



GERALDEVE

**Croydon Council Local Plan Review Whole Plan Viability
Study and Community Infrastructure Levy Charging
Schedule Review**

On behalf of London Borough of Croydon

Document Produced: December 2020

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- (vi) Information in this report should not be relied upon or used as evidence in relation to other viability assessments without the agreement of Gerald Eve LLP.
- (vii) Gerald Eve LLP recognises some items are confidential and should be concluded before publication.

It is noted that while this assessment was produced prior to the publication of RICS Guidance Note "Assessing viability in planning under the National Planning Policy Framework 2019 for England (1st Edition, March 2021) ("RICS Viability GN 2021"), it is consistent with NPG (Viability) (2019). So whilst RICS Viability GN 2021 is not effective until July 2021, this assessment also reflects the principles of the RICS Viability GN 2021.

NOTE: This assessment has been produced having regard to and abiding to the requirements of RICS Professional Statement Financial Viability in Planning: conduct and reporting (1st edition 2019). Appendix 2, where applicable provides a guide to where in the report the requirements have been adhered to.

- 2.1 In preparing this viability assessment, we confirm that we have acted with reasonableness, impartiality and without interference. We have also complied with the requirements of PS2 Ethics, competency, objectivity and disclosures in the RICS Valuation – Global Standards 2020 in connection with valuation reports;
- 2.2 This document sets out our terms of engagement for undertaking this viability assessment (Section Terms of engagement and report procedures). We declare that to the best of our knowledge there is no conflict of interest (paragraph 1.1 of the Conflict of Interest Professional Statement of January 2018), Other than, if necessary, where stated in the report circumstances which fall under Informed Consent (as per the Conflict of Interest Professional Statement).
- 2.3 We confirm that our fee basis for undertaking this viability assessment is neither performance related nor involves contingent fees.
- 2.4 We confirm that this viability assessment has been prepared in the full knowledge that it may be made publicly at some point in the future. Where we believe there to be information, which is commercially sensitive, that we have relied upon in arriving at our opinion we have stated so in our report. We request that permission is sort by the instructing/applicant prior to being made public to ensure commercially sensitive or personal information does not infringe other statutory regulatory requirements.
- 2.5 We confirm that we have not undertaken an area-wide viability assessment concerning existing and future policies against which the scheme will in due course be considered. We have confirmed with the instructing party that no conflict exists in undertaking the viability assessment, we have also highlighted to the Council where we have previously provided advice relating the site in question. Should this position change we will immediately notify the parties involved. We understand that if any of the parties identified in this report consider there to be a conflict that we would immediately stand down from the instruction.
- 2.6 In this viability assessment we have set out a full justification of the evidence. We note in due course the emphasis within the RICS Professional Statement on conduct and reporting in Financial Viability in Planning the need to see to resolve differences of opinion wherever possible.
- 2.7 In determining Benchmark Land Value (if required) we have followed NPG (Viability) (2019).
- 2.8 We make a clear distinction in our report between preparation/review of a viability assessment and subsequent negotiations (if required).
- 2.9 Sensitivity analysis and accompanying explanation and interpretation of the results is undertaken for the purposes of this assessment.
- 2.10 We confirm we have advocated transparent and appropriate stakeholder engagement.
- 2.11 This report includes a non-technical summary at the commencement of the report which includes all key figures and issues relating to the assessment.
- 2.12 We confirm this report has been formally reviewed and signed off by the individuals who have carried out the assessment and confirm that this assessment [as above*] has been prepared in accordance with the need for objectivity, impartiality and without interference. Subject to the completion of any discussion and resolution or note of differences.
- 2.13 All contributors to this report have been considered competent and are aware of the RICS requirements and as such understand they must comply with the mandatory requirements.
- 2.14 We were provided an adequate time to produce this report, proportionate to the scale of the project and degree of complexity of the project.

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Date: 21 04 2021

Date: 21 04 2021

Date: 21 04 2021

EXECUTIVE SUMMARY (NON-TECHNICAL)

- (i) Gerald Eve LLP (“**GE**”) is instructed by the London Borough of Croydon (the “**Council**”) to undertake Local Plan Viability Assessment and Community Infrastructure Levy (“**CIL**”) Charging Schedule Review to test that the cumulative impact of the Council’s policies including affordable housing and Community Infrastructure Levy, do not compromise the delivery of the Local Plan. The report is set out under the following headings and is summarised below.

National Planning Policy Guidance and Community Infrastructure Levy

- (ii) The National Planning Policy Framework (NPPF) and National Planning Policy Guidance (NPG) provide the framework and guidance within which viability assessments at plan-making stage should be set.
- (iii) The framework and guidance requires among other points, collaboration with stakeholders; a development typology based testing approach rather than testing all sites in a Local Plan area; and the need to ensure that the cumulative cost of all relevant policies including affordable housing requirements will not undermine deliverability of the plan. GE has followed the recommended approach set out in the NPPF and NPG guidance in producing this review exercise. This report provides an assessment and recommendations to the Council in line with guidance for Plan Making, but it is important to note that it is for the Council to take the decision on what policy to adopt in relation to affordable housing.
- (iv) CIL is a planning charge which allows local authorities in England and Wales, to raise funds from developers undertaking new building projects in their area to fund a wide range of infrastructure that is needed as a result of development. The CIL Regulations 2010 and CIL Guidance (as updated and amended in 2019) explain what CIL is and how it operates. The CIL Guidance states that charging authorities should use an area-based approach which involves ‘a broad test of viability across their area, as the evidence base to underpin their charge’. This report has been prepared in line with relevant guidance on CIL and setting CIL including NPPF, NPG and guidance produced by the Royal Institution of Chartered Surveyors (RICS)

The London Borough of Croydon (“Croydon”)

- (v) Croydon is a unique borough and has a large range of land uses in different areas with different qualities. In formulating the inputs and assumptions in this review we have reviewed these land uses and also the planning policy within the current Local Plan published in 2018, together with emerging Local Plan policy currently under consultation. This outlines what the future looks like for development in different areas of the borough and how the Council intends to implement the policies to achieve this.
- (vi) We have considered the above information regarding the different areas within the borough taken from the Local Plan, supplemented with our own knowledge of the borough to enable us to designate residential and commercial zones. This allows us to be more specific with our input assumptions for our appraisals when testing the viability of sites in different zones.

Stakeholder Consultation

- (vii) NPG states that plan makers must work in collaboration with stakeholders in the Local Plan to finalise their policies to ensure that they are appropriate and will result in development that is sustainable and deliverable.
- (viii) Two stakeholder consultation exercises were undertaken as part of this review process. These comprised two questionnaires and an online presentation in relation to the process, inputs and initial findings of our review. Feedback was invited in relation to the inputs such as costs and values, the assumptions used, and the process undertaken. This enabled open and transparent engagement with developers and key stakeholders to assist us in informing our evidence base and also our recommendations to the Council.
- (ix) Feedback from a range of different sizes and types of developers and stakeholders was received. A summary of the key points raised are set out in **section 4**. We had regard to this feedback in our assessment.

Methodology

- (x) In order to undertake our viability assessment we have adopted the residual valuation method. This is in line with the NPPF, NPG, CIL Regulations and Guidance documents; RICS, LHDG and other relevant guidance as outlined in **Section 2**. We worked with the Council to select 64 typologies to test using this method, as set out in **Section 6**. This

comprised many of the typologies tested in the previous review undertaken by BNPPRE in 2015 and a further 10 as requested by the Council. For analysis purposes we also separated the typologies into 9 typology groupings.

- (xi) Sensitivity analysis of the inputs was then undertaken to provide more robust analysis of these results. This includes testing of the key inputs, but also of the inputs that we are testing in affordable housing levels and CIL rates. A bespoke Excel financial model has been used in this process.

Key findings

- (xii) The conclusions arrived at having regard to the sensitivity and scenario analysis, and assessment of results, are set out in **section 14**. In order to assist with interpretation of the results, the conclusions are split into those relating to a range of typology groupings.
- (xiii) Major Residential Typologies 76% of major residential typologies (i.e. all residential or mixed-use schemes including residential uses with 10 residential units or over) are viable with 35% affordable housing and current CIL levels, which shows a 6% “buffer” above the 70% minimum threshold.
- (xiv) It should also be noted that if residential values are reduced and construction costs increased by 5% or more, the number of viable major residential typologies falls to below the 70% threshold if the level of affordable housing is maintained at 35%. This shows there is only a small viability buffer at the 35% affordable housing level.
- (xv) At a 20% affordable housing level, the majority (85%) of major residential typologies are viable, therefore showing a 15% “buffer” at the 20% affordable housing level above the 70% threshold.
- (xvi) Sensitivity analysis shows that at a 20% affordable housing level, if residential sales values are reduced by 10% or construction costs increase by 10% at least 70% of major residential typologies remain viable, showing there is a reasonable viability “buffer” at a 20% affordable housing level should construction costs or residential sales values worsen in future.

- (xvii) When considering CIL rates as well as affordable housing, the results show that if a residential CIL rate of £169.25 psm or a higher rate of £180 psm is applied to major residential typologies in line with the locations where CIL is charged in the existing charging schedule, 76% of these typologies are viable at 35% affordable housing and 85% are viable at a 20% affordable housing rate.
- (xviii) Minor Residential Typologies The smaller residential typologies of 9 units or less that we have assessed on the basis that they include a commuted sum payment as their affordable housing contribution provide a mix of results. In general they demonstrate that developments that require demolition or a conversion of an existing dwelling, and as a result have a relatively large BLV, are unviable, whereas cleared sites are able to accommodate further planning obligations. Only 10 out of 16 (62%) of these typologies are viable with a £10,000 per unit affordable housing payment and existing CIL levels. This is below our minimum target level of 70% of the group of typologies to be considered viable.
- (xix) We have therefore demonstrated in section 12 how the total equivalent CIL payment could be split into an affordable housing payment and CIL payment.
- (xx) Retirement Accommodation Retirement accommodation follows the same pattern as smaller residential sites regarding the existing use of the site being the driver behind viability.
- (xxi) Mixed Use (Residential and Commercial typologies) Mixed use (residential and commercial) typologies that include industrial and office commercial uses are generally viable, however mixed-use typologies including retail and community uses are not.
- (xxii) Large Office Development Typologies The large office developments that were tested are typologies 36 and 37, and are located in the CMC. Both of these typologies are viable at existing CIL levels and our sensitivity analysis shows that they do not become unviable when construction costs increase by up to 15%.
- (xxiii) In addition, our sensitivity analysis at Appendix 13(iv) shows that both typologies are viable with an increase in CIL levels of between £180psm and £240 psm. As such, offices in the

CMC can accommodate further planning obligations in the form of CIL, albeit there would be a greater viability “buffer” at the lower end of the range identified.

- (xxiv) There is a smaller office typology in the north of the borough (typology 55), which is not viable, that suggests location is important with offices. In addition, our sensitivity analysis as Appendix 13(iv) shows that only 43% of business typologies outside the CMC are viable with any increase in existing CIL levels.
- (xxv) Retail and Leisure Typologies Our assessment indicates that retail and leisure typologies including uses such as nightclubs, cinemas, retail and restaurants/bars are generally unviable which reflects our findings with regard to the leisure and retail property market. As such, this would suggest that retail and leisure developments cannot accommodate any further planning obligations in the form of CIL.
- (xxvi) Other Typologies Group (community uses, education uses, hotels and transport infrastructure) The “Other Typologies” group that include community uses, education uses, hotels and transport infrastructure are generally unviable and cannot afford further planning obligations.

Recommendations – Affordable Housing

Major Residential Development Typologies

- (xxvii) Based on our assessment there appears to be a sufficient viability “buffer” to potentially increase the minimum required affordable housing level from 15% to 20% for major residential development typologies (i.e. all residential and residential mixed-use schemes of 10 residential units or over)
- (xxviii) Our results also indicate that 76% of major residential typologies are viable at 35% affordable housing while also paying CIL at the current CIL rate or with CIL at an increased rate of £180 psm. There is therefore the potential opportunity to increase the affordable housing policy target from 30% to 35%. It should be noted however, that the viability “buffer” at 35% affordable housing is only 6% above the 70% viability threshold level.
- (xxix) Both of these recommendations should be weighed against the potential for the market to worsen further in the next few years. We would highlight that due to the timing of our

exercise, our figures cannot fully take into account the impact of Covid-19 on the market and there is a risk that if the market worsens, these affordable housing levels may not be achievable on a site specific basis, meaning some development may not come forward.

Minor Residential Development Typologies

- (xxx) In relation to minor residential developments, our conclusions would suggest that there is not an opportunity to maintain existing CIL levels and introduce an affordable housing contribution, as an insufficient percentage of the typologies (62%) are viable if an additional affordable housing payment is added. However, there is the opportunity to maintain the overall planning obligations “pot”, but split it between an affordable housing commuted payment and a CIL payment.
- (xxxi) For example, as shown in section 12.22, if the CIL for these typologies is split in a 35:65 ratio at a CIL rate of £169.25, this would equate to an affordable housing payment of £59.24 psm and a CIL payment of £110.01 psm which would equate to an average affordable housing payment of £3,398 per residential unit.

Recommendations – CIL

Residential Uses in the Croydon Metropolitan Centre (CMC)

- (xxxii) Our results show at Appendix 12 that if a residential CIL rate of £169.25 psm, or an increased rate of £180psm, is applied to major residential typologies in line with the existing CIL charging schedule, 76% of these typologies are viable at 35% affordable housing.
- (xxxiii) In addition, based on our sensitivity analysis at Appendix 13(iv), at a 35% affordable housing level, if a residential CIL rate of £169.25 psm is applied to all residential typologies inside and outside the CMC, 75% of these typologies are viable, and 75% remain viable at a rate of £180 psm.
- (xxxiv) On this basis our conclusions show that:
- It would be potentially viable for CIL to be charged on residential uses in the CMC at a similar rate as that currently charged outside the CMC.

- It would potentially be viable for CIL to be charged on residential uses at £180 psm both inside and outside the CMC.

Office Uses in CMC

(xxxv) Based on our results and conclusions, office uses in the CMC are viable at existing CIL levels with a significant viability “buffer”. In addition, our sensitivity analysis shows that office typologies in the CMC are also viable with increased levels of CIL between £180 psm and £240 psm.

(xxxvi) For this reason, it would potentially be viable to increase the level of CIL on office uses in the CMC to £180 psm in line with residential typologies or potentially as high as £240 psm, albeit there would be a greater viability “buffer” at the lower end of the range identified.

Other Uses

(xxxvii) Our conclusions show that there are a number of use typologies which are not viable at existing CIL levels. These include :

- Hotel uses;
- Transport infrastructure uses;
- Community uses;
- Education uses; and
- Retail and Leisure uses.

(xxxviii) For this reason, there is therefore the opportunity to potentially reduce the level of CIL on these uses due to their lack of viability currently being demonstrated by our testing.

(xxxix) However, as outlined above there is economic uncertainty currently and it should be noted that our stakeholder consultation responses indicate an increase in CIL beyond the current charging schedule level (allowing for indexation); or an increase in affordable housing obligations was considered by developers to potentially create an additional impact on viability. In our opinion, we have taken reasonable steps to reflect this concern in our assessment.

Contents	Page
1 Introduction and Instructions	13
2 National Planning Policy Guidance and Community Infrastructure Levy	16
3 The London Borough of Croydon	22
4 Stakeholder Consultation	48
5 Methodology	54
6 The Typologies	58
7 Revenue Inputs and Assumptions	68
8 Cost and Programme Inputs and Assumptions	77
9 Return to the Developer (profit)	84
10 Benchmark Land Value	85
11 Outputs	91
12 Sensitivity and Scenario Analysis	99
13 Assessment of the Results	104
14 Conclusion	118
15 Recommendations	121

Appendices

1. Terms of Engagement
2. Checklist confirming compliance with RICS Conduct and Reporting requirements
3. Stakeholder Consultation Presentation
4. Schedule of Residential Comparable Transactions
5. Commercial Revenue Assumptions
6. Qualitative Summary of Commercial Markets Assessed
7. BCIS Construction Cost Evidence
8. Finance Rate Justification
9. Greenfield and Brownfield Land Value Evidence
10. Benchmark Land Value Premium Analysis Results
11. Appraisals for Each Typology
12. Overall Results Summary
13. Sensitivity Analysis Tables
 - (i) Output Sensitivity Tables at £169 psm CIL Level
 - (ii) Output Sensitivity Tables at £180 psm CIL Level
 - (iii) Minor Residential Typology CIL Split Sensitivity Analysis
 - (iv) CIL Level Sensitivity Analysis

1 Introduction and Instructions

1.1 Gerald Eve LLP (“**GE**”) is instructed by the London Borough of Croydon (the “**Council**”) to undertake Local Plan Viability Assessment and Community Infrastructure Levy (“**CIL**”) Charging Schedule Review to test that the cumulative impact of the Council’s policies including affordable housing and Community Infrastructure Levy, do not compromise the delivery of the Local Plan.

1.2 In order to do this, the report is presented under the following headings:

2) **National Planning Policy Guidance and Community Infrastructure Levy**

An introduction to National Planning Policy Guidance (NPG) on viability assessments on the plan-making stage and an overview of CIL regulations and guidance; charge setting; Mayoral CIL; how the CIL works in practice; and non-exhaustive overview of charging authorities setting charging schedules to date.

3) **The London Borough of Croydon (“Croydon”)**

An introduction to the characteristics and land uses of Croydon; a review of the sub-markets within the borough; and an overview of current and emerging planning policy.

4) **Stakeholder Consultation**

An outline of the stakeholder consultation exercises undertaken to help inform the Review and the evidence base, including stakeholder responses and key findings.

5) **Methodology**

An explanation of the area-wide method adopted, data collection, key development typologies, the financial model used, the benchmarks adopted and our appraisal assumptions.

6) **The Typologies**

An overview of the different typologies and specific assumptions used in the appraisals.

7) **Revenue Inputs and Assumptions**

A review of the individual property markets in Croydon that are reflected in the typologies, providing evidence as per NPG for the revenue inputs used in our assessment.

8) **Cost and Programme Inputs and Assumptions**

The cost and programme inputs and assumptions used for the assessment, the evidence

that sits behind them and how these were ascertained.

9) Return to the Developer (profit)

A review of the profit return assumptions used in our assessment.

10) Benchmark Land Value

A review of the methodology to calculate the Benchmark Land Value as per the NPG and the inputs we used to do so.

11) Outputs

A summary of the area-wide financial viability results for the typologies.

12) Sensitivity and Scenario Analysis

Sensitivity analysis of the outputs looking at specific scenarios.

13) Assessment of the Results

Analysis of the results considering market cycles, forecasts and the impact of CIL on different typologies.

14) Conclusion

A concluding statement and review of what the results show in relation to the wider Croydon Local Plan and market, and the London Plan.

15) Recommendations

As a result of the analysis within the report, the rationale as to the recommended level of affordable housing and CIL Charge proposed.

Material valuation uncertainty due to Novel Coronavirus (COVID – 19)

- 1.3 This report has been prepared as at December 2020, however, in the context of the prevailing economic climate and COVID-19 we have relied upon the best available evidence at the time. Should circumstances change it may be necessary to revise and update the inputs to the financial appraisal, and therefore resulting outturns.
- 1.4 The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. In the UK, market activity is being impacted in all sectors. Indeed, the current response to

COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a viability judgement.

- 1.5 Our assessment, whilst reported in accordance with the RICS Professional Statement on “Financial Viability in Planning: report and conduct” is provided on the basis of material uncertainty. Consequently, less certainty – and a higher degree of caution – should be attached to our financial viability assessment than would normally be the case.

RICS Professional Guidance

- 1.6 This assessment has been produced having regard to and abiding by the requirements of RICS Professional Statement Financial Viability in Planning: conduct and reporting (1st edition 2019). For further details please see **Appendix 2**, which provides a guide to where in the report the requirements have been adhered to.
- 1.7 We declare that to the best of our knowledge there is no conflict of interest (paragraph 1.1 of the Conflict of Interest Professional Statement of January 2018); and that our fee basis for undertaking this viability assessment is neither performance related nor involves contingent fees.
- 1.8 We can confirm that GE has had sufficient time to complete this instruction.

2 National Planning Policy Guidance and Community Infrastructure Levy

Introduction

- 2.1 This section considers the planning policy guidance set out in the NPPF and the NPG regarding Plan Making for viability purposes. We consider the guidance in the context of affordable housing and CIL and we have used this to undertake our assessment.

Plan Making and Viability in Planning Policy Guidance

- 2.2 The NPPF discusses “Plan Making” (i.e. the setting of policies within a local plan) at paragraphs 15 to 37. It outlines that plans should be up to date and address the need for housing and other economic, social and environmental priorities. As such it is important to have an up to date evidence base when preparing, or in this case reviewing a Local Plan.

- 2.3 The Plan Making sections of the NPPF can be linked to the sections that address viability. In particular Paragraph 57 that refers to the NPG as set out in the extract below:

“...All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance (NPG), including standardised inputs, and should be made publicly available” (extract from NPPF paragraph 57)

- 2.4 Paragraphs 001 to 006 of the NPG¹ deal with Viability and Plan Making setting out how Plan Makers (i.e. Croydon Council in this case) should set policy requirements for contributions for developments informed by evidence

- 2.5 Paragraph 002 outlines that the role for viability assessment is primarily at the Plan Making Stage. It states that the “Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic and that the cumulative cost of all relevant policies will not undermine deliverability of the plan.”

- 2.6 Paragraph 002, along with paragraph 006, outlines the need for collaboration with stakeholders which is discussed further in **Section 4**.

¹ NPG Paragraph 001-006 References: 10-001-20190509, 10-002-20190509, 10-003-20180724, 10-004-20190509, 10-005-20180724, 10-006-20190509

2.7 An important extract from Paragraph 002 with regard to affordable housing is outlined below:

“Policy requirements, particularly for affordable housing, should be set at a level that takes account of affordable housing and infrastructure needs and allows for the planned types of sites and development to be deliverable, without the need for further viability assessment at the decision-making stage.” (extract from NPG paragraph 002)

2.8 Paragraphs 003 and 004 advise on what sites should be assessed for viability Plan Making. This does not include testing all of the sites within the Local Plan area, but instead a typology-based approach should be used. This involves grouping sites by certain characteristics, either of their current or proposed use, and reflect the nature of typical sites in the plan.

2.9 We have undertaken this approach in our assessment, however it is important to note that whilst specific sites may be referenced, these sites are the typologies that the Council believe reflect the “type of development proposed for allocation in the plan” extract from Paragraph 004).

2.10 Paragraph 005 outlines that strategic sites critical to delivering the strategic priorities of the plan can be assessed within Plan Making Viability Assessments. We have not been informed by the Council that any of the sites or typologies that we have been provided are strategic sites, however we are aware that a separate viability assessment of the Purley Way Masterplan Area is being undertaken.

2.11 In conclusion, we have followed the specific guidance with regard to Plan Making set out in the NPPF and NPG when undertaking this assessment. As paragraph 57 of the NPPF states (see 2.3 above) we have also undertaken the assessment in accordance with the NPG in terms of inputs as discussed further in **Sections 7 through 9**.

2.12 As such, we provide our assessment and recommendations to the Council in line with guidance for Plan Making, but it is important to note that it is for the Council to take the decision on what policy to adopt in relation to affordable housing.

Community Infrastructure Levy (“CIL”) and Planning Policy

2.13 The Community Infrastructure Levy is a planning charge that came into force in April 2010. It allows local authorities in England and Wales, known as “charging authorities”,

to raise funds from developers undertaking new building projects in their area to fund a wide range of infrastructure that is needed as a result of development.

- 2.14 If a charging authority decides to levy CIL then it is required to prepare and publish a document known as “the Charging Schedule” which will set out the rates of CIL applied in the charging authority’s area. Charging authorities must express CIL rates as pounds (£) per square metre, as CIL will be typically levied on the net additional gross internal area (“GIA”) of the liable development.
- 2.15 A charging authority must submit its draft charging schedule for an independent examination along with evidence of economic viability and infrastructure planning for approval before being formally approved by a resolution of the full Council of the charging authority.
- 2.16 In London, a two-tier CIL charge applies to development including Mayoral CIL pursuant to the Mayor of London’s CIL Charging Schedule, and Borough CIL charged by the relevant LPA.

CIL Regulations and Guidance

- 2.17 Statutory provision for CIL was introduced in the Planning Act 2008 (“the 2008 Act”). The ability to charge CIL came into force on 6 April 2010 through the Community Infrastructure Levy Regulations 2010, as amended in 2011, 2014 and 2019 (the “Regulations”).
- 2.18 The Ministry of Housing, Communities & Local Government has produced a CIL Guidance (Published 12 June 2014 and last updated 1 September 2019) to explain what the Community Infrastructure Levy is and how it operates, which this report has also taken into account.

CIL Charge Setting

- 2.19 Charging authorities are to set their own CIL charging rate(s) depending on the needs of their area. Charging authorities can set different rates within their area, either for different geographical areas and/or for different uses.
- 2.20 In setting rates in the charging schedule the charging authority needs to be consistent with the requirements of Regulation 14 which states that:

14. (1) In setting rates (including differential rates) in a charging schedule, a charging authority must aim to strike what appears to the charging authority to be an appropriate balance between—

- (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and
- (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

2.21 Therefore, according to the regulations, it is the role of the charging authority to decide what the appropriate balance is between maximising development and raising sufficient funds to provide the necessary infrastructure.

2.22 It follows that there may be some development schemes that could be put at risk by the introduction of a particular level of CIL; however, the charging authority must take a holistic view of the potential effects of the imposition of CIL on the economic viability of development across its area.

Preparing the Evidence Base

2.23 The CIL Guidance states that charging authorities should use an area based approach which involves ‘a broad test of viability across their area, as the evidence base to underpin their charge’. The guidance reiterates that charging authorities should take a strategic view across their area and not focus on the potential implications of setting a CIL for individual sites.

2.24 The guidance sets out that the charging authority must use ‘appropriate available evidence’ and should draw upon existing data where available. Methodologies should also take into account other development costs arising from existing regulatory requirements, including any policies on planning obligations.

2.25 Charging authorities should seek to illustrate that their proposed charging rate(s) would be robust over time. In setting a CIL rate(s), charging authorities will need to bear in mind that the economic circumstances could change during the lifetime of the charging schedule.

Setting Differential Rates

- 2.26 Regulation 13 allows charging authorities to set varying (differential) rates as a way of accounting for different levels of economic viability within the same charging area – for example, varied by location and/or by intended uses of development. Differences in rates should be justified by reference to the economic viability of development, including exempting or setting a zero rate for a particular area or use from CIL.
- 2.27 The guidance, however, states that, a single (uniform) rate may be simpler and charging authorities should take care not to set differential rates in such a way so as to impact disproportionately on a particular sector or small group of developers, or give rise to State Aid.

CIL in Practice

- 2.28 CIL charges are expressed in terms of £/sq m of GIA net additional floorspace, after demolition of an existing building. The charge can be levied against all development over 100sq m, except in the case of residential development where a single dwelling is chargeable whatever the floorspace. Calculation is set out in a formula under the Regulations and unlike the current S106 regime, CIL is non-negotiable.
- 2.29 Liability is determined when the scheme is implementable, and is payable on commencement – either in full, or in instalments if agreed beforehand and if the charging authority has adopted an instalment policy.

National Planning Policy Guidance on CIL Charging Schedules

- 2.30 The CIL Guidance states that in preparing a Charging Schedule, charging authorities should use evidence in accordance with planning practice guidance and take account of national planning policy on development contributions.
- 2.31 This report is grounded in the National Planning Policy Framework (NPPF) originally published in March 2012 and revised in February 2019 which sets out the Government's planning policies for England and how these are expected to be applied. The NPPF recognises the place of viability testing, in both plan-making and decision-making.
- 2.32 Further guidance relating to interpreting the NPPF is set out in National Planning Guidance (NPG) which refers to viability both planning obligations (PPG 2016) and viability (NPG 2019) and indicates that planning viability assessments are recommended to reflect national planning guidance (NPG 2019), in determined appropriate planning obligations.

- 2.33 The NPG 2019 indicates that viability assessments are to be undertaken by suitably qualified Surveyors. The Royal Institution of Chartered Surveyors (RICS) published guidance in 2012 in regard to viability assessments in planning to support qualified members of the RICS in viability assessments. The RICS produced a Professional Statement (Sept 2019) which is informed by the NPPF, NPG as well as practitioner experience.
- 2.34 In accordance with the above, this report seeks to provide a range of appropriate CIL rates for development across Croydon having regard to: the 2008 Act; the CIL Regulations; Ministry of Housing guidance; National Planning Policy Framework (NPPF); GLA Affordable Housing and Viability Supplementary Planning Guidance (SPG), use of planning obligations in the funding of Crossrail and Mayoral CIL, and best practice guidance including the RICS Financial Viability in Planning (August 2012) and Professional Statement (2019). It is also noted that while this assessment was produced prior to the publication of RICS Guidance Note “Assessing viability in planning under the National Planning Policy Framework 2019 for England (1st Edition, March 2021) (“RICS Viability GN 2021”), it is consistent with NPG (Viability) (2019). Whilst RICS Viability GN 2021 is not effective until July 2021, this assessment also reflects the principles of the RICS Viability GN 2021.
- 2.35 It is however important to note that whilst we have undertaken our analysis and presented our results in this FVA and CIL Review, it is for the London Borough of Croydon to decide what rate(s) to set CIL at within the charging schedule using this advice.

Summary

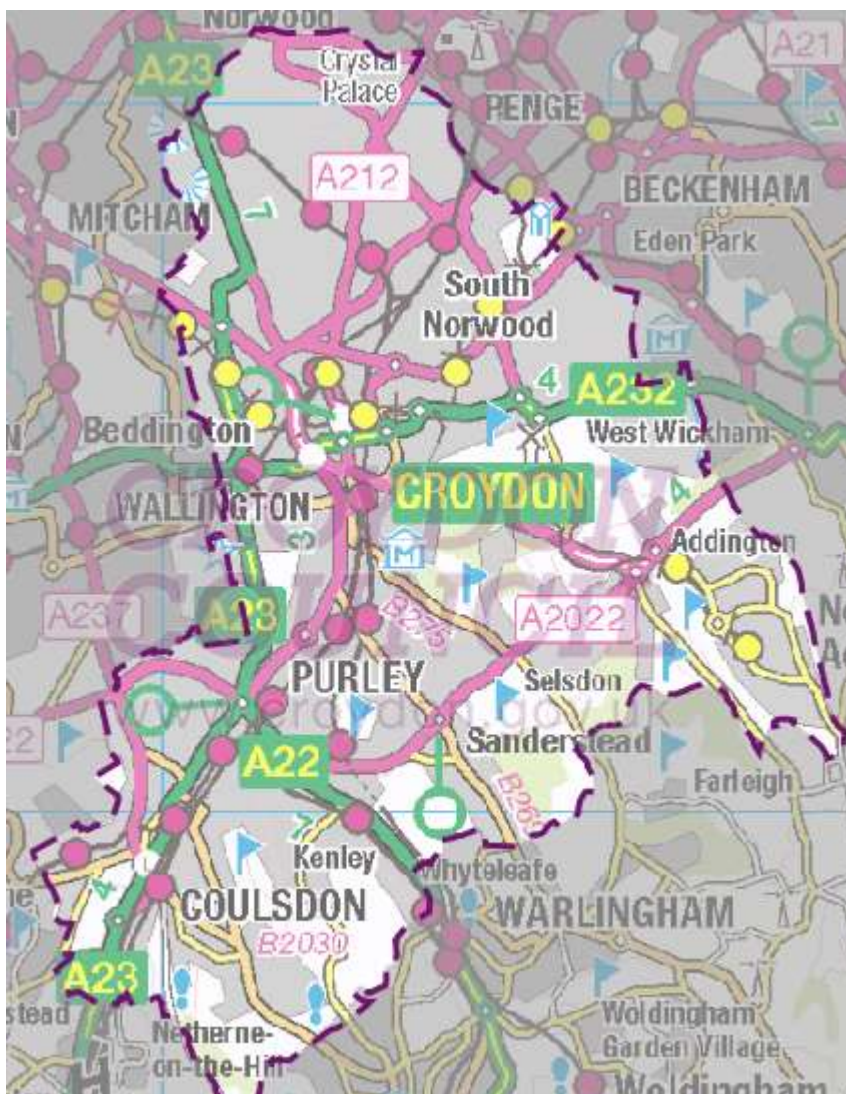
- 2.36 In undertaking our assessment, we have followed the guidance as per the NPPF and NPG in consideration of viability Plan Making and affordable housing, but also followed the regulations and guidance for the assessment of appropriate CIL rates to apply and provided our advice and recommendations for both.
- 2.37 We draw on the guidance and how we have followed it further in the appropriate sections of this report.
- 2.38 As outlined above, our assessment can be used as advice to the Council, however, should not be seen as the definitive policy to be set. It is the Council's decision as to what affordable housing levels and CIL rate(s) should be included in their Local Plan.

3 The London Borough of Croydon

Croydon Overview

3.1 The London Borough of Croydon is one of the most southerly London Boroughs covering an area of 87 sq km. It borders the other London Boroughs of Sutton, Merton, Lambeth and Bromley, as well as Surrey County Council including Reigate and Banstead and Tandridge District Councils. **Figure 1** below shows the boundary of London Borough of Croydon.

Figure 1: London Borough of Croydon



Source: Croydon Council website

- 3.2 The Croydon Local Plan outlines that in 2011 the population of Croydon was expected to grow by 30,000 people by 2031. Currently the population of Croydon is circa 390,000.
- 3.3 Croydon is a unique borough and has a large number of different land uses in different areas with different qualities. In order to be as accurate as possible with our assumptions we have reviewed these land uses and the planning policy within the current Local Plan published in 2018, that outlines what the future looks like for development in different areas of the borough and how the Council intends to implement the policies to achieve this.
- 3.4 However, where instructed by the Council we have made assumptions based on the policies in the emerging Local Plan that is currently under consultation and is due to be adopted in 2022.
- 3.5 We provide an overview of the current Local Plan below and follow with the policies we have assumed from the emerging Local Plan and how these differ.

Current Local Plan Overview

- 3.6 An overview of Croydon Council's planning policy is provided below. This is sourced from the current Local Plan 2018 and each of the headings are based on the Strategic Policies ("SP") outlined in the Local Plan. Within each Strategic Policy there are also Detailed Policies ("DM") that we discuss where appropriate and outline the visions for the different locations within the borough.
- 3.7 A summary of each of the Strategic Policies is below, highlighting the key points and taking the maps showing the vision for each policy that allow us to understand the borough's areas and make assumptions based on this.

SP1: The Places of Croydon

- 3.8 The Local Plan provides the following map of the "Places of Croydon". It outlines the different areas that have different characteristics and as such have some place specific policies that are discussed later in this section. We have considered this map when deciding on the above zones.

Figure 2: Map of the “16 Places of Croydon”



Source: LB Croydon Local Plan 2018

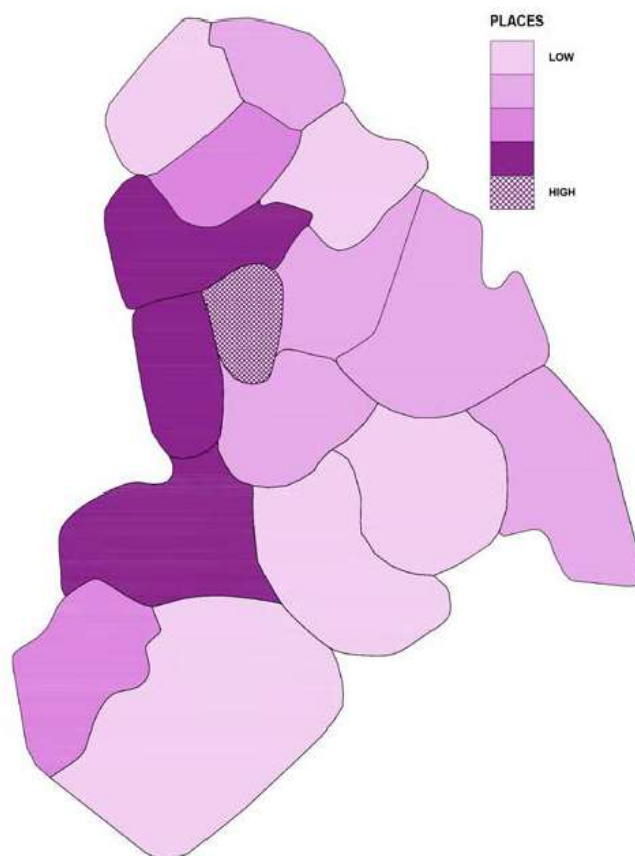
- 3.9 The Croydon Opportunity Area (COA) is a key area of growth within Croydon policy making. Within the existing CIL Charging Schedule, a very similar geographic area is referred to as the Croydon Metropolitan Centre (CMC). For consistency with the CIL Charging Schedule, we have referred to this area as the CMC throughout this document.
- 3.10 The Local Plan appreciates these different areas and throughout all of the “places” there is a focus on three core issues:
- **Sustainable Development** – In line with NPPF, the Local Plan promotes development that improves the economic, social and environmental conditions in each “place”;
 - **Place Making** – Each “place” needs to see development that enhances the local character, whilst acknowledging the need for growth; and
 - **Growth** – The “places” of Croydon need to see growth in homes, jobs and services that are sustainable. The Croydon Metropolitan Centre (CMC) will be the main area of

growth with other places encouraged to grow and create “connected, sustainable, high quality, locally distinctive and healthy places”.

SP2: Homes

- 3.11 The Local Plan states that as a result of predicted population growth, an additional 44,149 homes are needed by 2036 to meet the demand. There is however limited developable land and the Local Plan states that it is only possible to plan for 32,890 new homes in this period.
- 3.12 The Local Plan demonstrates where the main growth areas of these new homes will be in the following map that corresponds with the Places of Croydon Map at **Figure 3**.

Figure 3: Growth Locations for New Homes in Croydon

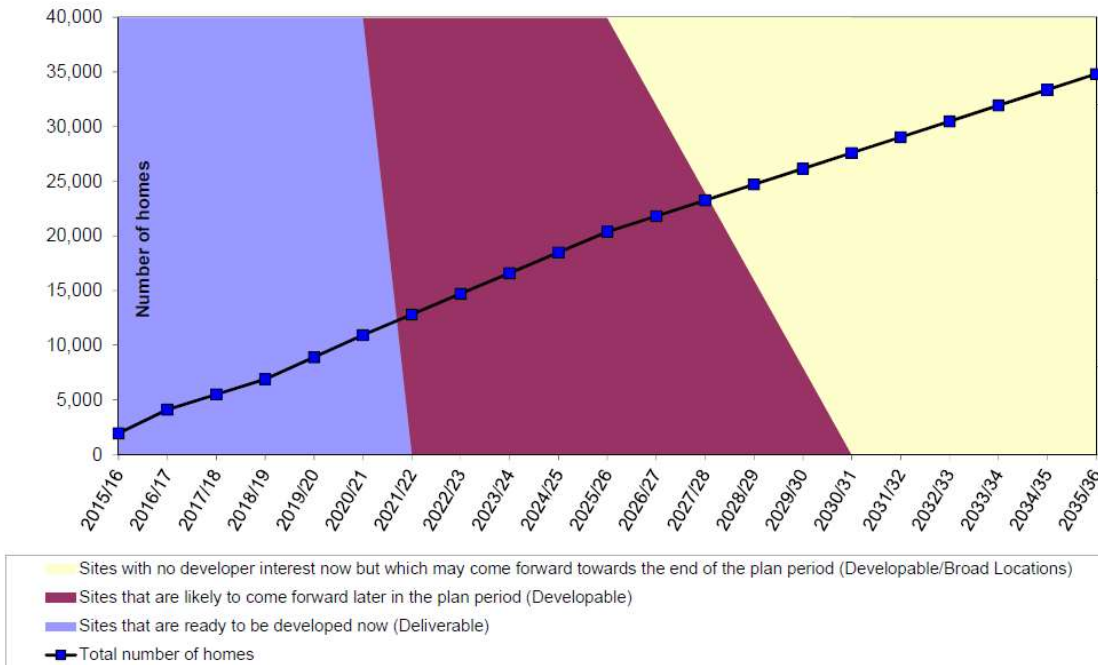


Source: LB Croydon Local Plan 2018

- 3.13 It is anticipated that demand for homes will be higher in the years 2016-2026 than it will be in the years 2026-2036 and as such it is predicted that the limited land supply currently

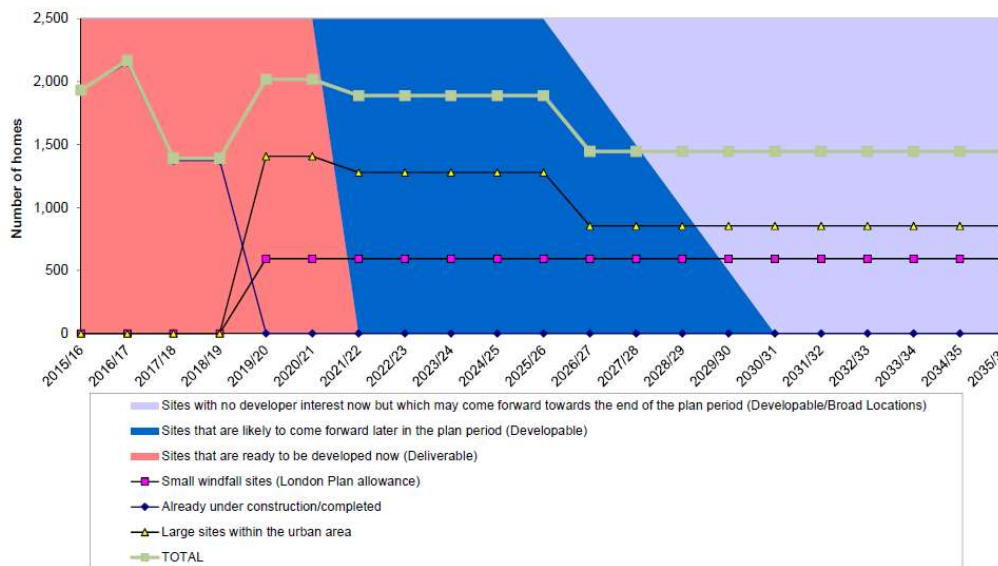
may be supplemented by sites that may come forward in the future of the plan period as per **Figure 4** below.

Figure 4: Croydon New Homes Trajectory in the Plan Period



3.14 The Local Plan appreciates the different types of sites in the different “places”. These different types of sites that are likely to be delivered are broken down in **Figure 5** below.

Figure 5: Croydon New Homes Trajectory Including Breakdown of Different Sites



Source: LB Croydon Local Plan 2018

- 3.15 Policy SP2 aims to help deliver these sites by focusing on providing the right quantity and quality of homes, ensuring the right type of home is provided in the right location. For example, larger homes may be required more in the south of the borough than in the CMC or the north.
- 3.16 As discussed in **Section 2**, the Local Plan outlines the policies with regard to Affordable Homes and the percentage of affordable homes that are required on new developments. The adopted policies in the Local Plan are set out below :
- Negotiate up to 50% affordable housing subject to viability;
 - 60:40 ratio between affordable rented homes and intermediate homes;
 - Preferably 30% affordable housing;
 - If 30% is not possible, 15% on site if the site is in the CMC, plus 15% on a donor site, or 15% affordable housing on site plus a review mechanism.
- 3.17 We note that emerging Local Plan policy differs from this in some respects, for example with regard to the affordable housing tenure split and preferred affordable housing level. We have therefore also had regard to emerging Local Plan policy in the viability testing undertaken. Details on emerging Local Plan policy are set out at the end of this section 3.
- 3.18 The summary above shows that the Local Plan is focused on delivery of new homes and prioritises sites for residential development across the borough. As **Figure 3** shows there are some key growth areas across the borough, and this is reflected in the assumptions made for residential values in these areas.

SP3: Employment

- 3.19 Croydon as a borough has a wide variety of land uses and there are a number of employment opportunities, however there are a number of challenges including the proximity to central London that allows those living in Croydon an easy commute outside of the borough to work, and the fact that low rental values in the centre of borough are discouraging office and retail development. However, this has been changing since the publication of the Local Plan and the increase in population will increase the need for places to work in the borough.
- 3.20 The Local Plan seeks to establish Croydon as the main location for business linking Gatwick and central London (the “Gatwick Diamond”). In order to do this, strategic

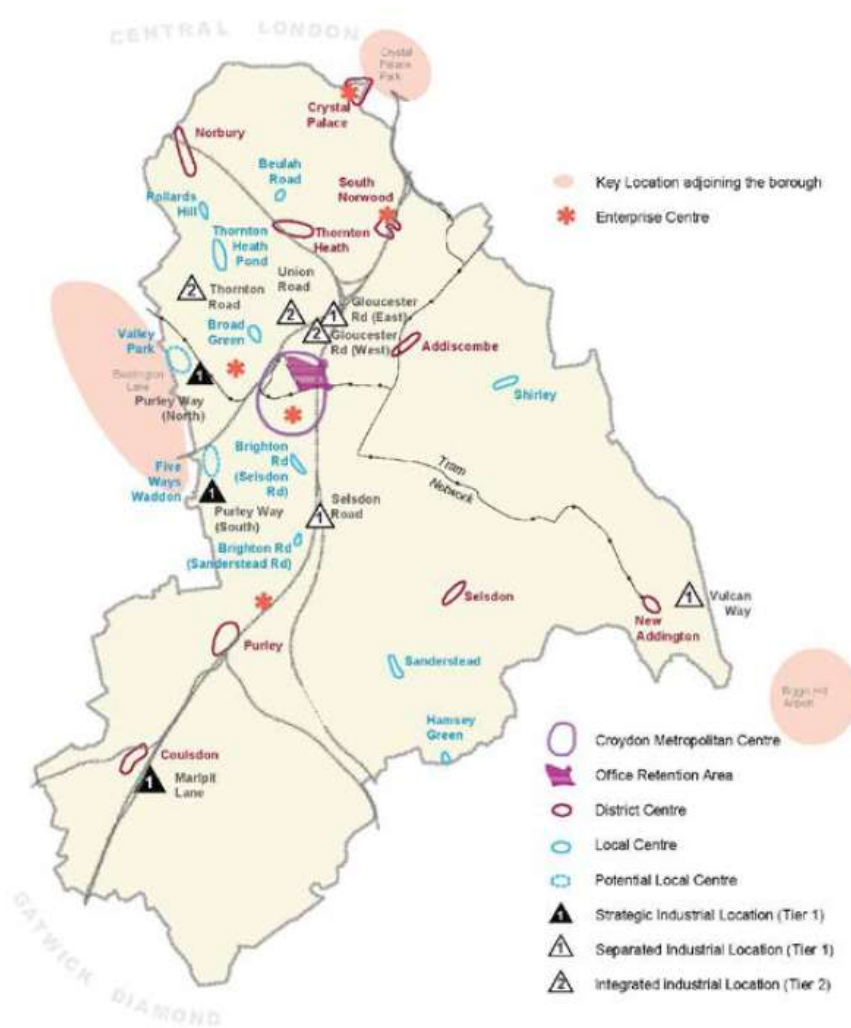
objectives have been drawn up outlining where in the borough where “Innovation, Investment and Enterprise” can flourish.

3.21 In order to do this, the Local Plan outlines a network of four “Enterprise Centres” as outlined below:

- Croydon Metropolitan Centre;
- Purley District Centre;
- Crystal Palace District Centre/Portland Road; and
- South Norwood District Centre/Portland Road.

3.22 These areas show that most of the employment activity happens in the centre or north of the borough as outlined in the map at **Figure 6** below. There is still however the need for employment development in the south of the borough and the typologies tested in this assessment reflect as such.

Figure 6: Map of Employment Areas in Croydon



4

Source: LB Croydon Local Plan 2018

3.23 With regard to employment land the Local Plan has a “4-tier approach to the retention and redevelopment of land” as set out in **Figure 7**. This outlines the location, approaches and uses for different types of development that will be sought in these areas. This primarily focuses on industrial and office developments.

Figure 7: LB Croydon's 4 Tier Approach to Employment Land

Tier	Designation	Locations	Approach	Permitted Uses	Other Uses
1	Strategic and Separated Industrial Locations	Marlpit Lane Purley Way ²⁶ Selsdon Road Gloucester Road (East) Vulcan Way	Strong protection for industrial and warehousing activities with no loss of Class B floor space permitted ²⁷	Class B1b, B1c, B2 and B8 uses Employment generating sui-generis uses ²⁸ Gypsy and Traveller pitches (for Gypsies and Travellers with a qualified connection to Croydon)	Not permitted
2	Integrated Industrial Locations	Gloucester Road (West) Thornton Road Union Road	Strong protection for industrial and warehousing activities	Class B1b, B1c, B2 and B8 uses Employment generating sui-generis uses ²⁹	Planning permission for limited residential (Class C3) office (Class B1a) or Education and Community Facilities (Class D1) will be granted if it can be demonstrated that: <ul style="list-style-type: none"> • There is no demand for the existing premises or for a scheme comprised solely of the permitted uses; and new Class B1b, B1c, B2 and B8 floor space is designed to meet the needs of future occupiers; and • Residential and Office use does not harm the site and wider location's industrial function. • Opportunities for employment and skills training will be considered via Section 106 where possible.
3	Town Centre Industrial Locations	Industrial sites in Croydon Metropolitan Centre, a District Centre or a Local Centre	Protection for industrial and warehousing activities encouraging opportunities to provide additional workshop/studios on town centre sites	Class B1b, B1c, B2 and B8 uses Employment generating sui-generis uses ³⁰	Planning permission for offices (Class B1a), residential (Class C3), leisure (Class D2), visitor accommodation (Class C1) and community facilities (Class D1) development will be granted if it can be demonstrated that: <ul style="list-style-type: none"> • there is no demand for the existing premises or for a scheme comprised solely of the permitted uses; and there is no net loss of Class B1b, B1c, B2, B8 floor space unless the other uses are required to enable development of the site to be viable; and • residential use does not harm the wider location's business function; and • the development will increase the vitality, viability and diversity of employment uses of the town centre • Opportunities for employment and skills training will be considered via Section 106 where possible.
4	Scattered Employment Sites	Other employment locations/sites falling outside of Tier 1, Tier 2 and Tier 3	Protection for industrial and warehousing activities. Allowance for community uses to locate in the (Higher PTAL) more accessible locations	Class B1 (excluding B1a office), B2 and B8 uses Employment generating sui-generis uses ³¹ Class D1 (Education and Community Facilities) in industrial locations in PTALs 3 or above	Planning permission for limited residential development will be granted if it can be demonstrated that: <ul style="list-style-type: none"> • there is no demand for the existing premises or for a scheme comprised solely of the permitted uses; and • residential use does not harm the wider location's business function • Opportunities for employment and skills training will be considered via Section 106 where possible.

Source: LB Croydon Local Plan

Office Space

3.24 It is anticipated that between the period 2013 and 2031 there will be demand for between 29,440 sq m and 91,840 sq m of office space. It is estimated that there is potential for 60,010 sq m of space.

- 3.25 The Local Plan outlines that this will mostly be in the CMC and centre located close to East Croydon station and in the form of prime A1 office space.
- 3.26 The London Plan identifies Croydon as strategic office location, which will make the borough more attractive to commercial developers.

Retail Space

- 3.27 The Local Plan outlines that within the CMC there could be an uptake of 15,500 sq m of floor space providing 800 new jobs.
- 3.28 Outside of the CMC, in the district and local centres within the borough there is a potential for the uptake of 16,000 sq m of retail floor space providing 850 new jobs.
- 3.29 The retail market is constantly changing and in a state of flux which may impact the above estimations. This is reflected in our assumptions for typologies including retail elements.
- 3.30 There are a number of policies relating to specific retail uses that are covered in the Local Plan that refer to different retail uses and their importance within the CMC and District Centres.

Industrial Space

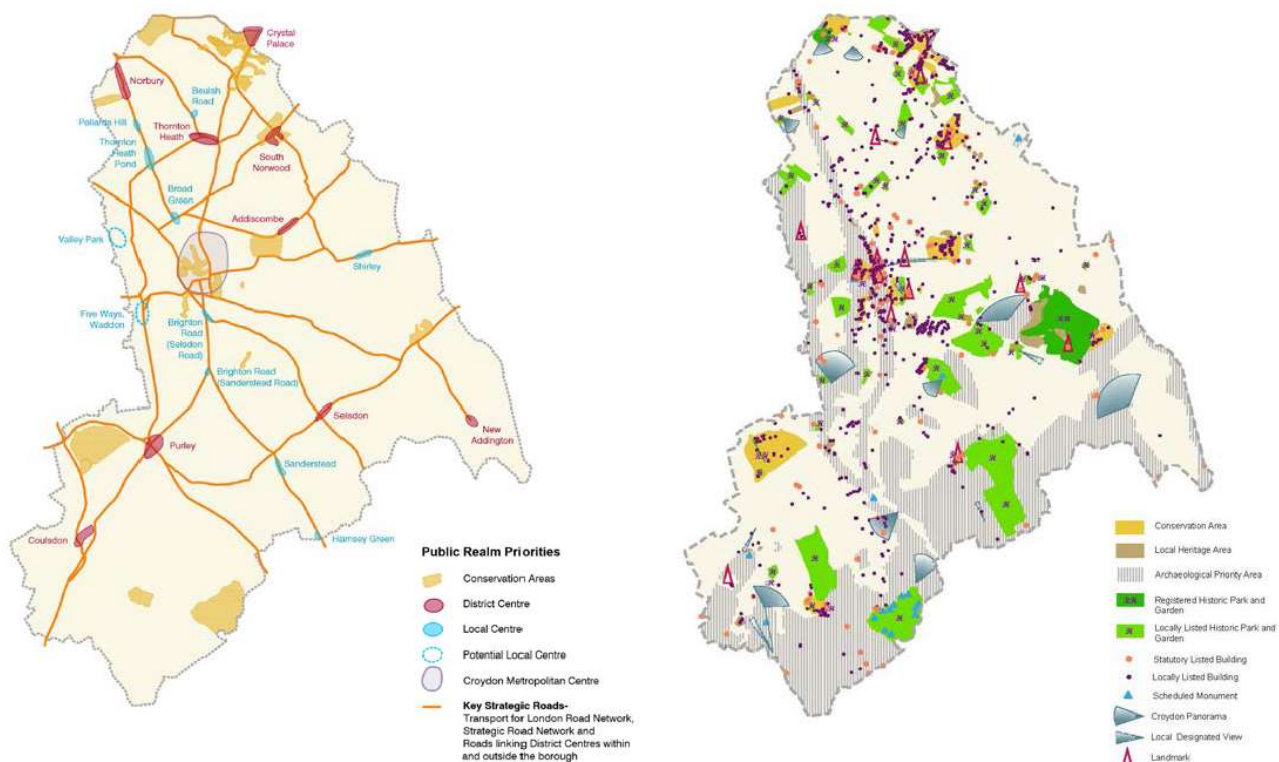
- 3.31 As outlined in the 4-tier approach shown at **Figure 7**, there are particular areas outlined for industrial use. This is also shown in **Figure 6** that outlines specific industrial locations.
- 3.32 One of these areas in particular is the Purley Way, for which we are aware that the Council is producing a Master Plan.
- 3.33 Industrial space is therefore at the forefront of providing employment in Croydon.

SP4: Urban Design and Local Character

- 3.34 This policy revolves around sustainable development, investment and growth to improve the “image” of the London Borough of Croydon, whilst protecting the distinctive characteristics that it has.
- 3.35 Croydon currently has a public realm that in many areas is not as desirable as it should be or attractive to investors. It is dominated by car use and vacant shops with areas that are perceived as unsafe.

3.36 The maps below in **Figure 8** outlines where the areas significant to urban design and character are including conservation areas, district centres, local centres and potential local centres are.

Figure 8: LB Croydon's Public Realm and Heritage Maps



Source: LB Croydon Local Plan 2018

3.37 There are a number of policies within this strategic policy relating to:

- Design and character;
- Shopfront design and security;
- Advertisement hoardings;
- Refuse and recycling;
- Public art;
- Tall and large buildings;
- Promoting healthy communities;

- Views and landmarks; and
- Heritage assets and conservation

3.38 These policies all impact on the spatial vision for the borough and will have been considered when selecting the typologies.

SP5: Community Facilities

3.39 In LB Croydon, the increasing, and changing demographic of the population is putting pressure on the existing community facilities.

3.40 This policy aims to end social deprivation and compliment SP4 in producing accessible, well designed and safe places and communities.

3.41 Within this Strategic Policy there are a number of Detailed Policies that relate to:

- Providing and protecting community facilities;
- Supporting Selhurst Park as the home stadium of Crystal Palace Football Club;
- Protecting public houses; and
- Providing for cemeteries and burial grounds.

SP6: Environment and Climate Change

3.42 LB Croydon has outlined targets with regard to the environment and climate change that are linked to the sustainable development of the borough. These include targets set by the London Plan. The ones referenced in the LB Croydon Local Plan for the borough are:

- A Council target of 34% reduction in carbon emissions by 2025;
- 25% of the heat and power used in London must be generated through the use of localised decentralised energy systems by 2025; and
- The London Plan sets a target for the capital to become 85% self-sufficient in managing waste by 2020.

3.43 We have been advised by the Council that some of the above requirements are being updated in the emerging Local Plan. Emerging policy in this regard is highlighted at the end of **Section 3**.

3.44 In order to achieve these targets the Council sets out a number of Detailed Policies in the Local Plan relating to:

- Development and construction;
- Land contamination; and
- Sustainable drainage systems and reducing flood risk.

3.45 The most pertinent of these Detailed Policies to our assessment is with regard to development and construction. Policy SP6.2 and 6.3 outlines the requirements for any developments, new build or conversions as outlined in **Figure 9** below.

Figure 9: Environmental Requirements for New Developments

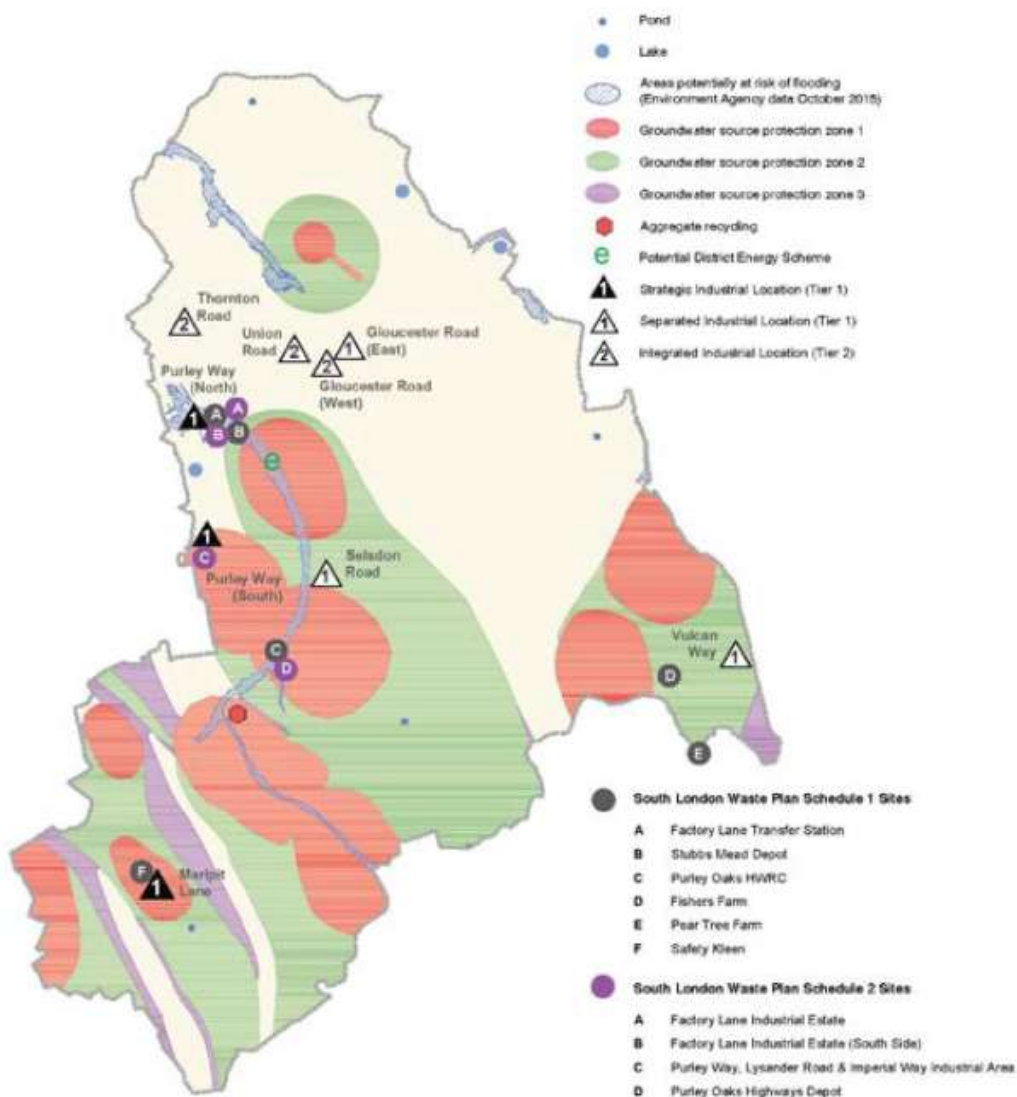
<p>Policy SP6: Environment and Climate Change</p> <p>SP6.1 In order to reduce greenhouse gas emissions and deliver development that is adaptable in a changing climate, the Council will apply a presumption in favour of development provided applications meet the requirements of Policy SP6 and other applicable policies of the development plan.</p> <p>Energy and carbon dioxide (CO₂) reduction</p> <p>SP6.2 The Council will ensure that future development makes the fullest contribution to minimising carbon dioxide emissions in accordance with the London Plan energy hierarchy (use less energy, supply energy efficiently and use renewable energy), to assist in meeting local, London Plan and national CO₂ reduction targets. The Council will promote the development of district energy networks where opportunities exist due to high heat density⁵⁰ or an increase in heat density brought about by new development. This will be achieved by:</p> <ol style="list-style-type: none">Requiring high density⁵¹ residential developments of 20 or more units to incorporate site wide communal heating systemsRequiring major development⁵² to be enabled for district energy connection⁵³ unless demonstrated not to be feasible or financially viable to do so. <p>Sustainable design and construction</p> <p>SP6.3 The Council will seek high standards of sustainable design and construction from new development, conversion and refurbishment to assist in meeting local and national CO₂ reduction targets. This will be achieved by:</p> <ol style="list-style-type: none">Requiring new-build residential development of fewer than 10 units to achieve the national technical standard for energy efficiency in new homes (2015). This is set at a minimum of 19% CO₂ reduction beyond the Building Regulations Part L (2013);	<ol style="list-style-type: none">Requiring new-build residential development of 10 units or more to achieve the London Plan requirements or National Technical Standards (2015) for energy performance, whichever the higher standard;Requiring all new-build residential development to meet a minimum water efficiency standard of 110 litres/person/day as set out in Building Regulations Part G;Requiring conversions and changes of use of existing buildings providing more than 10 new residential units to achieve a minimum of BREEAM Domestic Refurbishment Very Good rating or equivalent;Requiring new build non-residential development of 500m² and above to achieve a minimum of BREEAM Excellent standard or equivalent;Requiring conversions and changes of use to non-residential uses with an internal floor area of 500m² and above to achieve a minimum of BREEAM Very Good standard or equivalent;Requiring new build, non-residential development of 1000m² and above to achieve a minimum of 35% CO₂ reduction beyond the Building Regulations Part L (2013); andRequiring development to positively contribute to improving air, land, noise, and water quality by minimising pollution, with detailed policies to be included in the Croydon Local Plan's Detailed Policies and Proposals.
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Source: LB Croydon Local Plan 2018

3.46 We have been advised by the Council that the above requirements are being updated in the emerging Local Plan. We have therefore taken the above and also emerging policy into account when making assumptions relating to development and construction costs. Emerging policy in this regard is highlighted at the end of Section 3. The development and construction costs assumed are discussed in **Section 8**.

3.47 The Local Plan outlines the environment and climate change map including groundwater protection zones and places identified for energy schemes. This is shown in **Figure 10** below.

Figure 10: LB Croydon Environment and Climate Change Map



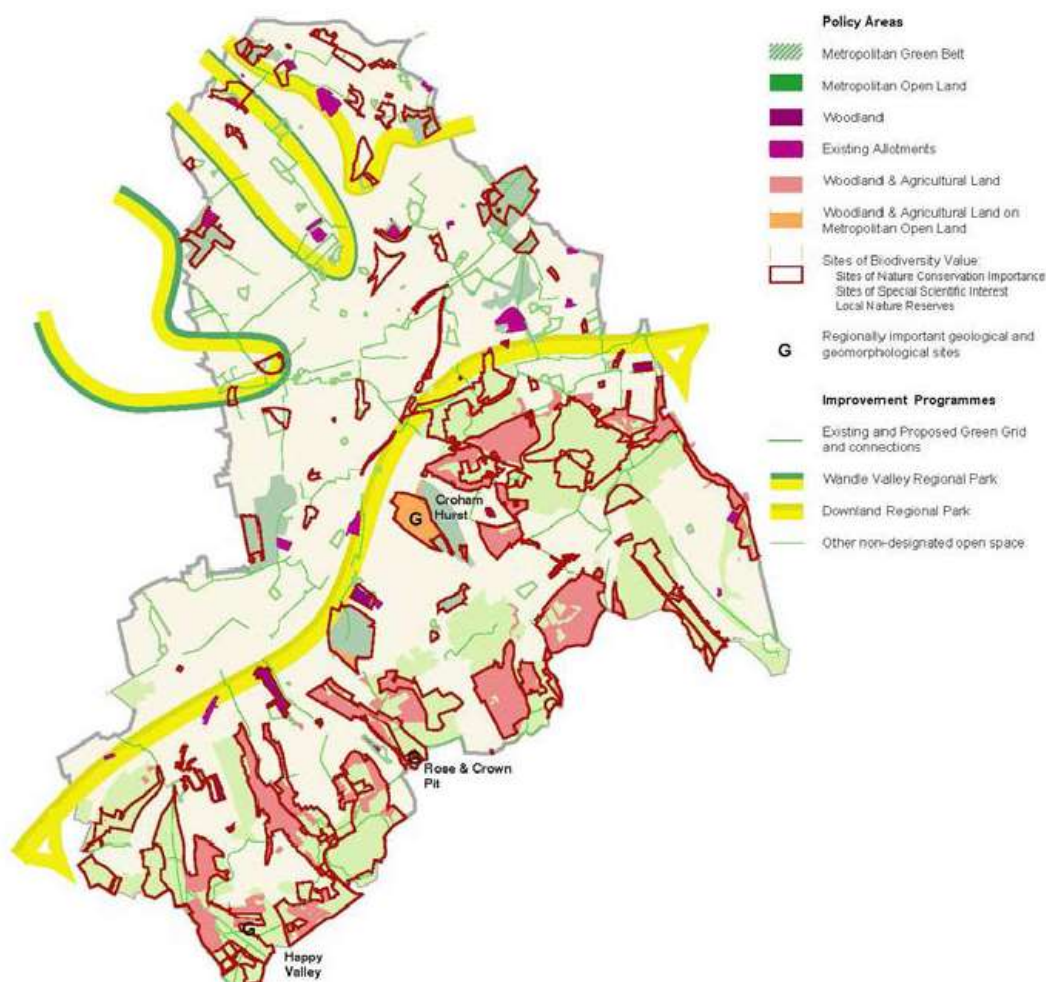
Source: LB Croydon Local Plan 2018

SP7: Green Grid

3.48 In developing Croydon sustainably and making it a more desirable place to live in light of challenges such as changing demographics and the limited amount of land.

- 3.49 As a borough, Croydon lacks an even spread of green open space across the borough. This means there is a lack of access to green space in some residential areas. As such the Local Plan recognises that sustainable development and growth within Croydon must ensure that this is considered, and current spaces are enhanced, and new spaces are created to reduce deprivation and create high quality living and working spaces.
- 3.50 The Local Plan also outlines the need for biodiversity in these green spaces and across the borough encouraging productive landscapes that not only provide growing opportunities in allotments for example, but also develop a sense of community.
- 3.51 The map in **Figure 11** below outlines the vision for the “Green Grid” in Croydon over the Local Plan period.

Figure 11: LB Croydon Green Grid



Source: LB Croydon Local Plan 2018

3.52 As the map shows, there is limited open land and the majority of the green space and woodland is situated in the south of the borough, for which the plan is to maintain. There are however improvement programmes and visions for the north, centre and CMC to ensure that the “Green Grid” is not lost there.

3.53 Within this Strategic Policy the Local Plan highlights further Detailed Policies that relate to:

- Metropolitan Green Belt and Metropolitan Open Land;
- Protecting and enhancing our biodiversity; and
- Trees.

SP8: Transport and Communication

3.54 In ensuring the sustainable development of the borough, the Local Plan recognises the current issues surrounding transport and communication links that Croydon faces currently.

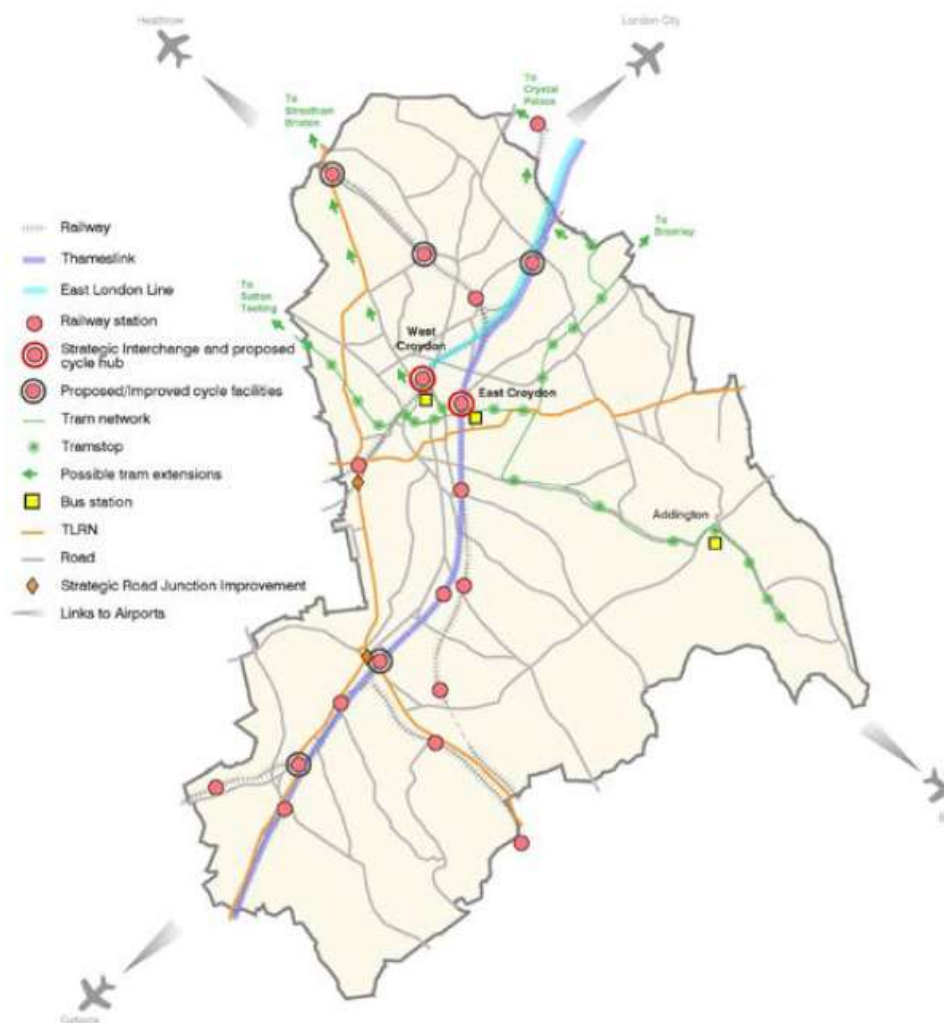
3.55 This links in with all of the other policies from New Homes to the Green Grid as without a sustainable transport and communication system these do not work.

3.56 The Local Plan looks to encourage sustainable and environmentally friendly transport, and a reduction in reliance on the car to reduce road congestion and pollution.

3.57 Croydon is in a prime location between central London and Gatwick Airport, as well as south coast towns such as Brighton. It looks to enhance this through partnerships with the airport and “Coast to Capital” and improvements to the hub that is East Croydon station.

3.58 The Local Plan’s vision for the borough in terms of transport and communication is shown in the map at **Figure 12**.

Figure 12: LB Croydon Transport and Communication Vision



Source: LB Croydon Local Plan 2018

3.59 In order to achieve this vision the Local Plan focuses and provides policy on:

- Promoting sustainable travel and reducing congestion;
- Car and cycle parking in new development;
- Restricting temporary car parks;
- Facilitating rail and tram improvements; and
- Telecommunications.

Place Specific Policies

- 3.60 The Local Plan has Detailed Policies for each of the “places” shown in the map at **Figure 2**. Each “place” has a vision that we summarise below, but in undertaking our assessment we have also considered the further detail within the Local Plan outlining how the policy works for each “place”.

Addington

- 3.61 Vision: A self-contained community that retains its rural character, but acts as a location for growth, capitalising on its strategic position in the borough.

Addiscombe

- 3.62 Vision: Continue to be a large residential community within a conservation area providing good links to the CMC.

Broad Green and Selhurst

- 3.63 Vision: A broad location with three distinct areas (Purley Way, London Road and Whitehorse Road) that supports the borough’s diverse employment options and throughout the plan will help improve the communities within beyond the retail/industrial function.

Coulsdon

- 3.64 Vision: Within a mix of homes and community facilities, Coulsdon looks to revive its day and night-time economy having already seen the development at Cane Hill and retention of the strategic industrial location at Marlpit Lane.

Croydon Opportunity Area (COA)

- 3.65 Vision: Improving the public realm, sustainable development of new homes and economic centres (including retail and tech hubs), and transport links to the rest of the borough, central London and the south. This is also referred to as the Croydon Metropolitan Centre within the Council existing CIL Charging Schedule and within this document.

Crystal Palace and Upper Norwood

- 3.66 Vision: One of the most northerly districts will offer a mixture of new homes, community, cultural and leisure facilities, benefitting from improved transport links and proximity to central London.

Kenley and Old Coulsdon

- 3.67 Vision: Continue to be wooded hillside residential areas with large houses and developments retaining and enhancing Green Grid links

Norbury

- 3.68 Vision: Similarly, to Crystal Palace and Upper Norwood it will continue to offer homes, community facilities, independent shops and improvements to green links.

Purley

- 3.69 Vision: A regenerated district centre providing a mixture of homes and retail options, a new enterprise centre and community facilities in the heart of Croydon with good links to the rest of the borough.

Sanderstead

- 3.70 Vision: Continue to be a suburb with a village feel, but with improvements to the cycle and pedestrian links.

Selsdon

- 3.71 Vision: A residential population with a range of new services, enhancing of the centre and community feel beyond a retail function.

Shirley

- 3.72 Vision: Continue to be a suburb with ample green space, a rejuvenated scrubland and improving cycle and pedestrian links to central London and the CMC.

South Croydon

- 3.73 Vision: Continue to be an accessible suburb south of the CMC with independent shops and restaurants, improved transport links and community services.

South Norwood and Woodside

- 3.74 Vision: An area of development with strong transport links to London and the CMC that will continue to be a sought after area to live with new community and cultural facilities and retail offering.

Thornton Heath

- 3.75 Vision: Improvements to the offering of homes, community and cultural facilities reflecting the diverse population. It will be within the borough's Green Grid, whilst also enhancing employment opportunities and night-time economy.

Waddon

- 3.76 Vision: Become a growing residential community and also a prime industrial location with the inclusion of the Purley Way. It will firmly be within the Green Grid as the area sees a rise in the number of mixed-use developments.

Residential and Commercial Zones for our Assessment

- 3.77 We have considered the above information regarding the different areas within the borough taken from the Local Plan, supplemented with our own knowledge of the borough to enable us to designate residential and commercial zones. This allows us to be more specific with our input assumptions for our appraisals when testing the viability of sites in different zones.
- 3.78 We set out below what these zones are, and the characteristics of each and how these may influence our assumptions.

Residential Zones

- 3.79 There is residential accommodation found across the borough, of varying quality and desirability of location. As such this impacts the different values that residential accommodation will achieve in the different zones. We believe that there are four different residential zones within the borough as shown below in **Figure 13** and defined in **Table 1**.

Figure 13: London Borough of Croydon Residential Zones

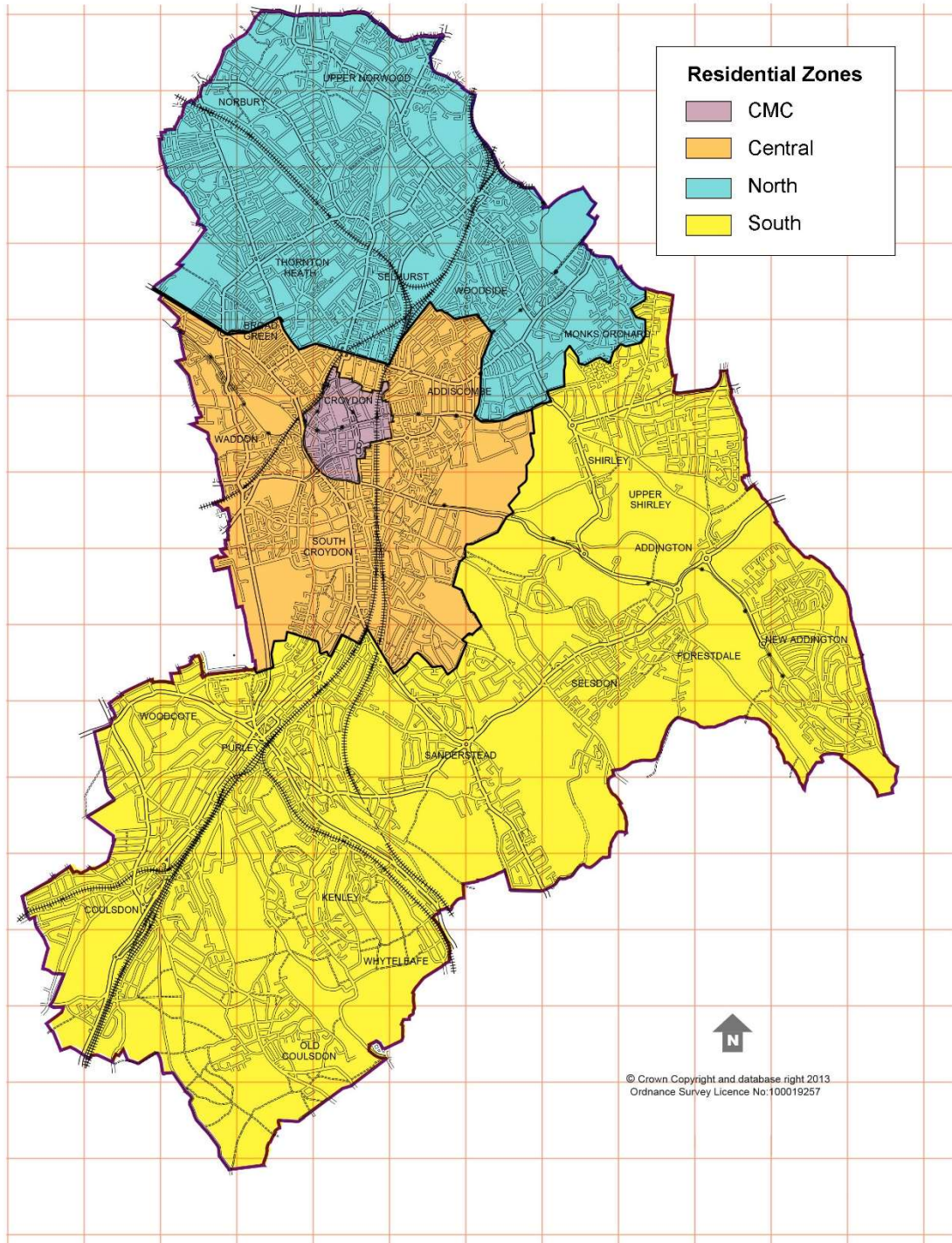


Table 1: London Borough of Croydon Residential Zones Definitions

Residential Zones	Description	“Places” included
CMC	The centre of Croydon which includes a number of new build residential apartment schemes. It has a designated area and its own “Opportunity Area Planning Framework”. It includes the transport hub with excellent links to central London. It includes the central business district and retail and leisure areas that make it a desirable place to live.	Croydon Opportunity Area (COA)
Central	The Central zone includes the areas of central Croydon that sit just outside the CMC and as such have easy access to the benefits of the CMC, however are not as sought-after locations to live. They include a significant level of apartment led developments and dwellings, in addition to some houses. It includes developments close to and on the Purley Way.	Waddon, South Croydon, Broad Green and Selhurst (part), Addiscombe (part), areas around the fringe of the COA.
South	The south is the zone within the borough with the majority of the green space, affluence and large houses. The developments here reflect this and as such cater for families more so than the other zones. It is seen as a pleasant area to live within London’s metropolitan green / commuter belt.	Purley, Coulsdon, Kenley and Old Coulsdon, Sanderstead, Selsdon, Addington, Shirley (part)
North	The north of the borough is the most urban zone, with a mix of land uses and some areas that are considered less affluent. It has a short journey time to the CMC and central London however which has a positive impact on residential values.	Broad Green and Selhurst (part), Thornton Heath, Norbury, Crystal Palace & Upper Norwood, South Norwood & Woodside, Addiscombe (part), Shirley (part).

Source: Gerald Eve

Commercial Zones

3.80 Commercial property is slightly more varied and has certain different uses clustered in different zones which have different characteristics and desirability for different commercial uses. There are some zones that do not have certain commercial uses within them – this is demonstrated in **Section 7**.

3.81 **Figure 14** below shows these zones and **Table 2** provides a description of each zone in relation to the commercial property that is found in each.

Figure 14: London Borough of Croydon Commercial Zones

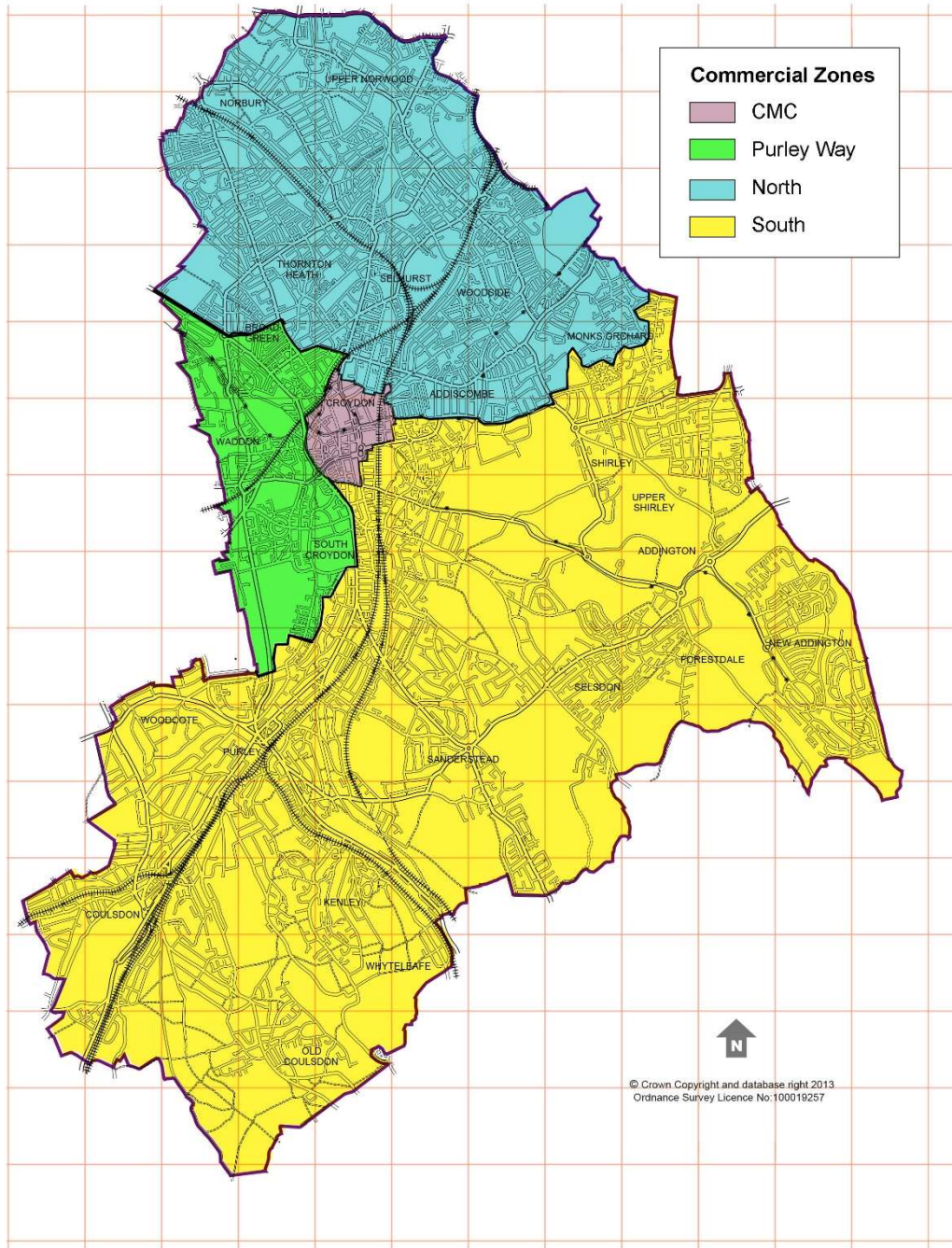


Table 2: London Borough of Croydon Commercial Zones Definitions

Commercial Zones	Description	“Places” included
CMC	The CMC is the commercial centre for the LB Croydon, where the majority of the office buildings are situated. It is the retail hub for the borough with a large restaurant and leisure offering. It is seen as a gateway into London with links south and as such attracts occupiers for high quality commercial units.	Croydon Opportunity Area (COA)
Purley Way	Purley Way is the primary industrial and retail warehouse location within LB Croydon. It links the south and north of the borough with large plots and occupiers with strong covenants in high quality property. There is also a retail and leisure offering on the Purley Way. The Council is developing its own area framework to guide the future development of Purley Way.	Waddon, Broad Green and Selhurst (part)
South	The south, being the most green area of the borough, is limited in its commercial offering in comparison to the other zones. It has some areas designated as industrial parks and the district centres which include some office, retail and leisure property.	Purley, Coulsdon, Kenley and Old Coulsdon, Sanderstead, Selsdon, Addington, South Croydon (part), Shirley
North	The north has a commercial offering in the form of majority retail and industrial. There is some office space in this zone, however this is sparse and generally of low quality. The industrial accommodation is of a lower quality and older in comparison to that on the Purley Way.	Thornton Heath, Norbury, Crystal Palace & Upper Norwood, South Norwood & Woodside, Addiscombe, Broad Green and Selhurst (part)

Source: Gerald Eve

3.82 These residential and commercial zones are used to inform the inputs discussed at **Section 7**.

Emerging Local Plan

3.83 As outlined at paragraph 3.5 above we set out below the policies from the emerging Local Plan that the Council have instructed us to assume within our assumptions.

Affordable Housing Tenure Split

3.84 In an amendment to the current Local Plan 2018 policy SP2.3 and SP2.4, the emerging Local Plan outlines that development should seek to provide affordable housing at a ratio of 70% low cost rented housing and 30% intermediate housing to meet a range of needs.

- 3.85 As requested by the Council, we have therefore used a 70:30 London Affordable Rent to Intermediate tenure split in our assessment.

Type of Affordable Housing

- 3.86 The emerging Local Plan outlines that affordable housing should be genuinely affordable and respond to local housing needs and income levels. As such, Social Rent and London Affordable Rented homes are considered by the Council as the target type of affordable housing to meet the needs and income levels of the majority of lower income households. Affordable rented homes at rents at up to 80% of market rent will only be affordable for a minority of households on the housing register and will only be considered in exceptional circumstances or where the rents are significantly lower than 80%.
- 3.87 The emerging Local Plan states that Intermediate housing should contribute towards a mix of rented and low cost home ownership tenures and that housing products such as shared ownership, discounted market sale and intermediate and discounted market rent, including London Living Rent, will be supported where they are genuinely affordable, and targeted at local residents with incomes that are insufficient to afford decent housing that meets their needs in the market. As such, we have used the types of affordable housing as per the emerging Local Plan in our assessment.

Quantum of Affordable Housing

- 3.88 The emerging Local Plan seeks to amend the current policy with regard to the quantum of affordable housing required in developments to be in line with the London Plan. As such, the Council require at least 35% affordable housing on site for residential developments, subject to viability.
- 3.89 We have therefore tested 35% affordable housing as a base level in our assessment (for typologies with 10 residential units or over), with sensitivity analysis to demonstrate how viability is affected at differing affordable housing levels.
- 3.90 In addition, we have tested typologies with 9 units or under by applying a base level affordable housing commuted payment of £10,000 per unit with appropriate sensitivity analysis around this level.

Environmental and Climate Change

- 3.91 The Council have informed us of the policy within the emerging Local Plan that relates to Environment and Climate Change. This has been renamed to Sustainable Design and Construction.
- 3.92 The main points are that the Council has a target to be carbon neutral by 2030, of which the built environment and development plays an important part.
- 3.93 In order to meet this target, the requirements of SP6 and to be more aligned with the London Plan's and national environmental policies the following policy initiatives are being implemented:
- The requirement of high-density residential developments to incorporate site wide heating systems;
 - The requirement for major development to be enabled for district energy connection
- 3.94 Other policies such as CO2 emission reduction on small developments and adherence to National Technical Standards will also be implemented.
- 3.95 These include new build developments to meet minimum BREEAM, water efficiency and waste management targets.
- 3.96 As such, these additional requirements that developers will be obligated to include come at a cost. We have included this within our assessment and discuss this in further detail at **Section 8**.

Development and Construction

- 3.97 The Council has indicated its requirement through policy to provide high standards of development and construction throughout the borough. It will achieve this through reducing environmental impacts and any forms of pollution that are detrimental to health or surrounding land. Sustainable and innovative construction materials and techniques are to be encouraged in developments.
- 3.98 This links to the above policies on Sustainable Design and Construction of which will impact the costs that developers will incur and therefore we have had regard to this within our assessment.

4 Stakeholder Consultation

Introduction

- 4.1 As outlined in **Section 2**, NPG states that plan makers must work in collaboration with stakeholders in the Local Plan to finalise their policies to ensure that they are appropriate and will result in development that is sustainable and deliverable. This is shown in the key extract from paragraph 002² of the NPG below:

“It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers.” (Extract from NPG paragraph 002)

- 4.2 Paragraph 6³ of the NPG outlines *how* plan makers should engage with stakeholders in the Local Plan. It also outlines *who* these stakeholders are:

- Landowners;
- Developers;
- Infrastructure providers; and
- Affordable housing providers.

- 4.3 It follows by stating *what* should be consulted upon:

- Costs;
- Values; and
- Land Value.

- 4.4 Paragraph 006 outlines that it is the responsibility of site promoters to engage in the plan making, however it is the Council’s requirement to provide them the chance to be able to do this. As such GE were instructed by the Council to undertake the stakeholder

² 10-002-20190509

³ 10-006-20190509

engagement for which we discuss the objective, format, key responses and conclusion below.

Objective

4.5 The objective of the consultations was to provide a forum for open and transparent engagement with developers and key stakeholders to assist us in informing our recommendations to the Council with regard to our review of the viability and CIL related policies in the Local Plan. The consultations enabled stakeholders to share their experiences of development viability within the Council and provided us with a greater pool of evidence to support our area wide assessment.

4.6 In particular, we sought the following information from stakeholders:

- Details on the stakeholders role in the development of Croydon;
- The impact of CIL;
- Financial challenges that are often faced when undertaking developments in Croydon;
- What types of developments are not usually financial viable;
- Details of abnormal costs that are often faced in developments in Croydon, and where in the borough this may be found; and
- Key differences in development areas within the borough.

4.7 Due to the market sensitivities, information provided was generally treated as confidential, but was of importance in forming our opinions around the evidence presented in this report.

Format of Consultations

4.8 Initial consultations included a questionnaire sent to stakeholders within Croydon provided by the Council and the Develop Croydon Forum. We invited written submissions and supplied the questionnaire, which provided a framework for the information we were seeking and allowed the opportunity for further comment.

4.9 The questions within this questionnaire are as follows:

- 1) How many developments have you undertaken in Croydon in the last 5 years?
- 2) What type (use class) and size (sq m) of development have you undertaken?
- 3) How has the level of CIL and Croydon's planning policy approach affected your ability to undertake certain types of development in Croydon?
- 4) Can you describe the financial challenges you face in developing in Croydon, e.g. land values, costs, sales and commercial values?
- 5) Are there any developments with planning permission that you have not implemented due to financial/viability reasons? If yes, please explain why and what types of developments?
- 6) What do you think are the core categories of abnormal cost associated with development in Croydon?
- 7) Are there any types of development that you are unable to make work financially in Croydon that you pursue elsewhere? If so what are the reasons for this?
- 8) What are the key differences within the borough that enable some development types to be delivered in some locations and not in others, e.g. transport nodes, values, demand?

Summary of Responses from Initial Stakeholder Consultation

4.10 Responses to the initial stakeholder consultation were received from a range of different parties including major PLC development companies, Registered Providers, and smaller developers. A summary of some of the issues raised in responses provided are set out as follows :

- The potential for CIL to be provided as “in-kind” contributions in relation to infrastructure should be considered.
- The current challenges in the retail and hotel market in terms of viability and how this should be reflected in lower CIL rates on these uses.
- The range of abnormal costs in Croydon including those relating to tall buildings or near tram infrastructure.
- Challenges in viability in lower value in locations away from transport infrastructure.
- Ground works costs being higher in the south of the Borough.
- The existing affordable housing threshold (10 units) has prevented schemes from coming forward due to viability (i.e. affordable housing requirements on 10 to 16 unit schemes may mean some schemes in this range are not implemented)
- The cost of CIL when combined with S106 costs affecting viability.
- Increasing construction costs proving a challenge in terms of viability.
- The cost of CIL on sub 10 unit residential schemes is a challenge
- London Affordable Rent product makes residential units difficult to develop without GLA grant in certain areas of the Borough.

Second Stakeholder Consultation

- 4.11 A second round of consultation was also undertaken in late September with the same set of stakeholders. This included a video presentation together with a further questionnaire. The presentation set out a summary of the work undertaken on the WPFVA and CIL review at that point. This included information on the typologies used; the methodology adopted in relation to items such as benchmark land value; the appraisal inputs used relating to items such as costs and values; the results our of assessment and our preliminary conclusions. A copy of the written element of the presentation is provided at **Appendix 3**.
- 4.12 The presentation also invited feedback from stakeholders in the light of the information provided. This took the form of a questionnaire for which responses were able to be

submitted via a form on a dedicated Council consultation web page. The questions raised are set out as follows :

- 1) Have a sufficient range of typologies been tested in the study ?
- 2) Is the methodology adopted reasonable and in line with relevant guidance ?
- 3) Do you have any comments on the inputs used in the study ?
- 4) Is there any evidence or market data relating to the adopted inputs that you would like to bring to our attention ? If so, please provide this.
- 5) Do you have any comments on the preliminary conclusions presented ?

4.13 Responses to the second round consultation were received from parties ranging from a major a PLC development company to smaller developers. A summary of some of the issues raised in responses provided are set out as follows :

- More typologies should be tested in a 10 to 25 residential unit range involving demolition and redevelopment.
- The BCIS construction costs database has limitations and there is a need to take into account additional construction costs such as abnormal ground works or innovative design.
- A survey of developers in the Borough in relation to construction costs should be undertaken.
- There is difficulty in applying standardised inputs on an area wide basis to complex town centre site. So application stage viability assessments will be required for these types of sites. This should be noted in the study.
- In-kind contributions towards CIL in the form of infrastructure should be allowed going forward.
- Commercial rents and yields used are at the optimistic end of the potential range achievable in the market, and may be impacted by a weakening in the market.
- The BCIS database does not take into account certain costs associated with complex mixed-use schemes. For example, demolition, abnormal / external costs, site infrastructure etc. Allowances should be added for this in the assessment.

4.14 Where appropriate, we have had regard to the feedback kindly provided by stakeholders in both the initial and second in the production of this review. Examples of this are set out as follows :

- With regard to BCIS construction costs, it is recognised that BCIS has its limitations as a database, particularly for building uses where there are relatively few schemes which the dataset uses as evidence. It is therefore important to note that, as this is an area-wide assessment, construction costs may vary on individual application schemes on site by site basis, due site specific circumstances. Where appropriate site specific viability assessments may therefore be required to take account of this at the point of application.
- In addition, it is also recognised that BCIS construction cost figures do not include costs relating to external works, environmental costs and site preparation. For this reason, as set out in **section 8**, we have made further cost allowances over and above the BCIS construction cost database figures to take account of these additional costs.
- We have also invited comments from stakeholders in our second round of consultation with regard to the appraisal inputs we have used including construction costs in Croydon.
- In relation to potential variation or future changes in costs and values, we have tested the sensitivity of our typology appraisals to variation in cost and value inputs. This has enabled us to take into account potential future changes in construction costs and also property values when assessing the viability of the typologies. By doing this we have also allowed for a “viability buffer” to be taken into account when assessing viability. (see **section 8** for further details)
- In relation to the viability of London Affordable Rent residential units, as set out in **section 8**, we have taken into account values for this type of residential product in our viability assessment.
- As part of our assessment we have also taken into account S106 costs as well as CIL costs in assessing the viability of the typologies tested

5 Methodology

Introduction

- 5.1 In this section we set out the method adopted in undertaking the area-wide assessment.
- 5.2 The method adopted is based upon the NPPF, NPG, CIL Regulations and Guidance documents; RICS, LHDG and other relevant guidance as outlined in **Section 2**. It is also influenced by stakeholder consultations as outlined in **Section 4**. Throughout our assessment we have provided an evidence base from market research and Gerald Eve’s professional experience in Croydon.
- 5.3 Later sections in the report address the typologies, appraisal assumptions and benchmarks.

Overall Method

- 5.4 The overall method of this assessment is to undertake a ‘fine-grain’ analysis of development viability in the Croydon. In order to assess this we have adopted the residual valuation method, in accordance with RICS and LHDG guidance.
- 5.5 The residual method uses various inputs to establish a gross development value (“GDV”) from which the gross development cost (“GDC”) including developer’s return (profit) is deducted resulting in a Residual Land Value (“RLV”).

Figure 15: Residual Method



Source: Gerald Eve

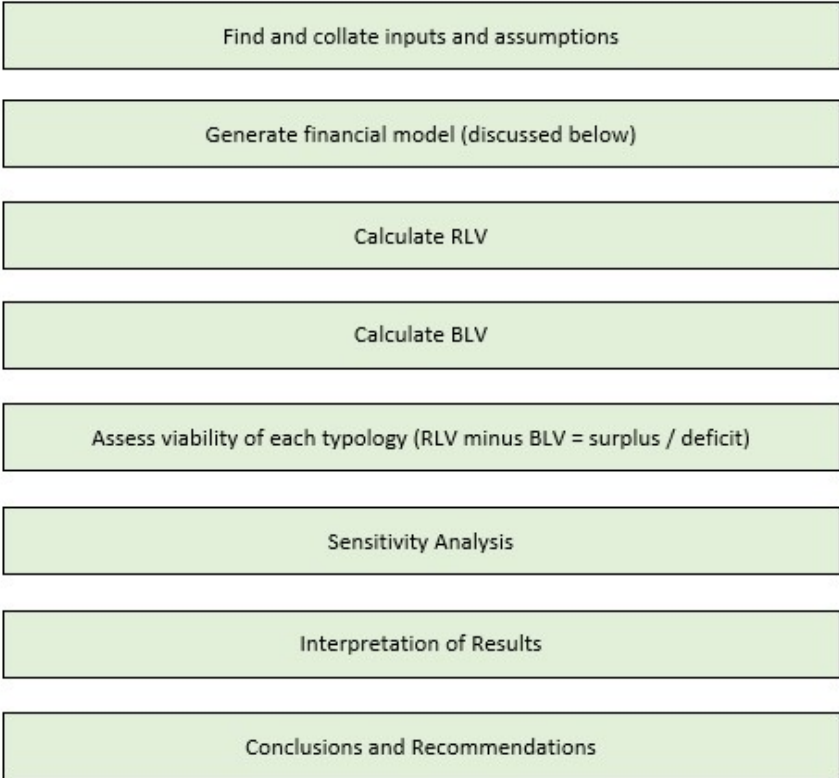
- 5.6 As such, we worked with the Council to select 64 typologies, which are discussed in **Section 6** to test using this method. Firstly, we ascertain the inputs for the area wide study and in each case, calculate the RLV using a financial model, which we then compare to the Benchmark Land Value (defined below and at **Section 10**). If there is a surplus (i.e. RLV is larger than the BLV), then that typology is viable at that level of planning obligation. If there is a deficit (i.e. RLV is smaller than the BLV), then that typology is unviable at that level of planning obligation.

- 5.7 Sensitivity analysis of the inputs can then be undertaken to provide more robust analysis of these results. This will include testing of the key inputs, but also of the inputs that we are testing in affordable housing levels and CIL rates.

- 5.8 By reviewing the results of the assessment and the sensitivity analysis, it is possible to interpret the results as a whole as opposed to on an individual typology/site-based level. This allows us to form our conclusions and recommendations to the Council with regard to affordable housing levels and CIL rates.

- 5.9 A simple step by step diagram of this method is shown below:

Figure 16: Step by Step Methodology of a Financial Model to Test Viability in this Assessment



Financial Model

- 5.10 In order to undertake this analysis and test the viability of development across the borough against differing levels of affordable housing and CIL rates, a bespoke model has been developed on Microsoft Excel. The model tests a large number of development typologies (which are discussed further in the following section) having regard to CIL contributions, in order to assess the potential impact upon area wide development viability in the Borough.
- 5.11 The model has a table of inputs for each of the 64 typologies that are tested as part of this study. The inputs can be categorised into three groups, qualitative, quantitative and lookups.
- 5.12 Qualitative inputs are descriptive in nature and are helpful to the user to understand the typology that is being tested. Qualitative inputs do not affect the calculations of the model. Examples of qualitative inputs include site addresses and descriptions of the site.
- 5.13 Quantitative inputs are numbers that are used in the calculations to determine the outputs. These inputs can include number of units, areas, commercial rents and yields.
- 5.14 Lookups are inputs which are descriptive but also have an impact on the numbers. Examples of lookups include the residential zone which although is descriptive in nature, is used to determine the value of the residential spaces. Similarly, the CIL zone lookup which describes whether a site is inside or outside the CMC, is used to determine the appropriate CIL rate to apply in the model.
- 5.15 The inputs table feeds into the appraisal section of the model. The calculations use Excel formulae to calculate values which feed through to the cashflow and finance section of the model. Examples of these values include residential GDV, construction costs and professional fees.
- 5.16 The cashflow and finance section of the model takes the values which have been calculated and profiles them into a timeline. The profile and timings of the calculated values will be set out in the inputs table. An example of this might be a 12 month construction phase followed by a 12 month sales phase. In this example the cashflow will set out the timings of these cash inflows and outflows so that the net cash position can be calculated in each month of the development.
- 5.17 The finance calculations use the net cash position to calculate the finance cost of the development. For example, if a development has a negative £100,000 cash position and

the finance assumptions is 7%, there would be a £583 finance cost in that month which is calculated as $7\% / 12 \times £100,000$.

- 5.18 The finance cost in each month is deducted from the net cash position so that the finance cost is compounded each month.
- 5.19 As unit sales occur, the cash receipts are used to reduce the negative cash balance until there is no negative balance at which point finance is no longer a cost to the development.
- 5.20 The calculated values including the finance costs are used to determine the RLV of each typology in accordance with the formula depicted in **Figure 15**.
- 5.21 The outputs are then pulled through into an outputs appraisal which summarises the values that are used to calculate the RLV.

6 The Typologies

Introduction

- 6.1 This section of the report relates to the selection of the site typologies that were chosen for the area-wide viability assessment.
- 6.2 The NPG states that there is no requirement to assess every site for viability in plan making, stating that (paragraph 003⁴):

“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 stage. Assessment of samples of sites may be helpful to support evidence.”

- 6.3 In selecting typologies, we worked with the Council to select a representative sample of the typical development sites that are expected to come forward in the Borough over the plan period. This allowed us to classify developments according to their type, such as ‘Large mixed-use leisure and retail’ or ‘Development of c.30 flats (brownfield)’.
- 6.4 The overall aim was to achieve a good balance of development types and locations to ensure a thorough and realistic assessment, while recognising that not every site can plausibly be assessed for the purposes of this study.

Criteria for Selecting Typologies

- 6.5 We reviewed the typologies previously used by BNP Paribas Real Estate (BNPPRE) in their November 2015 Viability Assessment on behalf of Croydon Council. We note that BNPPRE drew upon a sample of 54 sites identified to provide a representative range of the sites expected to come forward in the Borough.
- 6.6 We have adopted many of the same sites used within the previous study to ensure consistency along with a number of additional sites.

⁴ 10-003-20180724

- 6.7 We reviewed the list of typologies with the Council to determine if it was representative of the developments that they were seeing come forward in the planning application process since the BNPPRE assessment in 2015. The Council updated some development types and identified an additional 10 typologies which were added to our assessment.
- 6.8 We have had regard to a range of different development types, use types, and sizes. The sample also includes a wide range of sites geographically to ensure that different locations across the Borough are assessed.
- 6.9 It was necessary to make realistic assumptions about the nature of the typologies, especially with regard to the uses of the development and the location. For example, it is likely that a large mixed-use office and residential development would take place in the CMC, and therefore this typology should be tested for the purposes of this study. However, it would not be necessary to test the same development in the more suburban areas of the Borough, where such a development would be unlikely to take place.
- 6.10 In the majority of typologies, we have used a real planning application as the sample for the assessment. However, real examples were not available for all typologies, so in some cases the same site was tested for two or more uses. For example, the Queen's Gardens site was used to test three typologies: a mixed office and residential development, a build to rent development, and a private sale residential development.
- 6.11 In the case of some typologies there were no appropriate examples to use, but it was still important to test them within this area-wide study as developments of this nature were expected to come forward over the remainder of the plan period. In these cases, such as typology 64 (older person accommodation within the northern area of the Borough), we tested a notional scheme by making assumptions about the type of scheme that is likely to be built in this part of the Borough.

Information Received

- 6.12 A range of information was recorded from each planning permission with the salient details as follows:
- Address
 - Type of Development
 - Site Area
 - Current use class
 - GIA of the existing building(s)

- GIA of the proposed development, by use class
- Number of storeys of the proposed development
- CIL Zone

6.13 This information allowed us to build a residual appraisal for each individual typology in order to assess their viability. Where we did not have this information, for example in the case of notional schemes, we made reasonable assumptions about the size and nature of the development that we would expect to be typical of that typology within the Borough.

6.14 We provide tables below of all the typologies, which we have separated into groups of similar typologies. These groups feed into the analysis and assessment of results that can be found at Section 11 to 13. These typology groups are listed below with their example sites shown in the tables that follow:

- a) Minor Residential Developments;
- b) Medium / Large Residential Developments;
- c) Mixed Use (Residential and Commercial) Developments;
- d) Residential Conversions of Listed Buildings;
- e) PRS Developments;
- f) Retirement Accommodation;
- g) Commercial Developments; and
- h) Other Typologies.
- i) Major Residential Typologies

6.15 It should be noted that group (i), the major residential typologies, are not a new set of typologies, but rather an alternative grouping of typologies which also appear in groups (a) to (h).

Table 3: Minor Residential Developments

Site number	Typology Description	Example Site
1	Single residential dwelling (greenfield)	Land r/o 76 Higher Drive, Purley, CR8 2HG
2	Conversion and extension of existing dwelling to provide 5 flats	121 Brigstock Road, Thornton Heath, CR7 7JN
3	Demolition of existing dwelling to create 7 flats	32 Woodmere Avenue, Ashburton, CR0 7PB
4	Infill development of single dwelling (brownfield)	29 Sidney Road S Norwood London SE25 5NB
5	Demolition of garage/extension to create 3 flats	24 Edgewood Green, Shirley, CR0 7PT
6	Demolition of commercial building to create 2 flats and 2 houses	Rear of 129 – 131 Addington Road, Selsdon and Ballards, CR2 8LH
7	Demolition of garage in garden to create 6 flats	59 Rectory Park, Sanderstead, CR2 9JR
8	Demolition of dwelling to create 6 flats, 3 houses (no land levels)	20 Smitham Bottom Lane, Coulsdon West, CR8 3DA
9	Demolition of garages to create 6 town houses	Land And Garages Adjoining 39 The Lawns, Upper Norwood, SE19 3TR
10	Demolition of dwelling to create 9 flats (no land levels)	12 The Ridge Way, Sanderstead, CR2 0LE
11	Demolition of light industrial/office to create 4 houses and storage	54 Whitehorse Lane and 158B Clifton Road, S. Norwood, Selhurst, SE25 6RQ
12	Development on greenfield land (minor) (8 units)	Quail Gardens original scheme 8 units
27	Office conversion of office above flats to small no. of flats (4 units)	65-67 Whytecliffe Road South, Purley, CR8 2AZ
30	Local supermarket (small scale) replaced by Mixed use residential (9 units) and supermarket	409-411 Beulah Hill, London, SE19 3HD
31	9 flats (change of use)	Windsor House, 1270 London Road, Norbury, London SW16 4DH
41	Residential conversion of medium listed building (6 units)	34 – 36 Harold Road, London, SE19 3PL

Table 4: Medium / Large Residential Developments

Site number	Typology Description	Example Site
13	Development on greenfield land (major) (15 units)	Land adjoining 46, Quail Gardens, Selsdon and Ballards, CR2 8TF
14	Development on greenfield land (notional)	Quail Gardens notional scheme 10 units
15	16 flats (brownfield)	70 Brighton Road, Purley, CR8 2LJ
16	11 flats (brownfield change of use)	International House, 5 Brighton Road, Croham, CR2 6EA
17	Garage demolition to create 12 flats (greenfield)	Garages And Forecourt North Of Avenue Road, Avenue Road, S Norwood, SE25 4EA
18	Development of c.30 flats and houses (brownfield)	59-63 Higher Drive, Purley, CR8 2HR
19	Development of c.30 flats (brownfield)	280-288 Thornton Road, CR0 3EU
20	Development of c30 flats with some light industrial (brownfield)	Plumb Centre, Station Approach, Coulsdon, CR5 2NS
21	Development of c.30 flats (brownfield)	Stonewest House, 1 Lamberts Place, CR0 2BR
22	Development of c.100 flats and houses (greenfield)	Land at Poppy Lane, CR0 8YT
23	Development of c.100 flats (brownfield)	Challenge House, Mitcham Road, CR0 3AA
24	Large residential scheme c. 400 flats incl tall building	Queen's Gardens, Park Lane, CR9 3JS
25	Residential and health (change of use of long term vacant building)	5 Bedford Park, CR0 2AQ
26	Tall building residential and health (new build)	5 Bedford Park, CR0 2AQ

Table 5: Mixed Use (Residential and Commercial) Developments

Site number	Typology Description	Example Site
28	Residential and local supermarket (medium scale)	BMW House, 375-401 Brighton Road, South Croydon, CR2 6ES
29	Residential and Supermarket	330 Purley Way, CR0 4XJ
30	Local supermarket (small scale) replaced by Mixed use residential and supermarket	409-411 Beulah Hill, London, SE19 3HD
32	Residential and retail	5-9 Surrey Street, Croydon, CR0 1RG
38	Large mixed use office and residential (New build)	Queen's Gardens, Park Lane, CR9 3JS
39	Large mixed use office and residential (Change of Use)	St George's House, Park Lane, Croydon, CR9 1NR
44	Residential, ground floor retail and warehouse/storage	330 Purley Way, Croydon, CR0 4XJ,
45	Tall tower with ground floor retail (change of use)	St George's House, Park Lane, Croydon, CR9 1NR
48	Mixed use light industrial and residential (low amounts of light industry)	Eurocrown House and Marmi Works, Grafton Road. CR0 3RP
49	Mixed use light industrial and residential (moderate amounts of light industry)	Eurocrown House and Marmi Works, Grafton Road. CR0 3RP
53	Large retail shopping centre with resi	Whitgift Shopping Centre and land bounded by Poplar Walk, Wellesley Road, George Street and North End, Croydon
61	Mixed use warehouse and residential	Eurocrown House and Marmi Works, Grafton Road. CR0 3RP

Table 6: Residential Conversions of Listed Buildings

Site number	Typology Description	Example Site
40	Residential conversion of large listed building	Segas House, Park Lane, CR0 1NX
41	Residential conversion of medium listed building	34 – 36 Harold Road, London, SE19 3PL

Table 7: PRS Developments

Site number	Typology Description	Example Site
42	Large Private Rental Scheme development (new build to rent)	Queen's Gardens, Park Lane, CR9 3JS
43	Large Private Rental Scheme development (change of use)	St George's House, Park Lane, Croydon, CR9 1NR

Table 8: Retirement Accommodation

Site number	Typology Description	Example Site
63	Older person accommodation	6-12 Woodcote Valley Road, Purley, CR8 3AG
64	Older Person Accommodation (Notional)	Notional Scheme

Table 9: Commercial Developments

Site number	Typology Description	Example Site
36	Office large	Ruskin Square, CRO 1XJ
37	Office (medium)	9 – 16 Dingwall Road, Croydon, CR9 3LG
46	Small scale light industrial park (brownfield)	Former Stewart Plastics site Waddon Marsh Way, CR9 4HS
47	Large warehouse	11-13, 15, 18 & 19 Ullswater Crescent, Coulsdon, CR5 2HR
54	Large mixed use leisure and retail	14-30 High Street, 40-45 Surrey Street and Part of Middle Street, CR0 1GT
55	Conversion of long term vacant shop unit to small office	69 Portland Road, London SE25 4UN
56	Conversion of long term vacant unit to shop	4 Portland Road, London, SE25 4PF
60	Replacement of existing retail w/h with 3 larger industrial/storage units	6 Trojan Way, Croydon, CR0 4XL

Table 10: Other Typologies

Site number	Typology Description	Example Site
33	Residential and primary school	Lidl, Easy Gym and car park, 99-101 London Road, CR0 2RF
34	Residential and secondary school (greenfield)	Heath Clark, Stafford Road, CR0 4NG
35	Primary/secondary school (no residential)	Rees House/ Morland Lodge And 6 Morland Road, CR0 6NA
50	Mixed use large residential and community use (brownfield)	Banstead Road, 2-12 Brighton Road and 1 – 4 Russell Hill Parade, Purley, CR8 3AA
51	Non-charitable community uses (new build)	Croydon Garden Centre, 89 Waddon Way, CR0 4HY
52	Non-charitable community uses (change of use)	Unit 2, The Pilton Estate, 46 Pitlake, Croydon, CR0 3RY
57	Hotel and residential	St Anne House, 20-26 Wellesley Road, Croydon, CR9 2UL
58	Hotel development (from long term vacant building)	30 Dingwall Road, Croydon, CR0 2NB
59	Hotel development	Croydon Garden Centre, 89 Waddon Way, CR0 4HY
62	Transport infrastructure	Tram depot, Therapia Lane

Table 11 : Major Residential Typologies

Site number	Typology Description	Example Site
13	Development on greenfield land (major)	Land adjoining 46, Quail Gardens, Selsdon and Ballards, CR2 8TF
14	Development on greenfield land (notional)	Quail Gardens notional scheme 10 units
15	16 flats (brownfield)	70 Brighton Road, Purley, CR8 2LJ
16	11 flats (brownfield change of use)	International House, 5 Brighton Road, Croham, CR2 6EA
17	Garage demolition to create 12 flats (greenfield)	Garages And Forecourt North Of Avenue Road, Avenue Road, S Norwood, SE25 4EA
18	Development of c.30 flats and houses (brownfield)	59-63 Higher Drive, Purley, CR8 2HR
19	Development of c.30 flats (brownfield)	280-288 Thornton Road, CR0 3EU
20	Development of c30 flats with some light industrial (brownfield)	Plumb Centre, Station Approach, Coulsdon, CR5 2NS
21	Development of c.30 flats (brownfield)	Stonewest House, 1 Lamberts Place, CR0 2BR
22	Development of c.100 flats and houses (greenfield)	Land at Poppy Lane, CR0 8YT
23	Development of c.100 flats (brownfield)	Challenge House, Mitcham Road, CR0 3AA
24	Large residential scheme c. 400 flats incl tall building	Queen's Gardens, Park Lane, CR9 3JS
25	Residential and health (change of use of long term vacant building)	5 Bedford Park, CR0 2AQ
26	Tall building residential and health (new build)	5 Bedford Park, CR0 2AQ
28	Residential and local supermarket (medium scale)	BMW House, 375-401 Brighton Road, South Croydon, CR2 6ES
29	Residential and Supermarket	330 Purley Way, CR0 4XJ
32	Residential and retail	5-9 Surrey Street, Croydon, CR0 1RG
33	Residential and primary school	Lidl, Easy Gym and car park, 99-101 London Road, CR0 2RF
34	Residential and secondary school (greenfield)	Heath Clark, Stafford Road, CR0 4NG
38	Large mixed use office and residential (New build)	Queen's Gardens, Park Lane, CR9 3JS
39	Large mixed use office and residential (Change of Use)	St George's House, Park Lane, Croydon, CR9 1NR

40	Residential conversion of large listed building	Segas House, Park Lane, CR0 1NX
42	Large Private Rental Scheme development (new build to rent)	Queen's Gardens, Park Lane, CR9 3JS
43	Large Private Rental Scheme development (change of use)	St George's House, Park Lane, Croydon, CR9 1NR
44	Residential, ground floor retail and warehouse/storage	330 Purley Way, Croydon, CR0 4XJ,
45	Tall tower with ground floor retail (change of use)	St George's House, Park Lane, Croydon, CR9 1NR
48	Mixed use light industrial and residential (low amounts of light industry)	Eurocrown House and Marmi Works, Grafton Road. CR0 3RP
49	Mixed use light industrial and residential (moderate amounts of light industry)	Eurocrown House and Marmi Works, Grafton Road. CR0 3RP
50	Mixed use large residential and community use (brownfield)	Banstead Road, 2-12 Brighton Road and 1 – 4 Russell Hill Parade, Purley, CR8 3AA
53	Large retail shopping centre with resi	Whitgift Shopping Centre and land bounded by Poplar Walk, Wellesley Road, George Street and North End, Croydon
57	Hotel and residential	St Anne House, 20-26 Wellesley Road, Croydon, CR9 2UL
61	Mixed use warehouse and residential	Eurocrown House and Marmi Works, Grafton Road. CR0 3RP
63	Older person accommodation	6-12 Woodcote Valley Road, Purley, CR8 3AG
64	Older Person Accommodation (Notional)	Notional Scheme

7 Revenue Inputs and Assumptions

Introduction

7.1 This section outlines the evidence base for the Revenue inputs used in our viability appraisals. It references the current market conditions for the different typologies and provides the source for each of the inputs.

7.2 The NPG defines Gross Development Value as:

“Gross development value is an assessment of the value of development. For residential development, this may be total sales and/or capitalised net rental income from developments. Grant and other external sources of funding should be considered. For commercial development broad assessment of value in line with industry practice may be necessary.”

7.3 Specifically, for area-wide studies, the NPG notes that:

“For broad area-wide or site typology assessment at the plan making stage, average figures can be used, with adjustment to take into account land use, form, scale, location, rents and yields, disregarding outliers in the data.”

Residential Revenue Assumptions

Private Residential Sales

7.4 We estimated private sales values based on previous financial viability assessment work undertaken within the Borough, and evidence from local new build developments.

7.5 We have undertaken a review of private sales values for new build properties in Croydon using the Land Registry and EPC Register databases as our primary source. The Land Registry provides us with sales values and the EPC Register provides a floor area and as such this allows us to calculate a price per sq m for each sale. We collected data from Q1 2018 to Q1 2020, and indexed the sale price to Q1 2020 using the Land Registry Index (rebased to Croydon, New Build). We then divided the indexed price by the size of the unit to produce a Median and Mean average £ per sq ft rate.

7.6 Using Land Registry data, we are also able to separate the sales evidence we have obtained out into houses and apartments, assessing the different average £ per sq ft

rates for these in the different zones. They are then applied appropriately to the typologies that include apartments or houses.

7.7 We have supported the Land Registry data by researching asking price data from the Molior Database, which collects data on all new build developments over 20 units within London. We also sourced current asking prices from Rightmove, although we gave less weight to this evidence as we expect asking prices to vary from the eventual sales price.

7.8 Using these combined resources allows us to form a view on the sales values in different areas or “zones” of the Borough. Evidence suggested a range of sales values from £450psf to £650 per sq ft within the CMC, and from £400 to £550 outside the CMC.

7.9 A schedule of our comparable evidence and more detailed analysis of average private sales value for each Zone of a £ per sq ft basis can be found in **Appendix 4**.

7.10 By undertaking this exercise, we are able to divide the borough into different private residential value zones. These are as follows in **Table 12** and shown on the map at **Figure 17** below:

Figure 17: Map of Private Residential Zones

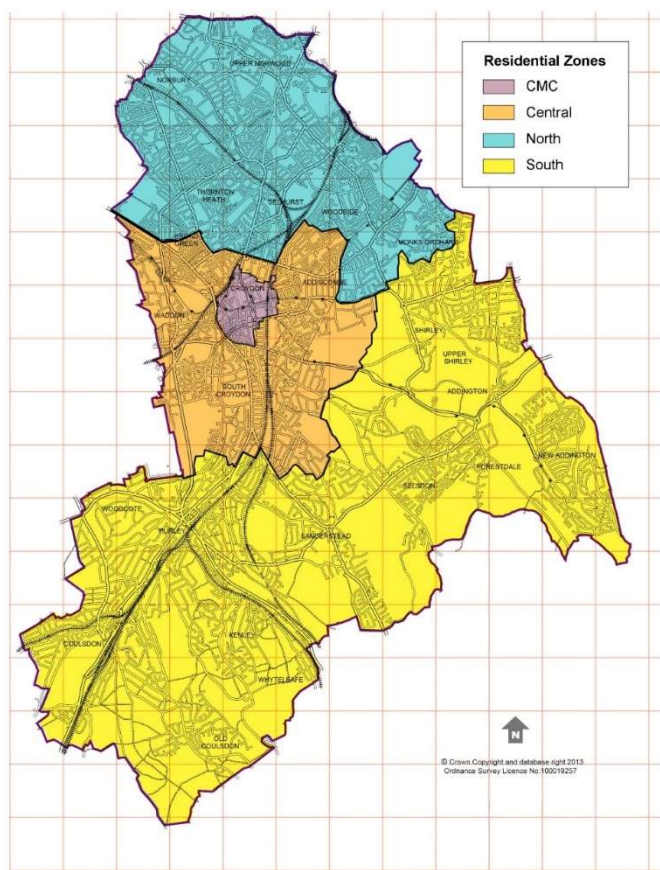


Table 12: Summary of Private Residential Values in each Zone

Residential Type	CMC	Central	South	North
Apartments (£psm)	£6,996	£5,851	£5,274	£5,651
Apartments (£psf)	£650.00	£550.00	£490.00	£525.00
Houses (£psm)	N/A	£4,951	£4,682	£4,843
Houses (£psf)	N/A	£460.00	£435.00	£450.00

Source: Gerald Eve research of Land Registry and Molior

7.11 Our analysis showed that there was a significant difference between new build sales values per sq ft in the CMC compared to the north and south. We also found that outside the CMC, but within what is still considered central Croydon, values were higher than in the north and south regions.

7.12 As such, we deemed it appropriate to split the borough into the four zones shown in **Figure 17**, with the corresponding values applied to the apartments or houses within these zones as per **Table 12**.

Build to Rent Assumptions

7.13 For the two Build to Rent typologies we have used the revenue assumptions outlined below in **Table 13**. As these typologies are both in the CMC, there is no need to specify the inputs for other zones.

Table 13: Build to Rent Revenue Assumptions

BtR Assumption	Input
Rental Value (£psf)	£30.00
BtR Yield	4.0%
Vacancy Rate	3%
M&M Deduction	20%

7.14

7.15 The rental value has been obtained by looking at Build to Rent Schemes across Croydon and other London boroughs using Molior Database⁵, and breaking these down into a rental value per sq ft.

⁵ Molior Database is a database of new build developments and their planning, site, scheme and pricing information. www.molior.com.

- 7.16 The Build to Rent Yield applied to these appraisals has been obtained by using our knowledge of Build to Rent schemes in London and having had sight of the CBRE Yield Sheet, which is a document produced by CBRE outlining the prime yields for all property use classes.
- 7.17 The vacancy rate and management and maintenance deductions are based on our experience of undertaking viability assessments for Build to Rent Schemes.

Affordable Residential

- 7.18 In order to inform our affordable residential values we have reviewed recent FVAs undertaken by Gerald Eve and other viability consultants and liaised with the Gerald Eve Affordable Housing Team.
- 7.19 The assumptions made in the applicable appraisals are that the tenure split for the affordable units will be 70% London Affordable Rent and 30% Intermediate (i.e. Shared Ownership). As per Section 3, we have been instructed by the Council to test this tenure split assumption as it is what has been proposed as policy within the emerging Local Plan. We have calculated values for both of these tenures, which are summarised below in **Table 14**.

Table 14: Summary of Affordable Residential Values

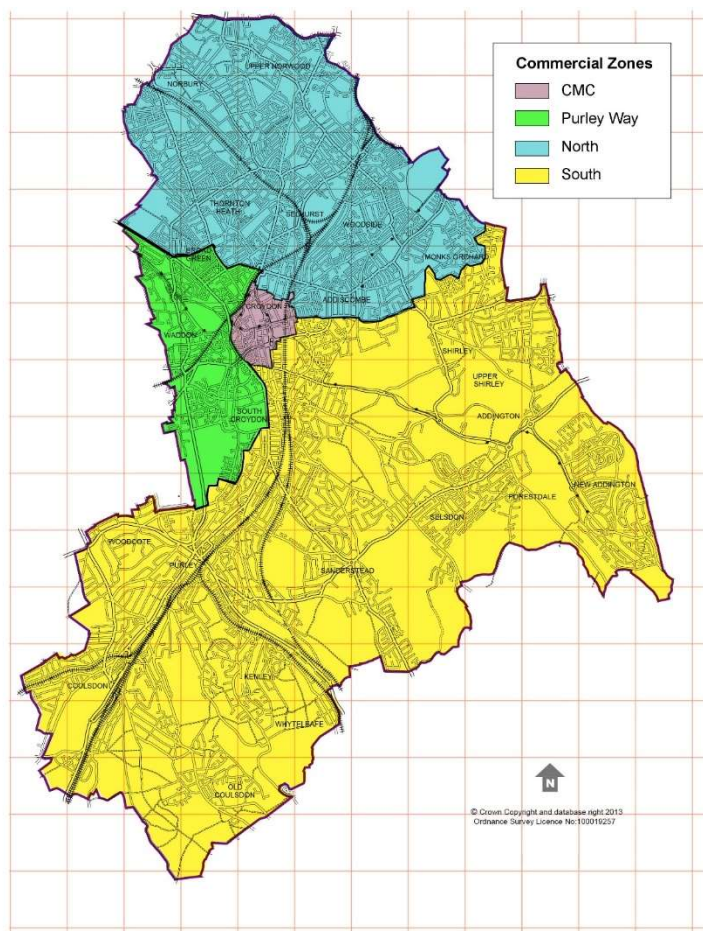
AH Assumption	Input
London Affordable Rent (£psf)	£201
Intermediate (£psf)	£300

- 7.20 We believe that this is an appropriate method for ascertaining affordable values and assumptions for an area wide assessment.
- 7.21 We have tested 35% affordable housing as a base level in our assessment (for typologies with 10 residential units or over), with sensitivity analysis to demonstrate how viability is affected at differing affordable housing levels.
- 7.22 In addition, we have tested typologies with 9 units or under by applying a base level affordable housing commuted payment of £10,000 per unit with appropriate sensitivity analysis around this level.

Commercial Revenue Assumptions

- 7.23 We have undertaken a review of the different commercial property markets within Croydon and similarly to the residential inputs we have deduced that different values for commercial property are achieved in different zones.
- 7.24 A schedule of our comparable evidence for the various commercial inputs can be found in **Appendix 5**.
- 7.25 The highest value zone is the CMC, however the Purley Way is also an important commercial zone, and is the subject of emerging Masterplan policy being produced by the Council (see section 3 for further details). The north and south of the borough also have their own characteristics which influence commercial values.
- 7.26 Therefore, the commercial zones are as outlined in the map at **Figure 18** below.

Figure 18: Commercial Zones



7.27 The values for each different commercial use, and the evidence behind them, are summarised below.

Retail Value Assumptions

7.28 We have undertaken a review of the retail market using evidence from Costar and Estates Gazette Interactive (Egi) property databases and by liaising with internal Gerald Eve commercial property teams. We provide our evidence at **Appendix 5c**, where a rental range of circa £15 psf to circa £60 psf and yield range of 4.0% to 8.5% is demonstrated.

7.29 By considering this evidence and the typologies we are assessing, the assumptions used in our appraisals for the typologies including a retail element in the different commercial zones is outlined in **Table 15** below.

Table 15: Retail Value Assumptions Summary

Commercial Use	CMC	Purley Way	North	South
E(a)(b)(c) Retail Rent (£psf)	£25.00	£25.00	£17.50	£20.00
E(a)(b)(c) Retail Yield	5.50%	6.00%	6.50%	6.00%
E(a)(b)(c) Retail Rent Free (months)	12	12	12	12

Office Value Assumptions

7.30 We have undertaken a review of the office market using evidence from Costar and Egi databases and by liaising with the Gerald Eve Office Investment Team. We provide our evidence at **Appendix 5a**, where a rental range of circa £10 psf to circa £35 psf and yield range of 4.5% to 6.5% is demonstrated.

7.31 By considering this evidence and the typologies we are assessing, the assumptions used in our appraisals for the typologies including an office element in the different commercial zones is outlined in **Table 16** below.

Table 16: Office Value Assumptions Summary

Commercial Use	CMC	Purley Way	North	South
Office Rent (£psf)	£35	£20	£12.50	£15
Office Yield	4.50%	5.00%	5.00%	5.00%
Office Rent Free (months)	12	12	12	12

Industrial Value Assumptions

- 7.32 We have undertaken a review of the industrial market using evidence from Costar and Egi databases and by liaising with the Gerald Eve Industrial Investment Team. We provide our evidence at **Appendix 5b**, where a rental range of circa £9 psf to circa £17.50 psf and yield range of 3.5% to 5.5% is demonstrated.
- 7.33 By considering this evidence and the typologies we are assessing, the assumptions used in our appraisals for the typologies including an industrial element in the different commercial zones is outlined in **Table 17** below.

Table 17: Industrial Value Assumptions Summary

Commercial Use	CMC	Purley Way	North	South
B2/B8 Industrial Rent (£psf)	£17.50	£17.50	£12.50	£15.00
B2/B8 Industrial Yield	4.00%	4.00%	5.50%	5.00%
B2/B8 Industrial Rent Free (months)	6	6	12	12

Leisure Value Assumptions

- 7.34 We have undertaken a review of the retail market using evidence from CoStar databases and by liaising with the Gerald Eve Leisure Investment Team. There is limited evidence of pure leisure typologies and as such some of the evidence we have found overlaps with the retail evidence found at **Appendix 5c**. We provide evidence of a night club marketing brochure close to the typology we have tested for that use at **Appendix 5e**.

7.35 As a result of the limited evidence we have used market commentary and sentiment provided to us by our leisure team which we provide at **Appendix 6**.

7.36 The assumptions used in our appraisals for the typologies including a leisure element in the different commercial zones is outlined in **Table 18** below.

7.37 **Table 18: Leisure Value Assumptions Summary**

Commercial Use	CMC	Purley Way	North	South
Leisure D2 Rent (£psf)	£20.00	£15.00	£10.00	£10.00
Leisure D2 Yield	7.00%	9.00%	9.00%	9.00%
Leisure D2 Rent Free (months)	18	18	18	18

7.38

Hotel Value Assumptions

7.39 We have liaised with the Gerald Eve Hotels Team and they have undertaken a review of hotel values in Croydon. They have provided us with a view with regard to the market and the values that hotels should be expected to achieve in Croydon. This can be found at **Appendix 5f**.

7.40 Using this information, we have formulated assumptions to apply to the typologies that contain a hotel element on a price per key basis which is a common metric for valuing hotels. The range sits between £75,000 and £125,000 for the hotels that we have tested. This is summarised in **Table 19** below.

Table 19: Hotel Value Assumptions Summary

Commercial Use	CMC	Purley Way	North	South
Hotel C1 Value (£ per Key)	£125,000	£75,000	£75,000	£75,000

7.41

E(e)(f) and F.1 Value Assumptions

7.42 We have liaised with the Gerald Eve Alternative Valuations Team and they have provided us with a view with regard to the values that would be expected on a capital value per sq ft basis. The predominant E(e)(f) and F.1 uses within the typologies is schools (i.e. F.1 Use Class) and as such the Alternative Markets Team provided us with a schedule of

sales for schools in outer London boroughs. This is demonstrated at **Appendix 5g**, where a range of capital values per sq ft of circa £200 to £500 is shown.

7.43 Using this information, we have formulated assumptions to apply to the typologies that contain an E(e)(f) or F.1 element. This is shown in **Table 20** below.

Table 20: E(e)(f) and F.1 Use Class Value Assumptions Summary

Commercial Use	CMC	Purley Way	North	South
E(e)(f) and F.1 Use Class Value (£ per sq ft)	£200	£200	£200	£200

7.44 A summary of the property market conditions relating to each use set out is provided at **Appendix 6**. This high-level overview allows us to form an opinion on the value inputs where there is limited quantitative data available.

8 Cost and Programme Inputs and Assumptions

Introduction

8.1 This section considers the different construction costs applied. Costs associated with Site value and development return are addressed in later sections.

8.2 We have had regard to the NPG (paragraph 012⁶), which states the following:

“Assessment of costs should be based on evidence which is reflective of local market conditions. As far as possible, costs should be identified at the plan making stage. Plan makers should identify where costs are unknown and identify where further viability assessment may support a planning application.”

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...*
- site-specific infrastructure costs...*
- the total cost of all relevant policy requirements including contributions towards affordable housing and infrastructure, Community Infrastructure Levy charges, and any other relevant policies or standards...*
- general finance costs including those incurred through loans*
- professional, project management, sales, marketing and legal costs incorporating organisational overheads associated with the site.”*

Construction Costs

8.3 GE has undertaken a high-level analysis of the costs having regard to the RICS Building Cost Information Service (“BCIS”) data for Croydon. Construction costs were sourced from BCIS on a £ per sqm basis and applied to the GIA of the new build floorspace in each typology.

⁶ 10-012-20180724

- 8.4 For each use class, the BCIS data was rebased to the London Borough of Croydon and to Q1 2020, and we took the Median average of the available data.
- 8.5 It is important to note that BCIS has its limitations as a database, particularly for building uses where there are relatively few schemes which the dataset uses as evidence. It is therefore important to note that, as this is an area-wide assessment, construction costs may vary on individual application schemes on site by site basis, due site specific circumstances.
- 8.6 The data obtained from BCIS is shown in **Table 21** below, with the evidence downloaded also shown at **Appendix 7**.

Table 21: Construction Costs Assumptions Summary

Use Class	Median £ psm	BCIS Source (Q1 2020, Croydon, Median)
Houses (< 3)	£1,789	'One off' housing semidetached (3 units or less)
Houses (> 3)	£1,508	Estate Housing (generally)
Flats (1-2 storeys)	£1,684	Flats (apartments) (1-2 storey)
Flats (3-5 storeys)	£1,737	Flats (apartments) (3-5 storey)
Flats (6+ storeys)	£2,068	Flats (apartments) (6+ storey)
Retail	£1,303	Shops
Supermarkets	£1,708	Hypermarkets, supermarkets (generally)
Offices	£2,179	Office (generally)
B2-B8 Industrial	£940	Purpose built warehouses stores (generally)
Leisure D2	£2,407	Community Centres (generally)
Non-Residential Institution F.1	£2,713	Schools (generally)
C1 Hotels	£2,429	Hotels
Conversion to Flats (1-2 Storeys)	£1,564	Flats (apartments) (1-2 storeys) (rehabilitation/conversion)
Conversion to Flats (3-5 Storeys)	£1,477	Flats (apartments) (3-5 storeys) (rehabilitation/conversion)
Conversion to Flats (6+ Storeys)	£1,783	Flats (apartments) (6+ storeys) (rehabilitation/conversion)
Conversion to Office	£1,205	Office (generally) (rehabilitation/conversion)

Conversion to Retail	£644	Shops (rehabilitation/conversion)
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Construction Contingency

- 8.7 We have used standardised approach in relation to construction contingency which is in line with NPG para 012⁷ and also consistent with our experience of undertaking financial viability assessments elsewhere in Croydon. It is also consistent with the experience of Croydon Council based on discussions in relation to other schemes coming forward in the Borough.
- 8.8 We have applied a contingency cost to all construction rates of 5%. This represents an amount held in reserve for the unknown risks associated with the different projects.

Professional Fees

- 8.9 The general, industry standard range for professional fees is between circa 10-12%. This would include architects, mechanical and engineering consultants, structural engineers, quantity surveyors, project managers, etc.
- 8.10 We have applied 10% professional fees across all typologies, which is a reasonable assumption, based on our knowledge of development in Croydon.

Other Construction Costs

- 8.11 The BCIS data includes the base build cost and does not allow for External Works, Environmental Costs, or Site Preparation.
- 8.12 We have therefore applied an additional cost to allow for these items within the appraisal. These are summarised in **Table 22**.

Table 22: Other Construction Costs Summary

Cost	Rate Applied
External Works	10.0%
Environmental Costs	2.0%
Site Preparation	2.5%

8.13

⁷ 10-012-20180724

Marketing and Disposal Costs

- 8.14 We have applied standard disposal costs across the various typologies based on industry standards and our knowledge of the Croydon development market.
- 8.15 For the typologies with all or part residential use, we have applied a flat rate of 4% which incorporates agency fees (1%), legal fees (0.5%), and marketing costs (2.5%).
- 8.16 For the typologies with all or part commercial uses, we have adopted 10% of the estimated rental value (ERV) for the letting and legal fees, and 5% for the sales agency and legal fees.
- 8.17 These assumptions are summarised in the below table.

Table 23: Marketing and Disposal Costs Summary

Cost	Rate Applied
Residential Sales Agents, legal and marketing	4%
Commercial Letting Agents and Legal	10%
Commercial Sales Agents and Legal	5%

Planning Obligations

Section 106 Costs

- 8.19 In order to determine an appropriate estimate for the Section 106 (S106) costs across the typologies, we discussed the notional rate with the Council and considered past evidence of S106 costs on a per unit basis from existing schemes.
- 8.20 For the residential S106 cost, we applied a rate of £2,500 per residential unit. This estimate was provided by the Council based on past residential development within the Borough.
- 8.21 For the commercial S106 costs we applied a rate of £10 psm, which has been confirmed as a reasonable assumption by the Council based on previous assessment work.
- 8.22 These costs include contributions relating to local employment and training, carbon off-setting, and air quality.
- 8.23 The adopted assumptions are summarised in **Table 24**.

Table 24: Section 106 Costs Summary

Section 106	Rate Applied
S106 Costs – Residential (per unit)	£2,500
S106 Costs – Commercial (£psm)	£10

Borough CIL Rates Tested

- 8.24 For testing purposes, as advised by the Council, we have initially applied the rates of CIL as per the Croydon CIL Charging Schedule indexed to 2019. We recognise that indexation is variable, and given that we have applied other assumptions based on the best available evidence (having regard to the impact of Covid-19), we have applied a CIL indexation on a consistent basis. However, we have then gone on to test a range of CIL rates (£180psf to £240psf).

- 8.25 The 2019 Croydon CIL rates (indexed) are shown below in **Table 25** for inside the CMC and **Table 26** for the rest of the borough. The CIL rates are based on evidence prepared by BNPPRE in 2011, incorporating a viability “buffer” to mitigate the risk of changes in the property market. Their report sets out the range of potential values and sensitivity analysis undertaken in reaching their conclusions.

Table 25: 2019 LB Croydon CIL Rates inside CMC

Use	Charge	Indexed rate
Residential- dwelling houses (C3)	£0 per square metre	£0 per square metre
Business (Offices, B2 and B8)	£120 per square metre	£169.25 per square metre
Institutions (C2, E(e)(f) and F.1)	£0 per square metre	£0 per square metre
All other uses	£120 per square metre	£169.25 per square metre

Table 26: 2019 LB Croydon CIL Rates outside CMC

Use	Charge	Indexed rate
Residential- dwelling houses (C3)	£120 per square metre	£169.25 per square metre
Business (Offices, B2 and B8)	£0 per square metre	£0 per square metre
Institutions (C2, E(e)(f) and F.1)	£0 per square metre	£0 per square metre
All other uses	£120 per square metre	£169.25 per square metre

Mayoral CIL Rate

- 8.26 As advised by the Council, we have applied the 2019 Mayoral CIL Rate to all typologies. The 2019 rate is £25 psm for all developments within Croydon.

Programme

- 8.27 For the construction programme, we applied individual assumptions for each typology. This was based on the RICS BCIS Build Calculator which uses the details of a project, including the estimated construction cost, the building use, procurement and tendering approach, to estimate the build duration of the project. It can also be rebased by location and date.
- 8.28 We used the Build calculator to estimate the duration for different types of developments and applied these to individual typologies.

Finance

- 8.29 We have applied a rate of 7% finance costs within the appraisal across all typologies. We consider that this reflects the current market position and is in accordance with recent schemes that have been reviewed. We have applied this rate on the basis of our market knowledge, and our full approach and reasoning behind this are set out at **Appendix 8.**

Viability “buffer”

- 8.30 Throughout our assessment, we have ensured that we have had regard to the need to allow for a viability “buffer”. This is a margin or allowance in relation to typology viability having regard to potential future market movements and changes to development types within the Borough.
- 8.31 So for example, the required return rate we have applied includes an element of viability “buffer”; the fact that we are testing many typologies in an area-wide study seeks to ensure no development is unreasonably limited in terms of viability; and we have applied sensitivity testing to ensure our results have regard to potential future changes in costs and values.

9 Return to the Developer (profit)

Introduction

- 9.1 This section of the report sets out the proposed return applied to the appraisal and the basis upon which a reasonable competitive return to a willing Developer has been considered.
- 9.2 A significant factor in undertaking viability assessments for development purposes is the level of return which a developer might reasonably require from undertaking the development and in turn on what basis the Scheme could be funded and financed. This will depend on a number of factors including the size of the development, the perceived risks involved, the degree of competition between funding and finance institutions for the Scheme, the state of the market in terms of demand for and lot size of the completed development and the anticipated timescales for development and for receiving a return.
- 9.3 In relation to a reasonable return to the Developer, the NPG states (paragraph 018⁸):
- “For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development.”*
- 9.4 Furthermore, the NPG recognises that lower returns are considered more appropriate for affordable housing where risk to receipt of income are lower.
- 9.5 We have taken into consideration the risks involved, the nature of the market, the types of development coming forward in Croydon and the nature of Developers likely to be bringing forward these developments.
- 9.6 We have applied a rate of 20% profit on GDV to the Private Residential, 6% to the Affordable Residential, and 15% to the Commercial uses. These profit levels have been arrived at having regard to the risk of future property market movement which may impact on viability, and therefore include an element of viability “buffer” taking this risk into account.

⁸ 10-018-20190509

10 Benchmark Land Value

Introduction

- 10.1 This section sets out the underlying basis of the adopted Benchmark Land Value (BLV). It has been prepared having regard to the NPPF; the NPG; the Housing SPG the AH&V SPG; the London Plan March 2016 and Draft New London Plan 2017; the LB Croydon Local Plan 2018; and generally accepted principles of undertaking (site specific) FVAs following key principles in the RICS GN “Financial Viability in Planning” published August 2012 and the mandatory requirements of the RICS Professional Statement “Financial Viability in Planning: conduct and reporting” published in May 2019 (effective September 2019).
- 10.2 The basis for establishing the Benchmark Land Value (BLV) is set out in the NPG (September 2019) 013 to 017. A site specific viability assessment would include an assessment of BLV undertaken in this way. As such it is how it should also be undertaken in an area-wide assessment.
- 10.3 Paragraph 013⁹ of the NPG states:

“To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called ‘existing use value plus’ (EUV+).”

- 10.4 Paragraph 014¹⁰ goes onto emphasise that BLV should be “based upon Existing Use Value” and “Allow for a premium to landowners”. Taking this into account, this is the approach that we have taken in assessing the BLV. We have also considered the “Implications of abnormal costs; site specific infrastructure costs; and professional site fees” as also outlined in Paragraph 14.

⁹ 10-013-20190509

¹⁰ 10-014-20190509

- 10.5 Paragraphs 015¹¹ and 016¹² address what EUV is and how it is calculated, and how the premium is ascertained respectively. How we have used this guidance is explained in our methodology below.
- 10.6 Paragraph 016 also sets out that the final decision on the selection of a premium lies with the plan maker (in this case Croydon Council) as follows “Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration.”
- 10.7 Paragraph 017¹³ considers the situation where an Alternative Use Value (“AUV”) can be used to ascertain BLV. As this is an area-wide assessment we have primarily used the EUV+ approach, however where we have been provided with site specific information regarding the BLV for one of the typologies, we can use an AUV if this available and appropriate. This is also explained in our methodology below.

Methodology

- 10.8 The below outlines our step by step methodology for determining the BLV of each typology considering the EUV and premium.

Existing Use Value (“EUV”)

1. For some sites we have been provided with viability assessments by the Council. If this is the case, we have analysed the EUV assessments within these to decide whether they are appropriate and can be used in our assessment;
2. Consider the characteristics of each site looking at the site area, current use class, buildings on site, location, quality and if any refurbishment works are required;
3. If refurbishment works are required, then the BLV is considered on the basis of AUV;
4. To calculate the EUV, each site is considered and the quality of the buildings that comprise its current use are considered to apply appropriate valuation metrics in order to calculate the EUV.

¹¹ 10-015-20190509

¹² 10-016-20190509

¹³ 10-017-20190509

5. The valuation metrics and how they were obtained are listed below in **Table 27**. The evidence we have used in producing this table is set out in the commercial evidence appendices at **Appendices 5 and 6**, supplemented with greenfield and brownfield land value evidence at **Appendix 9**. This is in line with Paragraph 015 of the NPG that lists the sources of data that can be used for EUV assessments (land registry records of transactions, real estate licenced software packages, real estate market reports, real estate research, estate agent websites, property auction results, Valuation Office Agency (“VOA”) data, public sector estate/property teams’ locally held evidence.)

Table 27: Generic EUV Valuation Metrics and Sources

Valuation Metric	Input Source
Greenfield values	Based on a value of £350,000 per acre. This is obtained by considering the MCLG Report on Land Value Estimates for Policy Appraisals, previous viability assessments and comparable evidence that states similar values. (Appendix 9)
Brownfield values	Based on a value of £2,000,000 per acre. This is obtained by considering the MCLG Report on Land Value Estimates for Policy Appraisals, previous viability assessments and comparable evidence that states similar values. (Appendix 9)
Residential values	We have considered the Land Registry for previous sold prices and Zoopla valuation estimates of any residential sites to obtain residential site values.
Commercial (office, industrial, retail) rents	Commercial rental values have been obtained from the VOA. Where this is not available, we have made estimates using comparable evidence considering the characteristics of each typology individually.
Commercial (office, industrial) yields	Commercial yields have been obtained from considering comparable evidence (this is discussed in Section 7). We have made adjustments to the yield specific to each typology to reflect their characteristics.

6. The EUV calculated using the above valuation metrics are then sense-checked with a “stand back and look” approach to ensure that no valuations are unrealistic.
7. As per Paragraph 015 of the NPG the EUVs vary depending on the type of site and development types.
8. The EUV for each site is established and can be considered in relation to market evidence and the viability of each site to calculate a premium.

Premium

- 10.9 Paragraph 016 of the NPG outlines that the premium to the landowner that plan makers set should be calculated through “an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration.” (extract from NPG Paragraph 016)
- 10.10 As such the first stage was to find both residential development land transaction evidence in Croydon in each of the different residential zones outlined in Sections 3 and 7:
 - *Residential: CMC, Centre, South, North*
- 10.11 As we are also testing commercial schemes, we also needed to find commercial development land transaction evidence in Croydon. As there is limited commercial land transaction evidence, fewer commercial schemes in each area zone for the assessment, and values vary between use, we concluded that it would be more accurate to calculate the commercial scheme premiums on the basis of commercial use rather than location. As such, these uses are:
 - *Commercial: Industrial, Office, Retail, Hotel, E(e)(f) and F.1*
- 10.12 This allowed us to calculate an average price per unit for the comparable residential land transactions in each zone and a price per acre for the comparable commercial land transactions for each use.
- 10.13 We applied these metrics (price per unit and price per acre) to the appropriate typologies within the assessment. This calculated a land value for each typology on the basis of comparable land transactions. Where typologies are mixed use, we calculated the land value based on the most dominant use.

- 10.14 These were compared to the EUV of each site and an indicative premium for each typology calculated. There were cases where the land value on the basis of comparable land transactions was below that of the EUV and as such presented a negative indicative premium.
- 10.15 The next step was to calculate an average indicative premium for each of the residential zones and for the commercial use types. Prior to this we removed outliers as in line with Paragraph 004 of the NPG.
- 10.16 An average indicative premium was calculated for each of the residential typologies in the residential zones and the commercial typologies in the commercial use types. The calculated indicative premiums for each residential and commercial zone using this initial process can be found at **Appendix 10**. This indicated that in general terms, residential premiums were highest in the CMC and central zone followed by the south and the north zones, while the premium for industrial uses was higher than other non-residential uses.
- 10.17 NPG states that, “Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence” (extract from NPG Paragraph 016).
- 10.18 For this reason, the results of the analysis shown in **Appendix 10**, were then cross checked against evidence available to the Council across a wide range of viability assessments undertaken on individual site specific schemes across the London Borough of Croydon. This evidence suggests that premiums generally ranged between 10% and 30%. Due to applicant confidentiality the Council has requested this evidence is not included in this report.
- 10.19 On the basis of this analysis and cross-checking process, the broad locational differentiation in premium level from the initial analysis was applied to the premium range evidenced by the Council. The resulting premiums were then concluded by the Council and consequently applied to the typologies as set out in **Table 28 and 29**.
- 10.20 This process was therefore undertaken in line with paragraph 016 of NPG which states, “Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration.”

Table 28: Residential Scheme Premiums by Zone

Residential Zone	Premium
CMC	30%
Central	25%
South	20%
North	15%

Table 29: Commercial Scheme Premiums by Use

Commercial Use	Premium
Industrial	40%
All other commercial uses	20%

- For the commercial premiums calculation, it was found that the average indicative premiums for industrial uses were much higher than those for the other commercial uses. As such the industrial premium is shown on its own whereas the other uses have been grouped together as per **Table 29**.
- Using the above premiums, we were able to calculate the BLV for each typology in the assessment on the basis of an EUV+ approach as per the NPG.

10.21 The BLVs can be found in the summary sheet appraisal for each typology and on the overall assessment summary sheet at **Appendix 11** and **Appendix 12** respectively.

10.22 It is important to note that whilst we have undertaken an assessment of each site's BLV using an EUV+ approach, this has been done with the consideration that this is an area-wide assessment. In undertaking site-specific viability assessments it should be appreciated that each site's BLV will be need to be determined by reference to individual site or scheme characteristics, as well as taking into account market movement. As such, the use of the area-based BLVs included in this report should not be relied upon in undertaking viability assessments at application stage.