



Report for Surrey Heath Borough Council

Local Plan Viability Assessment

Assessment of Policy Delivery Final Report – March 2024

Three Dragons
With QSetc



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| Use of this report | <p>This report is not a formal land valuation or scheme appraisal. It has been prepared using the Three Dragons toolkit and is based on borough level data supplied by Surrey Heath Borough Council, consultant team inputs and quoted published data sources. The toolkit provides a review of the development economics of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal.</p> <p>No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.</p> |
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EXECUTIVE SUMMARY

Context

1. Surrey Heath Borough Council (SHBC) is reviewing its Local Plan. The new Local Plan will set out the opportunities for development across the borough for the period up to 2038, alongside the policies to support that development. As part of the review process, SHBC needs evidence to demonstrate the deliverability of the Plan, including what balance of affordable and market housing is viable and whether this varies across the borough.
2. The Viability Assessment has been prepared in consultation with the development industry and other key stakeholders and has followed the relevant regulations and government guidance. As is standard practice, we have adopted a residual value approach for our analysis. Residual value is the value of the completed development (known as the gross development value or GDV) less scheme costs. The residual value of a scheme is compared with a benchmark land value and if it exceeds this, the scheme is said to be viable.

Typologies

3. In consultation with the council, a suite of case study typologies was drawn up. The typologies were reflective of the type of sites likely to come forward over the life of the new Local Plan, including allocations in the Local Plan.
4. The case studies included sites in Camberley Town Centre, two of which were based on allocations in the Local Plan; HA2 (London Road Block or LRB) and HA3 (Land East of Knoll Road or LEKR) and which will make a significant contribution to housing delivery in the borough.

Testing assumptions

5. Based on Land Registry data, two distinct residential value areas, Eastern and Western, were identified in Surrey Heath. The value areas are the same as those identified in the CIL Charging Schedule (without the separate distinction for Deepcut). House prices were found to be higher in the Eastern value area. A separate market for apartments in Camberley town centre was also identified.
6. For build costs, the Build Cost Information Service (BCIS) was the primary data source. Additional costs for plot costs and site infrastructure were also identified. Allowances were also made for recent updates to Building Regulations Part L, O, F and S, as advised by BCIS. The Camberley town centre sites include tall flats and build costs for these were provided by the team's cost consultant.
7. In arriving at a benchmark land value (BMLV) for Surrey Heath, a number of data sources were reviewed including existing use values. From these, a range of BMLV were identified ranging from £270,000 per gross ha for a large greenfield site through to £2.47m per gross ha for brownfield land. The main testing results shown in this report use a mid-point, but typologies were tested also with land values above and below.
8. Other costs and values have been benchmarked to industry standards or based upon published sources including government impact assessments.

Draft policies

9. The viability assessment has taken account of the cost implications of policies in the Pre-Submission Surrey Heath Local Plan (2019-2038): (Regulation 19) (subsequently referred to as the Pre-Submission Plan that will impact on development viability. These include policies to mitigate against climate change and the requirement for affordable housing. Policies reviewed and implications taken into account in the testing include:
 - SS3a/b – Climate change mitigation & adaptation
 - HA1-HA4 – Housing allocation
 - Policy H5: Range and mix of housing – sets out that the housing mix should be based on the latest Housing Needs Assessment; it also sets out requirements for additional accessibility standards, serviced plots for self-build and custom housebuilding; 20% affordable private rent on Build to Rent schemes
 - H6 – Specialist housing
 - Policy H7: Affordable housing which requires 40% of overall development on all sites of 10 or more dwellings, to be affordable
 - H9/H10 – Rural/First home exception sites
 - IN1-IN5 – Infrastructure delivery
 - Policy E1: Thames Basin Heaths Special Protection Area – subsequent costs for Suitable Alternative Natural Greenspace (SANG) are assumed to be collected through CIL
 - Policy E3: Biodiversity Net Gain at 20% is higher than national policy – costs have been taken from the government impact assessment
 - E5 – Renewable and low carbon energy and heating schemes
 - Policy DH2: Making effective use of land – sets out minimum densities
 - Policy DH3: Residential Space Standards – requires that internal layout and size meet up-to-date nationally described technical housing standards for minimum internal space
 - DH4 – Sustainable water use
 - DH8 – Building emission standards.
10. For SS3a (1) which requires; “...major applications to deliver net zero carbon development” and E5 (2): “major development proposals will be required to incorporate measures to supply a minimum of 25% of the development’s regulated operational energy needs from on-site renewable and/or low carbon technologies”, we comment on headroom to achieve these policies. This is so as not to pre-empt ongoing work by Surrey County Council looking into the feasibility and costs of delivering such policies.
11. A number of sensitivity tests were carried out to consider the effect of possible alternative market scenarios including the following;
 - a) The introduction of Future Homes as set out in the December 2023 government consultation and impact assessment – option 1, the more expensive option, was used because this best improves energy efficiency for occupiers

- b) An assessment of a future scenario based on 5-year forecast changes in values, costs and interest rates (as well as the introduction of Future Homes)¹
- c) The effect of switching all social rented units to Affordable Rent
- d) The effect of increasing the discount on First Homes².

Residential testing results and implications for policy

12. The results present a picture of good general viability for most residential typologies across Surrey Heath and that the Local Plan policies can be delivered. There is headroom in many instances for further CIL collection or further policy costs as well as those associated with national policies such as Future Homes. This includes potential to meet the implied costs of Policy SS3a/b – Climate change mitigation & adaptation and Policy E5: Renewable and Low Carbon Energy Systems when these are further defined.
13. Outside of Camberley town centre an affordable housing requirement of 40% is a realistic policy option, in most cases. For some brownfield typologies in the Western value area, results are marginal and the viability pressure from additional policy costs may mean that changes will need to be made by the promoter to density or price paid for land for example, or that the council may need to be flexible over the tenure of the affordable homes for a scheme to remain viable. It does not imply that the affordable housing requirement should be reduced below 40%.
14. Outside Camberley town centre, the additional costs associated with flat-only schemes makes this type of development less viable or unviable. Although the inclusion of flats as part of a mixed development (c10% in our testing) did not adversely affect results. Fully flatted schemes, as tested, are unable to make an affordable housing contribution unless other measures can be taken to improve viability, for example a reduced return to the developer and/or lower land values. The same applies to sheltered and extra care schemes which are also unlikely to be able to make a full affordable housing contribution, if any.
15. The two Camberley town centre allocations are different in certain respects and the viability results reflect this.
 - i) HA2 is a large scheme of tall apartment blocks, with the associated higher development costs, and has been shown to be able achieve a contribution of 20% affordable housing. This is the most complex scheme tested and changes to the built form can make a significant difference to the viability as can small changes to costs or values. Although the results suggest a slightly higher affordable housing contribution could be possible, this may not leave enough headroom for additional policy costs around carbon net zero or allow for accommodation of changes to design.

¹ Savills Residential Property Market Forecasts March 2023

Knight Frank House price forecasts January 2024

BCIS – quarterly briefing Dec 2023

Bank of England Monetary Policy summary & minutes December 2023

² First Homes is a form of low cost home ownership promoted by central government and sold at a percentage of a property's open market value.

ii) HA3, whilst still a high density scheme, is not as tall as HA3 and does not include commercial space making for a more efficient design. The results show that 25% affordable housing is achievable. Again, it is shown that although a further affordable housing contribution could be possible, this may not leave enough headroom for additional policy costs around carbon net zero or allow for accommodation of changes to design.

16. The notional Build to Rent scheme as modelled is able to make a 20% private affordable housing contribution, consistent with government guidance.
17. The Rural Exception Sites were shown to require around 10-15% market housing to allow such schemes to come forward.
18. As well as affordable housing, the testing included allowances for policies in the Pre-Submission Local Plan, including Biodiversity Net Gain, accessibility, density, space standards, self and custom build housing. As such these policies are considered achievable.
19. Forecast changes in costs and values over the next five years indicate an improvement generally in residential viability across Surrey Heath which gives confidence that the above policy approach (both within and outside Camberley town centre) is achievable and realistic.

Non- residential

20. The results of the non-residential testing show that, on the basis of speculative build no typologies are viable. This is not uncommon in this type of generic assessment which has to be based on a speculative approach to sale and rent, rather than specific operator circumstance.

CIL

21. We have not made a specific recommendation about a new CIL rate and recommend delaying any decisions on this until more information is available about the new Infrastructure Levy and the likely cost implications of Future Homes and Future Buildings as well as the Surrey-wide local study on carbon reduction.

Chapter 1 Introduction

Context

- 1.1** Surrey Heath Borough Council (SHBC) is reviewing its Local Plan. The new Local Plan will set out the opportunities for development across the borough for the period up to 2038 alongside the policies to support that development. As part of the review process, SHBC needs evidence to demonstrate the deliverability of potential future policies, including what balance of affordable and market housing is viable and whether this varies across the borough.
- 1.2** The assessment includes an analysis of the impact of the policies set out in the Pre-Submission Local Plan and has been undertaken in accordance with national policy and guidance - including the December 2023 National Planning Policy Framework (including the transitional arrangements set out in Annex I) and Planning Practice Guidance.
- 1.3** Underlying the assessment is a series of tests that calculate the viability of a set of notional and potentially allocated sites, representative of the types of development likely to come forward over the life of the Local Plan. The Viability Assessment has been prepared in consultation with the development industry and other key stakeholders.

Viability in plan making

- 1.4** An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient for the landowner to sell the land for the development proposed. If these conditions are not met, a scheme will not be viable.
- 1.5** This report sets out the typologies and assumptions used to inform the viability testing reflecting latest available information. The viability testing for this report has:
 - reviewed broad costs associated with addressing the proposed policies in the Pre-Submission Local Plan
 - tested the quantum and broad form of proposed development
 - been designed to assess the balance around development contributions including the amount of Community Infrastructure Levy (CIL) that development can support and whether there are differences in viability across different areas within Surrey Heath or between different types of development that are sufficient to justify different policy approaches.
- 1.6** The testing has drawn on the following evidence:
 - review of the types of sites outlined in the draft Local Plan

- review of the policies in the draft local plan and central government guidance that may have implications for development viability
- review of recent planning consents including details on unit sizes, density, built form
- a review of recent developer contributions agreed by the council as well as discussion with council officers about the proposed use of s106 going forward
- consultation with Surrey Heath Borough Council and Surrey County Council officers, including planning, education and housing
- desk research to form initial views on the values and costs of residential development in Surrey Heath
- a range of consultation exercises with the development industry and registered providers.

1.7 In addition to this report a technical appendix provides further evidence and background information in support of the analysis undertaken.

Chapter 2 Local and national policy context

National policy

- 2.1** National policy and guidance on viability for plan making and Community Infrastructure Levy is set out in National Planning Policy Framework (NPPF³) and the Planning Practice Guidance (PPG⁴). There is also useful guidance contained within 'Viability Testing Local Plans - Advice for planning practitioners' (Harman 2012) and 'Assessing Viability in Planning' (RICS 2021). The viability testing undertaken within this study complies with this national policy and guidance, the details of which are set out in Appendix I.
- 2.2** There are a number of other national policies recently introduced that have a bearing on development costs and which have been included in the viability testing undertaken. These include:
- more stringent requirements to improve building standards, including to reduce carbon emissions in new homes, particularly the update to Building Regulations Part L (conservation of fuel and power), Part F (ventilation) and Part O (overheating)
 - update to Part S - Infrastructure for Charging Electric Vehicles which requires new development to provide electric vehicle charging points where a parking space is provided or cabling elsewhere
 - provision for biodiversity net gain introduced through the Environment Act 2021, with 10% net gain a mandatory requirement for most development types from April 2024
 - the introduction of First Homes, providing a nationally defined low cost home ownership option.
- 2.3** In December 2023 the government issued a consultation on the Future Homes Standard which seeks to make further improvements to the level of carbon emissions in new homes and non-domestic buildings and is anticipated to come into force in 2025⁵. The additional related costs have been taken into account through a series of sensitivity tests.

Local policy

- 2.4** The NPPF is clear that viability testing should take into account the costs of any requirements likely to be applied to development. The Local Plan will be the overarching borough wide planning document for Surrey Heath and it will set out the spatial strategy and development principles for the area, together with more detailed policies to help determine planning

³ National Planning policy Framework (gov.uk) December 2023

⁴ Planning Practice Guidance (gov.uk)

⁵ [The Future Homes Standard consultation](#) (gov.uk) published December 2023 (updated March 2024)

applications (the scope of which may be subject to the introduction of national development management policies). It is intended that the new Local Plan will replace the existing development plan.

2.5 Table 2.1 below summarises the policies in the Pre-Submission Local Plan which have viability implications and have been taken into account in the testing, alongside other national requirements.

Table 2.1 Draft Local Plan strategic policies with viability implications

| Policy | Response |
|---|---|
| Policy SS3a/b – Climate change mitigation & adaptation | Viability testing includes costs for the recent changes to Building Regulations (effective from 2022) as well as allowances for Future Homes. Costs for EVCs are included. The testing identifies the viability headroom available for additional building efficiency standards – the costs and technical specification of which are, at the time of writing, being assessed by Surrey County Council. |
| Policy HA1-HA4 – Housing allocation | See separate section on allocations |
| Policy H5 – Range and mix of housing | The viability testing is mindful of the latest housing needs assessment and: <ul style="list-style-type: none"> ▪ allows for additional costs associated with meeting M4(3) 2a accessibility standards for 5% of market homes and 10% of affordable homes ▪ self build and custom housebuilding (5% of dwellings on sites of 20 dwellings or more) ▪ includes a build to rent typology with 20% affordable private rented dwellings with a discount of 20% below market value, as per government guidance. |
| Policy H6 – Specialist housing | The viability testing includes typologies for older person housing. |
| Policy H7 – Affordable housing | Viability testing includes affordable housing requirements in terms of percentage of housing above thresholds and a range of tenure types. |
| Policy H9/H10 – Rural/First home exception sites | The viability testing includes typologies for rural/first home exception sites. |
| Policy IN1-IN5 – Infrastructure delivery | Allowances are made within the viability testing for provision of infrastructure, including CIL (at current rates). |
| Policy E1 – Thames Basin Heaths SPA | The viability testing includes allowances for mitigation. |

| Policy | Response |
|--|--|
| Policy E3 – Biodiversity net gain | Cost allowances are made within the viability testing for provision of 20% BNG. |
| Policy E5 – Renewable and low carbon energy and heating schemes | Viability testing includes costs for the recent changes to Building Regulations (effective from 2022) as well as allowances for Future Homes (as in the government's consultation of December 2023). The testing identifies the viability headroom available for additional building efficiency standards, including where this is above the Future Homes Standard |
| Policy DH2 – Making effective use of land | Viability testing considers the range of minimum density requirements as appropriate. |
| Policy DH3 – Residential space standards | The viability testing meets the nationally described space standards. |
| Policy DH4 – Sustainable water use | The viability testing considers requirements for water efficiency. |
| Policy DH8 – Building emission standards | Viability testing includes costs for the recent changes to Building Regulations (effective from 2022) as well as allowances for Future Homes. The testing identifies the viability headroom available for additional building efficiency standards, including where this is above the Future Homes Standard. |

Allocated sites

2.6 The draft local plan includes a set of allocated sites. The table below summarises the sites and their specific policy requirements as well as the approach taken in the testing in response. This has been informed by discussion with council officers. In line with government guidance, it is not necessary to test every allocation⁶, many already have planning permission or are adequately considered within the generic typologies.

⁶ See PPG Paragraph: 003 Reference ID: 10-003-20180724

Table 2.2 Draft Local Plan site allocations

| Policy | Summary of requirements | Approach to viability testing |
|-------------------------------|--|---|
| HA1/01-08 | Site allocations projected to deliver 25 plus homes | Refer to typologies Res 4 to Res 7 |
| HA1/09-24 | Site allocations projected to deliver 10-24 homes | Refer to typologies Res1 to Res 4 |
| HA1/25-26 | Site allocations for older persons | Refer to typologies Res 11 and Res 12 (note HA1/25 already consented) |
| HA2 – London Road Block | Site allocation for 550apartments with commercial and community space – up to 15 storeys | Refer to Typology Res 9 |
| HA3 – Land East of Knoll Road | Site allocation for 342 apartments of 4-7 storeys | Refer to Typology Res 10 |
| HA4 – Mindenhurst, Deepcut | Former Princess Royal Barracks, allocated for 1,200 new dwellings, a care home and associated infrastructure | Already consented - no further testing required |

Consultation with the development industry

2.7 The PPG sets out that:

“Plan makers should engage with landowners, developers, and infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the plan making stage.”⁷

2.8 Consultation with the development industry, undertaken for this assessment, involved a range of activities which provided opportunities for the development industry to engage with the process. The activities were:

- A workshop consultation exercise with developers and agents active in Surrey Heath in August 2022 (a note of the workshop is appended at Appendix II)
- Follow up consultation with individual developer stakeholders during August and September 2022 and again during November and December 2023 (the latter event to ensure that up to date views of the development industry had been canvassed)
- Consultation with housing associations active in Surrey Heath and the surrounding area to discuss assumptions for affordable housing and issues around delivery took place during

⁷ Planning Practice Guidance, Paragraph: 006 Reference ID: 10-006-20190509

September to October 2022 and again in November 2023 to February 2024 (the latter event to ensure that up to date views of housing associations had been canvassed).

2.9 The industry consultation was broadly supportive or raised no issues with the viability assumptions as shared. Some stakeholders raised the following issues:

- In the first consultation queries were raised about the size and value of larger greenfield sites and these were then accommodated within the typology testing
- The second consultation drew in some observations about costs which were within the scope of viability testing as undertaken and about developer profit which was not fully specified, although noting that the allowance used was within the range set out in PPG
- Consultation with the housing associations mainly confirmed our affordable housing assumptions, although there was some variation in approach between associations.

Chapter 3 Approach to testing and viability

Approach viability and typologies

3.1 As is standard practice⁸, we have adopted a residual value approach to our analysis. Residual value is the value of the completed development (known as the Gross Development Value or GDV) less scheme costs. The value of the scheme includes both the value of the market housing and affordable housing. Scheme costs include the costs of building the development, plus professional fees, scheme finance and a return to the developer as well as any planning obligations or other policy costs and the costs of the land⁹ and its purchase, as described in PPG:

“Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return.”¹⁰

3.2 In respect of the types of sites to test, PPG states that:

“Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability at the plan making stage¹¹.”

Uses included in the testing

3.3 The uses tested are listed below and focus on developer-led forms of development rather than publicly led uses such as new infrastructure facilities or development types that are not common:

Residential

- residential for sale
- older person homes

Non-residential

- offices
- industrial/warehouse

⁸ See page 25 of Viability Testing Local Plans: Advice for Planning Practitioners Harman 2012 – “We recommend that the residual land value approach is taken when assessing the viability of plan-level policies and further advice is provided below on the considerations that should be given to the assumptions and inputs to a model of this type.”

⁹ The land price assumed is known as the 'benchmark land value'

¹⁰ Paragraph: 010 Reference ID: 10-010-20180724

¹¹ PPG Paragraph: 003 Reference ID: 10-003-20180724

- retail
- hotel.

Typology and allocated sites selection

- 3.4** We worked with the council to draw up a suite of typologies and allocations. These are intended to reflect the type of sites, including allocations, likely to come forward over the life of the new Local Plan. The generic typologies are not intended to represent specific development proposals but to reflect typical forms of development that are likely to come forward over the plan period. The allocated sites tested are those without any form of planning permission/application that are proposed to be taken forward through the plan making process and often have specific requirements or characteristics which indicate a need for a specific assessment. The typologies and allocations were shared with stakeholders during the consultation process, where it was agreed that, with some changes to the size of the larger greenfield typologies (which we subsequently adopted) these were representative.
- 3.5** The typologies are set out below, organised in the three broad groups of development types (residential, specialist homes and non-residential).

Residential and specialist homes typologies

- 3.6** The generic residential typologies are set out in table 3.1. These include a set of small sites which are below the threshold for affordable homes (i.e. fewer than 10 dwellings) as well as some medium, large sites and high density town centre schemes. The proportions of net developable area in a site reflect policy requirements as well as typical characteristics of this site type.
- 3.7** Typologies are tested on both brownfield (BF) as well as greenfield (GF) sites except for the high-density town centre schemes and build to rent which are tested only on brownfield land only, or for the large greenfield site of 500 dwellings which is only tested on greenfield land only. For brownfield sites, the testing does not assume that there is any existing floorspace on the site. It is unlikely that this will be the case in practice¹² and that there will be existing space that should be netted off against the CIL liability, thus increasing the residual value and strengthening the viability position of the scheme. However, this can only be realistically assessed on a scheme by scheme basis, at planning application. The approach taken in this study is a conservative one which will tend to under estimate viability on brownfield sites.
- 3.8** The allocated sites typologies are based on site requirements set out in draft policies, as well as further detailed discussions with council officers and their advisors. Site sizes are based on required housing numbers and density expectation.

¹² In practice it is likely that brownfield land development would have a reduced CIL obligation once existing floorspace is netted off the new floorspace created by the project.

3.9 There are a number of different types of older person homes. The descriptions below are taken from the Retirement Housing Group¹³:

- Retirement housing – also known as housing with support, sheltered housing, retirement flats or communities, offering self-contained homes for people over 60, with on-site dedicated manager and typical facilities such as communal lounge, laundry, gardens, guest rooms, emergency call system and secure entry;
- Extra care - also known as , housing with care, assisted living, independent living integrated retirement communities or retirement villages, offering self-contained homes for people over 60, with 24 hour on-site staff, optional care or domiciliary services, restaurant or cafe available for meals, leisure facilities such as gym, swimming pool, exercise programme, a social event programme and typical facilities include communal lounge and/or library, laundry, hairdressers, gardens, guest rooms - service charges are likely to be higher than in retirement housing but this reflects the more extensive range of facilities;
- Care Homes - This includes what have traditionally been described as residential care homes or nursing homes and is where integral 24-hour personal care and/or nursing care are provided together with all meals. A care home is a residential setting where a number of older people live, usually in single rooms and people occupy under a licence arrangement.

3.10 For this study, we have tested a retirement housing scheme, an extra care scheme and a care home scheme. We have not tested a retirement village as these are variable in form and difficult to scope. We would however consider that we have tested the constituent parts within the more traditional testing.

3.11 The residential typologies are labelled Res1 through to Res 15. The following tables have grouped these as ‘generic typologies’ (table 3.1), allocated site typologies (table 3.2) and ‘specialist housing typologies’ (table 3.3). The dwelling sizes and mixes are set out in the testing assumptions in Chapter 4.

¹³ [The Retirement Housing Group](#)

Table 3.1 Generic typologies

| Typology | Land Use GF greenfield BF brownfield | Description | Dwellings | Density (dwellings /hectare) | Gross site (hectare) ¹⁴ | Net site (hectare) |
|----------|--|----------------------------|-----------|------------------------------------|---------------------------------------|-----------------------|
| Res 1 | BF/GF | low density housing | 3 | 30 | 0.10 | 0.10 |
| Res 2 | BF/GF | Mixed – houses & flats | 9 | 40 | 0.23 | 0.23 |
| Res 3 | BF/GF | Mixed – houses & flats | 12 | 40 | 0.32 | 0.30 |
| Res 3.1 | BF/GF | flatted | 12 | 100 | 0.13 | 0.12 |
| Res 4 | BF/GF | Mixed – houses & flats | 30 | 40 | 0.83 | 0.75 |
| Res 5 | BF/GF | Mixed – houses & flats | 50 | 40 | 1.39 | 1.25 |
| Res 6 | BF/GF | higher density mixed | 75 | 70 | 1.19 | 1.07 |
| Res 7 | BF/GF | Mixed – houses & flats | 150 | 45 | 4.44 | 3.33 |
| Res 7.1 | BF | flatted town centre | 150 | 240 | 0.69 | 0.63 |
| Res 8 | GF | Mixed– houses & flats | 500 | 40 | 25.00 | 12.50 |
| Res 14 | GF | Rural Exception site | 15 | 30 | 0.56 | 0.50 |
| Res 15 | GF | First Homes exception site | 10 | 30 | 0.37 | 0.33 |

Note - The custom and self build homes were included in typologies of more than 20 dwellings (except flatted typologies) and modelled as 3-bed detached units

¹⁴ Net and gross figures are based on density of development and adjusted according to site type and size, based on the general principle that as the development gets larger the net to gross decreases to take into account non-residential space required for creating sustainable places, such as open space or education. The adjustment is based on experience and reviewing of submitted applications.

Table 3.2 Allocated sites typologies

| Typology | Land use GF greenfield BF brownfield | Description | Homes | Density (dwellings/per hectare) | Gross site (hectare) | Net site (hectare) |
|----------|--|--|-------|---------------------------------------|-------------------------|-----------------------|
| Res 9 | BF | Town centre high density – HA2 (LRB) Up to 15 storeys | 550 | 294 | 1.87 | 1.87 |
| Res 10 | BF | Town centre high density – HA3 (LEKR) Up to 6 storeys | 342 | 250 | 1.37 | 1.37 |

Table 3.3 Specialist housing typologies

| Typology | Land use GF greenfield BF brownfield | Description | Homes | Density (dwellings/per hectare) | Gross site (hectare) | Net site (hectare) |
|----------|--|--------------------------|-------|---------------------------------------|-------------------------|-----------------------|
| Res 11 | GF/BF | Sheltered accommodation | 50 | 100 | 0.526 | 0.50 |
| Res 12 | GF/BF | Extra care accommodation | 60 | 100 | 0.632 | 0.60 |
| Res 13 | BF | Build to rent | 150 | 240 | 0.694 | 0.625 |
| NR CH | - | Care home (3,000 sqm) | 60 | - | 0.25 | 0.25 |

Affordable housing requirements

3.12 Affordable housing has been tested at a base point of 40% as per draft Local Plan policy H7 with the exception of flatted development in Camberley town centre which had a notional base point of 20%. Affordable housing is not sought from sites under 10 dwellings. For exception sites, the starting point is 100% affordable housing as these sites are affordable-led based on local need.

3.13 Further discussion about value areas and a map can be found in Chapter 4.

3.14 Sites with affordable housing are tested with a tenure mix of 25% first homes, 40% social rent, 15% Affordable Rent and 20% shared ownership as per policy H7. The exception is build to rent where 20% of the homes are affordable discount market rent (at 80% of the full market rent).

Non-residential typologies

- 3.15** A series of generic non residential typologies have been tested and the different types of uses and typologies used are set out below.
- 3.16** Retail typologies include convenience and comparison, in and out of town centre locations. Data on town centre retail values has been taken from transactions in locations across the county, while out of centre retail data has looked more widely on a regional basis to base estimates on sufficient transactions.
- 3.17** In the past, leases to the main supermarket operators have commanded a premium with investment institutions. Although there are some small regional variations on values, they are reasonably standard across the country with investors focusing primarily on the strength of the operator covenant and security of income. As a result, it is reasonable to use a broader geographic evidence base for convenience retail.
- 3.18** There has been a structural change in convenience retailing in recent years with an end to the expansion of the largest format convenience retailing and more emphasis on smaller supermarket formats (as used by both discount and premium convenience operators) and greater provision of small format stores, often within the Sunday trading threshold (280 sq m display floor area), also often in existing floorspace. These changes reflect the alterations in shopping habits.
- 3.19** There is the potential for employment development in various locations across the borough. We have therefore tested office, industrial and warehouse uses in edge of settlement/transport nodes as well as office development in more traditional centres. Whilst potentially office development could be in both in and out of centre, it is anticipated that industrial uses and warehouses will be located at out of centre locations only.
- 3.20** Nationally, there has been significant growth in the provision of budget hotels¹⁵, with relatively few full-service hotels. The most likely new-build hotel development in Surrey Heath is a budget hotel¹⁶ and the testing has used a budget hotel development of 70 rooms over three storeys, this is most likely at tourist destinations, transport nodes or near business activity in an out of centre location.

¹⁵ The British Hospitality Association Trends and Developments Report 2012 indicates that budget hotels are defined as a property without an extensive food and beverage operation, with limited en-suite and in-room facilities (limited availability of such items as hair dryers, toiletries, etc.), low staffing and service levels and a price markedly below that of a full service hotel.

¹⁶ Knight Frank, UK Hotel Development Opportunities 2018 Report

Table 3.4 Non-residential typologies

| Typology | Use | Description | Gross floorspace (sq m) | Gross site area (hectare) |
|----------|---|-------------------------------------|-------------------------|---------------------------|
| NR1 | Office | Fringe and transport nodes | 1,500 | 0.19 |
| NR2 | Office | Town centre | 2,000 | 0.06 |
| NR3 | Small employment (industrial/warehouse) | Fringe and transport nodes | 1,600 | 0.40 |
| NR4 | Large employment (industrial/warehouse) | Fringe and transport nodes | 5,000 | 1.25 |
| NR5 | Retail convenience | Small local store | 300 | 0.03 |
| NR6 | Retail convenience | Supermarket | 1100 | 0.31 |
| NR7 | Retail comparison | Town centre | 200 | 0.01 |
| NR8 | Retail comparison | Out of centre/retail warehouse/park | 900 | 0.23 |
| NR9 | Hotel | Budget/business | 2,800 (70 rooms) | 0.23 |

Chapter 4 Residential assumptions

4.1 We used a range of data sources, including government impact assessments, national datasets, local examples of development, to draw up a series of assumptions that were reviewed at the development industry workshops, adjusted as necessary, with a final set of testing assumptions agreed with the council. The final set of assumptions were used in the viability testing. This chapter summarises the key assumptions and the data they rely on.

Dwelling mix, unit size and tenure

4.2 The size and mix of dwellings in the typologies used in the testing were compliant with draft Policy H5: Range and Mix of Housing, which requires that “the dwelling mix of tenure, type and size takes account of the housing needs set out in the Local Housing Need Assessment 2024 or any subsequent update”. They therefore reflect the bias towards 2-bed and 3-bed market properties and 1-bed, 2-bed and 3-bed affordable properties identified by the LHNA 2024¹⁷. For the affordable housing there is an emphasis on social rented units over affordable rent within the rental tenures.

4.3 The market dwelling mix and sizes are also informed by recent planning applications and past transactions on Land Registry price paid data (as refined by EPC records). They were then refined through industry consultation and discussion with the council. The affordable dwelling mix is based upon discussion with the council’s Housing Team, locally developing Registered Providers (RPs) and recent examples of delivery. The mixes for the allocated typologies draw on site specific information prepared by the council. Unit sizes meet Nationally Described Space Standards (NDSS)¹⁸.

4.4 The dwelling mix and unit sizes for the allocated site typologies were based on discussion with the council and its representatives about the units likely to come forward on these schemes.

4.5 The size of dwellings used, affects both their market value (as sale values were assessed on a per sq m basis) and their development costs – also based on dwelling size. Development costs for flats will include non-saleable circulation and common areas, which increase with the number of storeys in a flatted block:

- for schemes with 1 -2 storeys the allowance is 10%
- for schemes with 3-5 storeys, the allowance is 15%

¹⁷ P144 Surrey Heath LHNA Update - Final Iceni Projects March 2024

¹⁸ There is one exception to this, where we have tested First Homes Exception Sites with 2 bed terraces which in some circumstances were too expensive to meet the requirements for First Homes to have a discounted value below £250,000 unless we reduced the floor space

- for taller buildings of 6 plus storeys the allowance is 20-22% (dependent on scheme layout)
- an allowance of 30% floor area is added for sheltered homes, and 40% for extra care homes. This allows for circulation, common and service areas and has been informed by discussion with the retirement housing industry.

4.6 The housing mixes used for the generic typologies in the study are shown in tables 4.1 and 4.2 below. The percentages of each type of market unit vary by scheme type, as shown in table 4.1. The percentages of each type of affordable home remain consistent across the generic typologies and are shown in table 4.2, where the overall percentage of each affordable tenure is shown in the top line and the percentage within the mix of each unit by size in the subsequent lines.

Table 4.1 Market housing mix and size for generic typologies – showing differences between typologies

| Unit type | Unit size | Market mix for RES 1 only | Market mix for case studies RES 2 – RES 5 and RES 7 to RES 8 | Market mix for RES 6 only | Market mix for generic flatted schemes – RES 3.1 and RES 7.1 |
|----------------------|-----------|---------------------------|--|---------------------------|--|
| 1 bed flat | 50 | | 5% | 5% | 40% |
| 2 bed flat | 65 | | | 5% | 50% |
| 3 bed flat | 86 | | | | 10% |
| 2 bed terrace | 79 | | 35% | 35% | |
| 3 bed terrace | 93 | | 5% | 10% | |
| 4 bed terrace | 97 | | | | |
| 3 bed semi / t-house | 100 | 67% | 10% | 15% | |
| 4 bed semi / t-house | 120 | | | 25% | |
| 3 bed CSB detached | 110 | | 5% | 5% | |
| 3 bed detached | 110 | | 15% | | |
| 4 bed detached | 140 | 33% | 20% | | |
| 5 bed detached | 160 | | 5% | | |
| | | | 100% | 100% | 100% |

Table 4.2 Affordable housing mix and size for generic typologies

| Affordable housing mix | sqm | First Homes | Social rent | Affordable Rent | Shared ownership |
|-------------------------------|-----|-------------|-------------|-----------------|------------------|
| Overall % of affordable units | | 25% | 40% | 15% | 20% |
| 1 bed flat | 50 | 40% | 30% | 30% | |
| 2 bed flat | 61 | 60% | | | |
| 2 bed house | 70 | | 25% | 40% | 60% |
| 3 bed house | 84 | | 35% | 30% | 40% |
| 4 bed house | 97 | | 10% | | |
| | | 100% | 100% | 100% | 100% |

4.7 The housing mixes for the allocated site typologies (both for the market and affordable housing) were specific to each allocation and drew on the general principles set out above for the generic typologies as well as emerging scheme designs.

Table 4.3 Housing mix for allocated site typologies

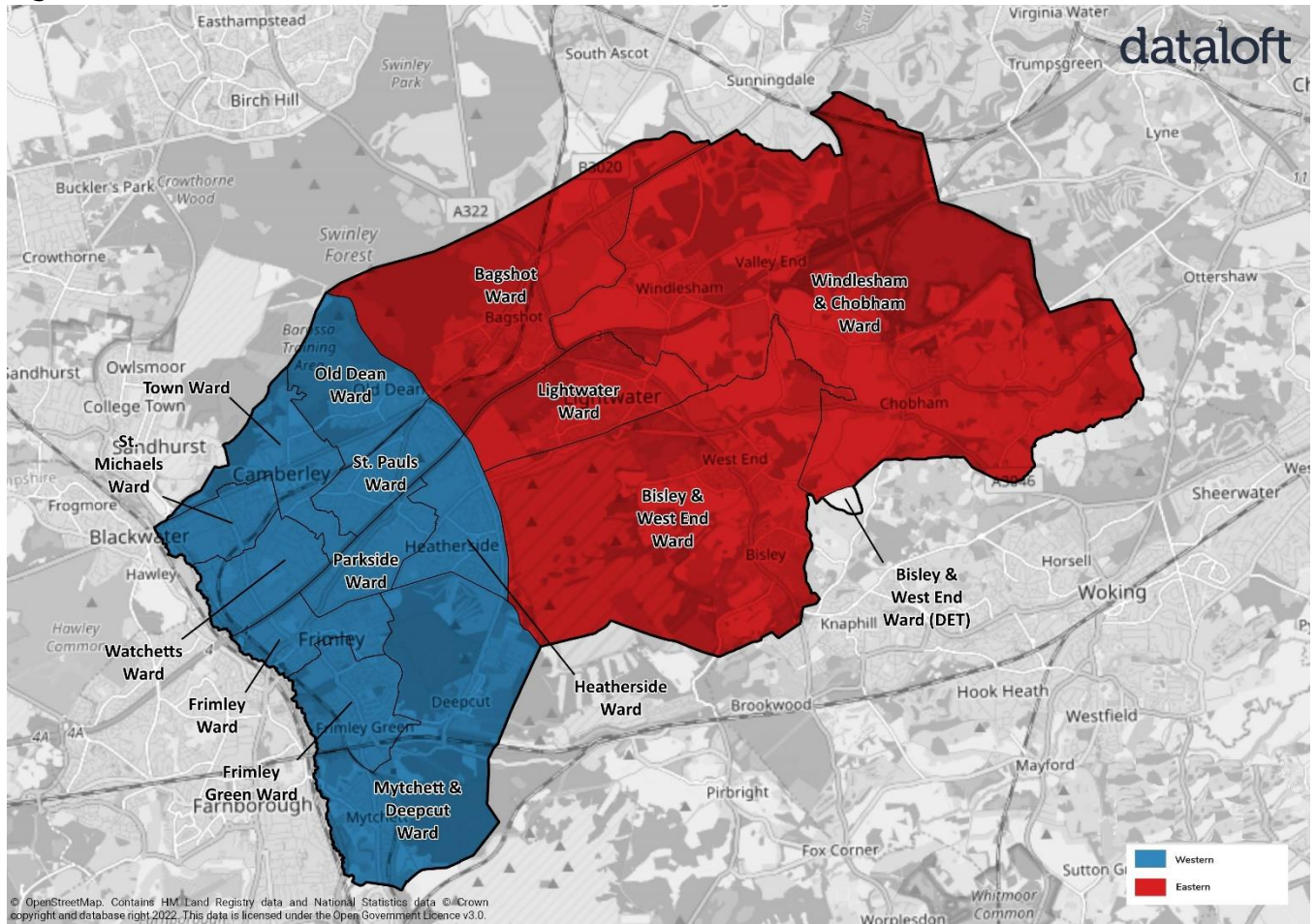
| | Total units | Unit type and size | Affordable mix |
|---------------------------|-------------|---|---|
| Res 9: LRB (HA2) | 550 | 1 bed (2 person) 50 sqm x 200 2 bed (3 person) 61 sqm x 150 2 bed (4 person) 70 sqm x 125 3 bed (5 person) 86 sqm x 75 (exclusive of circulation space) | 50% 1 bed 50% 2 bed (numbers dependent on amount of affordable) |
| Res 10: LEKR (HA3) | 342 | 1 bed (2person) 50sqm x 186 2 bed (3 person) 61 sqm x 80 2 bed (4 person) 70 sqm x 76 (exclusive of circulation space) | 50% 1 bed 50% 2 bed (numbers dependent on amount of affordable) |

Values – standard residential market

4.8 The market values at ward level in Surrey Heath were derived from an analysis of Land Registry data over the last five year period. The Land Registry data was matched to Energy Performance Certificates to enable a value per sq m to be generated for the different house types, based on over 6,700 records. As there was insufficient data to generate reliable values in some wards across SHBC, values for existing properties were included and indexed to align with new build values also. Sales values for all house types were then indexed to align with the base date of the build cost information, so cost and values have the same base date of 3Q2024.

4.9 Two distinct value areas, East and West were initially identified. These are illustrated in the map below, figure 4.1. The two value areas and the proposed market values were discussed with the development industry at the workshop and were generally supported as a reasonable differentiation of values and that the values identified were also robust. The value areas are the same as those identified in the CIL Charging Schedule (without the separate distinction for Deepcut)¹⁹.

Figure 4.1 Eastern and Western value areas



4.10 Following specific comments raised at the workshop, further research identified a separate market for apartments in the Camberley town centre area. An evaluation of Camberley town centre sales was undertaken using Land Registry data and focussing on sales over the past 3 years (to August 2023) but excluding sale of specialist retirement homes as well as new development of exceptionally high value as these would not be representative of the wider town

¹⁹ Surrey Heath Local Plan 2011 – 2028 Community Infrastructure Charging Schedule adopted 16th July 2014

centre apartment market. A sales value of £4,800 sqm was the average used in the Western market value area for apartments. This compares with £5,500 sqm identified for Camberley town centre. (This variation in value was not found to apply to houses in the town centre.)

4.11 The values used in the viability testing are shown for each value area in Table 4.4a (flats) and 4.4b (houses). These are shown on a £ per square metre basis and as unit values, based on the sizes set out in the housing mix section earlier in the chapter. The background data for the house price analysis, including sample data from Land Registry, can be found in Appendix III.

Table 4.4a Market values comparison - flats

| | £sqm | 1 bed flat | 2 bed flat | 3 bed flat |
|-----------------------|--------|------------|------------|------------|
| sqm | | 50 | 65 | 86 |
| Eastern value area | £4,900 | £245,000 | £318,500 | £421,400 |
| Western value area | £4,800 | £240,000 | £312,000 | £412,800 |
| Camberley town centre | £5,500 | £275,000 | £357,500 | £473,000 |

Table 4.4b Market values comparison – houses

| | £sqm | 2 bed house | 3 bed house | | | 4 bed house | | 5 bed house |
|-----------------------|--------|-------------|-------------|------------|----------|-------------|----------|-------------|
| | | Terrace | Terrace | Semi /Town | Detached | Semi /Town | Detached | Detached |
| sqm | | 79 | 93 | 100 | 110 | 120 | 140 | 160 |
| Eastern value area | £5,670 | £447,930 | £527,310 | £567,000 | £623,700 | £680,400 | £793,800 | £907,200 |
| Western value area | £4,900 | £387,100 | £455,700 | £490,000 | £539,000 | £588,000 | £686,000 | £784,000 |
| Camberley town centre | £4,900 | £387,100 | £455,700 | £490,000 | £539,000 | £588,000 | £686,000 | £784,000 |

Source: Land Registry/EPC and local data

4.12 The custom and self build homes were modelled as 3-bed detached units and an additional 5% was added to the value. This is consistent with published research undertaken by Three Dragons

with the Right to Build Task Force into the costs and values of self-build and custom housebuilding²⁰.

4.13 To 'sense' check the values shown in tables 4.4a and 4.4b, advertised prices shown on Right Move (autumn 2023) for properties in Surrey Heath were reviewed. At the time 48 new build properties were being advertised ranging in value from £1.275m to £540k and, where comparable, the advertised prices were not significantly different to those set out in the tables above. Full details can be found in Appendix IV.

Values – older persons residential market

4.14 Sheltered and extra care values are based on the Retirement Housing Group (RHG) guidance. Selling prices for schemes in Surrey Heath were compared with the value of existing stock semi-detached properties. RHG guidance suggests that the selling price of a 2-bed sheltered flat is the same as an existing stock semi-detached, with the value of a 1 bed sheltered flat set at 75% of an existing stock semi-detached. For extra care schemes, selling prices are 125% of the selling prices for sheltered homes.

4.15 The average value for an existing stock semi detached house in Surrey Heath was £510,000 in the Eastern value area and £450,000 in the Western value area.

Table 4.5 Older persons market values

| | 1 bed apartment | | 2 bed apartment | |
|---------|-----------------|------------|-----------------|------------|
| | Sheltered | Extra care | Sheltered | Extra care |
| sqm | 50 | 65 | 75 | 80 |
| Eastern | £382,500 | £510,000 | £510,000 | £637,500 |
| Western | £337,500 | £450,000 | £450,000 | £562,500 |

4.16 Care homes are assumed to have a capital value of £129,000 per bedroom based on a review of data from EGI²¹, trade press and market commentary. We have tested a care home of 60 beds with a floorspace of 3,000 sqm.

²⁰ Guidance note PG3.7 Area-wide Approaches to Viability Assessment Right to Build Task Force & Three Dragons July 2023

²¹ Estates Gazette is a subscription service providing information about commercial property sales and leases.

Values - Affordable housing

4.17 Initial estimates of the value of affordable housing were produced using a capitalised net rent approach i.e. the notional amount the provider of the unit can borrow against the net income received. The assumptions were based on known industry standards informed by an analysis of annual reports for six actively developing registered providers (RPs) as well as the government global accounts²² and these were then used as the basis of consultation with RPs active in Surrey Heath.

4.18 In calculating the capitalised net rent the assumptions set out in the table below were used.

Table 4.6 Affordable housing assumptions

| Type | Assumption |
|--|----------------------------|
| Affordable housing rent | |
| Affordable Rent | 100% LHA rate |
| Social rent | 75% LHA rate |
| Management & maintenance | £1,500 |
| Voids/bad debts | 2.5% |
| Repairs reserve | £600 |
| Capitalisation | 4.5% |
| Service charges | Flats - £10 Houses - £5 |
| Affordable housing – shared ownership | |
| Share size | 35% |
| Rental share | 2.75% |
| Capitalisation | 4.5% |
| Repairs | £4,000 |

4.19 The affordable housing assumptions were discussed at the developer workshop and with local Registered Providers (RPs) in one-to-one interviews and checked against the accounts referred to in paragraph 4.17 above (where the information was quoted). No significant alternatives to our approach were identified but with one exception. This related to how the assumptions were applied to affordable homes in specialist older persons schemes and this was further consulted on in discussion with specialist developers operating nationally. The conversation has exposed a divergence between the approaches of specialist RPs and specialist market developers and of the different models for providing specialist older persons housing. For simplicity and reflecting a more usual approach, we have modelled a market-led apartment-based schemes. We are mindful however that other approaches exist such as bungalows or small houses around a hub or retirement villages. Also that differing levels of communal facilities will be supplied, affecting

²² Global accounts – gov 2022 and RPs March 2023 - A2 Dominion; Accent; Aster; L&Q; Stonewater; Sovereign

the amount of non-saleable space. Some of the alternatives are discussed in the results chapter of this report, chapter 6.

- 4.20** First Homes are discounted market sale units sold to eligible purchasers which must be discounted by a minimum of 30% from open market value. The discounted price must not exceed £250,000. As per the national policy and draft Local Plan policy H7, 25% of the affordable homes have been modelled as First Homes. For our main modelling we have used the minimum 30% discount although there is local discretion to increase this to 40% or 50%.
- 4.21** For Surrey Heath the price cap limits First Homes to the smallest units. In the Eastern value area this would be 1 and 2 bed flats and in the Western value area this could be extended to include a small 2 bed terraced home of 70 sqm. Where we have tested a First Home Exception Site (Res 15) we have reduced the size of the homes in the Eastern value area so that we could include terraced houses but these had to be 61sqm which is below Nationally Described Space Standards and therefore does not fully meet SHBC’s policy DH3: Residential Space Standards. We discuss the implications in the results section of this report.
- 4.22** A full discussion of First Homes and the regulations underpinning their delivery can be found at Appendix V.
- 4.23** The table below summarises the values attributed to the affordable housing property types included in the testing (but not for specialist older persons housing).

Table 4.7 Affordable homes values (figures are rounded)

| | Sqm | Capital value for social rent | Capital value for affordable rent | Shared ownership - Western value area | Shared ownership - Eastern value area | First Homes – Western value area | First Homes Eastern value area |
|---------------|-----|-------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|----------------------------------|--------------------------------|
| 1 bed flat | 50 | £89,000 | £123,000 | £175,000 | £179,000 | £168,000 | £171,000 |
| 2 bed flat | 61 | £123,000 | £168,000 | £215,000 | £219,000 | £218,000 | £222,950 |
| 2 bed terrace | 70 | £123,000 | £174,000 | £252,000 | £293,000 | £240,000 | |
| 3 bed terrace | 84 | £167,000 | £233,000 | £304,000 | £352,000 | | |
| 4 bed terrace | 97 | £236,000 | £324,000 | £351,000 | £407,000 | | |

Development costs

Build costs

- 4.24** Build costs will vary due to location, development type, proposed tenure type, proposed tenure mix, storey height, and building use. The Build Cost Information Service (BCIS)²³ provides

²³ BCIS is a subscription service providing estimates of build costs for different residential and non-residential developments

benchmarking information for build costs, adjusted for the location. Residential build costs are based on actual tender prices for new builds over a 5-year period and the tender price data is rebased to 3rd Quarter 2023 (in line with values) and Surrey prices using BCIS defined adjustments, to give the build costs for different types of schemes.

- 4.25** We understand from work with housebuilders and cost consultants that volume and regional house builders can comfortably operate within the BCIS lower quartile cost figures, especially given that they are likely to achieve significant economies of scale in the purchase of materials and the use of labour. Many smaller and medium sized developers of houses are usually unable to attain the same economies, so their construction costs may be higher although this will vary between housebuilders and sites. We have worked with BCIS to identify how costs change according to the size of the development. We have used this analysis by BCIS to inform our approach to testing in Surrey Heath. The variable build costs by site size have been applied to houses only, as flat build costs primarily vary by height.
- 4.26** For self build and custom housebuilding an additional 5% was added to build costs. This is consistent with published research undertaken by Three Dragons with the Right to Build Task Force²⁴.
- 4.27** For the allocated sites (and high-density town centre development), the council has commissioned bespoke cost consultancy to advise on build costs relating to a notional scheme that meets policy requirements. The details for all build costs are set out in Appendix VI and Appendix IX.

Table 4.8 Residential development costs

| Type | Base build cost £/sq m | Site sizes (number homes) |
|-------------------------------|---------------------------|---|
| Estate housing mean +5% | £1,818 | 2-5 |
| Estate housing mean | £1,731 | 6-9 |
| Estate housing mean 95% | £1,644 | 10-50 |
| Estate housing mean 92% | £1,593 | 51-100 |
| Estate housing mean 89% | £1,541 | 101-250 |
| Estate housing lower quartile | £1,456 | 251+ |
| Flats mean 1-2 storey | £1,918 | All |
| Flats mean 3-5 storey | £2,036 | All |
| Town centre 15 storey | £2,443 | 550 LRB (incl. commercial ²⁵) |
| Town centre 4-6 storey | £2,162 | All (including 342 units – LEKR) |
| Supported housing mean | £2,363 | All |

²⁴ Guidance note PG3.7 Area-wide Approaches to Viability Assessment Right to Build Task Force & Three Dragons July 2023

²⁵ Cost shown in table includes commercial element on ground floor

| Type | Base build cost £/sq m | Site sizes (number homes) |
|-------------------------|---------------------------|---------------------------|
| Care home ²⁶ | £2,406 | All |
| BtR ²⁷ | £2,262 | All |

Source: BCIS – see Appendix V for BCIS report

Other residential development costs

4.28 A range of other standard costs have been used in the viability testing. These were discussed with the development industry at the workshop and are based on PPG and experience of other high level plan making viability testing. Further information providing background to some of the costs is set out in the following table²⁸.

4.29 Allowances are made for 15-25% on build costs for plot costs, site infrastructure works and contingency, with 15% used for the smaller schemes and 25% used for the larger schemes. These are industry standards on which we monitor what is happening elsewhere in similar locations in the UK²⁹ as well as consulting with the local development industry.

4.30 Separate allowances are made for garages, with the proportion of dwellings with garages based on recent major consents in Surrey Heath. We have allowed for a single garage for all 4/5 bed detached homes. This is on the basis that not all detached homes will have a garage but some may have a double. No allowances are made for garages for semi-detached, terraces or within the flat led developments as is usual for Surrey Heath.

4.31 A cost is included for Future Homes 2025 (see chapter 2 for summary of what this entails). Although this is still at consultation stage and not yet part of Building regulations, it is prudent to assume that these standards will be adopted in some form at 2025 and we have therefore included a cost for this based on information in the government impact assessment³⁰. There are 2 options included in the consultation and we have taken Option 1 which is the higher cost because this option takes better account of the cost to the consumer. This approach was agreed with the council. We have scaled up the costs in the impact assessment to take account of the fact that market dwellings in Surrey Heath are generally larger than those modelled by the government. All typologies have been tested with and without Future Homes.

²⁶ Please note that for care homes, in common with the non-residential testing, the 15 year default period is used from BCIS due to the limited number of tenders within the 5yr period.

²⁷ Build to rent typology uses the same bespoke build costs as high density tall buildings in the town centre

²⁸ Please note OP3 care home uses other cost assumptions set out in non-residential testing

²⁹ Evaluation of 63 local authority areas 2023

³⁰ The Future Homes Standard Consultation-Stage Impact Assessment DLUHC December 2023

Table 4.9 Other residential development costs

| Type | Cost | Metric |
|--|---|---|
| Site costs | | |
| Plot costs, site infrastructure works and contingency – all typologies | 1 – 100 units - 15% 101-250 units - 20% 251+ units - 25% | On build cost |
| Additional contingency - Town centre flatted development | 7.5% | On build costs |
| 2021 updates to Building Regulations ³¹ | 3.9% | On build costs Part L 2.8% Part F 0.4% Part O 0.7% |
| Garages | £8,100 per single garage | 4/5 bed detached and 3 bed CSB |
| Fees and finance costs | | |
| Professional fees | 1 – 9 units – 10% 10 – 100 units – 8% 101 plus units – 6% | of build costs including plot costs/contingency |
| Finance | 8% | of total development costs including land purchase |
| Marketing/legal/sales fees | 3% 6% | of market GDV of older persons GDV |
| Affordable home legal fee | £500 | per affordable unit |
| First Home eligibility costs | £150 | per First Homes unit |
| Developer return | 17.5% 6% 10% | market GDV (mid point of the range set out in the PPG) affordable homes GDV First Homes and BtR GDV |
| Agents and legal | 1.75% | land cost (BLV) |
| Stamp duty | prevailing rate | land cost (BLV) |
| Policy and mitigation costs | | |
| Biodiversity net gain (20%) | £1,187 £259 | per unit (greenfield) per unit (brownfield) |
| EV charging points Part S | £865 | per dwelling |
| Accessibility M4(2) | £1,400 | per unit except for those with M4(3) |
| Accessibility M4(3)(a) | Flat £10,000 Flat high rise £3,500 House £14,500 | per unit on 5% of all market units and 10% of affordable units |
| Sprinklers | £1,500 | per unit on 5+ storey flats |

³¹ 2021 updates to Part L, F and O not yet fully filtered through to main BCIS indices – 3.9% allowed as indicated by BCIS – in a news article from June 2023

| Type | Cost | Metric |
|------------------------------|--|---|
| General s106 | £1,000 | per unit |
| Self & custom build | Additional 5% build costs | 5% of units on sites of 20 homes plus (not flats) |
| Future Homes 2025 (Option 1) | House £6,000 Flat £4,000 High rise flat £200 | Applied as a sensitivity test |

Town centre development costs

4.32 In the case of London Road Block (RES 9) and Land East of Knoll Road (RES10), the draft plan policies and discussion with the council and its agents indicate inclusions of taller apartment blocks. For the London Road Block, these are to a maximum height of 15 storeys. Land East of Knoll Road includes flats in blocks of up to 6 storeys. Cost consultant advice³² was obtained to identify the costs to be used for the town centre schemes. Importantly this identified higher build costs than used for flats elsewhere in Surrey Heath. The build costs for London Road Block were identified to be £2,443 sqm (residential and commercial blended) and for Land East of Knoll Road this was £2,162 sqm.

4.33 The build costs include infrastructure and statutory connection costs of £5.2m for London Road Block and £3.4m for Land East of Knoll Road. For London Road Block, an additional cost of £1.2m has been added for car parking, which is partially offset by anticipated sale/rent of the spaces. The car parking costs were provided by our cost consultant and were valued at £10,000 per space, a figure taken from benchmarking with similar schemes in Surrey. For both allocations, contingency on cost of 7.5% has been added to the build costs.

National and local policy requirements

4.34 Biodiversity net gain – The allowance for biodiversity net gain (BNG) is drawn from the government’s impact assessment³³ which was published with the consultation on the amendments to the Environment Act. The draft Local Plan requires 20% biodiversity net gain which is above the national requirement of 10% and the government’s impact assessment suggests³⁴ that this will increase costs to developers by 19%. A cross typology allowance, split by greenfield and brownfield is used. However, it should be noted that, as biodiversity net gain is site specific depending on both the existing site characteristics and the ability of development form to both mitigate and provide additional gain, it is difficult to gauge a suitable allowance for meeting the requirements. It is also of note that the NHBC with the RSPB have issued guidance on how to achieve net gain within new development. At the launch of the guidance both the

³² QSEtc – please refer to appendix VI and appendix IX

³³ MHCLG, 2019, Biodiversity net gain and local nature recovery strategies impact assessment

³⁴ Section 6.11.2

authors and one of the major housebuilders (Barratt Homes) emphasised that incorporating measures for biodiversity net gain during the design phase meant additional costs were minimal³⁵. This suggests that, whilst an allowance is included, the actual cost could be much lower and therefore the testing allowances are a conservative estimate. Larger (in land area) typologies and strategic allocations would be expected to deal with BNG on site, with the response designed in at the outset.

4.35 Part S EV charging - An allowance for ‘fast charge’ electric vehicle charging points is made for all dwellings at a ratio of 1 per dwelling for general housing. On this basis the total allowance on a site basis is considered sufficient to meet need and both national and local policy. It is recognised that there is also a desire for rapid chargers, however these are generally operated (and brought forward) on a commercial basis and therefore have not been included within the costs. The EV charger costs are based upon the impact assessment produced by the government³⁶. For the all the Camberley town centre schemes, we have allowed one charger per parking space.

4.36 In respect of EV charging there have been comments in the past in terms of the wider electricity network and its capacity for accommodating a high number of chargers and whether development will have to also contribute to those costs. However, it is understood that in general, planned development and any required upgrades or new provision should already be a consideration in terms of the Distribution Network Operators (DNOs) and their statutory responsibilities. Ofgem’s 2022 Significant Code Review also makes it clear that Distribution Network Operators will have to bear a greater proportion of the costs of network reinforcement³⁷, rather than those connecting to the network. Where development does have to contribute, these will be site specific matters and it is not possible to quantify in terms of strategic generic site testing. As an abnormal cost this should come off land value, rather than a direct impact on viability in terms of meeting policy requirements. Furthermore, the government in its EV smart charging consultation indicated that a new generation of ‘smart’ charging points could assist with demand and help reduce the need for grid reinforcement.

4.37 Part M Accessibility - The accessibility costs for M4(2) are applied to every unit as per draft Policy H5 and are based on the government impact assessment. The costs for Part M4(3) are based on cost consultant advice and are different for the general typologies and the high-rise town centre flats – these are applied to 5% of market units, and 10% of affordable units, again in line with the draft policy.

4.38 Carbon reduction - Policy SS3a/b – Climate change mitigation & adaptation requires major applications to deliver net zero carbon development, ahead of the government agenda, and

³⁵ Biodiversity in new housing developments RSPB / NHBC April 2021

³⁶ DfT/MHCLG, 2021, Residential charging infrastructure provision impact assessment

³⁷ Ofgem, 2022, The Access and Forward-Looking Charges Significant Code Review

Policy E5 – Renewable and low carbon energy and heating schemes, requires major development proposals to incorporate measures to supply a minimum of 25% of the development’s regulated operational energy needs from on-site renewable and/or low carbon technologies. No costs have been allowed in our appraisals to meet these requirements, but we instead comment on headroom to meet these policy costs. This is because there is on-going research being carried out by Surrey County Council on the technical and economic viability implications of achieving net zero carbon across Surrey. When the costs from the research are available it will be possible to compare these with the viability headroom identified through this viability study.

Benchmark land value

4.39 National guidance on setting benchmark land values (BMLVs) is clear that BMLVs should not be based on market values (although these can be used as a sense-check), or indeed the price paid for a particular site, but rather on the existing value of land plus an uplift to provide an incentive to the landowner. The appropriate scale of the uplift is not set out in any of the current guidance, although PPG does define that a ‘premium’ for a landowner should:

“Provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements”³⁸.

4.40 However a landowner premium of 10-30% for brownfield land and 10-20 x agricultural value for greenfield land is well established as an industry norm for strategic high level viability studies³⁹. More recent research from Lichfields (2020) has a similar finding.

“Unsurprisingly, the level of uplift was found to vary, with an increase of 20% common for brownfield sites and a multiplier of 15-20 times above EUV or an uplift of 20% plus an additional allowance of between £250,000 and £650,000/ha being applied in respect of greenfield sites.”⁴⁰

4.41 We have adopted a mid position for the majority of our modelling at a 20% premium for brownfield land and 15 x agricultural value for a small greenfield site, decreasing as the site size increases. The values take account of a comment received following the developer workshop that the premium for a large greenfield site should be increased. Neither of our consultation exercises offered any other alternatives. In arriving at the benchmark land values we use, we understand that where the market is able to pay a higher premium, it will do so. However, the guidance in the PPG is clear that benchmark land values should not be based on market values.

³⁸ PPG Paragraph: 016 Reference ID: 10-016-20190509

³⁹ Homes and Communities Agency, 2010, Appendix 1 (Transparent Viability Assumptions) - “Benchmarks and evidence from planning appeals tend to be in a range of 10% to 30% above EUV in urban areas. For greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value”. (page 9)

⁴⁰ Lichfields [Towards the Standardisation of Viability Assessments](#) June 2020

- 4.42** PPG also states that abnormal costs as well as site infrastructure costs should be taken into account when defining the land value⁴¹.
- 4.43** In arriving at a benchmark land value for Surrey Heath, we have reviewed data for existing use values as well as checking against land values used in previous viability studies (both area wide and site specific) and known values achieved within and adjacent to the borough. We have used a range of figures in the testing, from £270,000 per gross ha for a large greenfield site through to £2.47m per gross ha for brownfield land.
- 4.44** The table below shows the full range of benchmark land values that can be achieved within the 'industry standard' premium range described above. For our main viability modelling and the results shown in this report we used the mid-point (sometimes referred to as BMLV2) of the 3 values shown for each site type and consider this a reasonable position. Where a site is of poorer quality or has marginal viability then we would expect the lower value point to be achieved and there will be some premium sites where the higher value point can be reached.
- 4.45** For Rural Exception sites we have based BMLV on a plot value of £10,000 per plot. This is also a standard assumption which we have sense checked with the local development industry, including RPs.

⁴¹ PPG Paragraph: 012 Reference ID: 10-012-20180724

Table 4.10 Benchmark Land Values

| Site type | EUV/ha | BLV/ha | Based on | EUV Source |
|--------------------|------------|------------|-------------------------------|---------------------------|
| Large greenfield 1 | £27,000 | £270,000 | 10 times agricultural value | 3D review, agents, MHCLG* |
| Large greenfield 2 | £27,000 | £405,000 | 15 times agricultural value | 3D review, agents, MHCLG* |
| Large greenfield 3 | £27,000 | £540,000 | 20 times agricultural value | 3D review, agents, MHCLG* |
| Small greenfield 1 | £52,000 | £520,000 | 10 times paddock value | 3D review, agents, MHCLG* |
| Small greenfield 2 | £52,000 | £780,000 | 15 times paddock value | 3D review, agents, MHCLG* |
| Small greenfield 3 | £52,000 | £1,040,000 | 20 times paddock value | 3D review, agents, MHCLG* |
| Brownfield 1 | £1,900,000 | £2,090,000 | Standard brownfield EUV + 10% | MHCLG* - industrial land |
| Brownfield 2 | £1,900,000 | £2,280,000 | Standard brownfield EUV + 20% | MHCLG* - industrial land |
| Brownfield 3 | £1,900,000 | £2,470,000 | Standard brownfield EUV + 30% | MHCLG* - industrial land |

* note MHCLG refers to 'Land Value estimates for Policy Appraisal' MHCLG 2019

4.46 Land values were consulted upon with the development industry, and the multiplier for greenfield sites was adjusted as a result. There were no other concerns raised.

Residential sensitivity testing

4.47 A number of sensitivity tests were carried out to consider the effect of possible alternative market scenarios and were:

a) The introduction of Future Homes as set out in the December 2023 government consultation and impact assessment – option 1, the more expensive option, was used because this best improves efficiency for occupiers – this test was carried out on all typologies because it is very likely that, were the measure implemented, it would be across all development

b) A look at a future scenario based on 5-year forecast changes in values, costs and interest rates (as well as the introduction of Future Homes). For house prices we have taken a mid point of 18% based on 5-year forecasts for commercial forecasters Savills⁴² and Knight Frank⁴³. For

⁴² Savills Residential Property Market Forecasts March 2023

⁴³ Knight Frank House price forecasts January 2024

build costs we have used the all-in tender price index forecast of 16%⁴⁴. There are fewer long-term sources of interest rate forecasts. We refer to the Bank of England Monetary Policy Committee which expects rates to decline during the second half of 2024⁴⁵ and to reach a 1% reduction by 2026⁴⁶. We have applied a cautious approach and applied a 1% reduction in interest rates over the 5-years rather than try to predict further falls after 2026.

c) The effect of switching all affordable rented units away from social rent to Affordable Rent. This could improve viability on marginal sites as Affordable Rented homes command higher rents and therefore higher transfer values than social rented

d) First Homes are included in the modelling with a 30% discount but sensitivity tests have been included to examine the effects of a higher discount – a higher First Homes discount would improve the range of homes on offer in this tenure, especially to families with children, as the high values in parts of Surrey Heath mean that First Homes could likely only be offered as flats. This sensitivity test would reduce revenue obtained from affordable housing.

⁴⁴ BCIS – quarterly briefing Dec 2023

⁴⁵ Bank of England Monetary Policy summary & minutes December 2023

⁴⁶ The Times [Money Mentor When will interest rates go down](#) 15/02/2024

Chapter 5 Non residential assumptions

Introduction

- 5.1** The viability of a set of non-residential development typologies have been tested as part of the study. The proposed policies within the Local Plan are not considered to add significantly to the development costs for non-residential uses. Within the testing we have made some allowances for CIL, s106 contributions (e.g. minor highways and travel planning) and included costs to account for biodiversity net gain. This section sets out the assumptions used for the non-residential viability testing.
- 5.2** As with the testing of the residential typologies, the viability analysis of the non residential typologies has been based on a residual value approach in which scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme revenue is based on revenue from the property and scheme costs assume a return to the developer and ‘development costs’ include build costs and other costs such as professional fees, finance costs and marketing fees.
- 5.3** From the ‘gross residual value’, an allowance for site purchase is deducted based on existing use value plus site purchase costs (agents and legal fees) to assess the ‘residual balance’ against which a scheme could support any additional costs (or a CIL contribution). This residual balance shows the level of affordability or financial headroom available from which additional contributions can be met.

Establishing Gross Development Value (GDV)

- 5.4** Table 5.1 illustrates the values established for a variety of non-residential uses, expressed in sqm of net rentable floorspace and yield. The table is based on our knowledge of the market and analysis of comparable transaction data provided by EGi and relevant market reports. The rents and yields are capitalised within the Three Dragons Toolkit to provide GDV for all the development types.

Table 5.1: Non-residential typologies and rents and yields⁴⁷

| Typology | Use | Description | Rent £/sq m | Yield |
|----------|--------------------|-------------------------------------|----------------|-------|
| NR1 | Office | Town Centre (4 storeys) | £214 | 7.83% |
| NR2 | Office | Out of centre (2 storeys) | £248 | 7.83% |
| NR3 | Industrial | Smaller industrial / warehouse | £139 | 7.06% |
| NR4 | Warehouse | Larger industrial / warehouse | £115 | 7.06% |
| NR5 | Retail convenience | Small local store | £239 | 5.97% |
| NR6 | Retail convenience | Supermarket | £210 | 4.40% |
| NR7 | Retail comparison | Town centre | £203 | 6.52% |
| NR8 | Retail comparison | Out of centre/retail warehouse/park | £208 | 6.13% |
| NR9 | Hotel | Budget/business | £115,000/room | |

Development costs

5.5 Build costs for the non-residential uses have been taken from the Build Cost Information Service (BCIS) at the time of this study (current build cost values) and rebased (by BCIS) to Surrey prices. The build costs adopted are based on the BCIS mean values shown in the following table.

Table 5.2: Build costs

| Type | Build cost £ /sq m* Q3 2022 |
|---|-----------------------------|
| NR1 Office (Town Centre) | £2,615 |
| NR2 Office (Out of centre) | £2,582 |
| NR3 Industrial (Smaller) | £1,098 |
| NR4 Warehouse (Larger) | £902 |
| NR5 Retail convenience (Small local store) | £2,075 |
| NR6 Retail convenience (Supermarket) | £2,171 |
| NR7 Retail comparison (Town Centre) | £2,075 |
| NR8 Retail comparison (Out of centre / Retail Park) | £1,355 |
| NR9 Hotel | £1,876 |

⁴⁷ Rents/room rates are rounded

- 5.6 Other costs** - there is a range of other costs included within the assessment. The costs identified reflect typical/industry-standard costs and appraisal inputs for the typologies tested.
- 5.7** Whilst there is an allowance for biodiversity net gain, following the recent requirement set out in the Environment Act 2021, no allowances have been made for electric vehicle charging. It is considered that whilst charging points may be provided at the types of non-residential development tested, these are normally supplied on a commercial operator basis with the cost of doing offset by user fees that can be charged and therefore the cost will be with the operator rather than the site developer. We therefore do not include the cost of providing electric vehicle charging in the testing.

Table 5.3: Other costs

| Cost type | Assumption | Notes |
|--|--|--|
| Plot externals | 10% of build costs | Including landscaping, car park provision, lighting, fencing, and external services |
| Professional fees and contingency | 8% of build costs | Including fees for designs, planning, surveying, project managing and contingency |
| Sales and letting | 3% of GDV | Agent and legal costs and inclusive of arrangement fees |
| Developer return | 15% of GDV | General standard in strategic assessments for non-residential development |
| Interest rates (debit only) | 6% | Includes arrangement costs |
| Stamp Duty Land Tax | As per HMRC rates | |
| Agents and Legal Fees | 1.75% of land value | Includes agents and legal fees |
| Void/rent free | Various allowances -1m to 6m | Various allowances for voids/rent free periods have been made in the testing |
| CIL | £297.07/ sq m | Applicable to NR5, NR6 and NR8 only – all other non residential typologies are rated at £0 /sq m |
| S106 | £25,000 for typologies NR2, NR3 and NR4 £50,000 for NR9 £100,000 for NR6 and NR8 | For items such as travel planning, public transport or highway |

| Cost type | Assumption | Notes |
|---------------------------|------------|---|
| 20% Biodiversity Net Gain | £17,056/ha | Based on government's impact assessment |

Non-residential benchmark land values

- 5.8** The viability testing of the non-residential development uses a standard residual value approach, which considers whether the value of development can meet all the development costs including a benchmark land value (BMLV).
- 5.9** Our starting point for establishing a BMLV draws on the work undertaken to inform the Surrey Heath residential values, and for the base and sensitivity testing the following values are used with judgement made as to whether typologies are more likely to be developed on brownfield sites or greenfield sites and, in some instances, a midpoint figure has been used.

Table 5.4: Non-residential benchmark land values

| Typology | Benchmark £/ha |
|---|----------------|
| NR1 Office (Town Centre) | £2,200,000 |
| NR2 Office (Out of centre) | £400,000 |
| NR3 Industrial (Smaller) | £400,000 |
| NR4 Warehouse (Larger) | £375,000 |
| NR5 Retail convenience (Small local store) | £1,300,000 |
| NR6 Retail convenience (Supermarket) | £1,300,000 |
| NR7 Retail comparison (Town Centre) | £2,200,000 |
| NR8 Retail comparison (Out of centre / Retail Park) | £1,300,000 |
| NR9 Hotel | £1,300,000 |

- 5.10** The results of the non-residential modelling are discussed at the end of chapter 6.

Chapter 6 Results of the viability modelling

6.1 The results of the residential modelling are discussed in the first section of this chapter, followed by the non-residential results.

Residential Overview

6.2 This chapter summarises results of the residential viability testing. The base testing includes the standard development costs and affordable housing for each of the two value areas and other policy costs as set out in chapter 4. The viability results take into account land costs, finance and developer return.

6.3 The results are shown as a net residual value per unit so that different development mixes and scheme sizes can be easily compared. A negative figure means a scheme is not viable (as tested). A positive residual value shows a viable scheme and represents the theoretical maximum 'headroom' available to support either further CIL, additional policy costs, planning obligations and/or higher land values/developer return. Where we refer to results as 'Marginal' this is defined as being up to plus/minus £5,000 per dwelling. This is an arbitrary definition used in this report and with the purpose of identifying typologies and policy tests where a small change in the assumptions used could switch a site from having a positive to negative residual value or vice versa.

6.4 The results of the testing are grouped under the following sub-headings:

- Eastern value area - Greenfield and brownfield typologies
- Western value area - Greenfield and brownfield typologies
- Camberley town centre (including Build to Rent)
- Specialist older persons housing
- Rural Exception Sites.

6.5 The results are illustrated through a set of tables. For each set of results there is a second table which shows the effect of the introduction of the Future Homes Standard as identified by the government. Their current intention is to introduce the new standard in 2025.⁴⁸

6.6 Results are shown with 40% affordable housing, with the exception of flatted typologies in Camberley town centre where lower percentages are modelled. The results shown are with the main benchmark land value (BMLV 2) which is the mid-point in the range identified – see table

⁴⁸ DLUHC, The Future Homes Standard, Consultation-Stage Impact Assessment, December 2023

4.10 above. A full set of results showing results per scheme and per sqm, as well as at the full range of land values can be found at Appendix VII.

Eastern value area

6.7 The following table shows the results on a per unit basis for the general typologies in the Eastern value area. No values are given where the typology was not tested as not being relevant.

Table 6.1 Modelling results for the Eastern value area, BMLV 2 - £s per unit

| Typology / case study | Number Units | Description | Net Density - dph | Affordable | Eastern VA Greenfield | Eastern VA Brownfield |
|-----------------------|--------------|----------------------|-------------------|------------|-----------------------|-----------------------|
| Res 1 | 3 | low density housing | 30 | 0% | £152,468 | £99,535 |
| Res 2 | 9 | mixed | 40 | 0% | £152,675 | £111,433 |
| Res 3 | 12 | mixed | 40 | 40% | £93,579 | £52,025 |
| Res 3.1 | 12 | flatted | 100 | 40% | -£21,856 | -£38,583 |
| Res 4 | 30 | mixed | 40 | 40% | £87,251 | £39,790 |
| Res 5 | 50 | mixed | 40 | 40% | £100,550 | £39,313 |
| Res 5 | 50 | mixed | 45 | 40% | N/a | £47,672 |
| Res 6 | 75 | higher density mixed | 70 | 40% | £100,465 | £67,126 |
| Res 7 | 150 | mixed | 40 | 40% | £106,024 | £33,165 |
| Res 7 | 150 | mixed | 45 | 40% | N/a | £43,688 |
| Res 8 | 500 | mixed | 40 | 40% | £94,813 | N/a |

6.8 The typologies in the Eastern value area show good general viability with 40% affordable housing on both greenfield and brownfield sites for all housing and mixed (houses/flats) schemes. The flat-only typology (Res 3 – 12 flats) is not viable on either land type. However flats have been included as part of the mixed typologies (5-10%) and these have produced viable schemes.

6.9 The second table shows the results for the same typologies but with the addition of the Future Homes standard 2025 (but with no further adjustment to costs and/or values – para 6.17 provides results of a sensitivity test which also takes forecast changes in costs and values into account).

Table 6.2 Modelling results for the Eastern value area, BMLV 2 - £ per unit – with the inclusion of the Future Homes Standard

| Typology / case study | Number Units | Description | Net Density - dph | Affordable | Eastern VA G/F | Eastern VA B/F |
|-----------------------|--------------|----------------------|-------------------|------------|----------------|----------------|
| Res 1 | 3 | low density housing | 30 | 0% | £145,609 | £92,676 |
| Res 2 | 9 | mixed | 40 | 0% | £145,923 | £104,681 |
| Res 3 | 12 | mixed | 40 | 40% | £87,291 | £45,737 |
| Res 3.1 | 12 | flatted | 100 | 40% | -£26,421 | -£43,237 |
| Res 4 | 30 | mixed | 40 | 40% | £80,941 | £33,358 |
| Res 5 | 50 | mixed | 40 | 40% | £94,233 | £32,873 |
| Res 5 | 50 | mixed | 45 | 40% | N/a | £41,232 |
| Res 6 | 75 | higher density mixed | 70 | 40% | £94,264 | £60,924 |
| Res 7 | 150 | mixed | 40 | 40% | £99,867 | £26,526 |
| Res 7 | 150 | mixed | 45 | 40% | N/a | £37,049 |
| Res 8 | 500 | mixed | 40 | 40% | £88,652 | N/a |

6.10 Even with account taken of Future Homes, the typologies in the Eastern value area continue to show good general viability with 40% affordable housing on both greenfield and brownfield sites, with the exception of the flat-only typology (Res 3 – 12 flats) which continues to be unviable on either land type.

Western value area

6.11 The following table shows the results on a per unit basis for the general typologies in the Western value area.

Table 6.3 Modelling results for the Western value area, BMLV 2 - £ per unit

| Typology / case study | Number Units | Description | Net Density - dph | Affordable | Western VA Greenfield | Western VA Brownfield |
|-----------------------|--------------|----------------------|-------------------|------------|-----------------------|-----------------------|
| Res 1 | 3 | low density housing | 30 | 0% | £90,635 | £37,701 |
| Res 2 | 9 | mixed | 40 | 0% | £97,422 | £56,180 |
| Res 3 | 12 | mixed | 40 | 40% | £56,799 | £15,245 |
| Res 3.1 | 12 | flatted | 100 | 40% | -£22,753 | -£39,511 |
| Res 4 | 30 | mixed | 40 | 40% | £49,977 | £2,010 |
| Res 5 | 50 | mixed | 40 | 40% | £62,838 | £1,407 |
| Res 5 | 50 | mixed | 45 | 40% | N/a | £9,775 |
| Res 6 | 75 | higher density mixed | 70 | 40% | £67,196 | £32,816 |
| Res 7 | 150 | mixed | 40 | 40% | £68,668 | -£6,647 |
| Res 7 | 150 | mixed | 45 | 40% | N/a | £3,875 |
| Res 8 | 500 | mixed | 40 | 40% | £58,303 | N/a |

6.12 The typologies in the Western value area are mostly viable with 40% affordable housing on both greenfield and brownfield sites for all housing and mixed (houses/flats) schemes. RES 7 (150 units) is not viable at 40 dph but is viable when density is increased to 45 dph⁴⁹. It should be noted that there are some marginal results on brownfield land for RES 4, RES 5 and RES 7 and the results for RES 7 show that increased density is one way that viability can be improved. We have carried out further sensitivity tests and these are discussed below see figure 6.1. The flat-only typology (Res 3 – 12 flats) is not viable on either land type. (However, flats have been included as part of the mixed typologies (5-10%) and these have produced viable results.)

6.13 The second table shows the results for the same case studies but with the addition of a cost for the Future Homes standard 2025.

⁴⁹ The higher density continues to make good use of site - Site coverage at 40dph = 3,500 sqm/ha – and site coverage at 45 dph = 4,000 sqm/ha

Table 6.4 Modelling results for the Western value area, BMLV 2 - £ per unit – with the inclusion of the Future Homes Standard

| Typology / case study | Number Units | Description | Net Density - dph | Affordable | Western VA G/F | Western VA B/F |
|-----------------------|--------------|----------------------|-------------------|------------|----------------|----------------|
| Res 1 | 3 | low density housing | 30 | 0% | £83,766 | £30,842 |
| Res 2 | 9 | mixed | 40 | 0% | £90,670 | £49,427 |
| Res 3 | 12 | mixed | 40 | 40% | £50,511 | £8,958 |
| Res 3.1 | 12 | flatted | 100 | 40% | -£27,318 | -£44,165 |
| Res 4 | 30 | mixed | 40 | 40% | £43,545 | -£4,422 |
| Res 5 | 50 | mixed | 40 | 40% | £56,398 | -£5,158 |
| Res 5 | 50 | mixed | 45 | 40% | N/a | £3,335 |
| Res 6 | 75 | higher density mixed | 70 | 40% | £60,994 | £26,128 |
| Res 7 | 150 | mixed | 40 | 40% | £62,512 | -£13,287 |
| Res 7 | 150 | mixed | 45 | 40% | N/a | -£2,764 |
| Res 8 | 500 | mixed | 40 | 40% | £51,906 | N/a |

6.14 With the inclusion of Future Homes, some typologies that were viable in the Western value area without Future Homes become unviable – using the mid-point benchmark land value. Res 3.1 was not viable without Future Homes and becomes less viable when Future Homes is included.

6.15 Typologies tested on greenfield sites remain viable with the inclusion of the cost of meeting the Future Homes Standard. When the typologies are tested on brownfield land, some typologies that were viable without Future Homes become unviable when the costs of Future Homes are included – these are Res 4, Res 5, and Res 7. The results set out in tables 6.3 and 6.4, also serve to demonstrate that a relatively small change in development characteristics (e.g. scheme density) can 'switch' a non-viable scheme to one that is viable and to accommodate the additional cost of the Future homes standard, Res 5 for example is viable at 45dph but not at 40 dph.

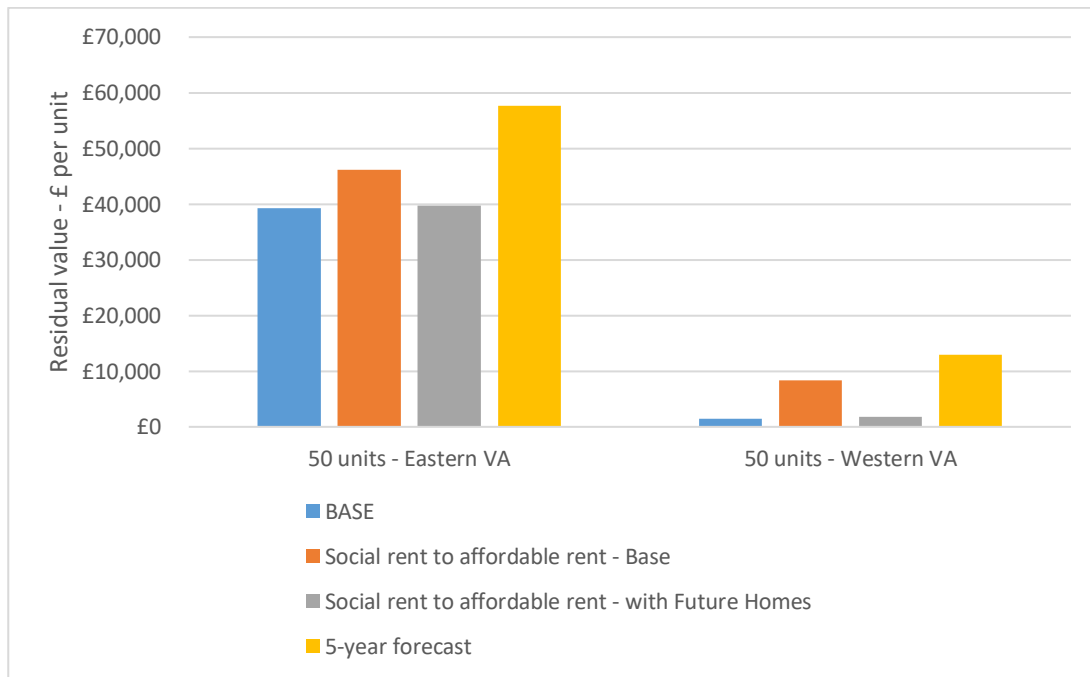
6.16 It should be noted that the typologies were modelled with 3 different benchmark land values and the results presented here demonstrate viability at the mid-point. Where schemes are marginally unviable (e.g. RES 7 at 45 dph) land can transact at the lower value. The full results are provided in Appendix VII. This shows that, with the lower land value used and with the exception of RES 3.1 (12 units, flatted), there is enough headroom to accommodate Future Homes and 40% affordable housing in the Western value area.

6.17 We have carried out two further sensitivity tests as described at para 4.47. The first looks at the effect of switching social rented units to Affordable Rent; this is to help understand further what can be done to improve viability on brownfield sites in the Western value area. The second takes a 5-year forecast accounting for future growth in both values and costs. The sensitivity tests

were carried out on an exemplar brownfield site (Res5) with 50 dwellings (at 40 dph) – this is a scheme of marginal viability in the Western value area. The chart below shows the cumulative impact of these sensitivity tests as a sequence. Headroom per unit is illustrated by the height of the different bars:

- i) Base test (blue bar)
- ii) Social rented units are changed to Affordable Rente units (orange bar)
- iii) A cost is added to scenario ii for Future Homes (grey bar)
- iv) Costs and values are projected forward in a 5-year forecast – full details in chapter 4⁵⁰ – keeping the base affordable housing tenure mix, i.e. 40% of affordable is social rented (yellow bar).

Figure 6.1 Sensitivity modelling on 50 unit typology (RES 5), Brownfield land, BMLV 2 - £ per unit



6.18 Figure 6.1 illustrates that changing the type of affordable rented tenure (from social rent to Affordable Rent) significantly improves viability against base case. The 50 dwelling typology

⁵⁰In summary, that is an increase for Future Homes, an 18% rise in values, a 16% rise in costs, a 1% decrease in interest rates see following forecasts

Savills Residential Property Market Forecasts March 2023

Knight Frank House price forecasts January 2024

BCIS – quarterly briefing Dec 2023

Bank of England Monetary Policy summary & minutes December 2023

The Times [Money Mentor When will interest rates go down](#) 15/02/2024

used to illustrate the impact of the different sensitivity tests, shows that switching between tenures improves the residual value per dwelling (against the base case) by around £7,000 per dwelling in both value areas. This is enough to meet the extra costs of Future Homes – as currently modelled in the government’s impact assessment. It demonstrates that 40% affordable housing can be achieved with the additional cost of Future Homes taken into account, provided there is a flexible approach to tenure mix when necessary. And, as noted at paragraph 6.12, other changes e.g. to scheme density, can also improve viability. When the forecast 5-year changes to costs and values are included (the yellow bars in Figure 6.1), viability is further strengthened.

6.19 A further sensitivity test is shown in the table below, where RES7, 150 units on brownfield land, is modelled with the same 5-year forecast.

Table 6.5 Sensitivity modelling on 150 unit typology (RES 7), Brownfield land, BMLV 2 - £ per unit

| | BASE | 5-year forecast ⁵¹ |
|---------------------------------|---------|-------------------------------|
| 150 units/ 40 dph - Eastern VA | £33,165 | £53,400 |
| 150 units / 40 dph - Western VA | -£6,647 | £6,764 |
| 150 units/ 45 dph - Eastern VA | £43,688 | £63,729 |
| 150 units/ 45 dph - Western VA | £3,875 | £17,093 |

6.20 Again the results show an improved viability picture using the forecast changes to costs and values.

6.21 A further sensitivity analysis has been carried out to review the impact of changing the First Homes discount. To this point in the report, all modelling has been undertaken on the basis of a 30% discount from market value for the First Homes units. Regulation allows a discount of 40% or 50% from open market value provided there is evidence to support this position. A higher discount would enable a wider First Homes offer, as the current price cap of £250,000 restricts provision to the small units which are less likely to be suitable for families. Using Res 4 to illustrate the impact on scheme viability, results of alternative discounts (at 30%, 40% and 50%) are shown in the table below.

⁵¹ In summary, that is an increase for Future Homes, an 18% rise in values, a 16% rise in costs, a 1% decrease in interest rates see following forecasts

Savills Residential Property Market Forecasts March 2023

Knight Frank House price forecasts January 2024

BCIS – quarterly briefing Dec 2023

Bank of England Monetary Policy summary & minutes December 2023

The Times [Money Mentor When will interest rates go down](#) 15/02/2024

Table 6.6 Sensitivity modelling with amended First Homes discounts on 30 unit typology (RES 4), Brownfield land, BMLV 2 - £ per unit

| | Base First Homes @ 70% of market value | First Homes @ 60% of market value | First Homes @ 50% of market value |
|-----------------------------------|--|-----------------------------------|-----------------------------------|
| 30 units - Eastern value area B/F | £39,790 | £37,325 | £34,860 |
| 30 units - Western value area B/F | £2,010 | -£404 | -£2,819 |

6.22 Increasing the First Homes discount reduces viability. In the Eastern value area the example of Res 4 remains viable but in the Western value area, where this typology was already marginal, there is a negative result, albeit still marginal. It is likely that there would be flexibility within the development scenario to ameliorate this, especially for the scenario with a 60% discount.

Camberley Town Centre

6.23 The following tables show the results for the town centre case studies. They are divided into four sections as there are clear distinctions between types of scheme.

- Res 9 - Allocated site HA2 (London Road Block)
- Res 10 - Allocated site HA3 (Land East of Knoll Road)
- Res 13 - Build to rent
- Res 7.1 and Res 3.1 - Flatted typologies (that were also tested within the general typology testing).

Allocated site HA2 (London Road Block)

6.24 The following table shows the results on a per unit basis and a per scheme basis for the allocated site HA2: London Road Block – our case study number RES 9. This scheme has been modelled in accordance with the council's preferred option but it is recognised that different options may emerge in the future. The modelled scheme is of 550 dwellings with 259 car parking spaces at surface level and 1,400 sqm of commercial / community space. The testing assumes a mid-point benchmark land value of £4.263m

Table 6.7 Modelling results for the Camberley Town Centre, LRB, 550 units, BMLV 2 - £ per unit and £ per scheme

| Typology / case study | Number Units | Description | Net Density - dph | Affordable | Benchmark land value | Residual value/unit | Residual value / scheme |
|-----------------------|--------------|------------------------------------|-------------------|------------|----------------------|---------------------|-------------------------|
| Res 9 | 550 | Town centre up to 15 storeys – LRB | 295 | 0% | £4,263,600 | £26,776 | £14,726,740 |
| Res 9 | 550 | Town centre up to 15 storeys – LRB | 295 | 10% | £4,263,600 | £17,138 | £9,426,046 |
| Res 9 | 550 | Town centre up to 15 storeys – LRB | 295 | 20% | £4,263,600 | £7,445 | £4,094,833 |
| Res 9 | 550 | Town centre up to 15 storeys – LRB | 295 | 25% | £4,263,600 | £2,598 | £1,428,692 |

6.25 The residual value for the scheme falls from around £14.7m without affordable housing to £4.1m with 20% affordable housing and £1.43m with 25% affordable housing. At 20% affordable housing, the residual value per unit is £7,445 and with 25% affordable housing it is £2,598. While the scheme is still technically viable at 25% affordable housing, the residual value has become marginal. On a scheme of this scale and complexity, and with the need to consider potential future costs to meet carbon net zero, some headroom should be allowed.

Allocated site HA3 (Land East of Knoll Road)

6.26 The following table shows the results on a per unit basis and a per scheme basis for draft Local Plan allocation HA3: Land East of Knoll Road for 342 flatted dwellings.

Table 6.8 Modelling results for the Camberley Town Centre, LEKR, BMLV 2 - £ per unit and £ per scheme

| Typology / case study | Number Units | Description | Net Density - dph | Affordable | Benchmark land value | Residual value/ unit | Residual value / scheme |
|-----------------------|--------------|------------------------------------|-------------------|------------|----------------------|----------------------|-------------------------|
| Res 10 | 342 | Town centre Up to 6 storeys – LEKR | 250 | 20% | £3,123,600 | £20,173 | £6,899,254 |
| Res 10 | 342 | Town centre Up to 6 storeys – LEKR | 250 | 25% | £3,123,600 | £15,612 | £5,339,279 |

6.27 The case study, Res 10, with 342 apartments, is viable with 20% and with 25% affordable housing using the main BMLV. It may be possible to achieve a higher percentage of affordable housing but, again given the complexity and scale of the development, a conservative approach to the target for affordable housing would seem prudent with 25% achievable at current costs and values.

Build to Rent

6.28 The following table shows the results for the 150 unit Build to Rent Scheme in Camberley Town Centre.

Table 6.9 Modelling results for the Camberley Town Centre, BMLV 2 - £ per unit and £ per scheme – Build to Rent

| Typology / case study | Number Units | Description | Net Density - dph | Affordable | Residual value/unit | Residual value / scheme |
|-----------------------|--------------|-------------|-------------------|------------|---------------------|-------------------------|
| Res13 | 150 | BTR | 250 | 0% AH | £7,446 | £1,116,843 |
| Res13 | 150 | BTR | 250 | 10% AH | £5,028 | £754,219 |
| Res13 | 150 | BTR | 250 | 20% AH | £2,931 | £439,659 |

6.29 The testing illustrates that a Build to Rent Scheme can be viable, in a Camberley town centre setting and provide the amount of affordable private rent (20%) deemed a suitable benchmark in Planning Practice Guidance.

Flatted typologies – Camberley Town Centre

6.30 Two general flatted typologies were also modelled in Camberley town centre. In neither case do these relate to an allocated site in the draft Local Plan but are notional schemes, illustrative of possible future development types.

Table 6.10 Modelling results for the Camberley Town Centre, BMLV 2 - £ per unit and £ per scheme

| Typology / case study | Number Units | Description | Net Density - dph | Affordable | Benchmark land value | Residual value/unit | Residual value / scheme |
|-----------------------|--------------|---------------------|-------------------|------------|----------------------|---------------------|-------------------------|
| Res 7.1 | 150 | Town Centre - flats | 250 | 20% | £1,434,120 | £36,776 | £5,516,443 |
| Res 7.1 | 150 | Town Centre - flats | 250 | 25% | £1,434,120 | £32,207 | £4,831,071 |
| Res 3.1 | 12 | Town Centre - flats | 250 | 20% | £287,280 | £3,750 | £44,770 |

6.31 The testing illustrates that the two generic flatted typologies tested in a Camberley town centre setting can be viable with 20% affordable housing, and in the case of the 150-unit scheme, with 25% affordable housing. The smaller (12 unit) scheme is more marginal.

Camberley Town Centre – sensitivity testing

6.32 The Camberley town centre case studies have also been modelled to the Future Homes Standard and the results are shown in the table below.

Table 6.11 Camberley Town Centre allocated schemes with Future Homes Standard 2025 BMLV 2 - £ per unit and £ per scheme

| Case study | | No units | Affordable | Residual value / unit | Residual value / scheme |
|------------|------|----------|------------|-----------------------|-------------------------|
| RES 9 | LRB | 550 | 0% | £26,530 | £14,588,880 |
| RES 9 | LRB | 550 | 10% | £16,870 | £9,279,260 |
| RES 9 | LRB | 550 | 20% | £7,180 | £3,948,040 |
| RES 9 | LRB | 550 | 25% | £2,331 | £1,281,902 |
| RES 10 | LEKR | 342 | 20% | £19,930 | £6,816,010 |
| RES 10 | LEKR | 342 | 25% | £15,369 | £5,256,032 |

6.33 Costs for the Future Homes Standard are much lower for flats than houses, therefore the impact to the flatted town centre schemes is minimal as demonstrated in table 6.11 above.

6.34 The following sensitivity test keeps the cost for the future Homes Standard but also projects costs, and values and interest rates forward to the end of 2028 using published forecasts. A full description and data sources can be found at paragraph 4.47.

Table 6.12 Camberley Town Centre allocated schemes with Future Homes Standard and 5-year forecast BMLV 2 - £ per unit and £ per scheme

| Case study | | No units | Affordable | Residual value / unit | Residual value / scheme |
|------------|------|----------|------------|-----------------------|-------------------------|
| RES 9 | LRB | 550 | 0% | £38,599 | £21,229,597 |
| RES 9 | LRB | 550 | 10% | £27,474 | £15,110,594 |
| RES 9 | LRB | 550 | 20% | £15,756 | £8,665,937 |
| RES 9 | LRB | 550 | 25% | £9,896 | £5,443,034 |
| RES 10 | LEKR | 342 | 20% | £29,619 | £10,129,791 |
| RES 10 | LEKR | 342 | 25% | £26,616 | £9,102,700 |

6.35 Viability across the Camberley town centre schemes (RES 9 and 10) is improved with the forecast increases in costs and values. The improvement, gives confidence that, over the Local Plan, 20% affordable housing can be delivered on the LRB site (RES 9) and 25% on the LEKR site (RES 10).

Specialist older persons

6.36 Specialist older persons housing was not viable in either value area, on greenfield or brownfield land, even without affordable housing. It may well be that when market conditions improve and/or a particular type of development comes forward, this type of housing will become viable or it will be deliverable in the town centre with higher values. We have taken a cautious

approach and modelled these schemes with non-saleable areas towards the higher end of those recommended in the Retirement Housing Group guidance (30% for sheltered and 40% for extra care), on the advice of the development industry. Reducing the non-saleable areas, even by 5%, makes a significant difference to the results, although not enough to make an affordable housing contribution. It is possible that a specialist retirement housing developer would be able to make adaptations to layout and/or purchase land at the lowest of our BMLVs in order to optimise viability. We note that there have been recent retirement housing applications and developments in Surrey Heath suggesting that developers are able to make such adaptations and deliver viable schemes although these have been delivered without affordable housing, supporting our finding that affordable specialist older persons accommodation as part of a market development is not viable in the current financial climate.

Exception Sites

6.37 Two types of exception site were tested

- Rural Exception Site (RES) – 15 dwellings
- First Home Exception Site – 10 dwellings.

6.38 For the Rural Exception site, the general affordable housing mix was used, as described in chapter 4. For the First Homes Exception site, all the dwellings were modelled as 2-bed terraced houses to ensure that the sales value of the discounted home was below the proscribed £250,000. However, in the Eastern value area a further adjustment was needed to the size of the dwellings, which were brought below Nationally Described Space Standards to meet this requirement. We did not model the units as flats as we already knew, from the general typology modelling, that a small flatted typology would be unviable.

6.39 It is assumed that exception sites are affordable housing led to meet identified local need. The object of the viability exercise was therefore to ascertain whether any full market housing would be required to enable these developments. Land value is based upon a plot value of £10,000 per plot.

Table 6.13 Modelling results for Rural Exception Sites - £ per scheme

| Typology / case study | Number Units | Description | Affordable | Eastern VA | Western VA |
|-----------------------|--------------|-------------|------------|------------|------------|
| RES 14 | 15 | RES | 100% | -£163,100 | -£289,900 |
| RES 14 | 15 | RES | 90% | £161,000 | -£43,100 |
| RES 14 | 15 | RES | 85% | N/a | £79,100 |
| RES 15 | 10 | First Homes | 100% | £540,600 | £385,400 |

6.40 Using the mix outlined in chapter 4, a Rural Exception Site of 15 dwellings required 10% of the homes to be open market dwellings in order to deliver a viable scheme in the Eastern value area. In the Western value area, 15% open market dwellings were required. It is recognised that housing mixes will change to meet the local need identified and that this could impact on the overall amount of market homes needed to produce a viable scheme. Notwithstanding this point, as a general rule, 10-15% market housing should be used as the starting point for assessing the amount of market housing required to deliver a viable Rural Exception Site.

6.41 For the First Homes exception site a viable scheme can be delivered with small terraced housing. A 100% flatted scheme is likely to encounter some of the viability issues identified in the general typologies.

Review of the residential results

6.42 The results present a picture of good general viability for most residential typologies across Surrey Heath with headroom in many instances for further CIL collection or further policy costs as well as those associated with national policies such as Future Homes. This includes potential to meet the implied costs of Policy SS3a/b – Climate change mitigation & adaptation and Policy E5: Renewable and Low Carbon Energy Systems when these are further defined. For some brownfield typologies in the Western value area results are marginal and the viability pressure from additional policy costs may mean that changes will need to be made by the promoter to density or price paid for land for example, or that the council may need to be flexible over the tenure of the affordable homes for a scheme to remain viable. It does not imply that the affordable housing requirement should be reduced below 40%.

6.43 Outside Camberley town centre, the additional costs associated with flat-only schemes makes this type of development less viable or unviable. Although the inclusion of flats as part of a mixed development (c10% in our testing) did not adversely affect results. Fully flatted schemes as tested are unable to make an affordable housing contribution unless other measures can be taken to improve viability, for example a reduced return to the developer and/or lower land values. The same applies to sheltered and extra care schemes which are also unlikely to be able to make a full affordable housing contribution, if any.

6.44 The two Camberley town centre allocations are different in certain respects and the viability results reflect this.

- i) HA2 is a large scheme of tall apartment blocks and has been found to be able achieve a contribution of 20% affordable housing. This is the most complex scheme tested and changes to the built form can make a significant difference to the viability as can small changes to costs or values. Although the results suggest a small further affordable housing contribution could be possible this is considered too marginal for a scheme of this complexity.
- ii) HA3, whilst still a high density scheme, is less complex than HA2 and the viability testing shows that 25% affordable housing is achievable. Again it is shown that a further affordable housing contribution could be possible but this may not leave enough headroom for additional policy costs around carbon net zero or allow for accommodation of changes to design.

6.45 The notional Build to Rent scheme as modelled is able to make a 20% private affordable housing contribution.

6.46 The Rural Exception Sites were shown to require around 10-15% market housing to allow such schemes to come forward.

Non-residential overview

6.47 This section summarises results of the non-residential viability appraisals. As described, there are no policies that directly affect the viability of non-residential development however the council wants to understand the viability of non-residential development as well as any scope for further development contributions in the future, such as CIL.

6.48 It is important to note that the analysis considers development that might be built for subsequent sale or rent to a commercial tenant. However, there will also be development that is undertaken for specific commercial operators, either as owners or pre-lets. In these circumstances the economics of the development relate to the profitability of the enterprise accommodated within the buildings rather than the market value of the buildings. Therefore, it should be noted that while the testing suggests that all types of development are not viable, they may still be brought forward for individual occupiers to meet their specific requirements. In particular, if the required return is reduced to the level of a contractor return, then unviable sites may be marginal or (marginally) positive.

6.49 Normally, retail uses such as 'NR5 Retail Convenience (Small local store)', 'NR6 Retail Convenience (supermarket)' and 'NR8 Retail Comparison (Out of centre)' are viable. However, due to the relatively high CIL rates these forms of development are shown to be viable. If the CIL rates are reduced in the future, these forms of retail development will be viable.

Table 6.14 Non-residential testing results

| Typology | Headroom £/sq m |
|---|-----------------|
| NR1 Office (Fringe & Transport nodes) | -£1,931 |
| NR2 Office (Central) | -£1,217 |
| NR3 Industrial | -£172 |
| NR4 Warehouse | -£188 |
| NR5 Retail convenience (Small local store) | -£296 |
| NR6 Retail convenience (Supermarket) | -£291 |
| NR7 Retail comparison (Town Centre) | -£623 |
| NR8 Retail comparison (Out of centre / Retail Park) | -£176 |
| NR9 Hotel | -£442 |

Summary for non-residential testing

- 6.50** The results show that on the basis of speculative build that no typologies are viable. With the exception of the retail typologies, this is not uncommon in this type of generic assessment that has to be based on a speculative approach to sale and rent, rather than specific operator circumstance.
- 6.51** However, for the purposes of plan viability the aim is to test whether plan policy puts at risk development sought by the plan. There are a limited number of policies in the draft Local Plan that directly impact (in terms of viability) non-residential development. Those that do include s106 and BNG - however, whilst this does increase the cost, in most of the typologies these are between less than 1% and 2% of GDV - the exception is out of centre retail and supermarkets where the s106 requirement is generally much higher. The impact of these policies is therefore considered as minimal and would not either on their own or in combination effect delivery of these forms of development.
- 6.52** Given the impact of the current applicable CIL rates the council may wish to review these, so as not to unduly impact delivery of non residential development in the future.

Chapter 7 Summary and conclusions

7.1 To inform the draft Local Plan we have modelled the viability of a range of typologies across Surrey Heath. These are representative of the types of development anticipated to come forward during the plan period and include costs attributed to the draft policies. The testing assumptions used have been derived from published sources and consulted upon with the development industry and other key stakeholders. The implications drawn from the results are discussed below.

Policy Implications

7.2 Away from the main Camberley town centre allocations, an affordable housing policy contribution of 40% is achievable on most schemes across Surrey Heath. There may be instances in the Western value area, on brownfield sites, where some 'minor' flexibility on policy could be required to ensure a site is viable. This could mean amending the tenure of the affordable homes for instance, rather than a reduction in overall percentage of affordable housing. The exception to this is for flat-only developments where more significant flexibility will need to be employed if the council wishes such development to come forward.

7.3 Potential national increases in development standards in respect of carbon reduction (Future Homes and Future Buildings) would reduce residual values but does not change our conclusion. Local policies for carbon reduction, Policy SS3a/b – Climate change mitigation and adaptation and Policy E5: Renewable and Low Carbon Energy Systems, have not been modelled because a Surrey-wide assessment is on-going at the time of writing and there is no clarity about the additional costs associated with these draft policies. However, for most typologies tested there is significant headroom within the results to account for any additional costs associated with these policies. On the more marginal brownfield sites in the Western value area the results suggest that measures such as increasing density or flexibility on affordable tenures will assist with viability when additional costs are applied, or that policy costs can be accommodated within the range of benchmark land values identified.

7.4 For the Camberley Town Centre allocations HA2 and HA3, a different percentage requirement for the affordable housing contribution is justified; with 20% for the London Road Block (HA2) and 25% for the Land East of Knoll Road (HA3) being achievable and reasonable, with enough headroom to accommodate the higher development standards discussed in the preceding paragraph.

7.5 Other flatted typologies in Camberley town centre locations were viable with 25% affordable housing and in some instances showed potential for higher affordable delivery.

7.6 Forecast changes in costs and values over the next five years indicate an improvement generally in viability across Surrey Heath which gives confidence that the above policy approach (both within and outside Camberley town centre) is achievable and realistic.

- 7.7** Specialist older persons housing of apartments only (sheltered and extra care) was not able to deliver any affordable housing in current market conditions. It may well be that when market conditions improve and/or a different form of this development come forward that some contribution could be made, although the results indicate this would be minimal. It is possible that a specialist retirement housing developer would be able to make adaptations to layout and/or purchase land at the lowest of our BMLVs in order to optimise viability. The council could therefore consider a lower or nil contribution of affordable housing in specialist older persons accommodation – examples where other councils have followed a similar approach include Swale⁵² and Fareham⁵³. The alternative would be to require a viability assessment with each application. We note that there have been recent retirement housing applications and developments in Surrey Heath but these have not delivered any affordable units.
- 7.8** Rural Exception Sites are deliverable but are likely to require 10-15% market units for cross subsidy in order to achieve viability. These sites are responsive to local need, and it is impossible to model every potential housing mix, some flexibility should be retained within policy.
- 7.9** The council could consider increasing the discount on First Homes from the minimum 30% of open market value to 40% or 50%. Taking into account the post-discount price cap of £250,000, this would widen the range of products that could be offered as First Homes especially in the Eastern value area. At the time of writing, it would enable the inclusion of some modest terraced homes at Nationally Described Space Standards where otherwise only flats would meet the statutory criteria. Such a move would however have some impact on developments with marginal viability and we would not recommend a discount higher than 40%. Guidance requires that minimum discounts should apply to the entire local plan area (except if Neighbourhood Plans are in place in certain areas) and should not be changed on a site-by-site basis⁵⁴.
- 7.10** As well as affordable housing, the testing included allowances for policies in the Pre-Submission Local Plan, including Biodiversity Net Gain, accessibility, density, space standards, self and custom build housing. The viability testing results show these policies to be achievable.
- 7.11** For non residential development, there is a limited number of policies that directly impact on development viability. Those that do include s106 and BNG. While this does increase the cost, in most of the typologies tested this is are between less than 1% and 2% of GDV - the exception is out of centre retail and supermarkets where the s106 requirement is generally much higher. The impact of these policies is therefore considered as minimal and would not, either on their own or in combination, effect delivery of these forms of development.

⁵² Policy DM8 Affordable Housing Swale Borough Local Plan July 2017

⁵³ Policy HP5 Provision of Affordable Housing Fareham Local Plan 2037

⁵⁴ Paragraph: 004 Reference ID: 70-004-20210524 PPG

7.12 For this study, CIL has been included in the testing at the current rate. This study was not asked to recommend changes to the rates set for CIL. However, it is noted that some residential typologies have headroom for significant increase in the rate, especially residential in the Eastern value area. Elsewhere, the council may take the view that securing affordable housing and other regeneration benefits outweigh any benefit additional CIL might bring. For the non-residential typologies any review of CIL is likely to recommend a reduction in CIL rates to enable development to come forward.

Appendix I National policy and guidance

National policy context

i. **National framework** - The National Planning Policy Framework (NPPF) recognises the importance of positive and aspirational planning but states that this should be done 'in a way that is aspirational but deliverable'⁵⁵.

ii. The NPPF advises that cumulative effects of policy should not combine to render plans unviable:

*'Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.'*⁵⁶

iii. The government has signalled its desire to simplify the planning process, including development contributions. The NPPF advises that:

*'All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.'*⁵⁷

iv. In terms of affordable homes the government has reiterated previous policy on affordable homes thresholds and a desire to increase affordable home products that can potentially lead to home ownership:

*'Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount'*⁵⁸

*'Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups.'*⁵⁹

v. With regard to non-residential development, the NPPF states that local planning authorities should:

'set out a clear economic vision and strategy which positively and proactively encourages sustainable economic growth...local policies for economic development

⁵⁵ DLUHC, 2023 NPPF Para 16

⁵⁶ DLUHC, 2023 NPPF Para 34

⁵⁷ DLUHC, 2023 NPPF Para 58

⁵⁸ DLUHC, 2023 NPPF Para 65

⁵⁹ DLUHC, 2023 NPPF Para 66

and regeneration...seek to address potential barriers to investment, such as inadequate infrastructure, services or housing, or a poor environment...be flexible enough to accommodate needs not anticipated in the plan, allow for new and flexible working practices (such as live-work accommodation), and to enable a rapid response to changes in economic circumstances.¹⁶⁰

- vi. However, the NPPF does not state that all sites must be viable now in order to appear in the plan. Instead, the NPPF is concerned to ensure that the bulk of the development is not rendered unviable by unrealistic policy costs and that overall, Local Plan policies should not undermine the deliverability of the plan⁶¹. It is important to recognise that economic viability will be subject to economic and market variations over the local plan timescale. In a free market, where development is largely undertaken by the private sector, the local planning authority can seek to provide suitable sites to meet the needs of sustainable development. It is not within the local planning authority's control to ensure delivery actually takes place; this will depend on the willingness of a developer to invest and a landowner to release the land. So, in considering whether a site is deliverable now or developable in the future, we have taken account of the local context to help shape our viability assumptions.
- vii. **Written Ministerial Statements - Affordable Homes Update** (24 May 2021) is specifically referenced in NPPF and sets out the Government's plans for the delivery of First Homes and the new model for Shared Ownership. First Homes criteria includes the requirement for a discount in perpetuity of at least 30% against market value to a maximum discounted price of £250,000 (£420,000 in Greater London). A minimum of 25% of all affordable housing units secured through developer contributions should be First Homes. First Homes are an affordable home ownership product and count towards the NPPF requirement that 10% of all homes are affordable home ownership. First Homes are exempt from CIL.
- viii. **Written Ministerial Statements - Local Energy Efficiency Standards Update** (13 December 2023) recognises that for a number of years, the plans of some local authorities have sought to go further than national standards for energy efficiency. The WMS states that the Government does not expect plan-makers to set local energy efficiency standards for buildings that go beyond current or planned buildings regulations unless they have a well-reasoned and robustly costed rationale that ensures development remains viable and that any additional requirement is expressed as a percentage uplift of a dwelling's Target Emissions Rate calculated using a specified version of the Standard Assessment Procedure.
- ix. **Planning Practice Guidance - Planning Practice Guidance⁶²** (PPG) provides further detail about how the NPPF should be applied. PPG contains general principles for understanding viability (also relevant to CIL viability testing). The approach taken reflects the latest version of PPG. In order to understand viability, a realistic understanding of the costs and the value of development is required and direct engagement with

⁶⁰ DLUHC, 2023 NPPF, para 86

⁶¹ DLUHC, 2023 NPPF Para 34

⁶² DLUHC, Planning Practice Guidance

development sector may be helpful⁶³. Evidence should be proportionate to ensure plans are underpinned by a broad understanding of viability, with further detail for strategic sites that provide a significant proportion of planned supply⁶⁴.

- x. All development costs should be taken into account, including within setting of benchmark land values, in particular para 014 within the PPG Viability section states that:

'Costs include:

- build costs based on appropriate data, for example that of the Building Cost Information Service
- abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites. These costs should be taken into account when defining benchmark land value
- site-specific infrastructure costs, which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy. These costs should be taken into account when defining benchmark land value
- the total cost of all relevant policy requirements including contributions towards affordable housing and infrastructure, Community Infrastructure Levy charges, biodiversity net gain (as required by Schedule 7A of the Town and Country Planning Act), and any other relevant policies or standards. These costs should be taken into account when defining benchmark land value
- general finance costs including those incurred through loans
- professional, project management, sales, marketing and legal costs incorporating organisational overheads associated with the site. Any professional site fees should also be taken into account when defining benchmark land value
- explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return.'

- xi. Land values⁶⁵ should be defined using a benchmark land value that is established on the basis of Existing Use Value plus a premium for the landowner. The premium should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The benchmark should reflect the implications of abnormal costs, site specific infrastructure and fees. It can be informed by market evidence including current costs and values but that this should be based on development that is compliant with policies, where evidence is not available adjustments should be made to reflect policy compliance.

⁶³ PPG Paragraph: 010 Reference ID: 10-010-20180724

⁶⁴ PPG Paragraph: 005 Reference ID: 10-004-20180724

⁶⁵ PPG Paragraph: 013 Reference ID: 10-013-20190509 and 014 Reference ID: 10-014-20190509

- xii. PPG states that developer return should be 15 - 20% of gross development value and that a lower figure may be more appropriate for affordable homes delivery⁶⁶.
- xiii. **Community Infrastructure Levy (CIL)** - CIL is payable on development which creates net additional floor space, where the gross internal area of new build exceeds 100 square metres (this limit does not apply to new houses or flats)⁶⁷. Custom & self-build is exempt, along with affordable homes, charitable development, buildings into which people do not normally go and vacant buildings brought back into the same use⁶⁸.
- xiv. CIL rates should be set so that they strike an appropriate balance between additional investment to support development and the potential effect on the viability of developments⁶⁹.
- xv. For the purposes of CIL, a charging authority should use an area-based approach, involving a broad test of viability across their area. This should use appropriate available evidence, recognising that the available data is unlikely to be fully comprehensive. A sample of site types should be used, however more fine-grained sampling may be required where differential CIL rates are set. Rates should be reasonable and include a buffer, but there is no requirement for a proposed rate to exactly mirror the evidence⁷⁰.
- xvi. Differential rates may be set in relation to geography, development type and/or scale. However undue complexity and disproportionate impact should be avoided. The charging authority should consider a zero CIL where plan policies require significant contributions towards homes or infrastructure through planning obligations⁷¹. In addition, higher rates should not be charged for minor developments without affordable housing⁷². The guidance for testing viability for plan-making and for setting CIL rates is closely aligned and so testing both together follows the same approach and can use common assumptions.
- xvii. **Other guidance on viability testing for development** - Guidance has been published to assist practitioners in undertaking viability studies for policy making purposes - "*Viability Testing Local Plans - Advice for planning practitioners*"⁷³. The foreword to the Advice for planning practitioners includes support from DHCLG, the LGA, the HBF, PINS and POS. PINS and the POS⁷⁴ state that:

'The Planning Inspectorate and Planning Officers Society welcome this advice on viability testing of Local Plans. The use of this approach will help enable local authorities to meet their obligations under NPPF when their plan is examined'

⁶⁶ PPG Paragraph: 018 Reference ID: 10-018-20190509

⁶⁷ PPG Paragraph: 001 Reference ID: 25-001-20190901

⁶⁸ PPG Paragraph: 005 Reference ID: 25-005-20201116

⁶⁹ PPG Paragraph: 010 Reference ID: 25-010-20190901

⁷⁰ PPG Paragraph: 020 Reference ID: 25-020-20190901

⁷¹ PPG Paragraph: 026 Reference ID: 25-026-20190901

⁷² PPG Paragraph: 024 Reference ID: 25-024-20240219

⁷³ The guide was published in June 2012 and is the work of the Local Housing Delivery Group, chaired by Sir John Harman, which is a cross-industry group, supported by the Local Government Association and the Home Builders Federation

⁷⁴ Acronyms for the following organisations - Department of Communities and Local Government, LGA Environment and Housing Board, Home Builders Federation, Planning Inspectorate, Planning Officers Society

- xviii. The approach to viability testing adopted for this study follows the principles set out in the Advice. The Advice re-iterates that:
- 'The approach to assessing plan viability should recognise that it can only provide high level assurance'*
- xix. The Advice also comments on how viability testing should deal with potential future changes in market conditions and other costs and values and states that:
- 'The most straightforward way to assess plan policies for the first five years is to work on the basis of current costs and values'. (page 26)*
- xx. But that:
- 'The one exception to the use of current costs and current values should be recognition of significant national regulatory changes to be implemented.....'* (page 26)

Principles of viability testing

- xxi. The Advice for planning practitioners⁷⁵ summarises viability as follows:
- xxii. 'An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.' (page 14)
- xxiii. Reflecting this definition of viability, and as specifically recommended by the Advice for planning practitioners, we have adopted a residual value approach to our analysis. Residual value is the value of the completed development (known as the Gross Development Value or GDV) less the costs of undertaking the development. The residual value is then available to pay for the land. The value of the scheme includes both the value of the market homes and affordable homes (and other non-residential values). Scheme costs include the costs of building the development, plus professional fees, scheme finance and a return to the developer. Scheme costs also include planning obligations (including affordable homes, direct s106 costs) and the greater the planning obligations, the less will be the residual value.
- xxiv. The residual value of a scheme is then compared with a benchmark land value. If the residual value is less than the benchmark value, then the scheme is less likely to be brought forward for development and is considered unviable for testing purposes. If the residual value exceeds the benchmark, then it can be considered viable in terms of policy testing.
- xxv. PPG paragraph 012 - 015 sets out that benchmark land values should be based on the current use value of a site plus an appropriate site premium in most cases. The principle of this approach is that a landowner should receive at least the value of the land in its

⁷⁵ Local Housing Delivery Group, 2012, Viability Testing Local Plans - Advice for planning practitioners

'pre-permission' use, which would normally be lost when bringing forward land for development. The benchmark land values used in this study are based on the principle of 'Existing Use Value Plus' which is considered further in other parts of this report.

- xxvi. Note the approach to Local Plan level viability (or CIL) assessment does not require all sites in the plan to be viable. The Harman Report says that a site typologies approach (i.e. assessing a range of example development sites likely to come forward) to understanding plan viability is sensible, a view echoed in CIL guidance. Viability '*...is to provide high level assurance that the policies with the plan are set in a way that is compatible with the likely economic viability of development needed to deliver the plan*'.

List of appendices

List of appendices to be found in Technical Appendices Report

Appendix I – National policy and guidance

Appendix II – Notes from the developer workshop

Appendix III – Sample house price data

Appendix IV – Information from Rightmove

Appendix V – First Homes background information

Appendix VI – Building and construction costs

Appendix VII – Results sheets

Appendix VIII – Sample summary appraisals

Appendix IX – Full cost reports QSetc