshold land value' it is therefore necessary to have regard to both evidence of current use values as well as evidence from sites with residential planning permissions and then make reasonable adjustments to reflect factors such as the land owner's aspirations, the developer's concerns, risks inherent in the development process, and planning obligations.

5.1.10 The definition of viability in the context of planning recognises the issue of a landowner receiving an appropriate site value, which whilst being less than full residential value is likely to be higher than current use value. Having regard to this we have considered the level of site value at which a landowner is likely to release a site for development. We have considered a range of land values based on the likely revenues that residential developments would be expected to achieve across the Borough. In the circumstances we believe that it is reasonable to assume a site value for previously developed land to be in the region of £990,000/hectare (£400,000/acre) for the highest value area in the Borough and a figure of £495,000/hectare (£200,000/acre) for the lowest value locations.

5.1.11 Some greenfield development sites may also be developed over the Local Plan period. At the present time, these sites will normally be used as playing fields or possibly pony paddocks with site values on this basis typically in the region of £25,000 - £50,000/hectare (£10,000 - £20,000/acre) or less. It is probable a number of such sites have had development expectations, since they are within or are at the very at the edge of the urban area. Naturally, any land owner is unlikely to sell such sites for that level of existing use value and clearly a land owner will be seeking an uplift from existing use value if they are to consider releasing the site for development. With reference to the RICS Guidance and that from the Housing Delivery Group (2012), it would be inappropriate to assume land values based on sites with full residential planning permission, and in reality the site value for viability purposes will lie somewhere between this and current value. In addition, greenfield sites may require additional expenditure on services and infrastructure to enable them to be developed for residential purposes. We therefore believe that for greenfield sites it would be reasonable to assume a value in the region of £370,000/hectare (£150,000/acre) to £495,000/hectare (£200,000/acre) as being the level at which a landowner would consider releasing a site for development. Greenfield sites in the urban area may have lower costs given the proximity of existing services.

	Previously Developed		**Greenfield**	
	(£/ha)	**(£/acre)**	**(£/ha)**	**(£/acre)**
Highest Value Area	990,000	400,000	495,000	200,000
Lowest value Area	495,000	200,000	370,000	150,000

Table 5.1: Residential Land Value Assumptions

5.1.12 ***Non-Residential Land Values***

5.1.13 Consideration of current use values has also been applied to the sites for non-residential development to assess commercial land values. Over the last few years, there have been limited land sales in Wirral as a result of limited development activity in the commercial development sector. Having regard to this, considered adjustments have been made in order to reach land values based on both the reported transactional evidence and our own market experience within the area.

5.1.14 Potential commercial development sites are most likely to be vacant previously developed land or opportunity sites within or adjacent to existing industrial areas.

5.1.15 In arriving at our assessment of 'threshold land value', current use values have been considered and allowances made to reflect both land owners' aspirations and developers' risk. The specific characteristics of each form of development have also been taken into account. For example, larger consolidated plots in highly accessible locations are likely to command a premium given their suitability for supermarket development or for retail warehouse development. Similarly, car showrooms are likely to locate away from town centres in highly accessible locations (and therefore pay a premium in excess of a normal industrial site), as would restaurants/public houses.

5.1.16 In the context of industrial development in Wirral, within our research we have observed only minor variations in land values across the different industrial locations. The following 'threshold land values' have therefore been uniformly applied throughout the Borough:-

Industrial (B1b, B1c, B2, B8)	
Land Value (/hectare)	**Land Value (/acre)**
£432,000	£175,000

Table 5.2: Summary of Industrial Development Land Values Applied

5.1.17 In the context of office development, within our research we have observed variations in land values across the different commercial locations. We have therefore used the following 'threshold land values' within the appraisals based on the market evidence we have collected:-

Office (A2, B1a) – Town Centre		**Office (A2, B1a) – Out of Centre**	
Land Value (/hectare)	**Land Value (/acre)**	**Land Value (/hectare)**	**Land Value (/acre)**
£740,000	£300,000	£495,000	£200,000

Table 5.3: Summary of Office Development Land Values Applied

5.1.18 Table 5.4 below provides a summary of the 'threshold land values' for non-residential uses that we have adopted, together with an explanation of the differences.

Type	Land Value (price/ hectare)	Land Value (price/ acre)	Rationale
Convenience Retail (all sizes, all areas)	£1,235,500	£500,000	Use requires highly accessible location in close proximity to key public transport interchanges or main arterial routes. Requires significant plot sizes. Competition for land from other Supermarket operators/ retail uses.
Small Comparison Retail, Prime Locations 279 sq.m (3,000 sq.ft)	£1,235,500	£500,000	Plots comprise small site areas, together with an accessible location within the town centre. Plots are therefore likely to command a significant premium over and above that of the majority of commercial uses.
Small Comparison Retail, Secondary Locations 279 sq.m (3,000 sq.ft)	£740,500	£300,000	Mainly located outside of Town Centre within close proximity to existing parade of shops. Use requires fairly accessible location which is preferably located within close proximity to key public transport interchanges or main arterial routes.
Small Comparison Retail, Tertiary and Sub-Tertiary Locations 279 sq.m (3,000 sq.ft)	£495,000	£200,000	Located outside of Town Centre locations. Use requires fairly accessible location.
Medium Comparison Retail, All areas 929 sq.m (10,000 sq.ft)	£1,855,000	£750,000	Use requires highly accessible location in close proximity to key public transport routes.
Large Comparison Retail, All areas 2786 sq.m (30,000 sq.ft)	£2,470,000	£1,000,000	Use requires highly accessible location in close proximity to key public transport routes. Requires significant plot sizes and often built in conjunction with a number of units on Retail Parks. Competition for land from Supermarkets.
Leisure and Petrol Station Uses	£740,000	£300,000	Located outside of Town Centre within close proximity to existing leisure/retail provisions. Use requires fairly accessible location which is preferably located within close proximity to key public transport interchanges or main arterial routes.
Sui Generis Uses	£495,000	£200,000	No significant spatial requirements other than population threshold. In the context of a Car Showroom, may require a roadside location which features a premium over and above the industrial values included.

Type	Land Value (price/ hectare)	Land Value (price/ acre)	Rationale
Agricultural	£25,000	£10,000	Agricultural values attributed as such uses do not represent a change of use and development will only be for agricultural uses.
Independent Living Accommodation	£Various	£Various	It is anticipated that values for Independent Living Accommodation are similar to residential land values; the respective land values used within each value area have therefore been applied.

Table 5.4: Summary of Non-Residential Land Values

5.2 Acquisition Costs

5.2.1 In addition to the land values detailed above, we have also assumed land acquisition costs based on 1% of the 'threshold land value' for agent's fees and legal fees at 0.75%, in line with normal market practice and rates. In addition we have assumed the payment of stamp duty in accordance with HMRC thresholds and rates.

5.3 Timing of Land Acquisition

5.3.1 Our appraisals assume that the land is acquired on day 1 of the development programme and hence the purchase carries finance costs from the outset. For the smaller developments considered this would be usual practice. However, it should be noted that for larger residential developments above 100 units it would be unusual for a developer to acquire the entirety of such a large site from day 1. A large development site would normally be the subject of a phased acquisition programme, with the land only being drawn down by the developer as required. As a result, land acquisition costs are more likely to be phased over the development period and so the cost of finance would be reduced with a corresponding increase in the amount of development surplus.

5.3.2 The following paragraphs explain the specific assumptions adopted in the baseline financial appraisals for both the residential and non-residential development.

5.4 Residential Appraisal Assumptions

5.4.1 *Development Programme*

5.4.2 In our experience we anticipate that a developer would seek to construct and sell around 30-40 dwellings per annum. Due to the size, timescale for development and prospects for an improvement in property market conditions during the development programme; we anticipate that for the largest residential sites a developer would be more optimistic about the prospects for sale and hence we have increased the sales and corresponding construction rate to around 70 dwellings per annum. In addition, it should also be noted that for the very largest schemes (around 750 dwellings) the development may be split between several developers. This would clearly affect the construction and sales periods, and for the purpose of the viability testing we have increased sales rates to reflect this with a consequent reduction in the construction programme.

5.4.3 Table 5.5 illustrates the overall development programmes that we have assumed.

Scheme	No Units	Construction (months)	Sales Start	Sales (months)
1	2	6	month 6	1
2	4	8	month 6	3
3	10	9	month 5	5
4	25	14	month 5	12
5	50	17	month 5	17
6	100	24	month 5	24
7	250	46	month 5	46
8	500	87	month 5	87
9	750	129	month 5	129
10	Apartment 10	8	month 9	4
11	Apartment 50	15	month 13	17
12	Conversion 3	4	month 5	2
13	Conversion 6	5	month 6	2
14	Conversion 12	7	month 7	4

Table 5.5: Residential Development Programme

5.4.4 ***Sales Values***

5.4.5 In order to inform our assessments of the value of the residential schemes to be tested, we carried out detailed research into residential property values in Wirral and the surrounding areas. An overview of this evidence is contained at Appendix 1. We have also investigated the possibility of varying trends in value in different parts of the Borough. The evidence shows differing levels of value across the Borough which have been reflected in our testing to understand the impact that this has on the level of development surplus or 'headroom'.

5.4.6 We have also been mindful that approaches to planning obligations, including a potential CIL tariff, if considered appropriate, need to be relevant for a number of years and hence the level of value to be adopted should be robust. Figure 5.1 comprises a map of Wirral, illustrating typical average values across the respective settlement areas based on our research. With reference to this, it is clear that generally values tend to be lowest in the Commercial Core and Birkenhead. Values are notably higher across the West of the Borough and Rural Areas, while settlements in the mid-Wirral areas and the more suburban southern parts of Birkenhead tend to lie somewhere between the two extremes. A brief description of each of the value bands (or 'zones') is provided below at Table 5.6, which outlines the values adopted together with a quick description as to which settlement areas are situated within each zone.

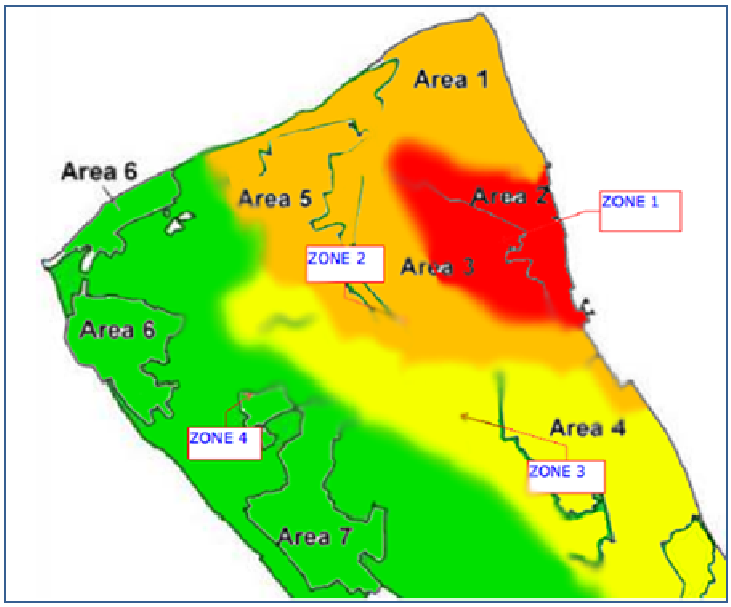

Figure 5.1: Map of Heat Map

5.4.7 Consequently, we have concluded that it would be appropriate to undertake viability testing for residential development based on four different zones of value, which are spread throughout the Borough. Table 5.6 identifies the broad location within the Borough, and outlines the value on a per sq.m and per sq.ft basis that has been adopted for the purpose of the appraisals. These assumptions as to value have been shared with stakeholders who are broadly in agreement. No evidence has been provided in support of any alternative value assumptions.

Zone	Settlement Area	Location	Sales Value per sq.m	Sales Value per sq.ft
1	2, 3 (east)	Birkenhead/Commercial Core	£1,615	£150
2	1, 3 (west), 5 (north)	Wallasey, Leasowe, Moreton, Upton, Bidston, Prenton, Rock Ferry	£1,776	£165
3	3 (west), 4, 5 (south), 8 (east)	Oxton, Bromborough, Greasby, Bebington, Eastham, Rural East Wirral	£2,045	£190
4	6,7, 8 (west)	Hoylake, West Kirby, Irby, Thingwall, Heswall, Rural West Wirral	£2,260	£210

Table 5.6: Summary of Residential Sales Values by Zone

5.4.8 ***Density***

5.4.9 Following discussions with Council Officers, and adopting a similar approach within the SHLAA Update 2012 we carried out baseline viability testing assuming densities of 30 dph across all zones; 50 dph in the lower value zones (1 and 2); and 20 dph in the higher value zones (3 and 4).

5.4.10 ***Affordable Housing***

5.4.11 The Council's current position in relation to affordable housing is based on the Strategic Housing Market Assessment (SHMA) for Wirral Update 2010 and the Wirral Affordable Housing Viability Study 2010. The Council approved both as a material consideration for use by Planning Committee in the determination of planning applications on 13 December 2010 (Minute 65 (viii) refers). The SHMA Update 2010 recommended that 40% of new housing should be affordable; to reflect a significant and increasing need for affordable housing. The Viability Study concluded that market conditions could only support a lower level of provision overall, which should be reduced further within the former Newheartlands Pathfinder Area to reflect the difference in the market within areas of greatest need.

5.4.12 In order to reflect this, the Council currently applies a 10 per cent affordable housing requirement within the boundary of the former Newheartlands Pathfinder Area and a 20 per cent affordable requirement outside of this area, on schemes of five or more dwellings. The only exception to this policy is where an independently verified financial assessment demonstrates that it would not be viable to provide the number of affordable units required as part of the development proposed. In that instance, the number of affordable units to be provided must be the highest number achievable whilst providing a reasonable return to the developer. It remains the ambition of the Council for a target of 40% affordability in new housing redevelopment to be reinstated as soon as market conditions make it viable.

5.4.13 In terms of tenure, the Council is currently undertaking an update to its SHMA to identify the most up-to-date position of housing need. At present, proposals are considered on a case-by-case basis in line with the delivery of the Council's Housing Strategy.

5.4.14 To understand the impact of increasing proportions of affordable housing on the viability of residential development; we have tested at levels of 10% and 20% of market housing across all typologies, on the basis of an equal split between affordable rent and intermediate tenures.

5.4.15 Based on the consultation with Registered Providers and the work that we have undertaken elsewhere, we have assumed a likely bid for affordable dwellings based on the following percentages of market value (MV):-

- Affordable Rent: 50% of MV
- Intermediate: 60% of MV

5.4.16 We have also calculated our housing mix for affordable housing based on analysis of affordable housing delivery across the Borough provided to us by the Council. We have then adapted the 'normal' mix to suit higher and lower density schemes, as well as apartments. Our assumed affordable housing mixes for residential developments are outlined in table 5.7.

	1 bed	**2 bed**	**3 bed**	**4 bed**	**5 bed**
Analysis of delivery	**1%**	**54%**	**35%**	**10%**	**0%**
Mix applied for 30 dph	1%	54%	35%	10%	0%
Mix applied for 50 dph	1%	60%	39%	0%	0%
Mix applied for 20 dph	0%	0%	78%	22%	0%
Mix applied for Apt 10 units	30%	70%	0%	0%	0%
Mix applied for Apt 50 units	20%	60%	20%	0%	0%

Table 5.7: Assumed Affordable Housing Mixes

5.4.17 ***Construction Costs***

5.4.18 The construction costs that have been adopted have been prepared by Tweeds Quantity Surveyors and are detailed in their report at Appendix 2. These costs are based on current Building Regulation requirements and are inclusive of substructures, super structures, all external works including on site public open space, incoming services and drainage, preliminaries, fees and a contingency and have been calculated based on a cost per sq.m.

5.4.19 The overall rate per sq.m varies with density because as density reduces; the dwelling, plot area and road area allocated to each dwelling increases and costs increase accordingly. In addition, Tweeds have made an additional allowance for the different development land types that have been identified. The provision of on-site open space has been accounted for on larger developments over 35 dwellings and Tweeds have made an allowance for this in their costs.

5.4.20 For completeness, Tables 5.8, 5.9 and 5.10 below detail the rate per sq.m dwelling construction costs that we have adopted for the residential developments.

Scheme	No Units	Total Built Area (sq.m)	Previously Developed (Cost per sq.m)	Greenfield (Cost per sq.m)
2	4	353	£1,230	£1,161
3	10	857	£1,070	£1,007
4	25	2,135	£1,016	£953
5	50	4,332	£960	£898
6	100	8,582	£944	£880
7	250	21,496	£918	£856
8	500	42,911	£905	£843
9	750	64,406	£903	£841

Table 5.8: Summary of Residential Construction Costs at 30 dph

Scheme	No Units	Total Built Area (sq.m)	Previously Developed (Cost per sq.m)
2	4	323	£1,243
3	10	776	£1,081
4	25	1,921	£1,024
5	50	3,842	£970
6	100	7,665	£945
7	250	19,171	£915
8	500	38,324	£904
9	750	57,495	£902

Table 5.9: Summary of Residential Construction Costs at 50 dph

Scheme	No Units	Total Built Area (sq.m)	Previously Developed (Cost per sq.m)	Greenfield (Cost per sq.m)
1	2	274	£1,101	£1,031
2	4	476	£1,112	£1,043
3	10	1,226	£980	£916
4	25	3,045	£913	£851
5	50	6,132	£871	£810
6	100	12,264	£847	£788

Table 5.10: Summary of Residential Construction Costs at 20 dph

5.4.21 The apartment developments have been assessed based upon a rate of £904 per sq.m for the smaller development of 10 units, and £853 per sq.m for the larger development of 50 units.

5.4.22 The conversions have been assessed based upon a rate of £1,280 per sq.m for the smaller development of 3 units, £1,175 per sq.m for the medium development of 6 units and £1,023 per sq.m for the larger development of 12 units.

5.4.23 The construction cost data did not indicate any difference in the cost of development between the 4 value zones, and so as a result the same construction cost rates have been used across all areas.

5.4.24 ***S106/S278 and Other Planning Requirements***

5.4.25 We have analysed previous residential planning permissions in the Borough and relevant policies to determine the typical cost per dwelling of site specific Section 106 requirements and infrastructure works. We have also had regard to the location and characteristics of possible future residential development sites and the potential for site specific infrastructure requirements that would incur costs. These include site opening up costs, highway costs and junction abnormals. The highway costs that we have included in our baseline testing are shown in Table 5.11 below based on information provided to us by the Council's highway engineers.

Scheme	No. Units	Junction Costs	Abnormals
1	2	NIL	NIL
2	4	NIL	NIL
3	10	£1,500	NIL
4	25	£1,500	NIL
5	50	£50,000	£30,000
6	100	£100,000	£30,000
7	250	£200,000	£30,000
8	500	£250,000	£30,000
9	750	£300,000	£30,000
Apt 10	10	NIL	NIL
Apt 50	50	£50,000	£30,000

Table 5.11: Highway Infrastructure Requirements by Scheme

5.4.26 For all residential development scenarios tested we have assumed a S106 allowance of £600 per dwelling to account for site specific S106 costs. In addition for developments on larger greenfield sites we have made allowances for site opening up costs as detailed in Table 5.12.

Scheme	Opening up Cost per dwelling
4 (25 dwellings)	£2,400
5 (50 dwellings)	£3,400
6 (100 dwellings)	£4,400
7 (250 dwellings), 8 (500 dwellings), (750 dwellings)	£6,400

Table 5.12: Greenfield Site Opening Up Costs

5.4.27 ***Sales and Marketing Costs***

5.4.28 Disposal costs, including sales and marketing expenses, have been assumed at a rate of 3.5% of the Gross Development Value of market housing. This is in line with typical development industry rates for housing development.

5.4.29 ***Finance***

5.4.30 For the larger hypothetical schemes and the apartments, we have assumed that finance could be obtained at a rate of 7% inclusive of arrangement and monitoring fees. A rate of 6% has been used for the smaller schemes (1, 2, 3 and 4) together with the smallest flat scheme comprising 10 units, reflecting their reduced risk profile. These rates reflect the cost of finance currently available in the development market for developments of this type.

5.4.31 ***Developer's Profit and Overhead***

5.4.32 In assessing the appropriate level of developer's profit, we have had regard to both the size and form of the proposed development and the likely risk associated with the development as a result. The level of profit requirement will principally reflect the risk of constructing a particular development site and as a result a developer will typically require different levels of profit as reward for risk across different sites.

5.4.33 Many factors will govern risk in relation to a development site, including location, the local property market, the size and scale of the development, potential contamination and other abnormal costs and the type of accommodation being provided. Other considerations affecting risk could include the planning status of the site, and specifically whether a planning consent is in place for the proposed scheme.

5.4.34 In terms of residential development, a smaller residential development would be considered less risky than a large scale strategic residential development site. On a larger site it may take many years for the developer to build out and complete the sale of all of the houses and there could be significant changes (for better or worse) in the property market during the lifetime of the development. Therefore, the risk associated with having capital tied up in the development is carried for many years. As a result, a developer would require a higher profit return than on a smaller development site.

5.4.35 The industry standard measure of profit return is typically based on a percentage of either Gross Development Value (GDV) or cost. In certain instances developers may use an internal rate of return as an additional check measure. In our experience profit based on GDV is more commonly used for residential developments although not exclusively, whilst a return based on cost is more typical for commercial development.

5.4.36 Based on market experience, residential developments would tend to command a profit return of 15-20% GDV, which for larger developments would also include a developer's overhead.

5.4.37 The HCA Guidance Note *'Investment and Planning Obligations: Responding to the Downturn'* (2009) suggests that a figure of 16% of values rather than cost may be targeted for private residential sales. The HCA's Economic Appraisal Tool User Manual suggests a typical figure at that time (July 2009) of 17.5-20% GDV, but this is given as a guide only as the Manual suggests that profit will depend on the state of the market and the size and complexity of the scheme. It is notable that the Manual, (to accompany the HCA Development Appraisal Tool), refrains from giving any form of guidance on the measure of any appraisal variables.

5.4.38 Looking at planning decisions across the country, the level of developers profit has not specifically been considered as a point of debate. However, Planning Inspectors in certain instances have made reference in decisions to the level of profit adopted and what is typical, including the following examples:-

Shinfield, Reading[14] (residential development comprising 126 dwellings and a sports pavilion): The inspector determined that a figure of 20% profit on GDV was appropriate for this development;

Flambard Way, Godalming[15] (a mixed development of 225 flats and commercial accommodation): The inspector refers to an industry norm of 15-20% profit and although not explicitly stated this seems to be based on cost;

Flemingate, Beverly[16] (a mixed use development): Here the Inspector accepted 15% of cost;

Clay Farm[17] (2,300 dwellings and retail, health centre, education): Here the Local Planning Authority suggested a profit return based on 20% of cost or 16% of GDV. 16% GDV was considered by the Council to be consistent with the profit based on GDV in the HCA EAS User Manual 2009. The Inspector appears to accept the LPA's approach albeit the key point at issue related to whether the scheme should be assessed on a residual land value, or on the actual historic purchase price;

[14] Planning Inspectorate Decision in relation to 'Land at the Manor, Shinfield, Reading RG2 9BX and bordered by Brookers Hill to the North, Hollow Lane to the East and Church Lane to the West' APP/X0360/A/12/2179141 (Planning Inspectorate 2013)

[15] Planning Inspectorate Decision in relation to 'Waverley Borough Council appeal by Flambard Development Limited' APP/R3650/A/08/2063055 (Planning Inspectorate 2008)

[16] Planning Inspectorate Decision in relation to Application by CP Group, Wykeland Group and Quintain Estates & Development PLC, LPA: East Riding of Yorkshire' APP/E2001/V/08/1203215 (Planning Inspectorate 2008)

[17] Planning Inspectorate Decision in relation to 'Applications by Countryside Properties PLC & Countryside Properties (UK) Ltd to Cambridge City Council' APP/Q0505/A/09/2103599 and APP/ Q0505/A/09/2103592 (Planning Inspectorate, 2009)

Former Royal Hotel, Newbury[18] (35 sheltered apartments): The Inspector here decided that the profit range of 17.5%-20% of GDV detailed in the HCA EAS User Manual 2009 was the correct level of profit for this development.

Oxenholme Road, Kendal[19] (residential development comprising 148 dwellings): While the inspector accepted a figure of 18-20% of GDV, the decision confirmed that the principle set out in Shinfield is very site specific and should only be given limited weight.

5.4.39 As the above demonstrates, the profit return requirement is not at a fixed level and will vary from site to site, depending upon the risk profile which is driven by many factors.

5.4.40 On the basis of the above, a 15% GDV profit calculation has been applied for the smaller housing schemes (1, 2, 3 and 4) comprising 2, 4, 10 and 25 units, together with scheme 10 comprising 10 apartments and also conversion schemes of 3 and 6 units. Having regard to the above, we anticipate that typically the industry would require a higher level of profit for the remaining larger development schemes. Therefore, in relation to these schemes 5 to 9, and scheme 11 for 50 apartments and a 12 unit conversion scheme we have assumed a developer's profit return (inclusive of overheads) based on 20% of GDV.

[18] Planning Inspectorate Decision in relation to 'Former Royal Hotel, Newbury, Gillingham, Dorset SP8 4QJ' APP/N1215/A/09/2117195

[19] Planning Inspectorate Decision in relation to 'Land to the west of Oxenholme Road, Kendal, Cumbria' APP/M0933/A/13/2193338

5.5 Non-Residential Appraisal Assumptions

5.5.1 *Development Programme*

5.5.2 The development programme for non-residential sites will vary depending on the specific characteristics of each scheme. The programmes that we have assumed range from 3 months for a 232 sq.m (2,500 sq.ft) industrial unit to 14 months for a 4,643 sq.m (50,000 sq.ft) office development. Further analysis of the assumptions is contained in Table 5.13 below. The assumptions are based on our own development market experience. No responses have been received from stakeholders suggesting any changes to these programme assumptions.

Development Type	Built Area (sq.m)	Built Area (sq.ft)	Construction Period
Industrial B2/B8	464	5,000	4 months
Industrial B2/B8	929	10,000	6 months
Industrial B2/B8	1,857	20,000	8 months
Industrial B2/B8	4,643	50,000	10 months
Industrial B2/B8	13,930	150,000	12 months
Offices (TC)	464	5,000	7 months
Offices (TC)	1,857	20,000	10 months
Offices (OOC)	464	5,000	7 months
Offices (OOC)	1,857	20,000	10 months
Offices (OOC)	4,643	50,000	14 months
Convenience Retail (TC)	279	3,000	5 months
Convenience Retail (OOC)	279	3,000	5 months
Convenience Retail (OOC)	929	10,000	9 months
Convenience Retail (OOC)	2,786	30,000	10 months
Convenience Retail (OOC)	4,643	50,000	12 months
Non-food retail (Prime)	279	3,000	5 months
Non-food retail (Secondary)	279	3,000	5 months
Non-food retail (Tertiary)	279	3,000	5 months
Non-food retail (Sub-Tertiary)	279	3,000	5 months
Non-food retail (OOC)	929	10,000	8 months
Non-food retail (OOC)	2,786	30,000	10 months
Bingo	464	5,000	8 months

Development Type	Built Area (sq.m)	Built Area (sq.ft)	Construction Period
Bowling Alley	929	10,000	12 months
Gymnasium	743	8,000	8 months
Gymnasium	1,857	20,000	10 months
Cinema	1,857	20,000	11 months
Hotel	1,857	20,000	12 months
Food and Drink (TC)	697	7,500	11 months
Food and Drink (OOC)	697	7,500	11 months
Car Showroom	929	10,000	8 months
Recycling Centre	929	10,000	8 months
Garden centre	9,287	100,000	9 months
Residential Institutional (30 Bed)	1,672	18,000	12 months
Nursing Home (30 Bed)	1,045	11,250	10 months
Stables	139	1,500	6 months
Equestrian Centre	464	5,000	6 months
Agricultural Building	232	2,500	3 months
Rural Industries	186	2,000	4 months

Table 5.13: Summary of Non-Residential Developments and Construction Periods (TC = Town Centre, OOC = Out of Centre)

5.5.3 ***Sales Values***

5.5.4 In order to inform our assessments of the value of the commercial schemes to be tested, detailed research of all commercial property types was carried out. We discovered clear differences between the values of the property typologies that would be likely to come forward for development.

5.5.5 As part of this exercise, we also had regard to the possibility of spatial differences in terms of values across the Borough. We observed spatial differences in terms of the value of town centre/out of centre retail and office accommodation; however there appeared to be only relatively minor differences in values across locations for industrial accommodation.

5.5.6 Tables 5.14, 5.15, 5.16, and 5.17 illustrate the property values and build costs used for each form of development and any spatial differences in terms of value. For ease of reference these are divided between employment uses, and retail, leisure and miscellaneous and agricultural uses.

Type	Size (sq.m)	Rent (per sq.m)	Capital Value (per sq.m)	Build Cost	
				Greenfield (per sq.m)	Brownfield (per sq.m)
Industrial B2/B8	464	£60	£700	£798	£844
Industrial B2/B8	929	£48	£581	£701	£747
Industrial B2/B8	1,857	£48	£581	£553	£599
Industrial B2/B8	4,643	£48	£581	£522	£568
Industrial B2/B8	13,930	£48	£581	£490	£536
Offices (TC)	464	£135	£1,495	£1,397	£1,441
Offices (TC)	1,857	£135	£1,495	£1,485	£1,529
Offices (OOC)	464	£135	£1,345	£1,627	£1,672
Offices (OOC)	1,857	£135	£1,345	£1,489	£1,534
Offices (OOC)	4,643	£135	£1,345	£1,341	£1,386

Table 5.14: Summary of Employment Use Values and Costs.
(TC = Town Centre, OOC = Out of Centre)

Type	Size (sq.m)	Rent (per sq.m)	Capital Value (per sq.m)	Build Cost	
				Greenfield (per sq.m)	Brownfield (per sq.m)
Convenience Retail (TC)	279	£194	£3,233	£1,057	£1,106
Convenience Retail (OOC)	279	£194	£3,233	£1,140	£1,189
Convenience Retail (OOC)	929	£188	£3,133	£1,081	£1,131
Convenience Retail (OOC)	2,786	£194	£3,233	£1,012	£1,062
Convenience Retail (OOC)	4,643	£194	£3,233	£965	£1,015
Non-food retail (Prime)	279	£323	£4,038	£1,105	£1,153
Non-food retail (Secondary)	279	£269	£3,363	£1,105	£1,153
Non-food retail (Tertiary)	279	£215	£2,150	£1,105	£1,153
Non-food retail (Sub-Tertiary)	279	£161	£1,610	£1,105	£1,153
Non-food retail (OOC)	929	£188	£2,892	£983	£1,031
Non-food retail (OOC)	2,786	£188	£2,892	£867	£916

Table 5.15: Summary of Retail Use Values and Costs.

(TC = Town Centre, OOC = Out of Centre)

Type	Size (sq.m)	Rent (per sq.m)	Capital Value (per sq.m)	Build Cost	
				Greenfield (per sq.m)	Brownfield (per sq.m)
Bingo	464	£161	£2,018	£1,727	£1,773
Bowling Alley	929	£108	£1,346	£1,361	£1,408
Gymnasium	743	£135	£1,688	£1,064	£1,111
Gymnasium	1,857	£130	£1,857	£1,206	£1,254
Cinema	1,857	£205	£2,274	£1,418	£1,465
Hotel	1,857	£121	£1,939	£1,389	£1,434
Food and Drink (TC)	697	£237	£2,709	£1,698	£1,751
Food and Drink (OOC)	697	£237	£2,709	£1,932	£1,991
Car Showroom	929	£151	£1,884	£1,528	£1,576
Recycling Centre	929	£70	£903	£844	£897
Garden centre	9,287	£108	£1,540	£751	£799
Residential Institutional (30 Bed)	1,672	N/A	£1,884	£1,369	£1,413
Nursing Home (30 Bed)	1,045	£144	£1,440	£1,371	£1,414

Table 5.16: Summary of Leisure and Miscellaneous Values and Costs.
(TC = Town Centre, OOC = Out of Centre)

Type	Size (sq.m)	Rent (per sq.m)	Capital Value (per sq.m)	Build Cost	
				Greenfield (per sq.m)	Brownfield (per sq.m)
Stables	139	£90	£900	£650	£699
Equestrian Centre	464	£65	£813	£546	£596
Agricultural Building	232	£54	£600	£379	£427
Rural Industries	186	£90	£1,000	£1,105	£1,155

Table 5.17: Summary of Agricultural Uses Values and Costs

5.5.7 ***Construction Costs***

5.5.8 The construction costs that have been adopted in the viability appraisals have been prepared by Tweeds Quantity Surveyors and their report is included at Appendix 2. For ease of reference, Tables 5.14 to 5.17 summarise the build costs we have adopted. These costs, calculated on a cost per sq.m basis, are inclusive of substructures, super structures, all external works (including parking), incoming services and drainage, preliminaries, fees and a contingency.

5.5.9 The highway costs that we have included in our baseline testing are shown in Table 5.18 below based on information provided to us by the Council's highway engineers.

Scheme	Size (sq.m)	Junction Costs	Abnormals
Industrial B2/B8	464	NIL	NIL
Industrial B2/B8	929	£50,000	£30,000
Industrial B2/B8	1,857	£150,000	£30,000
Industrial B2/B8	4,643	£200,000	£30,000
Industrial B2/B8	13,930	£250,000	£30,000
Offices (TC)	464	NIL	NIL
Offices (TC)	1,857	£100,000	£30,000
Offices (OOC)	464	NIL	NIL
Offices (OOC)	1,857	£100,000	£30,000
Offices (OOC)	4,643	£150,000	£30,000
Convenience Retail	279	NIL	NIL
Convenience Retail	929	£100,000	£30,000
Convenience Retail	2,786	£200,000	£30,000
Convenience Retail	4,643	£250,000	£30,000
Non-food retail	279	NIL	NIL
Non-food retail	929	£100,000	£30,000
Non-food retail	2,786	£200,000	£30,000
All other commercial uses		NIL	£30,000

Table 5.18: Highway Infrastructure Requirements by Scheme

5.5.10 ***Sales and Marketing***

5.5.11 For the forms of development tested; marketing costs of 5% of the rental value have been included, together with letting agents and legal fees of 10% and 5% respectively. Sales disposal fees have been included at a rate of 1.75% (1% being attributed to agent's fees and 0.75% to legal fees). Such fees are considered reasonable at the present time and comprise the standard market charges. Stamp Duty Land Tax has been included as appropriate at usual HMRC rates.

Purchase Price	SDLT Rate
Up to £150,000 -annual rent < £1,000	0%
Up to £150,000 -annual rent > £1,000	1%
Over £150,000 - £250,000	1%
Over £250,000 - £500,000	3%
Over £500,000	4%

Table 5.19: Stamp Duty Land Tax Thresholds

5.5.12 ***Finance***

5.5.13 A finance rate of 6% has been uniformly applied across all commercial development, which is inclusive of arrangement and monitoring fees. This quantum reflects the profile of commercial developers and the characteristics of the development, due to the fact that we anticipate that the majority of developments will be built out by a larger developer. The rate at which institutions are lending is at an historic high relative to the Bank of England Base Rate (currently at 0.5%) and London Inter-Bank Offer Rate (currently at 0.6% over 6 months). From our experiences in the market, financial institutions appear reluctant to lend to riskier developers, and so interest rates as high as 12% can be offered. Notwithstanding the above, from our knowledge of the market, rates of around 6.0% are typically offered to larger developers with marginal differences observed relative to the size of scheme.

5.5.14 ***Developer's Profit and Overhead***

5.5.15 In assessing the appropriate level of developer's profit, we have had regard to both the size and form of the proposed development and the likely risk associated with the development as a result. As identified above in reference to the assumptions made in relation to developers profit in the residential appraisals, the level of profit requirement will principally reflect the risk associated with a particular development site and as a result a developer will typically require different levels of profit as reward for risk across different sites.

5.5.16 In the context of most forms of commercial development, the developer will typically seek a profit requirement of approximately 15-20% on cost. We have applied a level of 20% profit on cost to retail, leisure and garden centre developments; while a figure of 15% profit on costs has been applied to industrial, office and remaining miscellaneous development. This reflects the likely risk implications of the respective developments.

6.0 BASELINE VIABILITY RESULTS AND FINDINGS

6.01 This section sets out the results and findings from the initial baseline viability assessments for both the residential and non-residential development schemes. In each case the results presented illustrate the development surplus or 'headroom' that may be available for additional planning requirements, including CIL, for the particular scheme tested, based on a rate per sq.m (£x per sq.m).

6.1 Baseline Residential Viability Results

6.1.1 Tables 6.1, 6.2, 6.3 and 6.4 below illustrate the results of our viability assessments rounded to the nearest £ for new build housing and apartment developments. Table 6.5 includes details of our results for the conversion scenarios tested. For ease of reference, we have presented the results to accord with the residential property value zones summarised in Table 5.6. The results show the development surplus or 'headroom' on the basis of a rate per sq.m for developments on greenfield and previously developed land (PDL).

6.1.2 The tables have been colour coded to demonstrate the viability of the baseline surplus as follows:-

Red	not viable and demonstrates a loss or deficit
Amber	marginal development which shows a development surplus equivalent to between 0-5% of GDV. In such cases a relatively small increase in costs or reduction in revenue could make the scheme unviable
Green	the development is viable and has a development surplus which is equivalent to or greater than 5% of GDV

6.1.3 Shaded cells indicate development scenarios that have not been tested in our baseline appraisals as they are not expected to come forward during the Local Plan period.

6.1.4 We have then modelled the impact on the development surplus of planning requirements in relation to affordable housing and site specific S106 contributions For greenfield sites we have also shown the impact of the inclusion of site specific opening up costs. Each column shows for the particular item the reduction in the baseline surplus per sq. m for both previously developed (PDL) and greenfield sites. These columns are coded either red where the baseline surplus is not sufficient to meet the cost of the requirement, or green were the baseline surplus is sufficient to meet the cost of the requirement. The final column under each scheme and category of site shows the remaining development surplus once affordable housing at 20% and S106 costs/opening up costs are accounted for. If the development is viable and achieves a residual surplus the column is coded green, and if unviable and showing a deficit the coding is red.

Zone 1

Density	Scheme	No. Units	PDL					Greenfield				
			Baseline Surplus	S106	Affordable Housing (AH)		Residual Surplus at 20% AH*	Baseline Surplus	S106/ Opening Up Costs	Affordable Housing (AH)		Residual Surplus at 20% AH*
					10%	20%				10%	20%	
30 dph	2	4	-£115	£7			-£122	£0	£7			-£7
	3	10	£35	£7	£47	£84	-£56	£148	£7	£47	£84	£57
	4	25	£75	£7	£58	£96	-£28	£186	£41	£58	£96	£49
	5	50	£40	£7	£43	£90	-£57	£148	£51	£43	£90	£7
	6	100	£49	£7	£45	£89	-£47	£160	£61	£45	£89	£10
	7	250	£71	£6	£42	£85	-£20	£177	£72	£42	£85	£20
	8	500	£70	£6	£39	£79	-£15	£171	£66	£39	£78	£27
	9	750	£58	£5	£36	£73	-£20	£154	£61	£36	£72	£21
50 dph	2	4	-£23	£7			-£30					
	3	10	£92	£8	£52	£83	£1					
	4	25	£137	£8	£64	£106	£23					
	5	50	£99	£7	£49	£80	£12					
	6	100	£113	£7	£47	£95	£11					
	7	250	£140	£7	£46	£90	£43					
	8	500	£137	£6	£41	£84	£47					
	9	750	£124	£6	£39	£77	£41					
Apartment	10	10	-£21	£3	£64	£115	-£139					
	11	50	-£66	£8	£45	£92	-£166					

Table 6.1: Zone 1 Impact on Baseline Surplus (per sq. m) of Affordable Housing and S106/Site Opening Up Costs

* Scheme 2 not subject to affordable housing requirements therefore residual surplus reflects S106/opening up costs only.

Zone 2

Density	Scheme	No. Units	PDL					Greenfield				
			Baseline Surplus	S106	Affordable Housing (AH)		Residual Surplus at 20% AH*	Baseline Surplus	S106/ Opening Up Costs	Affordable Housing (AH)		Residual Surplus at 20% AH*
					10%	20%				10%	20%	
30 dph	2	4	-£130	£7			-£137	£128	£7			£121
	3	10	£114	£7	£52	£92	£15	£276	£7	£52	£92	£177
	4	25	£148	£7	£63	£105	£36	£312	£41	£63	£105	£166
	5	50	£106	£7	£48	£99	£0	£265	£51	£48	£99	£115
	6	100	£113	£7	£49	£98	£8	£275	£61	£49	£98	£116
	7	250	£130	£6	£46	£93	£31	£286	£72	£46	£93	£121
	8	500	£121	£6	£43	£86	£29	£272	£66	£43	£86	£120
	9	750	£100	£5	£39	£79	£16	£247	£60	£39	£79	£108
50 dph	2	4	£12	£7			£5					
	3	10	£188	£8	£57	£102	£78					
	4	25	£227	£8	£71	£117	£102					
	5	50	£170	£7	£54	£105	£58					
	6	100	£194	£7	£52	£104	£83					
	7	250	£216	£7	£50	£98	£111					
	8	500	£204	£6	£45	£91	£107					
	9	750	£184	£6	£42	£84	£94					
Apartment	10	10	£87	£3	£71	£127	-£43					
	11	50	£24	£8	£55	£105	-£89					

Table 6.2: Zone 2 Impact on Baseline Surplus (per sq. m) of Affordable Housing and S106/Site Opening Up Costs

* Scheme 2 not subject to affordable housing requirements therefore residual surplus reflects S106/opening up costs only.

Zone 3

Density	Scheme	No. Units	PDL					Greenfield				
			Baseline Surplus	S106	Affordable Housing (AH)		Residual Surplus at 20% AH*	Baseline Surplus	S106/ Opening Up Costs	Affordable Housing (AH)		Residual Surplus at 20% AH*
					10%	20%				10%	20%	
20 dph	1	2	£222	£4			£218	£474	£4			£470
	2	4	£158	£5			£153	£440	£5			£435
	3	10	£320	£5	£55	£113	£202	£597	£5	£55	£113	£479
	4	25	£330	£5	£68	£113	£212	£606	£29	£68	£113	£464
	5	50	£263	£5	£52	£101	£157	£534	£36	£52	£101	£397
	6	100	£280	£5	£50	£99	£176	£548	£43	£50	£99	£406
30 dph	2	4	£84	£7			£77	£341	£7			£334
	3	10	£222	£7	£59	£106	£109	£489	£7	£59	£106	£376
	4	25	£256	£7	£73	£121	£128	£523	£41	£73	£121	£361
	5	50	£200	£7	£55	£114	£79	£459	£51	£55	£114	£294
	6	100	£203	£7	£57	£112	£84	£466	£61	£57	£112	£293
	7	250	£211	£6	£53	£106	£99	£468	£72	£53	£106	£290
	8	500	£187	£6	£49	£98	£83	£439	£65	£49	£98	£276
	9	750	£153	£6	£45	£90	£57	£401	£59	£45	£90	£252
Apartment	10	10	£262	£3	£82	£146	£113					
	11	50	£187	£8	£63	£121	£58					

Table 6.3: Zone 3 Impact on Baseline Surplus (per sq. m) of Affordable Housing and S106/Site Opening Up Costs

* Schemes 1 and 2 not subject to affordable housing requirements therefore residual surplus reflects S106/opening up costs only.

Zone 4

Density	Scheme	No. Units	PDL					Greenfield				
			Baseline Surplus	S106	Affordable Housing (AH)		Residual Surplus at 20% AH*	Baseline Surplus	S106/ Opening up Costs	Affordable Housing (AH)		Residual Surplus at 20% AH*
					10%	20%				10%	20%	
20 dph	1	2	£347	£4			£343	£599	£4			£594
	2	4	£275	£5			£270	£558	£5			£553
	3	10	£441	£5	£61	£124	£312	£718	£5	£61	£124	£589
	4	25	£444	£5	£75	£125	£314	£719	£29	£75	£125	£565
	5	50	£365	£5	£57	£112	£248	£636	£36	£57	£112	£488
	6	100	£380	£5	£55	£110	£265	£648	£38	£55	£110	£500
30 dph	2	4	£207	£7			£200	£464	£7			£437
	3	10	£342	£7	£66	£117	£218	£609	£7	£66	£117	£485
	4	25	£373	£7	£81	£133	£233	£640	£41	£81	£133	£466
	5	50	£305	£7	£61	£126	£172	£564	£51	£61	£126	£387
	6	100	£305	£7	£62	£124	£174	£568	£54	£62	£124	£390
	7	250	£306	£6	£59	£117	£183	£563	£72	£59	£117	£374
	8	500	£270	£6	£54	£108	£156	£522	£65	£54	£108	£349
	9	750	£225	£5	£49	£99	£121	£472	£59	£49	£99	£314
Apartment	10	10	£412	£3	£90	£161	£248					
	11	50	£293	£8	£69	£134	£151					

Table 6.4: Zone 4 Impact on Baseline Surplus (per sq. m) of Affordable Housing and S106/Site Opening Up Costs

* Schemes 1 and 2 not subject to affordable housing requirements therefore residual surplus reflects S106/opening up costs only.

Units	Zone 1	Zone 2	Zone 3	Zone 4
3	-£398	-£269	-£108	£15
6	-£204	-£77	£100	£245
12	-£127	-£42	£119	£246

Table 6.5: Summary of Conversion Viability Results (development surplus £ per sq.m)

6.1.5 Having considered the results from the baseline residential viability testing, we have identified a number of trends and themes from the data. In particular the data demonstrates differences in viability with respect to the following:-

- previously developed and greenfield locations
- density of development
- differing value areas
- size of development

6.1.6 In relation to each of these categories we have provided a brief summary of the findings below.

6.1.7 ***Previously Developed and Greenfield Locations***

6.1.8 With reference to the residential viability results tables, all residential development in greenfield locations is identified as viable, with the exception of a 4 unit scheme in Zone 1 at 30 dwellings/hectare (dph). This is principally due to the lower 'threshold land values' associated with the development of the greenfield sites but is also reflective of generally higher construction costs for previously developed sites where there is additional cost in dealing with matters such as demolition and remediation.

6.1.9 It should be noted however that development of greenfield sites may incur a greater requirement for new off-site infrastructure such as roads and services to enable the release of the site for development. This is particularly the case for larger greenfield sites. An allowance has been made for these opening up costs on greenfield sites and even on this basis the development of greenfield sites remains more viable with larger surpluses than for previously developed sites.

6.1.10 ***Density of Development***

6.1.11 Our results reflect development undertaken at 20, 30 and 50 dph. With reference to the Wirral SHLAA Update 2012; we have tested developments at 30 dph across all Zones; 50 dph on previously developed land only in Zones 1 and 2 only; and 20 dph in Zones 3 and 4 only. The baseline surpluses show that the majority of development at 30 dph is viable, with the exception of scheme 2 (4 units) on both site types within Zone 1, and previously developed sites in Zone 2. All other developments at 30 dph show a surplus, but this is marginal for schemes on previously developed land in Zone 1, and scheme 2 on previously developed land in Zone 3.

6.1.12 In relation to development at 50 dph generally all development is viable, the exception being scheme 2 (4 units) in Zones 1 and 2. Development at 50 dph is generally more efficient in construction cost terms than at 30 dph, hence the results show an improvement in viability. The reduced site area also means that there are fewer external areas; therefore the cost of external works is generally less. In addition due to the smaller site area the input land cost is also less for the developments at 50 dph.

6.1.13 All development at 20 dph is viable. This is due to the fact that we have only tested at 20 dph in higher value areas, and so revenues received on developments in these areas are greater. As density reduces the expectation is that developments will be more exclusive, hence viability will improve correspondingly.

6.1.14 Having regard to the evidence of sales values at these densities, in any given zone there is no significant difference evident in sales revenues between schemes constructed at 30 dph when compared with those at 20 or 50 dph. As a result, the input revenues within our assessments are therefore the same at each density and hence with the lower construction costs and input land values at the higher density, the results show greater viability at 50 dph than at 30 dph. In the higher value areas tested, viability is also greater at 20dph than at 30dph. This is because the total floor area for developments at 20dph is greater than at 30dph (due to the housing mix); which effectively offsets the saving on the input land value.

6.1.15 ***Differing Value Areas***

6.1.16 The evidence that we have compiled in relation to both input land values and sales revenues from the completed dwellings indicates a differentiation across the Borough both for sales revenues and land values:-

- Zone 1 comprising Birkenhead and the Commercial Core (Settlement Areas 2 and 3 (east)) has the lowest input land values for previously developed and greenfield locations and also returns the lowest sales revenues.
- Zone 2 comprising Wallasey, Leasowe, Moreton, Upton, Bidston, Prenton and Rock Ferry (Settlement Areas 1, 3 (west) and 5 (north)) has the same land values for greenfield locations as Zone 1, however previously developed land values and sales revenues are higher than in Zone 1.
- Zone 3 comprising Oxton, Bromborough, Greasby, Bebington, Eastham and Rural East Wirral (Settlement Areas 3 (west), 4, 5 (south) and 8 (east)) has the same input land values for greenfield locations as Zone 1 and 2, however previously developed land values are higher than in Zones 1 and 2, as are sales revenues.
- Zone 4 comprising Hoylake, West Kirby, Irby, Thingwall, Heswall and Rural West Wirral (Settlement Areas 6, 7 and 8 (west)) has the highest input land values for both greenfield and previously developed locations, and also returns the highest sales revenues.

6.1.17 The overall impacts of these factors are evident in the results with the development of previously developed sites increasing in viability terms from Zone 1 to Zone 4. At 30 dph, development is predominantly viable with the exception of Zone 1. The results per sq.m ranging from -£115 per sq.m to £75 per sq.m in Zone 1, -£130/ sq.m to £148 per sq.m in Zone 2, £84 per sq.m to £256 per sq.m in Zone 3, and £207 per sq.m to £373 per sq.m in Zone 4, dependent upon scheme size and land characteristics.

6.1.18 At 50 dph, reflecting the lower construction costs and input land values identified earlier, viability improves across Zone 1 and 2, with in almost all cases viable development occurring. In Zone 1, the respective results as a rate per sq.m range from -£23 per sq.m to £140 per sq.m and in Zone 2 range from £12 per sq.m to £227 per sq.m dependent upon scheme size and land characteristics.

6.1.19 As Zones 3 and 4 comprise the higher value areas of the Borough, we have tested on previously developed areas at 20 dph in these zones exclusively. At 20 dph, viability improves across Zone 3 and 4 with viable development occurring in all cases. In Zone 3, the respective results as a rate per sq.m range from £158 per sq.m to £330 per sq.m and in Zone 4 range from £275 per sq.m to £444 per sq.m dependent upon scheme size and land characteristics.

6.1.20 The higher sales revenues in Zones 3 and 4 mean that development on previously developed land in these locations is more viable than either in Zones 1 or 2.

6.1.21 Across the Borough, (except for Scheme 2 in Zone 1), development in greenfield locations is viable with viability increasing in line with values across the four Zones. The results demonstrate the following ranges of development surplus: At 30 dph, viability ranges from £0 per sq.m to £186 per sq.m in Zone 1, £128 per sq.m to £312 per sq.m in Zone 2, £341 per sq.m to £523 per sq.m in Zone 3, and £464 per sq.m to £640 per sq.m in Zone 4.

6.1.22 As Zones 3 and 4 comprise the higher value areas of the Borough, we have tested on greenfield areas at 20 dph in these zones exclusively. Viability in greenfield locations at 20 dph is higher than at 30 dph, with the results ranging from £440 per sq.m to £606 per sq.m in Zone 3, and £558 per sq.m to £719 per sq.m in Zone 4. This is due to the fact that a dwelling mix incorporating more 4 and 5 bed houses at 20 dph results in a greater total floor area for 20dph schemes than at 30 dph. The resulting increase in revenue is greater than the saving in construction costs and lower input land values associated with higher density schemes. 20 dph schemes on greenfield land in Zone 4 deliver the highest surpluses from any of the baseline developments we have tested.

6.1.23 In relation to greenfield development as referred to earlier, we have also included for site opening up costs. In all cases the baseline surplus reduces, with an additional cost of between £4 per sq.m up to £72 per sq. m. However in all cases greenfield development is able to meet these costs and remain viable.

6.1.24 ***Size of Development***

6.1.25 In considering the pattern of viability results, there are a number of points to note.

6.1.26 Scheme 2, which is the second smallest development of 4 units, generally performs as one of the poorest schemes in viability terms. This may be explained by the fact that there are limited economies of scale in smaller developments and higher site set up costs which results in the smaller scheme being more expensive to develop.

6.1.27 Scheme 9 which comprises 750 units, is also of note. In all cases, viability starts to fall away once the development size increases to over 250 units, and particularly over the 500 unit threshold. This is less pronounced in cases where the input land value is lower.

6.1.28 The reason for this decline in viability is principally due to the treatment of land acquisition costs. For ease of comparison each appraisal assumes the land is acquired on day 1 of the development. In reality, this is unlikely for the larger sites which may be acquired on a phased basis with land payments spread over a number of years. As a result of this treatment of land value, the larger developments are carrying land acquisition costs and the associated finance for a much longer period which pro rata begins to affect viability relative to an increased duration of the development programme.

6.1.29 **Affordable Housing**

6.1.30 Tables 6.1 to 6.4 show the residual surplus per sq. m inclusive of S106/site opening up costs and affordable housing at 20% on site provision. The results show that in Zones 3 and 4 in all scenarios tested, development is able to support 20% affordable housing and remain viable.

6.1.31 In Zone 2 development at 50 dph on previously developed sites is also able to support 20% on site affordable housing and remain viable. Based on development at 30 dph greenfield development in this zone is also viable on this basis. The results for previously developed land at 30 dph are however are more marginal. In most cases the results indicate that development is viable, however the level of surplus is limited and any slight increases in costs or reductions in revenue may result in the development becoming unviable.

6.1.32 In Zone 1 the results show that for development at 30 dph the provision of 20% affordable housing on previously developed sites is not viable. On greenfield sites the results become viable but the level of surplus is limited indicating a more marginal development. The results at 50 dph on previously developed sites are similar. The Council's existing approach to affordable housing allows for a reduced contribution where an independently verified financial assessment demonstrates that it would not be viable to provide the number of affordable units required as part of the development proposed.

6.1.33 ***Other Forms of Residential Development***

6.1.34 For completeness we have also considered developments comprising entirely of new build apartments but on previously developed land only. In relation to a small development of 10 apartments our results show development is not viable in Zone 1, marginal in Zone 2, and viable in Zones 3 and 4. A larger development of 50 apartments was also tested, which follows the same pattern, albeit with a smaller rate of surplus per sq.m in each Zone. If affordable housing is included on the basis of 20% on site provision the results show that apartment development remains viable and is able to support affordable housing provision in Zones 3 and 4. In Zones 1 and 2 developments on this basis is not viable.

6.1.35 The results for apartment developments show that, in general, new developments comprising entirely apartments are only currently viable in the higher value zones.

6.1.36 Conversion developments of 3, 6 and 12 units have also been considered across each of the four Zones. Our appraisal results show that conversion development is not currently viable in Zones 1 and 2, with mixed results in Zone 3. In Zone 4, the small development of 3 units shows marginal levels of surplus but the 6 and 12 unit schemes are both viable. In general, the level of surplus increases as the size of the development increases. As with the housing and apartment developments, the greatest surpluses were observed in Zone 4. The form and circumstances of conversion projects will differ greatly and it is expected that conversions will go ahead in areas where our results shows them to be unviable, reflecting trends in Wirral to date. This is because developers of such projects will be driven by different development criteria and inputs relating to matters such as land, financing, profit and overall objectives.

6.2 Baseline Non-Residential Viability Results

6.2.1 As discussed in Section 4, we have tested a total of 38 commercial development schemes which we consider are indicative of the types of development with the potential to come forward in Wirral during the lifespan of the Core Strategy Local Plan.

6.2.2 The results of our viability assessments are presented in Table 6.6 below. The results show the development surplus or 'headroom' available for additional planning obligations or CIL, on the basis of a rate per sq.m. These results include junction costs and highway abnormals as outlined in Table 5.11.

6.2.3 Table 6.6 shows that the majority of commercial schemes tested are not currently viable in Wirral.

6.2.4 There is however an identifiable split in terms of viability by use. Whilst the office and industrial schemes tested all make losses, the majority of the retail schemes produce a surplus and are therefore considered financially viable. A small number of the leisure and miscellaneous schemes (cinema and garden centre) tested are also viable.

6.2.5 Table 6.6 identifies the surplus that is generated by each form of development considered on a £ per sq.m basis.

Type of Unit	Size (sq.ft)	Size (sq.m)	Surplus per sq.m
Industrial B2/B8	5,000	464	-£417
Industrial B2/B8	10,000	929	-£516
Industrial B2/B8	20,000	1,857	-£360
Industrial B2/B8	50,000	4,643	-£271
Industrial B2/B8	150,000	13,930	-£204
Offices - Traditional (TC)	5,000	464	-£553
Offices – Traditional (TC)	20,000	1,857	-£768
Offices - Business Park (OOT)	5,000	464	-£660
Offices – Business Park (OOT)	20,000	1,857	-£587
Offices – Business Park (OOT)	50,000	4,643	-£395
Convenience Retail (TC)	3,000	279	£798
Convenience Retail (OOT)	3,000	279	£678
Convenience Retail (OOT)	10,000	929	£562
Convenience Retail (OOT)	30,000	2,786	£737
Convenience Retail (OOT)	50,000	4,643	£792
Non-food retail (Prime)	3,000	279	£960
Non-food retail (Secondary)	3,000	279	£646
Non-food retail (Tertiary)	3,000	279	-£50
Non-food retail (Sub-Tertiary)	3,000	279	-£398
Non-food retail (OOT)	10,000	929	£410
Non-food retail (OOT)	30,000	2,786	£397
Bingo	5,000	464	-£557
Bowling Alley	10,000	929	-£716
Gymnasium	8,000	743	-£78
Gymnasium	20,000	1,857	-£79
Cinema	20,000	1,857	£39
Hotel	20,000	1,857	-£192
Food and Drink (TC)	7,500	697	-£144
Food and Drink (OOT)	7,500	697	-£304
Car Showroom	10,000	929	-£297
Recycling Centre	10,000	929	-£477
Garden Centre	100,000	9,287	£207
Residential Institutional (30 Bed)	18,000	1,672	-£9
Nursing Home (30 Bed)	11,250	1,045	-£430
Stables	1,500	139	-£386
Equestrian Centre	5,000	464	-£168
Agricultural Building	2,500	232	-£155
Rural Industries	2,000	186	-£769

Table 6.6: Summary of Commercial Viability Results
(TC = Town Centre, OOC = Out of Centre)

6.2.6 The results show that all of the industrial schemes tested prove unviable. In general terms, the results indicate that the losses incurred on a £ per sq.m basis are likely to be smaller for larger accommodation types. The greatest losses incurred are for the smaller units. Deficits on industrial developments currently range from -£516 per sq.m for a 929 sq.m unit, to - £204 per sq.m for a 13,930 sq.m unit.

6.2.7 All forms of office development considered are also unviable. This is not surprising given the lower than average rental levels and increasing vacancy rates observed across the region since the last recession. Over the last decade, the majority of office and industrial development has been supported by grant funding available from agencies such as the NWDA. In the absence of such public sector funding and with general market deterioration, the development of both industrial and office accommodation has diminished. The results show that deficits on office developments range from -£768 per sq.m for a 1,857 sq.m unit in a town centre, to -£395 per sq.m for a 4,643 sq.m unit in an out of centre location.

6.2.8 Despite the fact that development is not considered to be financially viable at this point in time it is possible that some office and industrial development may come forward in the future. Some development is likely to be motivated by specific circumstances such as an existing owner occupier wishing to expand or other business requirements necessitating development of that type in that location, for example to be near a specific piece of existing infrastructure, or for business agglomeration reasons. This type of development is not typical of the market and does not accord to normal development viability criteria. Effectively, the business operation requiring the accommodation supplements the financial shortfall from other means. Accordingly, it is not appropriate to take the prospect of such development into account in this study. When applying normal development viability criteria, office and industrial development is not viable and as such it is considered that substantive speculative market development is unlikely to take place unaided, unless there is very significant upturn in either demand or market values during the next 15 years.

6.2.9 All forms of retail development are considered viable, with the exception of small comparison retail units in Tertiary and Sub-Tertiary locations away from the from the prime and secondary locations in retail centres or forming local provision or isolated units away from recognised retail centres. Additional abnormal requirements for off-site highway works and other S106/S278 contributions may also affect viability in certain instances, particularly so in the development of a larger supermarket or out of centre retail development.

6.2.10 Our results nevertheless show that the forms of development that appear to be particularly viable include the larger food and non-food retail units, based on the testing undertaken for the 929 sq. m (10,000 sq.ft) unit and above.

6.2.11 In general, convenience retail appears to be more viable than comparison retail. This is principally due to the lower yield that would be achieved on any investment sale, due in part to the anticipated better covenant strength of a convenience retailer (i.e. Tesco Express/Sainsbury's Local). The smaller town centre comparison retail units showed the greatest variation in development surplus; with units in Prime locations in Birkenhead Town Centre achieving the highest rate at £960 per sq.m, whereas comparable units in Sub-Tertiary locations achieved the lowest rate of -£398 per sq.m, due to the large difference in rental values between different centres in Wirral.

6.2.12 The types of Leisure and Miscellaneous development considered provide generally negative results in terms of viability. The development of cinemas and garden centres are however considered viable. The development of a bingo hall, bowling alley, gymnasium, hotel, restaurant, car showroom, nursing home, recycling centre and residential institutional centre are all considered unviable based on the schemes that we have assessed. Similarly, agricultural uses including stables, equestrian centres, agricultural buildings and rural industries are all considered unviable. As with the office and industrial accommodation it should be noted that our testing assumes a speculative form of development incorporating a developers' profit. That is not to say that these forms of development may not be undertaken in the Borough for expansion or business reasons, where a speculative profit return does not form part of the development decision.

6.3 Economic Profiling and Sensitivity Analysis

6.3.1 As detailed earlier within the report, the Local Plan will set out the Council's development specific policies over the course of the next 15 years. Consideration therefore needs to be given to the long-term robustness of viability testing, and the decisions which are based upon it, in the context of the likely, but as yet unknown, economic variations that are likely to take place over the course of the Plan Period. Clearly, the timing and nature of such future economic cycles cannot be predicted particularly given the lengthy plan period involved. We have therefore given consideration to various possible economic cycles that may take place over this period to assess the impact that these may have on the viability of development.

6.3.2 With this in mind, the aim is to seek as far as possible to ensure that the decisions made at the time of preparation of this report are not anomalous in the context of changing circumstances in the future. In order to undertake this assessment it is considered that the most effective approach is to look back over past economic cycles and, with that data, model development viability based on the characteristics of similar cycles going forward. This approach is not however a substitute for further real time viability testing during the life of the plan period, which would be essential in order to accurately assess the viability of development at different points of time in the future.

6.3.3 Some assistance in relation to this approach is contained within the advice published by the Local Housing Delivery Group (2012) which states that:-

"Forecasting things like house prices or costs is notoriously difficult over the shorter term and subject to wider inaccuracies over the medium and longer term. The best a Council can realistically seek to do is to make some very cautious and transparent assumptions with sensitivity testing on the robustness of those assumptions. In doing so, it is important that variations against baseline costs, as well as values, are tested, and based, where appropriate, on construction costs and other indices."

6.3.4 The purpose of this section is therefore to provide a high level overview as to the likely impact of property market cycles over the time-frame of the Local Plan. Using historical data as a basis of enquiry, we have sought to measure the effect on viability of changes to the key variables which underpin an economic viability study (with regards to residential development), namely house prices, land values, build costs and interest rates. This data will be used to profile the changes in economic circumstances which are likely to be observed throughout the duration of a property market cycle. This is likely to feature peaks and troughs in respect of each of the key variables. This method of sensitivity analysis is based on the premise that the future is likely to replicate the past, and has been used as opposed to future projections which are often based on long term forecasts and subject to significant variances and error.

6.3.5 By assessing market change over the previous 24 years since 1990 we will seek to model changes which may take place over the plan period. However, it should be noted that the modelling is intended to test a degree of change to within a certain tolerance, and not the timing of that change. We will use the data to illustrate deviations from a base position; which is the position at the present date; with low, medium and high points that we would expect to encounter along the course of a typical economic cycle, which have been determined at equal intervals along the course of the previous economic cycle since 1990. During this time, there have been two recessions (defined as being 2no consecutive quarters of negative growth) which have taken place between Q3 1990 and Q3 1991, and the longest and most profound post-war recession lasting between Q2 2008 to Q3 2009. In addition, during this period we have also observed the longest period of sustained economic growth lasting between Q3 1992 and Q1 2008.

6.3.6 The selected dates include Q1 1990, Q4 1997, Q3 2005 and Q2 2013, and comprise regular intervals over the period assessed. Having regard to the datasets illustrated in Figure 6.5 these dates are considered sufficiently reflective of the different positions along the property cycle.

6.3.7 Figure 6.5 tracks house price changes through the Nationwide House Price Index for the North West of England; build cost changes via the Building Cost Information Service Tender Price Index; and land prices through a Valuation Office Agency (VOA) Index. For the purposes of this exercise and having regard to the fact that development land pricing is based on a derived demand, we have chosen not to use a land price index based on residential development land which would necessarily reflect previous planning policy requirements and as such undermine the objectives of the modelling exercise. Instead we have used a base land price position relating to the VOA Industrial Land Index. This index was only published until 2009 and to bring it up to date we have extended the dataset to the present day by using the reported land price changes on a quarterly basis reported by the VOA and our own opinions so as to enable comparison between the data series.

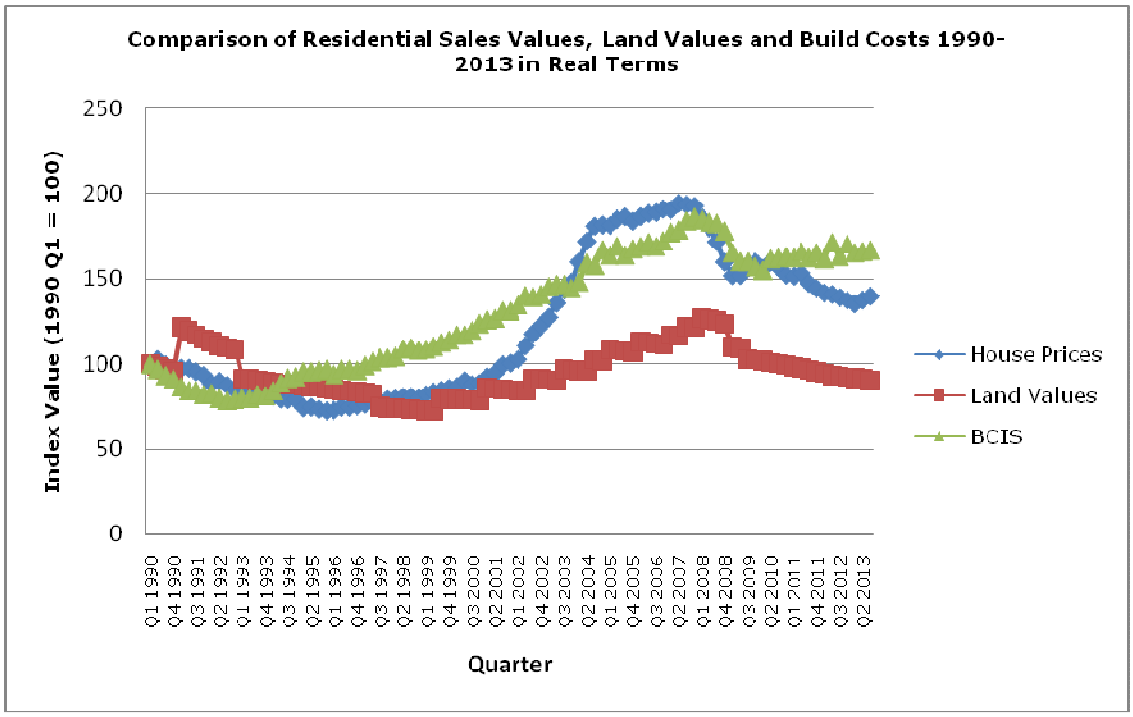

Figure 6.5: Comparison of Residential Sales Values, Land Values and Build Costs 1990 – 2013 in real terms

6.3.8 Whilst the BCIS Tender Price accounts for changes in inflation, the changes in House Prices and Land Values do not account for the changes in the value of money. Both of the above figures have therefore been weighted using the Consumer Price Index (CPI) and brought back down to 1990 values so as to enable comparison.

6.3.9 In order to track economic cycles, we have picked three separate dates at which to analyse economic and market conditions and use as a model for potential future cycles. The positions are based on equal intervals within the previous 23 year cycle, which represents the base position at the present date along with a low, medium and high position that we would expect to encounter along the course of a typical future economic cycle. These include:-

Q1 1990 (1 January 1990)	-	Base Position
Q4 1997 (1 October 1997)	-	Low Position
Q3 2005 (1 July 2005)	-	High Position
Q2 2013 (1 April 2013)	-	Medium Position

6.3.10 From the costs provided by Tweeds and the revenues adopted within the baseline appraisals; we have benchmarked the variations in costs to 1990 levels. In addition to the above, we have included a likely borrowing rate, reflecting the Bank of England Base Rate, the London Inter-Bank Offer Rate (LIBOR) and the perceived premium over and above these headline rates likely to have been offered to developers at each of the above intervals.

6.3.11 The Summary Table (6.6) below tracks the changes in costs and values adopted at each of the aforementioned intervals based on 1990 values, together with the interest rates adopted.

Position	Variance in Build Cost	Variance in Land Value	Variance in House Prices	Interest Rate Adopted (%)
Base	100	100	100	N/A
Low	103.7	82.9	76.4	8.5
High	163.7	96.2	159.9	6.5
Medium	165.9	98.8	151.6	6.5

Table 6.7: Changes in inputs

6.3.12 The graphs below track the impact of the changes in viability over the course of a typical economic cycle based on the results from Scheme 5 (50 dwellings at 30 dph) which are contained in Tables 6.1–6.4. The results show that across both site types and in all zones the development will generally be viable across the course of the entire cycle, with an average level of viability greater than the current base position. Viability decreases towards the low period as house prices fall in real terms relative to build costs; however viability increases in the medium and high periods as rises in house prices exceed that of build costs.

Changes to Viability on Previously Developed Land

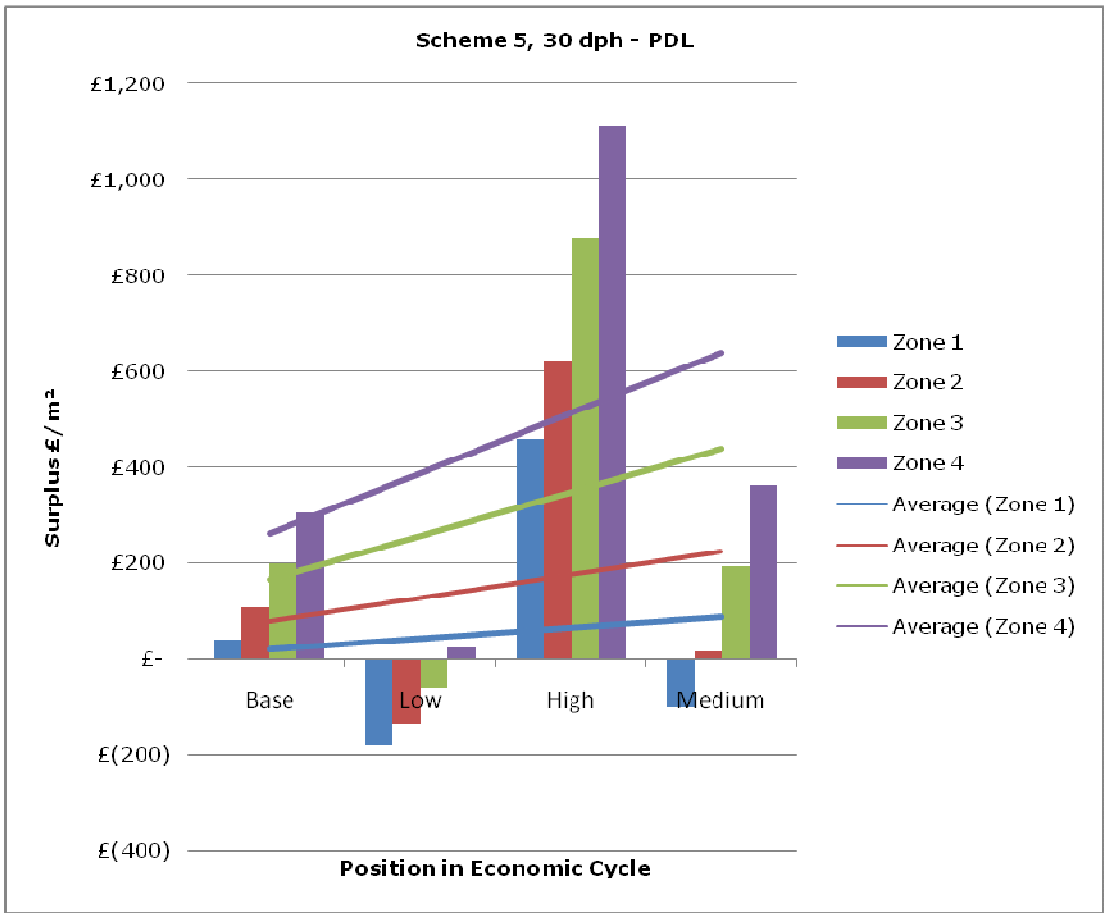

Figure 6.1: Changes to Viability on Previously Developed Land: Scheme 5, 30 dph

Changes to Viability on Greenfield Land

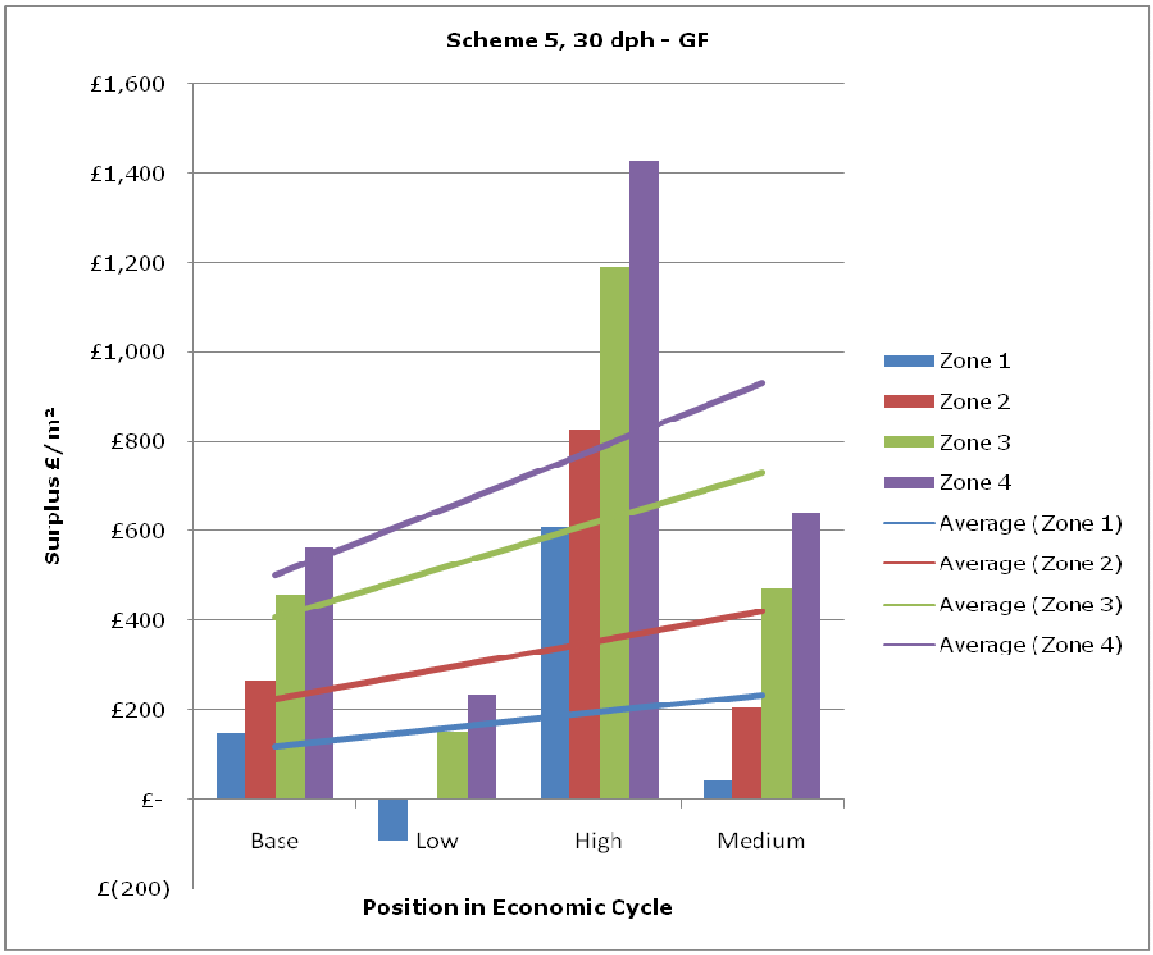

Figure 6.2: Changes to Viability on Greenfield Land: Scheme 5, 30 dph

6.3.13 The results show that development viability will change depending on the position in the economic cycle. Generally, the current assessment levels used as the baseline for the consideration of policies represent a moderate to low position over the series of modelled economic cycles. Accordingly, it is considered that this assessment represents a robust basis for policy consideration which may not have been the case if the current assessments had been at the higher extreme of the economic variations. Indeed the modelling suggests that whilst the viability of development can change significantly over a relatively short period of time, throughout a significant portion of the timescale examined there would be an increase in the viability of development on both previously developed and greenfield sites. For example, the average surplus obtained for Scheme 5 (including those drafted in respect of all four Zones and across both land types) in the baseline appraisals amounted to £231.73 per sq.m (11.46% of GDV). This figure reduced to £202.92 per sq.m (6.91% of GDV) in the medium period and to -£6.69 per sq.m (-1.38% of GDV) in the low period, while increasing towards £791.63 per sq.m (21.52% of GDV) in the high period.

6.3.14 The modelling does not seek to predict when economic cycles will take place. It may be the case that in the event of a significantly improved set of economic conditions, the viability of development could increase from its present position to levels which result in increased scope for the Council to implement further or more far reaching policies. Clearly that would be a matter for additional real time viability testing, at that point, which emphasises the value of ensuring that viability evidence is clearly monitored and kept as up to date as possible, throughout the Core Strategy plan period.

6.3.15 Although there are limitations to this form of analysis, this impact assessment has been undertaken for illustrative purposes in order to assess the robustness of the current viability modelling over various hypothetical economic cycles. It is unlikely that the market will react in exactly the same way in the future as it has behaved in the past. Property prices, land values, build costs and interest rates are all complex variables and are each linked to a number of macro-economic factors and locally specific circumstances. In order then to gauge viability in the future, further viability updates would need to be undertaken at regular intervals.

7.0 STAKEHOLDER CONSULTATION

7.01 A key aspect of this study has been to engage with stakeholders to ensure so far as possible that the assumptions on which our assessment is based are robust. This section summarises the Stakeholder Consultation that has taken place to date.

7.1 Initial Stakeholder Consultation

7.1.1 Throughout the process of formulating the methodology and undertaking research to establish values, costs and the other development assumptions used within the appraisals, we have sought to informally meet with stakeholders who are particularly active within Wirral. This provides the stakeholder with an informal and open platform to express their views in a confidential environment. As a result, the views and discussions with stakeholders provided on a confidential basis are not explicitly contained within the report but have been taken into account in identifying the values and inputs to be used in this Study.

7.2 Stakeholder Presentations

7.2.1 On 27 June 2013 we undertook a presentation together with Tweeds, which presented our interim views on methodology, development typologies and appraisal inputs to the key stakeholders. The key stakeholders typically included house builders, Registered Providers, land owners and agents active within the Borough. A full list of those invited and those who attended is contained in Appendix 3.

7.2.2 All queries raised and any supporting information provided in relation to these aspects of the study was minuted. Stakeholders were invited to provide any further views and information in writing following the presentation, and in addition to provide appropriate evidence to substantiate their opinions where they considered that the methodology, development typologies or input variables required adjustment.

7.2.3 A number of Stakeholders provided written responses following the Stakeholder Presentation; although none provided any evidence to support their view. A summary of the comments received following this initial stakeholder presentation and relating to viability matters is contained at Appendix 3. We noted the comments made by these stakeholders and as appropriate adjusted the appraisal assumptions accordingly for example in relation to the extent of the development scenarios being tested.

7.2.4 The written responses that were received mainly related to the residential aspects of the study, and broadly fell into the following categories:-

- Unit Mix
- Apartment Sizes
- Densities
- Threshold Land Values
- Revenues in so far as Land Registry data needs to be adjusted for incentives
- Build Costs
- Developers Profit
- Sales Rates

7.2.5 It was noted that in certain instances our inputs were considered reasonable for example Taylor Wimpey's comments in relation to finance, marketing costs, profit and sales rates.

7.2.6 Indigo Planning on behalf of National Grid provided some comments regarding retail testing. They suggested that the values that we proposed to adopt where reasonable and that the testing covered a reasonable range of scenarios, although they suggested some testing around unrestricted comparison retail.

7.2.7 A further stakeholder workshop took place on the 25 September 2013 to present the interim findings of our viability testing. Again an attendance list is provided at Appendix 3. A full summary of the stakeholder responses received in relation to the appraisal assumptions and testing is also contained in Appendix 3 together with our responses to the comments received. Again no evidence was provided by the stakeholders in support of the comments made to justify the suggestions being made.

8.0 PROSPECTS FOR THE INTRODUCTION OF A COMMUNITY INFRASTRUCTURE LEVY

8.1 Purpose of this Section

8.1.1 The section provides further analysis of the results of the study in order to assess the extent to which a Community Infrastructure Levy (CIL) charge could be introduced in Wirral without prejudicing future development in the Borough. Based on this further analysis we draw conclusions about the types of use that could support a CIL charge and any variations in viability that may arise due to location or the scale of development.

8.1.2 CIL is a charge levied on buildings and extensions to buildings according to their floor area, and is a mechanism where money is raised from development to help a Council pay for schools, leisure centres, aged care accommodation, roads and other facilities to ensure the borough grows sustainably. The introduction of CIL is designed to replace the section 106 "tariff" approaches, which had previously been used for this purpose.

8.1.3 Taking the results of Part 1 of our study we make recommendations that Wirral may wish to consider when making decisions about CIL. It is likely that further work will need to be undertaken in relation to CIL by the Council in the period up to the submission of the Core Strategy Local Plan as Local Plan policies are finalised and their impact on development viability determined.

8.1.4 When taking the following recommendations into consideration, we would caution that in accordance with the relevant guidance the viability testing undertaken is at a high level based on hypothetical analysis of different development scenarios. Each development site will be different and hence true viability can only be established on a site by site basis. It is not possible in the generic testing that has been undertaken to fully reflect all site specific factors, and as a result, a degree of caution is required when interpreting the results.

8.2 Variation by Use and Location

8.2.1 The evidence of our research and the results of the viability appraisals shows that there are significant differences in the values, costs and hence viability, between residential and non-residential developments.

8.2.2 Therefore, we recommend that Wirral should consider introducing CIL on the basis of varying its charge by use, as a minimum between the broad categories of residential and non-residential development.

8.2.3 Our research also indicated differences in value by location for residential development. As a result of this the Council may also wish to consider a variable charging schedule with respect to location for residential development.

8.2.4 Having regard to the identified variations in viability between residential and non-residential development, we have provided below separate conclusions for each use type.

8.3 Residential Recommendations

8.3.1 Having reflected on the results of our assessment, we have considered whether varying a future CIL charge for residential development on a spatial basis might be appropriate in Wirral.

8.3.2 The analysis of sales values in Section 3 shows the existence of distinct spatial variations in residential values across the Borough. In summary as outlined in Section 5 values are lowest in Birkenhead and the Commercial Core (Settlement Areas 2 and 3 (east)) which comprise our testing Zone 1, and highest within the western parts of the Borough (Settlement Areas 6, 7 and 8 (west)) which comprise our testing Zone 4. Consequently we adopted four residential value zones for the purpose of our appraisals, as illustrated by Table 5.6.

8.3.3 We have also undertaken an analysis of potential future development in Wirral as informed by the SHLAA Update 2012. This shows that there is a prospect of residential development coming forward across all four zones. Principally this will comprise infill development on brownfield sites as well as a number of larger sites, mainly on previously developed land.

8.3.4 Therefore, from the evidence, there is a justification for introducing a CIL charge which varies on a spatial basis, broadly according with the geographical areas outlined in table 5.6, namely:-

Settlement Area	Location
2,3 (east)	Birkenhead/Commercial Core
1, 3(west), 5 (north)	Wallasey, Leasowe, Moreton, Upton, Bidston, Prenton, Rock Ferry
4, 5 (south), 8 (east)	Oxton, Bromborough, Greasby, Bebington, Eastham, Rural East Wirral
6,7, 8 (west)	Hoylake, West Kirby, Irby, Thingwall, Heswall, Rural West Wirral

Table 8.1: Spatial Value Areas

8.3.5 In addition, the results indicate differences in viability between previously developed land and greenfield sites. This is something that also needs to be considered in preparing any charging schedule.

8.3.6 The results from the generic testing also demonstrate that viability is influenced by density. Generally, the results from our high level generic testing indicated that development at 30 dwellings per hectare did not perform as well as at 50 dwellings per hectare (dph) in the lower value areas, and hence development was less viable at lower densities in these areas. Conversely in the higher value zones we considered development based on densities of 30 dph and also 20 dph reflecting a more executive mix of housing. In these locations all scenarios tested were viable; however viability was better for the schemes tested at 20 dph.

8.3.7 Our baseline testing in Part 1 is reflective of current planning policy requirements, and further viability testing will need to be undertaken as emerging local plan policies are modified and finalised. The requirement for affordable housing is likely to be carried through into the new Core Strategy Local Plan. Our testing based on the existing policy position shows that the requirement to provide affordable housing is one of the policy requirements with the greatest impact on viability. Our results in Section 6 demonstrate that it will not be possible to achieve the 20% target in certain instances in Zone 1, although in certain parts of Zone 1 a lower 10% threshold will apply. A degree of flexibility may therefore be required in relation to the Local Plan affordable housing policy based on viability.

8.3.8 The level at which a levy could be introduced will be influenced by the emerging plan policies and the Council will need to be mindful of these requirements in setting a tariff across the four residential zones.

8.3.9 We have considered the viability results taken from our generic testing. The results suggest that there are prospects to introduce a CIL charge on greenfield sites across the Borough. Viability on brownfield sites is however poorer and when incorporating planning policy requirements in relation to affordable housing at 20% and site specific S106 requirements is generally unviable in Zone 1 and produces more marginal results in Zone 2 and to a lesser extent Zone 3.

8.3.10 The results for brownfield development sites demonstrate that for a CIL charge to be introduced in the lower value areas of Zone 1 then there would need to be a relaxation in the Council's policy requirements to ensure that the introduction of a CIL charge does not put future development at risk. In Zones 2 and 3 a CIL charge could be introduced, however further testing would need to be undertaken based on the likely policy hierarchy of the emerging Local Plan requirements, to determine the extent of any charge that could be supported in the context of these other policies, and ensure that delivery on previously developed sites was not prejudiced.

8.3.11 On greenfield sites our results show that development viability is greater and sufficient to support a CIL tariff without prejudicing the delivery of either new market houses or affordable dwellings.

8.3.12 In broad terms it is likely that the highest tariff rate could be set in Zone 4 where the highest values exist. The eventual level of tariff would need to be set with regard to the Local Plan policy requirements, however based on our results, affordable housing requirements and those in relation to site specific S106 requirements/opening up costs do not impact on viability in Zone 4 to such a degree that a CIL tariff could not be afforded.

8.3.13 Viability is not at the same level in Zones 2 and 3 on previously developed sites and the introduction of additional local plan policy requirements such as higher levels of sustainable construction standards, such as the Code for Sustainable Homes, could limit the level of CIL tariff that could be set on brownfield sites in these locations. The results of our study indicate that development in greenfield locations in these Zones is more viable and in this respect a tariff could be supported, subject of course to further testing based on the eventual Local Plan policy requirements.

8.3.14 The results of our testing in Zone 1 suggest that viability is more marginal and it would be difficult to support a CIL tariff in combination with affordable housing at 20%. Based on 10% affordable housing provision a limited charge could possibly introduced for higher density developments and on greenfield sites.

8.3.15 Having regard to the results outlined above, Wirral Council could therefore consider introducing a CIL charge for residential development, which could be spatially varied to reflect the geographical areas outlined in Table 8.1.

8.3.16 *Apartment Developments*

8.3.17 Part 1 of this study has considered the viability of apartment developments based on some testing of both a small (10 units) and medium (50 units) apartment developments on brownfield sites.

8.3.18 The results reflect the present difficulties in securing sales of new apartments due to a lack of mortgage finance. Overall, the results show that for the hypothetical developments tested, based on an affordable housing policy compliant position, apartment development is unviable in Zones 1 and 2. In Zones 3 and 4 apartment developments are viable and the results at 20% affordable housing provision suggest that there may be some prospect to introduce a CIL tariff, although again further testing will be required as Local Plan policies are finalised.

8.3.19 The results for the conversions tested indicates that there is limited viability except in Zone 4, even before an allowance is made for affordable housing provision. The exact circumstances of any conversion project being progressed would need to be considered at the time of application to determine whether in fact the particular scheme would in any event be subject to a CIL charge. In any event we do not expect a tariff for residential conversion schemes could be supported in any of the Zones, except for the larger schemes in the highest value areas.

8.4 Non-Residential Recommendations

8.4.1 Having regard to the results of the appraisals which have been undertaken across all forms of commercial development in Wirral, it is clear that many forms of non-residential development within the Borough are not economically viable without additional funding support at the current time, based on a speculative form of development. It is possible that in certain instances the development of mixed use schemes would help improve viability. More profitable uses such as residential or retail may provide cross funding to the unviable elements and can help to achieve viable development and hence employment may come forward. Based on the results of our testing we would not currently recommend implementing any form of CIL charge however for B1, B2 or B8 uses.

8.4.2 The testing of new retail development considered a range of options from small units constructed within the existing main centre of Birkenhead and town centres, to new mid-size supermarkets and retail warehousing. In the majority of instances both convenience and comparison retail was viable. The exceptions related to comparison retail constructed in more tertiary locations where the development of new comparison retail space was unviable. The results from the retail testing suggest that a variable CIL tariff by location could be introduced for comparison retail units.

8.4.3 In relation to convenience retail development some differences in value and hence viability were identified with respect to the size of unit. In this respect, prospects do exist based on the results of the viability testing undertaken for the Council to consider implementing a differential rate for convenience retail based on scale of development.

8.4.4 All of the leisure accommodation tested, with the exception of garden centres and to lesser extent cinemas was not viable. The construction of a hotel, bowling alley, gym and a bingo hall all resulted in losses when development was considered on Brownfield sites. Based on the results of our testing there is insufficient viability for the majority of C1 and D2 uses to afford a potential CIL tariff, and it is therefore recommended that a CIL charge is not implemented on the development of these uses.

8.4.5 The results for food and drink uses also suggest that such forms of development would not be able to support a CIL charge.

8.4.6 In addition to the above, we considered a number of other forms of non-residential development. These included a car showroom, nursing home, an equestrian centre and agricultural buildings. In all instances the results demonstrated that the particular form of development was not viable. Based on the results of our testing the we would advise against the implementation of any CIL charge against these forms of development.

8.5 Summary

8.5.1 The results of our testing suggest that prospects do exist in Wirral to introduce a CIL tariff for new residential and certain forms of commercial development. Prior to the introduction of a CIL charging schedule we would recommend that further scenario testing is undertaken to demonstrate the effects of a CIL charge on development viability, in the context of emerging Local Plan policies and also to consider the effect of an instalments policy on viability.

Appendix 1 Market Evidence

- **Commercial Land**
- **Industrial Accommodation**
- **Leisure**
- **Miscellaneous**
- **Office Accommodation**
- **Residential Accommodation**
- **Residential Land**
- **Retail**
- **Smaller Convenience Retail and Supermarkets**

Appendix 2 Tweeds Report - Construction Costs for Development

Appendix 3 Stakeholder Consultation