



SOUTHEND-ON-SEA BOROUGH COUNCIL COMMUNITY INFRASTRUCTURE LEVY VIABILITY ADDENDUM NOTE - JULY 2014

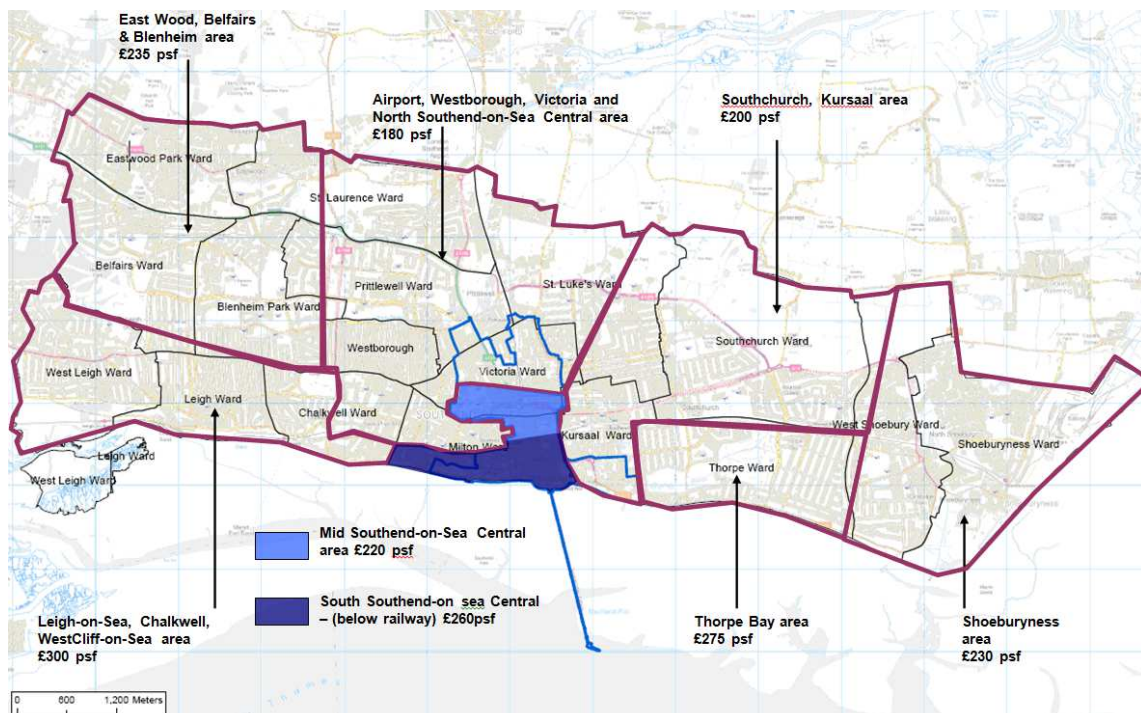
1 Introduction

- 1.1 At a pre-Cabinet scrutiny meeting held in June 2014 Members queried some of the boundaries of the market areas shown in Figure 4.2.1 of the May 2014 Viability Study. The areas in question were those to the east of the South Central Area (where annotated on map as 'Kursaal Ward') and to the west of South/Mid Central Area (where annotated as 'Milton Ward' on the map). In the May 2014 Viability assessment these areas are shown as being included in Zone 7 (Thorpe Bay) and Zone 8 (Leigh and Chalkwell) respectively. Members suggested that the values in these areas were closer to those shown in the 'Southchurch area', and that the high value area boundaries should perhaps be further east and west respectively. As a result BNP Paribas Real Estate has undertaken further research into residential transactions in these areas. This research has confirmed the amendment to the boundaries in line with member's comments and this note sets out the amended boundaries in line with the findings of the further research.
- 1.2 Members expressed an interest in pursuing a three zone approach CIL Charge for residential uses. They suggested exploring an alternative three zone option approach which is set out in this note.

2 Residential sales values

- 2.1 Residential values in the area reflect national trends in recent years but do of course vary between different sub-markets. We have considered comparable evidence of transacted properties in the area and also properties on the market to establish appropriate values for each scheme for testing purposes. This exercise indicates that developments in the Borough will attract average sales values ranging from circa £3,229 per square metre (£300 per square foot) to £1,938 per square metre (£180 per square foot). In general higher values are achieved along the seafront and particularly in the Leigh-on-Sea, Chalkwell and Thorpe Bay areas. The market areas are illustrated in Figure 2.1.1 below.

Figure 2.1.1: Average sales values in Southend-on-Sea





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2.2 We have applied the following average sales values in our appraisals, reflecting the range above.

Table 4.3.1: Average sales values adopted in Southend-on-Sea appraisals

Area	Ave values £s per square metre	Ave values £s per square foot
1 - North central area, Airport, Westborough, Victoria and Prittlewell	£1,938	£180
2 - Southchurch	£2,153	£200
3 - Mid central area	£2,369	£220
4 - Shoeburyness	£2,476	£230
5 - Eastwood, Belfairs and Blenheim	£2,530	£235
6 - South central area (below railway)	£2,799	£260
7 - Thorpe Bay	£2,960	£275
8 - Leigh-on-Sea and Chalkwell	£3,229	£300

3 Suggested CIL rates

3.1 Although the results indicate that viability of residential development is currently challenging in certain locations, it should be possible for rates of CIL to be levied across all areas, subject to allowing for a buffer or margin to address risks to delivery. There are four key risk factors:

- the first is that individual sites might incur exceptional costs (decontamination, difficult ground conditions etc.) and as a result the residual land value could fall. Developers will try and reflect such costs in their offer to the landowner, but the extent of any issues is not always fully apparent until the land value is fixed. Where sites have an existing use, an owner will not be prepared to accept a reduction below the value of the current building to accommodate exceptional costs on a redevelopment;
- Secondly, current use values on individual sites will inevitably vary and will fall somewhere between the values used in our appraisals. As a result, the ability of schemes to absorb high rates of CIL could be adversely affected.
- Thirdly, sales values could fall or normal build costs could rise over the life of the Charging Schedule, adversely affecting scheme viability. While the Council could change its rates to adapt to these changes, this cannot be done quickly due to the need to develop a refreshed evidence base and follow the statutory consultation and examination process; and
- Fourthly, imposing a high rate of CIL (that vastly exceeds the current levels of Section 106 obligations) in the Council's first Charging Schedule could 'shock' the land market with a consequential risk that land supply falls. This factor has led many charging authorities to seek to limit their CIL rates to no more than around 3-5% of development costs, or to set their CIL rates so that they are broadly comparable to existing Section 106 contributions¹.

¹ For example, Wandsworth Council has adopted this approach in the Vauxhall Nine Elms Opportunity Area, where the existing tariff has been converted into a per square metre CIL rate.



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- 3.2 It is also important to consider that where a scheme is shown as unviable before the application of CIL, it will be other factors such as sales values, build costs and the percentage of affordable housing that will need to adjust for the scheme to become viable.
- 3.3 The maximum rates of CIL indicated by our appraisals in our May 2014 CIL Viability Report are outlined below. The ability of residential schemes to make CIL contributions varies depending on the area and the current use of the site. Given the range of results and the risk factors outlined above, our conclusion is that residential schemes should be able to absorb a maximum CIL rate of between a nominal rate of around £20 per square metre and £100 per square metre. CLG guidance requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount (buffer) to the maximum rate, with discounts ranging from circa 20% to 50%. Having regard to the range of the results and taking account of viability across the Borough as a whole we would recommend that the Council should set their rates at a discount of circa 30% to the maximum rates, as shown in Table 3.3.1.

Table 3.3.1: Maximum and suggested CIL rates

Market Areas	Maximum CIL indicated by appraisals (£s per sqm)	CIL after buffer (£s per sqm)	Suggested three Zone Approach to CIL (£ per sq m)	Alternative suggested three Zone Approach to CIL (£ per sq m)	Suggested two Zone Approach to CIL (£ per sq m)
1 - North central area, Airport, Westborough, Victoria and Prittlewell	N/A	Nominal rate of around £20	ZONE 1 £10	ZONE 1 £20	ZONE 1 £20
2 - Southchurch	N/A	Nominal rate of around £20	ZONE 1 £10	ZONE 1 £20	ZONE 1 £20
3 - Mid central area	N/A	Nominal rate of around £20	ZONE 1 £10	ZONE 1 £20	ZONE 1 £20
4 - Shoeburyness	£30	£21	ZONE 2 £20	ZONE 1 £20	ZONE 1 £20
5 - Eastwood, Belfairs and Blenheim	£30	£21	ZONE 2 £20	ZONE 1 £20	ZONE 1 £20
6 - South central area (below railway)	£50	£35	ZONE 3 £40	ZONE 2 £30	ZONE 2 £40
7 - Thorpe Bay	£80	£56	ZONE 3 £40	ZONE 3 £60	ZONE 2 £40
8 - Leigh-on-Sea and Chalkwell	£100	£70	ZONE 3 £40	ZONE 3 £60	ZONE 2 £40

- 3.4 In determining the maximum levels of CIL and the recommended rates above, we have based our assessment on: current costs and values, no existing floorspace and taking into consideration the impact of CSH level 4. We have run a set of appraisals that show the impact of; an increase in sales values, accompanied by an increase in build costs; a fall in sales values (the results are included in Appendix 1 of the May 2014 CIL Viability Report). These appraisals provide an indication of the likely movement in viability that any 'buffer' below the maximum rates would need to accommodate.
- 3.5 Whilst the maximum rates are higher than the suggested rates, the inclusion of a buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land



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supply of setting the rates at a high level). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority's judgement.

- 3.6 We suggest that the Council might wish to consider combining areas into two or three charging zones, thereby simplifying the charging schedule into less charging areas. It is also worth noting that Market Areas 1, 2 and 3 have been identified as being generally unviable and as such the application of CIL is unlikely to be the defining factor and the imposition of CIL at a zero level will not make schemes viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. In this regard we would recommend that the Council considers a maximum nominal rate of around £20 per square metre.
- 3.7 For residential schemes, the application of CIL is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme value, CIL will be a modest amount, typically accounting for between 0.9% and 2.1% of value dependant on the approach to CIL Zones (see Table 3.7.1 below). Some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these schemes.

Table 3.7.1: CIL as a proportion of scheme value – residential 2 and 3 Zone Approaches

CIL Market Areas	Maximum CIL (£s per sqm) ²	Suggested Alternative Three Zone Approach			Suggested Two Zone Approach		
		Suggested CIL (£s per sqm)	Suggested CIL as % of maximum viable rate	Suggested CIL as % of Gross Development Value ³	Suggested CIL (£s per sqm)	Suggested CIL as % of maximum viable rate	Suggested CIL as % of Gross Development Value ³
Area 1	N/A	Nominal rate of around £20	N/A	1.2%	Nominal rate of around £20	N/A	1.2%
Area 2	N/A	Nominal rate of around £20	N/A	1.1%	Nominal rate of around £20	N/A	1.1%
Area 3	N/A	Nominal rate of around £20	N/A	1.0%	Nominal rate of around £20	N/A	1.0%
Area 4	£30	£20	67%	0.9%	£20	67%	0.9%
Area 5	£30	£20	67%	0.9%	£20	67%	0.9%
Area 6	£50	£30	60%	1.1%	£40	80%	1.6%
Area 7	£80	£60	75%	2.1%	£40	50%	1.6%
Area 8	£100	£60	60%	2.0%	£40	40%	1.4%

- 3.8 See the attached maps showing the amended boundaries for the suggested two zone and alternative three zone approaches to setting residential CIL charges that we would suggest the Council considers adopting.

² The percentages for residential schemes are based on the appraisals for site type 5.

³ The percentages here assume that CIL is levied on the entire floorspace of the development (except for affordable housing, which benefits from affordable housing relief) and that there is no deduction for existing floorspace. These percentages therefore represent the worst case scenario.

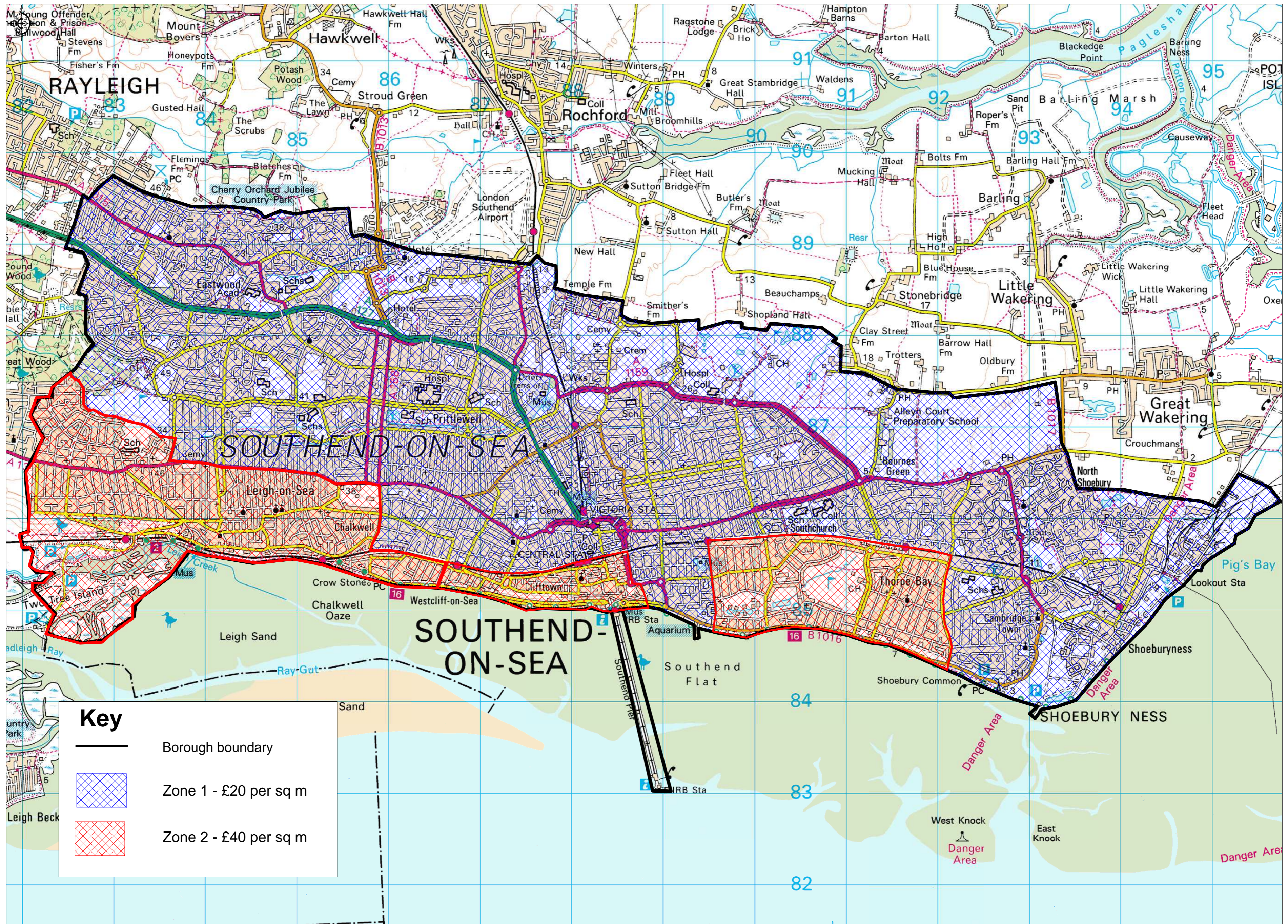


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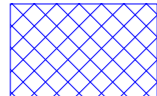
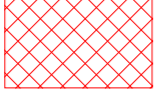
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**APPENDIX 1 – Suggested two zone approach to setting
residential CIL rates**

Southend-on-Sea Suggested Residential CIL Rates (2 Zone Approach)



Key

-  Borough boundary
-  Zone 1 - £20 per sq m
-  Zone 2 - £40 per sq m



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**APPENDIX 2 – Suggested alternative three zone approach to
setting residential CIL rates**

