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Community Infrastructure Levy: Eastern Haringey Viability Update Study



Prepared for
London Borough of Haringey

October 2019

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1 Executive Summary

- 1.1 The London Borough of Haringey ('the Council') adopted its Community Infrastructure Levy ('CIL') Charging Schedule on 21 July 2014 and was implemented on 1 November 2014. The CIL rates are consequently embedded into both planning requirements and the land market. Since implementation, a number of large developments within and around the Tottenham Hale and North Tottenham growth areas, and in Seven Sisters have completed, started or have secured planning permission including Apex House and Tottenham Hotspur Football Club. Linked to this regeneration of the eastern part of the London Borough of Haringey there has been a significant growth in residential values.
- 1.2 In light of the developments noted above, the Council commissioned BNP Paribas Real Estate to undertake a review of the residential and student accommodation CIL rates in the Eastern CIL Zone of the adopted CIL Charging Schedule as well as to consider a rate for Warehouse Living. The latter use is a newer form of housing development that has been delivered in the borough and is consequently not currently covered by the adopted CIL Charging Schedule. This review therefore seeks to establish whether there is scope for residential and student accommodation developments in the Eastern CIL Zone to viably contribute an increased level of CIL and whether Warehouse Living schemes across the borough can viably contribute through CIL towards the delivery of the necessary supporting infrastructure.
- 1.3 Accordingly this report considers the residential and student accommodation rates adopted in the Eastern CIL Zone and the potential rates for Warehouse Living schemes in combination with the cumulative impact of the requirements of the Council's Local Plan adopted July 2017 (comprising the Strategic Policies Development Plan Document ('DPD'); Development Management DPD, Site Allocations DPD and Tottenham Area Action Plan DPD). The testing is in line with the requirements of the National Planning Policy Framework ('NPPF'), National Planning Practice Guidance ('NPPG') and the Local Housing Delivery Group guidance 'Viability Testing Emerging Local Plans: Advice for planning practitioners' (June 2012).
- 1.4 The Council consulted on its Preliminary Draft Charging Schedule ('PDCS') from 10 March 2017 to 21 May 2017. This report provides an update to the PDCS Viability Update Study produced by BNP Paribas Real Estate on behalf of the Council dated December 2016.

Methodology

- 1.5 The study methodology compares the residual land values of a range of development typologies on sites in the borough to their value in its current use (plus a premium), herein after referred to as 'benchmark land value'. If a development incorporating the Council's policy requirements including a given level of CIL generates a higher residual land value than the benchmark land value, then it can be concluded that the site is viable and deliverable. Following the adoption of Local Plan policies, developers will need to reflect policy requirements in their bids for sites, providing that the residual land value does not fall below a site-specific benchmark land value, determined at the time of each individual application.
- 1.6 The study utilises the residual land value method of calculating the value of each development typology. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance, sustainability requirements, Section 106 contributions and CIL) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site.

- 1.7 The housing and commercial property markets are inherently cyclical and the Council is testing the viability of potential development sites at a time when the market has experienced a period of sustained growth, residential values in Haringey have recovered strongly following the severe recession and now exceed the October 2007 peak levels by circa 71.6%.¹ Forecasts for future house price growth point to continuing growth in mainstream London housing markets, although there is a degree of short term uncertainty surrounding the UK's future relationship with the European Union. Notwithstanding this, forecasts for future house price growth still indicate growth in the 'mainstream' UK and London markets over the next 5 years. We have allowed for this by running a sensitivity analysis which varies the base sales values and build costs, with values increasing by 10% and costs by 5%. This analysis is indicative only, but is intended to assist the Council in understanding the ability of developments to absorb its requirements both in today's terms but also in the future. Some sites may require more detailed viability analysis when they come forward through the development management process due to specific site circumstances that cannot be reflected in an area wide assessment². We have also tested a fall in sales values of 5%, to enable the Council to take a view on the impact of any adverse movements in sales values in the short term. It is important to note, however, that our assessment of suggested CIL rates relies on current and not growth-based appraisal inputs.
- 1.8 This study allows for policy costs such as Mayoral CIL² as a cost to schemes. This assessment does not however include other "extraordinary" sources of funding or revenue that may become available such as Housing Zone funding and grant as this cannot be guaranteed.

Key findings

- 1.9 It is worth noting that some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these schemes as they are unlikely to come forward unless there are significant changes to main appraisal inputs, largely separate to the influence of CIL.

Residential

- We have tested residential schemes in the Eastern CIL Zone with a range of affordable housing tenures and percentages. In arriving at the updated recommended rate we have taken into consideration a balance of both the Council's current affordable housing policies target requirement as well as the Council's aspirations to deliver a wider range of affordable housing tenures in the borough.
- Some scenarios (e.g. certain affordable housing percentages) are unviable prior to the application of CIL in the appraisal. There is clearly an important distinction to be drawn between these schemes and those that are viable. Where schemes are viable, the proposed CIL rates are sufficiently modest to ensure that schemes remain viable.
- The results of our appraisal of residential developments shows a wide range of potential maximum CIL rates. We have recommended an increased CIL of £50 per square metre in the Eastern CIL Zone.
- The recommended rates are set at a discount to the maximum rates, in line with the requirements set out in the NPPG. Consequently, there is sufficient flexibility for schemes to be able to withstand the impact of economic cycles over the life of the Charging Schedule. That said, current mainstream forecasts are that residential values will increase over the next five years.

¹ As identified from the Land Registry's online House Price Index database (<http://www.landregistry.gov.uk/public/house-prices-and-sales/search-the-index>)

² The NPPF identifies at para 57 that "It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage". This is reiterated in the NPPG (para 007 Reference ID: 10-007-20190509) which provides further detail on this including an illustrative list of circumstances where viability should be assessed in decision making.

- The proposed CIL amounts to between 1% and 1.6% of development costs and is therefore set at a nominal level, and consequently it will not be a critical determinant in the viability of developments.

PRS

- The results of our appraisals of residential schemes provided as PRS in the Eastern CIL Zone identify that such schemes can viably contribute towards the delivery of supporting infrastructure in the borough. We are aware that there are a number of PRS schemes which have been delivered/are currently coming forward in the Eastern CIL Zone in particular.
- We have recommended that the Council considers adopting a CIL charge of £100 per square metre for PRS schemes delivered in the Eastern CIL Zone reflecting, a 20% buffer from the maximum borough charge of £125 per square metre.
- The proposed CIL amounts to a charge of circa 4% of development costs, which at below 5% is in our experience not a determining factor in a developer's decision as to whether or not to proceed with a development.

Student accommodation

- Student housing developments in the Eastern CIL Zone of the borough have seen rapidly increasing rents since the previous CIL Viability Study, which has increased residual land values. Consequently, these developments can absorb a higher CIL contribution without a significant impact on viability.
- We have recommended that the Council considers adopting a charge of £100 per square metre. This level of charge is based on the delivery of at least 40% affordable student accommodation within schemes and allows for a buffer from the maximum rate.
- At £85 per square metre this would amount to a cost of circa 2.25% of development costs, which we consider would not have a significant bearing on a developer's decision to bring forward a scheme

Warehouse living

- The Council's Policy DM39 (Warehouse Living) "*seeks to further regularise / legitimise this use, and through the planning process, ensure existing and future occupants are provided with an appropriate standard of living*".
- Our appraisals identify that such schemes generate significant residual land values in excess of existing use values. We note that there will be differences from site to site with respect to conversion costs and quality. We would also highlight that some of this space may not qualify for CIL if such schemes do not add any floorspace and or have been lawfully occupied for six months in the last three years.
- We recommend that the Council maintains a CIL charge of £130 per square metre as set out in the PDCS, which reflects a significant discount from the maximum which would account for scheme differences.
- The recommended CIL charge equates to 5.5% of the likely conversion costs or 0.5% of the total development value. Although the CIL charge looks higher by reference to the conversion costs, this is due to the costs being lower reflecting refurbishment and change of use rather than a whole new development. The analysis of the CIL charge by reference to the revenue achievable is therefore helpful in establishing a picture of such scheme's viability. At £130 per square metre the CIL charge is unlikely to have an impact on a developer's decision to deliver such schemes.

Summary

- 1.10 As CIL is intended to operate as a fixed charge, the Council will need to consider the impact on two key factors. Firstly, the need to strike a balance between securing enough revenue to invest in infrastructure on the one hand and the need to *minimise* the impact upon development viability on the other. Secondly, as CIL will effectively take a ‘top-slice’ of development value, there is a potential impact on the percentage or tenure mix of affordable housing that can be secured. This is a change from the historic system of negotiated financial contributions, where the planning authority can weigh the need for contributions against the requirement that schemes need to contribute towards affordable housing provision.
- 1.11 Table 1.11.1 below summarises our recommended revisions to the Eastern CIL Zone charges in Haringey’s CIL Charging Schedule in light of the results of our appraisals. The proposed rates are shown in bold whilst the adopted Charging Schedule rates are shown below with the corresponding 2019 indexed figures (in line with the requirements of CIL Regulation 40 (as amended)) shown in italics.

Table 1.11.1: Potential revisions to CIL Charging Schedule – Eastern CIL Zone

| Use | Adopted CIL rate £s per sqm | Adopted CIL rate after indexation £s per sqm | Proposed CIL rate £s per sqm |
|--------------------------|--------------------------------|--|---------------------------------|
| Residential | £15 | <i>£18.63</i> | £50 |
| PRS | £15 | <i>£18.63</i> | £100 |
| Student Accommodation | £15 | <i>£18.63</i> | £85 |
| Warehouse Living | N/A | <i>N/A</i> | £130 |

2 Introduction

- 2.1 The Council has commissioned this study to contribute towards a partial review of its adopted CIL Charging Schedule, which has been in place since 1 November 2014. The adopted CIL rates are consequently embedded into both planning requirements and the land market.
- 2.2 The evidence base that underpinned the adopted CIL Charging Schedule was compiled in late 2011 early 2012 and there had been a significant movement in sales values before adoption. There has also been an upwards movement in sales value since adoption due to market factors and a significant amount of regeneration undertaken in the area. The aim of the study is therefore to identify changes in viability that might give rise to amendments to the adopted CIL residential and student accommodation rates within the Eastern CIL Zone. In addition, the study also considers two new forms of residential accommodation, Warehouse Living and PRS, which have come forward in the borough since the adoption of the current Charging Schedule. As with the 2012 Viability Study and 2013 Addendum Viability Study, this report tests the cumulative impact of planning policies and seeks to determine whether the CIL rates adopted could change.
- 2.3 In terms of methodology, we adopted standard residual valuation approaches to test the viability of eight residential development typologies, including the impact on viability of the Council's planning policies alongside the adopted level of CIL and alternative amounts of CIL. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique), mean that conclusions must always be tempered by a level of flexibility in application of policy requirements on a site by site basis.
- 2.4 In light of the points above we would highlight that the purpose of this viability study is to assist the Council in understanding changes to the capacity of schemes to absorb CIL and to support any proposed changes to the Charging Schedule through Examination in Public. The Study therefore provides an evidence base to show that the requirements set out within the NPPF, CIL Regulations and NPPG are met. The key underlying principle is that charging authorities should use evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area.
- 2.5 As an area wide study this assessment makes overall judgements as to viability of development within the London Borough of Haringey and does not account for individual site circumstances, which may only emerge when an application comes forward. The assessment should not be relied upon for individual site applications. Scheme specific testing may still be required at the point where they come forward³.
- 2.6 This position is recognised within Section 2 of the Local Housing Delivery Group guidance, which identifies the purpose and role of viability assessments within plan-making. This identifies that: *"The role of the test is not to give a precise answer as to the viability of every development likely to take place during the plan period. No assessment could realistically provide this level of detail. Some site-specific tests are still likely to be required at the development management stage. Rather, it is to provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability of development needed to deliver the plan"*.

³ However, the NPPG notes that once plan policies are adopted, land values should adjust to reflect the requirements and that price paid for the land should not be used as a justification for failing to provide policy compliant developments (see for example paragraph 002).

Economic and housing market context

- 2.7 The housing and commercial property markets are inherently cyclical. The downwards adjustment in house prices in 2008/9 was followed by a prolonged period of real house price growth. By 2010 improved consumer confidence fed through into more positive interest from potential house purchasers. However, this brief resurgence abated with figures falling and then fluctuating in 2011 and 2012. The improvement in the housing market towards the end of 2012 continued through into 2013, at which point the growth in sales values improved significantly through to the last quarter of 2014, where the pace of the improvement was seen to moderate and continued to do so in 2015. The UK economy sustained momentum following the result of the UK's referendum on its membership of the European Union (EU), and as a result the UK housing market surprised many in 2016. The average house price rose 4.5%, which was 0.2% lower than our forecast and ahead of the level recorded in 2015. While first time buyer numbers continued to recover in 2016, overall transaction levels slowed as some home movers and investors withdrew from the market.
- 2.8 The referendum held on 23 June 2016 on the UK's membership of the EU resulted in a small majority in favour of exit. The immediate aftermath of the result of the vote was a fall in the Pound Sterling to a 31-year low and stocks overselling due to the earnings of the FTSE being largely in US Dollars. As the Pound dropped significantly this supported the stock market, which has since recouped all of the losses seen and is near the all-time highs. Since this point we have been in a period of uncertainty in relation to many factors that impact the property investment and letting markets. In March 2017 (the point at which Article 50 was triggered signalling the official commencement of the UK's exit from the EU), the Sterling Exchange Rate Index ("ERI") fell a further 1.5% from the end of February and was 10.5% lower compared with the end of March 2016. Since August 2017 the Bank of England's ("BoE's") Inflation Reports have identified that Sterling has broadly remained around 15%-20% below its pre-referendum peak (November 2015). The February 2019 Report identifies that ERI remains at around 17% below the late-2015 peak. It is anticipated that, *"the exchange rate may adjust when greater clarity emerges about the nature of EU withdrawal. If it becomes clear that there will be a smooth transition to a relationship that is judged to have a relatively small long-term economic impact, the exchange rate is likely to appreciate. In contrast, if there is an expectation that the long-term economic impact of the new relationship would be large, sterling could depreciate."* This is a key consideration in the property market as the cheaper pound has resulted in interest from foreign investors.
- 2.9 There have been tentative signs of improvement and resilience in the market, however this has been tempered by heightened uncertainty relating to post EU exit arrangements. BNP Paribas Real Estate's Q4 2018 Residential Market Commentary identified that, *"Substantial economic and political uncertainty remains both nationally and globally and it does not look likely that this will change any time soon. The likely outcome of Brexit negotiations remains extremely uncertain. The route Britain takes will have significant implications for the UK and the rest of Europe. The fundamentals of the UK economy remain broadly positive, but sentiment remains cautious with constant negative media resulting in indecision within many markets."*
- 2.10 The International Monetary Fund ("IMF") accurately anticipated in its World Economic Outlook Report ('WEO') that growth would slow in 2018, with its initial forecast of 1.4%. This was revised to 1.5% between April 2017 and April 2018, at which point it was briefly increased to 1.6% but was revised down to 1.4% in July 2018, where it has remained up to the IMF's most recent WEO Report published in July 2019.
- 2.11 The IMF growth forecasts for 2019 and 2020 show a small increase in GDP but at low levels by historic standards. The forecasts were revised downwards in April 2019 from those published in January 2019 at 1.2% (down from 1.5%) and 1.4% (down from 1.6%) respectively. These remain broadly the same in July 2019, however the 2019 figure has

been revised up by 0.1% to 1.3%. The July WEO Report identifies that this baseline projection, *“...The upward revision reflects a stronger-than-anticipated first quarter outturn boosted by pre-Brexit inventory accumulation and stockpiling. This is likely to be partially offset by payback over the remainder of the year. Monthly GDP for April recorded a sharp contraction, in part driven by major car manufacturers bringing forward regular annual shutdowns as part of Brexit contingency plans. The forecast assumes an orderly Brexit followed by a gradual transition to the new regime. However, as of mid-July, the ultimate form of Brexit remained highly uncertain”*.

- 2.12 This sentiment is shared by the more recent Bank of England (“BoE”) Monetary Policy Committee’s (“MPC”) August 2019 Inflation Report, which identifies that, *“Brexit-related developments, such as stockbuilding ahead of previous deadlines, are making UK data volatile. After growing by 0.5% in 2019 Q1, GDP is expected to have been flat in Q2, slightly weaker than anticipated in May. Looking through recent volatility, underlying growth appears to have slowed since 2018 to a rate below potential, reflecting both the impact of intensifying Brexit-related uncertainties on business investment and weaker global growth on net trade. Evidence from companies, up to the middle of July, suggests that uncertainty over the United Kingdom’s future trading relationship with the European Union has become more entrenched. The labour market remains tight. Annual pay growth has been relatively strong. Consumer spending has remained resilient. CPI inflation was 2.0% in June and core CPI inflation was 1.8%”*.
- 2.13 The BoE and IMF continue to highlight the key sources of risk to the global outlook to be *“trade and technology tensions that dent sentiment and slow investment”* (IMF July 2019 WEO). The BoE August inflation report identifies that, *“Since May, global trade tensions have intensified and global activity has remained soft. This has led to a substantial decline in advanced economies’ forward interest rates and a material loosening in financial conditions, including in the United Kingdom. An increase in the perceived likelihood of a no-deal Brexit has further lowered UK interest rates and led to a marked depreciation of the sterling exchange rate”*. The IMF July 2019 report sets out that, *“Global growth remains subdued. Since the April World Economic Outlook (WEO) report, the United States further increased tariffs on certain Chinese imports and China retaliated by raising tariffs on a subset of US imports. Additional escalation was averted following the June G20 summit. Global technology supply chains were threatened by the prospect of US sanctions, Brexit-related uncertainty continued, and rising geopolitical tensions roiled energy prices”*.
- 2.14 Inflation, which was a particular concern in 2018 economic reporting, has eased in 2019 with both the BoE and IMF attributing the easing in inflationary pressures to the drop in energy prices. The BoE reports that *“CPI inflation had been 2.0% in May. It was likely to fall below the 2% target later this year, reflecting falls in energy prices. Core CPI inflation had been 1.7% in May, and core services CPI inflation had remained slightly below levels consistent with meeting the inflation target in the medium term”*. The BoE August Report forecasts that *“after falling in the near term, CPI inflation is projected to rise above the 2% target, as building excess demand leads to firmer domestic inflationary pressures. Conditioned on prevailing asset prices, CPI inflation reaches 2.4% by the end of the three-year forecast period”*.
- 2.15 The UK’s low unemployment rate, which was reported by the IMF to be *“close to historic lows”* in April 2018, is identified to have continued to fall through 2019. Of interest the BoE January 2018 Report identified that the unemployment rate had fallen, *“to a little below the MPC’s estimate of the equilibrium rate made in February 2018. The MPC judges that fall has reflected a cyclical rise in labour demand... The number of vacancies relative to the size of the workforce — a key indicator of labour demand — has risen to a historical high... And the rate at which those already in employment are switching to new jobs — which will partly reflect the degree to which employers are competing to hire employees — has risen to close to its pre-crisis level”*. When unemployment falls below the equilibrium rate, wage and inflationary pressures will tend to build, as companies need to pay more to recruit and retain staff. The August 2019 BoE Report identifies that, *“although pay growth has risen over the*

past year, it remains lower than before the financial crisis, despite a lower unemployment rate. That is likely to reflect subdued growth in productivity — the amount of output that can be produced per worker — which has reduced the wage rises that companies can afford to offer their employees”.

- 2.16 The BoE’s August 2019 Monetary Policy Summary confirmed that, *“The Bank of England’s Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 31 July 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%.”* The rate remains low by historic standards and we consider that any additional rise in interest rate that may occur will likely be introduced slowly and steadily to eliminate economic shock. Forecasters still expect interest rates to rise gradually over the next few years, and anticipate rates to reach 2% by 2021.
- 2.17 Nationwide’s Chief Economist, Robert Gardiner identifies in the September 2019 House Price Index Report that, *“UK annual house price growth almost ground to a halt in September, at just 0.2%. This marks the tenth month in a row in which annual price growth has been below 1%”.* A similar position is reported in the September 2019 Halifax House Price Index Report, where Russell Galley, Managing Director of the Halifax, highlights that, *“There was no real shift in house prices in August as the average property value grew by just 0.3% month on month. This further extends the predominantly flat trend we’ve seen over the last six months, with the average house price having barely changed since March”.*
- 2.18 Both Nationwide and The Halifax acknowledge that the current economic uncertainty is influencing the housing market, *“with evidence of both buyers and sellers exercising some caution”* (Halifax), however household spending is reported in both sources as being more resilient, *“supported by steady gains in employment and real earnings”* (Nationwide) as well as affordability (Halifax). With Halifax further identifying that, *“We should also not lose sight of the fact that the single biggest driver of both prices and activity over the longer-term remains the dearth of available properties to meet demand from buyers”.*
- 2.19 Robert Gardiner also identifies that *“The underlying pace of housing market activity has remained broadly stable, with the number of mortgages approved for house purchase continuing within the fairly narrow range prevailing over the past two years. Healthy labour market conditions and low borrowing costs appear to be offsetting the drag from the uncertain economic outlook”.*
- 2.20 In the January 2019 Nationwide House Price Index report Robert Gardiner considered that *“if economy continues to grow at a modest pace, with the unemployment rate and borrowing costs remaining close to current levels, we would expect UK house prices to rise at a low single-digit pace in 2019.”* This view was shared by Russell Galley, who concluded the Halifax January 2019 House Price Index report by identifying, *“On balance therefore we expect price growth to remain subdued in the near term.”*
- 2.21 Knight Frank identified in their January 2019 UK Residential Market Update that, *“The property market has proven adept at adjusting to change in the past, but uncertainty is more difficult. Buying a home is the biggest financial decision many households will undertake, and some may feel more confident when future economic conditions are clearer.”*
- 2.22 It is worth noting that the stamp duty changes introduced in December 2014 when purchasing residential property continues to have an effect on the housing market, as it encourages first time buyers, who predominantly purchase lower priced properties, to pay lower stamp duty rates: up to £125,000 (0%), up to £250,000 (2%); and discourages wealthier families to buy property who have the capital to buy a £1,000,000 home but now have to pay 10% stamp duty rates, which will significantly impede their budgets and affordability. However, for overseas investors, the post-EU referendum fall in sterling has offset the impact of higher Stamp Duty to a large extent. As first noted in BNP Paribas Real

Estate's Q2 2017 Housing Market Report, *"the market has become increasingly reliant on first-time buyers, especially with the depletion of mortgaged movers from the market. Income weakness clearly has potential to dent activity amongst this group given the high average loan-to-value ratios needed to gain the first step on the ladder."* In addition, there remains the further impact on the market of recent legislative and tax changes on the purchase of second properties. Strutt and Parker identify in their Residential Quarterly Report Winter 2018/19 that, *"Overall, the Buy-to-Let market looks to be relatively stable, albeit with subdued levels of new uptake."*

- 2.23 Transaction numbers have been boosted in recent years by rising numbers of First Time Buyers, in addition to the stamp duty changes Savills highlight in their January 2019 Housing Market Update that "They have been strongly supported by government policy, notably Help to Buy, while Home Movers have struggled to climb the housing ladder." Savills also identify that First Time Buyers, "are now the largest buyer type, having overtaken Home Movers. The last time First Time Buyers were the largest buyer type was 1995". Moreover the availability of finance to First Time Buyers remains strong with Savills reporting that, "The high street banks remain keen to grow their lending to this group. Lloyds recently announced a new 100% mortgage for First Time Buyers, to be secured by a family member opening a savings account, a move that seeks to further capitalise on the 'Bank of Mum and Dad'."
- 2.24 Residential sales value forecasts by numerous property firms have continued to identify since June 2016 that uncertainty has weighed down the market slowing sales value growth. In Strutt and Parker's 2018/19 Report they identify that, the *"considerable political uncertainty"* experienced in the UK *"is feeding through into a very cautious and unknown economic outlook from most commentators"*. The market remains very volatile and hard to predict, although Strutt and Parker's residential agents have reported "instances of competitive bidding on realistically priced properties, highlighting that there remains a market for good quality stock at appropriate prices". This position is maintained in Strutt and Parker's Q2 Summer 2019 Report.
- 2.25 Forecasts for house price growth identify that values are expected to increase over the next five years, however this price growth is identified as being more moderate than over the past 20 years. There is a consensus that a low level of price growth is expected over the next year with a return to stronger sales value growth in 2020 - 2023, when it is anticipated that there will be more certainty on the deal agreed for the UK's exit from the EU and employment growth, wage growth and GDP growth return towards trend levels. We provide further detail on the mainstream London market sales value forecasts below.

Local housing market context

- 2.26 According to Land Registry data as of February 2009, values had fallen in Haringey by circa 20% from the peak of the market values (see Figure 2.26.1 below). Subsequently values recovered steadily to September 2011, exceeding the October 2007 peak of the market value in April 2011. Between September 2011 and December 2011 average values dropped by circa 8%, but recovered steadily from January 2012. When our initial viability report was prepared in December 2016 and the data upon which the rates have been set, the sales values in Haringey were reported to be circa 65% higher than the October 2007 peak of the market values. As of July 2019 (the most recent date for which data is available) residential sales values were 71.6% higher than the October 2007 peak of the market values.
- 2.27 Haringey has seen very strong growth in sales values, particularly in the east of the borough, where values have more than doubled since the CIL was set in the adopted Charging Schedule. Growth in values has partly been driven by a number of major development schemes coming forward, regenerating the area.

- 2.28 As previously identified, the future trajectory of house prices is currently uncertain, although both Knight Frank and Savills' current predictions are that values are expected to increase over the next five years. Their medium term predictions are that house prices for properties in the Greater London/Mainstream London market will grow by 9.2% and 4.5% (respectively) over the period between 2019 to 2023 inclusive, this is compared to a UK average of 10.3% and 14.8% (respectively) cumulative growth over the same period.

Figure 2.26.1: Average house prices in Haringey

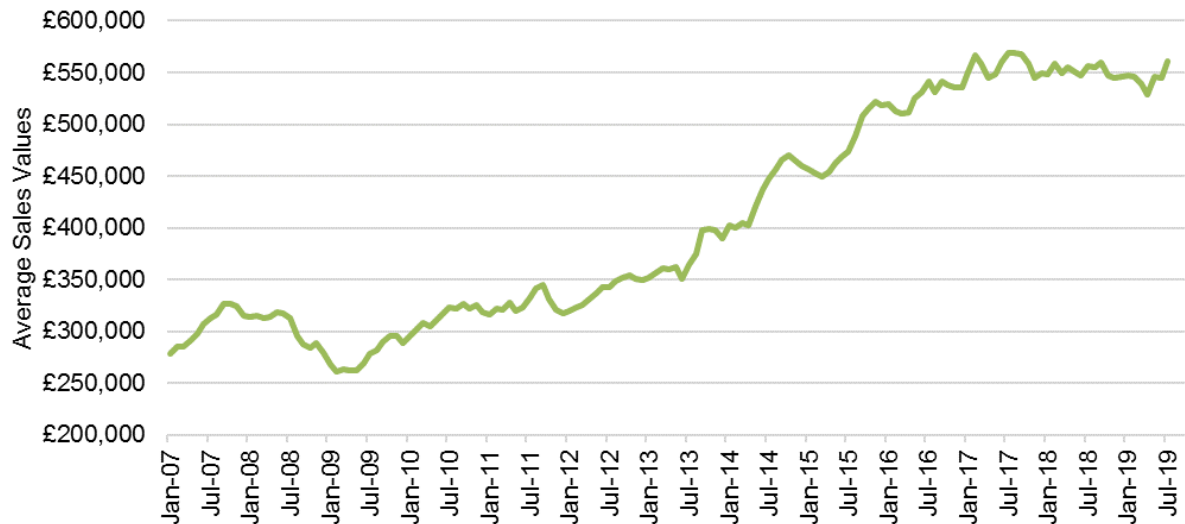
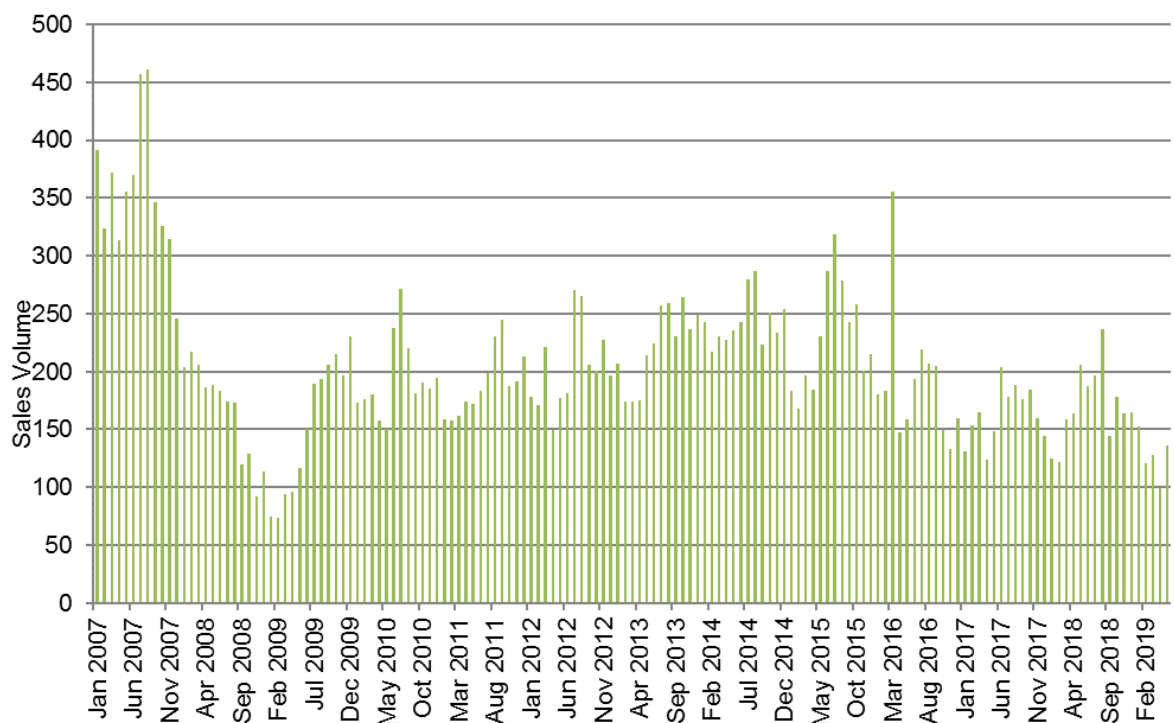


Figure 2.26.2: Sales volumes in Haringey



Source: Land Registry

National Policy Context

The National Planning Policy Framework ('NPPF')

- 2.29 In March 2012, the old suite of planning policy statements and planning policy guidance was replaced by a single document – the National Planning Policy Framework ('NPPF'). The NPPF has subsequently been supplemented by the National Planning Practice Guidance ('NPPG'). In February 2019, the government issued a revised NPPF and amendments to the NPPG were issued in May 2019 and September 2019.
- 2.30 The 2012 NPPF provided more in-depth guidance on viability of development than Planning Policy Statement 3, which limited its attention to requiring local planning authorities to test the viability of their affordable housing targets. The 2012 NPPF required that local planning authorities have regard to the impact on viability of the cumulative effect of all their planning requirements on viability. Para 173 of the 2012 NPPF required that local planning authorities give careful attention *"to viability and costs in plan-making and decision-taking"*. The 2012 NPPF required that *"the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened"*. After taking account of policy requirements, land values should be sufficient to *"provide competitive returns to a willing landowner and willing developer"*. The 2019 NPPF places less emphasis on viability and states that, *"plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan"* (Para 34, emphasis added).
- 2.31 The meaning of benchmark land value for the purposes of establishing viability in accordance with the NPPF and NPPG has been the subject of considerable debate since the publication of the 2012 NPPF. For the purposes of testing the viability of a Local Plan, the Local Housing Delivery Group concluded that the current use value of a site (or a credible alternative use value) plus an appropriate uplift, represents a competitive return to a landowner. Some members of the RICS consider that a competitive return is determined by market value, although there is no consensus around this view. The government's 2019 NPPF removes the requirement for *"competitive returns"* in the 2012 NPPF and is silent on how landowner returns should be assessed. The May 2019 NPPG (Paragraph: 013 Reference ID: 10-013-20190509) indicates that viability testing of plans should be based on existing use value plus a landowner premium.

CIL Policy Context

- 2.32 As of April 2015 (or the adoption of a CIL Charging Schedule by a charging authority, whichever was the sooner), the S106/planning obligations system' i.e. the use of 'pooled' S106 obligations, was limited to a maximum of five S106 agreements. Haringey implemented its first CIL Charging Schedule on 1 November 2014 so had a means of collecting contributions towards community infrastructure at the point at which the limitations on the pooling of planning obligations through S106 came into effect. However, changes in the CIL regulations in September 2019 have removed the pooling restrictions, giving charging authorities a degree of flexibility in how they use Section 106 and CIL. The adoption of a CIL charging schedule is discretionary for a charging authority.
- 2.33 It is worth noting that some site-specific S106 obligations remain available for negotiation, however these are restricted to site specific mitigation that meet the three tests set out at CIL regulation 122 and paragraph 56 of the NPPF and to the provision of affordable housing.

- 2.34 The CIL regulations state that in setting a charge, local authorities must strike “an appropriate balance” between securing enough revenue to fund necessary infrastructure on the one hand and the potentially adverse impact upon the viability of development on the other. The regulations also state that charging authorities should take account of other sources of available funding for infrastructure when setting CIL rates. This report deals with viability only and does not consider other sources of funding.
- 2.35 The 2019 CIL Regulations amendments have sought to streamline the adoption process of charging schedules. From September 2019, the previous two-stage consultation has been amended to require a single consultation with stakeholders. Following consultation, a charging schedule must be submitted for independent examination. The NPPG identifies at Para 032 Ref ID: 25-032-20190901 that, *“It is for charging authorities to decide how they wish to consult. The regulations do not specify for how long or how many times charging authorities should consult because charging authorities are best placed to decide how to engage with their local communities and other relevant parties. Where authorities are introducing the levy for the first time, or making significant changes to their levy, the expectation is that charging authorities will consult for a minimum of 4 weeks. Conversely, where only minor changes are proposed a shorter consultation period may be considered appropriate”*. It will then be for Examiners to, *“consider whether charging authorities have given adequate time for consultation on a draft charging schedule, particularly for consultations of less than 4 weeks. In doing so, they should take into account the scale and complexity of the changes proposed”*.
- 2.36 The payment of CIL is mandatory on all new buildings and extensions to buildings with a gross internal floorspace over 100 square metres or comprising a new dwelling once a charging schedule has been adopted. The CIL Regulations (as amended) still allow a number of reliefs and exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if a material interest in the land is owned by the charity and the development is to be used wholly or mainly for its charitable purpose) are subject to relief. Secondly, local charging authorities may, if they choose, elect to offer exceptional relief from CIL on proven viability grounds. A local charging authority wishing to offer exceptional circumstances relief in its area must first give notice publicly of its intention to do so. The local authority can then consider claims for relief on chargeable developments from landowners on a case-by-case basis, as permitted by Regulation 50. In each case, an independent expert with suitable qualifications and experience must be appointed by the claimant with the agreement of the local authority to assess whether paying the full CIL charge would have an unacceptable impact on the development’s economic viability.
- 2.37 The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed if the scheme has not commenced. To be eligible for exemption, Regulation 55 states that the Applicant must enter into a Section 106 agreement; and that the Authority must be satisfied that granting relief would not constitute state aid. It should be noted however that CIL cannot simply be negotiated away or the local authority decide not to charge CIL.
- 2.38 CIL Regulation 40/Schedule 1 includes a vacancy period test for calculating CIL liability so that vacant floorspace can be offset in certain circumstances. That is where a building that contains a part, which has not been in lawful use for a continuous period of at least six months within the last three years, ending on the day planning permission first permits the chargeable development, the floorspace may not be offset.
- 2.39 The CIL Regulations enable local authorities to set differential rates (including zero rates) for different zones within which development would take place and also for different types of development. The CIL Guidance set out in the NPPG (Para 023 Ref ID: 25-022-2019090125-022-20140612) clarifies that CIL Regulation 13 permits charging authorities to levy *“apply differential rates in a flexible way [including] in relation to geographical zones with*

the charging authority's boundary; types of development; and/or scales of development".

Charging authorities taking this approach need to ensure that such different rates are justified by a comparative assessment of the economic viability of those categories of development. Further, the NPPG clarifies that the definition of "use" for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987, although that Order does provide a useful reference point. The NPPG also sets out (Para 024 Ref ID: 25-024-2019090) that charging authorities may also set differential rates in relation to, scale of development i.e. by reference to either floor area or the number of units or dwellings.

- 2.40 The CIL Regulations set out clear timescales for payment of CIL, which are varied according to the size of the payment, which by implication is linked to the size of the scheme and s allow charging authorities to set their own timescales for the payment of CIL under Regulation 69B if they choose to do so. This is an important issue for a Charging Authority to consider as the timing of payment of CIL can have an impact on an Applicant's cashflow (the earlier the payment of CIL, the more interest the Applicant will bear before the development is completed and sold). To this end, we note that Haringey has an Instalments Policy in place for its adopted Charging Schedule.
- 2.41 The Government published the findings of the independent CIL review alongside the Housing White Paper in February 2017. The White Paper identified at Para 2.28 that the Government will *"continue to support the existing principle that developers are required to mitigate the impacts of development in their area, in order to make it acceptable to the local community and pay for the cumulative impacts of development on the infrastructure of their area."* The White Paper summarised the main finding of the CIL review to be that *"the current system is not as fast, simple, certain or transparent as originally intended."*
- 2.42 As a result, the Government committed to respond to the independent review and examine the options for reforming the system of developer contributions including ensuring direct benefit for communities. Revised regulations came into effect on 1 September 2019, which introduced the following changes:
- Consultation requirements to be amended to remove the current two-stage consultation process and replace this with a single consultation.
 - Removal of the pooling restrictions contained within Regulation 123.
 - Charging authorities will no longer be required to publish a Regulation 123 list.
 - Changes to calculations of chargeable amounts in different cases, including where the granting of an amended scheme under Section 73 leads to an increased or decreased CIL liability.
 - Removal of provisions which resulted in reliefs being lost if a commencement notice was not served before a developer starts a development. A surcharge will apply in future but the relief will not be lost.
 - Introduction of 'carry-over' provisions for a development, which is amended by a Section 73 permission, providing the amount of relief does not change.
 - Charging authorities are to be required to publish an annual infrastructure funding statement, setting out how much CIL has been collected and what it was spent on. Similar provisions to be introduced for Section 106 funds.
 - Charging authorities to publish annual CIL rate summaries showing the rates after indexation.

Mayoral CIL

- 2.43 The Council is required to calculate, collect and enforce the Mayoral CIL. Haringey falls within Mayoral CIL Zone 2 of the adopted Mayoral CIL Charging Schedule (MCIL2). A CIL charge of £60 per square metre is levied on most development excluding health and education.
- 2.44 This study takes into consideration the implications of the appropriate costs associated with MCIL2.

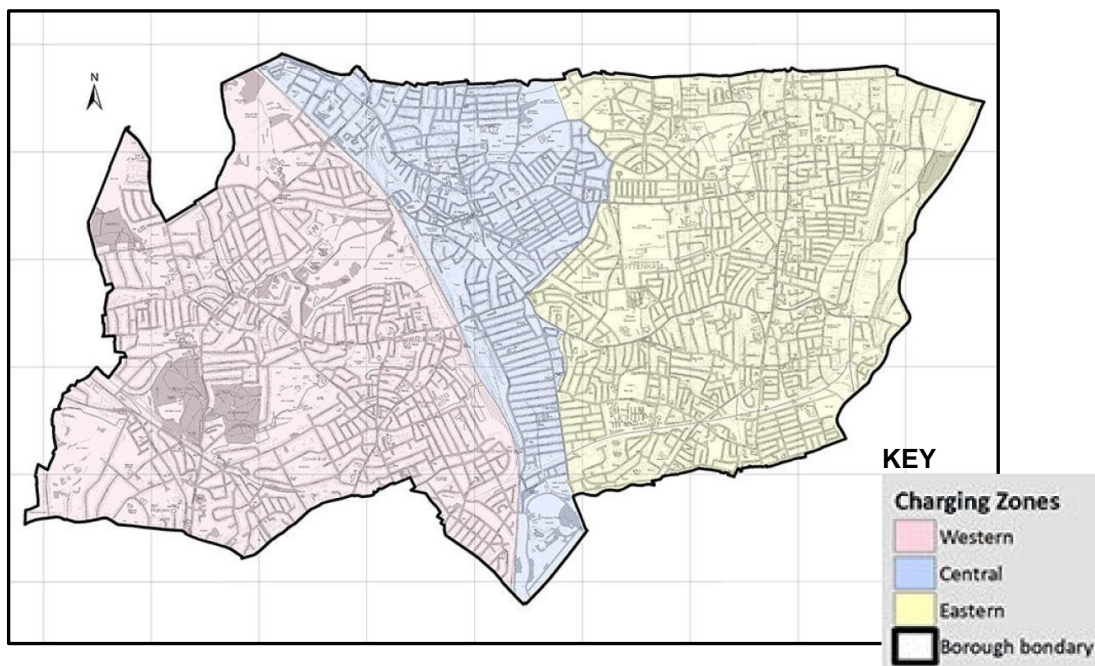
Haringey CIL

- 2.45 The Council approved its current CIL Charging Schedule in July 2014 and it came into effect on 1 November 2014. Table 2.45.1 below summarises the rates of CIL charged and Figure 2.45.1 provides a map of the CIL Charging Zones.

Table 2.45.1: CIL rates in the adopted Charging Schedule

| Use | Western | Central | Eastern |
|---|---------|---------|---------|
| Residential | £265 | £165 | £15 |
| Student Accommodation | £265 | £165 | £15 |
| Supermarkets ⁴ | £95 | | |
| Retail Warehousing ⁵ | £25 | | |
| Office, industrial, warehousing, small scale retail (use class A1-A5) | Nil | | |
| Health, school and higher education | Nil | | |
| All other uses | Nil | | |

Figure 2.45.1: Map of CIL rates in the adopted Charging Schedule



⁴ Superstores /supermarkets are defined as shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the units.

⁵ Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering mainly for bar borne customers.

Local Policy context

- 2.46 This study takes into account the policies and standards set out within Haringey's adopted Local Plan policies, which includes the following four documents;
- Strategic Policies DPD 2013-2026 (March 2013, consolidated with alterations 2017) – formerly the Core Strategy ('SP');
 - Development Management DPD (July 2017);
 - Site Allocations DPD (July 2017); and
 - Tottenham Area Action Plan ('AAP' July 2017) DPD.
- 2.47 These policies and standards include *inter alia* affordable housing requirements; sustainability; open space; and developer contributions towards infrastructure. There are numerous policy requirements that are now embedded in base build costs for schemes (i.e. secure by design, landscaping, amenity space, internal space standards etc.). This study takes into account the cumulative impact of the additional policy requirements above base build costs as required by the NPPF. In addition, it has regard to policies within the London Plan 2016 which also forms part of the relevant plan for the borough as set out in the NPPG.
- 2.48 We set out a summary of the policies identified as having cost implications for developments below:
- Strategic Policies DPD Policy SP4: Working towards a Low Carbon Haringey - Requires all new non-residential development to be built to at least BREEAM "very good" standard and should aim to achieve BREEAM "excellent" or the current nationally agreed standard
 - Strategic Policies DPD: Policy SP2: Housing:
 - (4) 90% of new housing meets Building Regulation requirement M4(2) 'accessible and adaptable dwellings and 10% meeting Building Regulations requirement M4(3) 'wheelchair user dwelling',
 - (5) Subject to viability, sites capable of delivering 10 units or more will be required to meet a borough wide affordable housing target of 40%, based on habitable rooms;
 - (6) Delivering an affordable housing tenure split of 60% affordable rent (including social rent) and 40% intermediate housing; and
 - (8) The preferred affordable housing mix, in terms of unit size and types of dwellings on individual schemes will be determined through negotiation, scheme viability assessments and driven by up-to-date assessments of local housing needs, as set out in the Haringey Housing Strategy.
 - Development Management DPD:
 - Policy DM13: Affordable Housing: seeks the maximum reasonable amount of affordable housing provision on sites with the capacity to accommodate more than 10 dwellings having regard to:
 - Policy SP2 - borough-wide target of 40% affordable housing provision;
 - 60% provision to be social/affordable rent and 40% intermediate housing;
 - The preferred affordable housing size mix as set out in the Council's Housing Strategy;
 - The individual circumstances of the site;
 - The availability of public subsidy;
 - Development viability; and
 - Other planning benefits that may be achieved.
 - Policy DM15: Specialist Housing – identifies that proposals for student accommodation will need to demonstrate that the accommodation can be secured by agreement for occupation by members of a specified educational institution(s), or the proposal will provide an element of affordable student accommodation.
 - Policy DM21: Sustainable Design, Layout and Construction – identifies that all new development, including building and landscape works, will be expected to consider

and implement sustainable design, layout and construction techniques (as set out in the London Plan Policy 5.3).

- Policy DM39: Warehouse Living – identifies that the Council will support proposals for warehouse living that form part of an agreed masterplan to increase and diversify the employment offer of these employment areas whilst providing an appropriate standard of living for the integrated residential element.
- Policy DM48: Use of Planning Obligations – identifies that proposals should make adequate provision for affordable housing, infrastructure and other requirements such as essential site-specific transport infrastructure, and employment contributions made necessary by the development, either through appropriate on-site provision or a planning obligation.
- Tottenham AAP:
 - Policy AAP3: Housing – identifies that the affordable housing tenure split in the Tottenham AAP area should be provided at 60% intermediate and 40% affordable rented accommodation.

Development context

- 2.49 The Council's SP DPD identifies that, *"the borough covers an area of more than 11 square miles. Its most familiar local landmarks include Alexandra Palace, Bruce Castle and Tottenham Hotspur Football Stadium"*. It goes on to highlight that the borough *"is strategically located in the London-Stansted-Cambridge-Peterborough growth area"* and that it has, *"strong links to the City, West End and Stansted Airport"* and on this basis it is, *"well placed for both business and commuting"*.
- 2.50 The SP DPD indicates that the borough has a resident population of circa 230,000 people and there is a high demand for housing across all tenures. In particular, it highlights that *"the need for affordable housing outstrips supply, with a shortfall in provision of 4,865 units per annum, or 52 per 1,000 head of population - outstripping the average Inner London shortfall of 32 units per 1000 head of population"*. The SP DPD forecasts that by 2026, the population will have increased to over 260,000, which equates to an increase of over 15%.
- 2.51 The SP DPD highlights Haringey's strategic housing target has been significantly increased by the London Plan from 820 homes per annum (as identified previously) to 1,502 homes per annum, effective from April 2015, which equates to an increase of 83%.
- 2.52 The DP DPD indicates that a key area of residential development in the borough will be the *"new Housing Zone designation to be applied to Tottenham Hale, which will see significant public and private investment committed to the area to unlock its development potential and accelerate housing delivery, prompting the Council to prepare a comprehensive regeneration framework for the area along with a dedicated Area Action Plan"*.
- 2.53 The AAP identifies *"land capable of delivering 10,000 new homes and 5,000 new jobs. It provides a legal basis for developments including establishing a new retail centre at Tottenham Hale, the intensification and diversification of existing industrial estates, and mixed leisure development around Tottenham Hotspur stadium."*
- 2.54 The adopted SP DPD highlights that Haringey has a *"relatively large amount of industrial land"* and that *"in the past, this land provided many jobs for manufacturing"*. However, manufacturing has declined and the Council now considers that it needs *"to plan for new jobs to replace those being lost and to provide jobs for the increasing population"*. This is complicated by the fact that *"many working residents in Haringey travel to work outside of the borough"* and as a result *"travel to work patterns have become increasingly complex"*. The SP DPD identifies that the borough will, *"diversify and grow the economy - supporting business and job growth, addressing the borough's worklessness by increasing the skills and employability of local people, encouraging enterprise and inward investment, protecting employment land, strengthening Haringey's town centres and planning for retail growth"*.

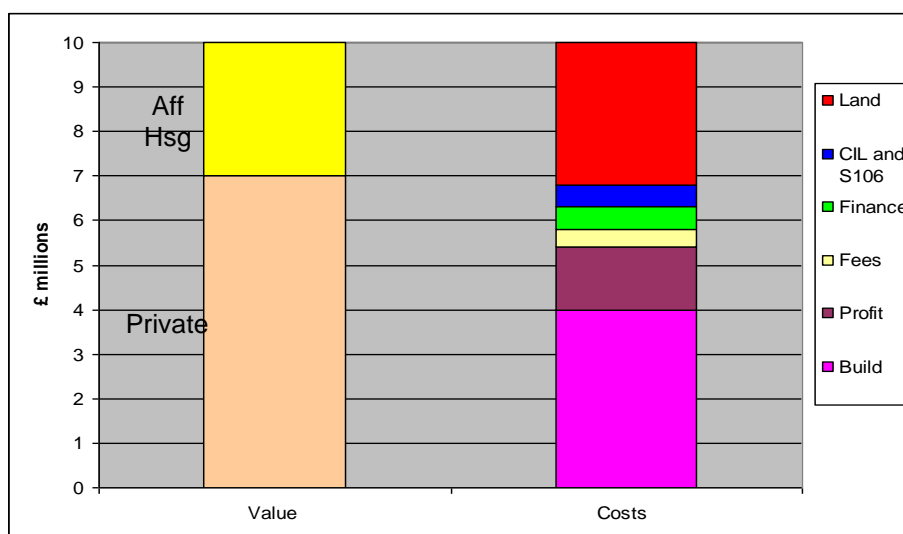
- 2.55 Developments in Haringey range from conversions of existing buildings to small in-fill sites to major regeneration schemes. The bulk of development (in terms of volume of units) is expected to come forward on sites in the east of the borough. The property market has improved since the 2013 CIL viability report was produced, particularly in the east of the borough which has seen significant improvement.

3 Methodology and appraisal inputs

- 3.1 The NPPG on CIL identifies at Para 020 Ref ID: 25-020-20190901 that “*charging authorities should use an area based approach, involving a broad test of viability across their area, as the evidence to underpin their charge*”. The NPPG goes on to identify that, “*there are a number of valuation models and methodologies available to charging authorities to help them in preparing this evidence. Charging authorities should use evidence in accordance with planning practice guidance on viability*”.
- 3.2 Our methodology follows standard development appraisal conventions, which is advocated by the NPPG on Viability, using locally-based sites and assumptions that reflect local market circumstances and planning policy requirements. The study is therefore specific to Haringey and reflects the Council’s planning policy requirements.

Approach to testing development viability

- 3.3 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing (the peach portion) and the payment from a Registered Provider (‘RP’) for the completed affordable housing units (the yellow portion). For a commercial scheme, scheme value equates to the capital value of the rental income after allowing for rent free periods and purchaser’s costs. The model then deducts the build costs, fees, interest, CIL, Section 106 contributions and developer’s profit. A ‘residual’ amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the red portion of the right hand bar in the diagram.



- 3.4 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of existing use value, discussed later), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the ‘gap’.
- 3.5 Problems with key appraisal variables can be summarised as follows:
- Development costs are subject to national and local monitoring and can be reasonably accurately assessed in ‘normal’ circumstances. In boroughs like Haringey, most sites will be previously developed. These sites can sometimes encounter ‘exceptional’ costs such as decontamination. Such costs can be very difficult to anticipate before detailed site surveys are undertaken but should in normal circumstances be reflected in bids for sites from developers;

- Assumptions about development phasing, phasing of Section 106 contributions and infrastructure required to facilitate each phase of the development will affect residual values. Where the delivery of the obligations is deferred, the less the real cost to the applicant (and the greater the scope for increased affordable housing and other planning obligations). This is because the interest cost is reduced if the costs are incurred later in the development cashflow; and
 - While Developer's Profit has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the higher the profit level required by lenders. While profit levels were typically around 15% of completed development value at the peak of the market in 2007, banks currently require schemes to show a profit level that is reflective of current perceived risk. Typically developers and banks have been targeting between 17% to 20% profit on value of the private housing element dependant on the nature of the scheme.
- 3.6 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value'⁶ or another appropriate benchmark to make development worthwhile. The margin above existing use value may be considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.
- 3.7 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the current use. Ultimately, if landowners' expectations are not met, they will not voluntarily sell their land and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that policy may change at some future point with reduced requirements. However, the communities in which development takes place also have reasonable expectations that development will mitigate its impact, in terms of provision of community infrastructure, which will reduce land values. It is within the scope of those expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

Viability benchmark

- 3.8 In February 2019, the government published a revised NPPF, which indicates at para 34 that *"Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, green and digital infrastructure). Such policies should not undermine the deliverability of the plan"*. The NPPF is not prescriptive on the type of methodology local planning authorities should use when assessing viability. The NPPG on Viability indicates that benchmark land value should be based on existing use value, plus a premium for the landowner. It goes on to note *"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"* (Para 013, Ref ID 10-103-20190509).
- 3.9 Guidance from other planning bodies is also helpful in understanding benchmark land value. The Mayor's Affordable Housing and Viability SPG focuses on decision making in development management, rather than plan making, but indicates that benchmark land values should be based on existing use value plus a premium which should be *"fully justified"*

⁶ For the purposes of this report, existing use value is defined as the value of the site in its existing use, assuming that it remains in that use. We are not referring to the RICS Valuation Standards definition of 'Existing Use Value'.

based on the income generating capacity of the existing use with reference to comparable evidence on rents, which excludes hope value associated with development on the site or alternative uses”.

- 3.10 The Local Housing Delivery Group published guidance⁷ in June 2012 provides guidance on testing viability of Local Plan policies. The guidance notes that *“consideration of an appropriate Threshold Land Value [or viability benchmark] needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy”.*
- 3.11 In light of the weaknesses in the market value approach, the Local Housing Delivery Group guidance recommends that benchmark land value *“is based on a premium over current use values”* with the *“precise figure that should be used as an appropriate premium above current use value [being] determined locally”*. The guidance considers that this approach *“is in line with reference in the NPPF to take account of a “competitive return” to a willing land owner”*.
- 3.12 The examination on the Mayor of London’s first CIL charging schedule in January 2012 considered the issue of an appropriate land value benchmark. The Mayor had adopted existing use value, while certain objectors suggested that ‘Market Value’ was a more appropriate benchmark. The Examiner concluded that:
- “The market value approach.... while offering certainty on the price paid for a development site, suffers from being based on prices agreed in an historic policy context.” (paragraph 8)* and that *“I don’t believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done” (Para 9).*
- 3.13 In his concluding remark, the Examiner points out that
- “the price paid for development land may be reduced [so that CIL may be accommodated]. As with profit levels there may be cries that this is unrealistic, but **a reduction in development land value is an inherent part of the CIL concept.** It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges” (Para 32 – emphasis added).*
- 3.14 It is important to stress, therefore, that there is no single threshold land value at which land will come forward for development, particularly in urban areas. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of demand for the site’s current use in comparison to others; how offers received compare to the owner’s perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single threshold land value, it is difficult for policy makers to determine the minimum land value that sites should achieve. This will ultimately be a matter of judgement for each planning authority.
- 3.15 Respondents to consultations on planning policy documents in other authorities in London have made various references to the 2012 RICS Guidance on ‘Viability in Planning’ and have suggested that charging authorities should run their analysis using benchmark land values based on market values. This would be an extremely misleading measure against

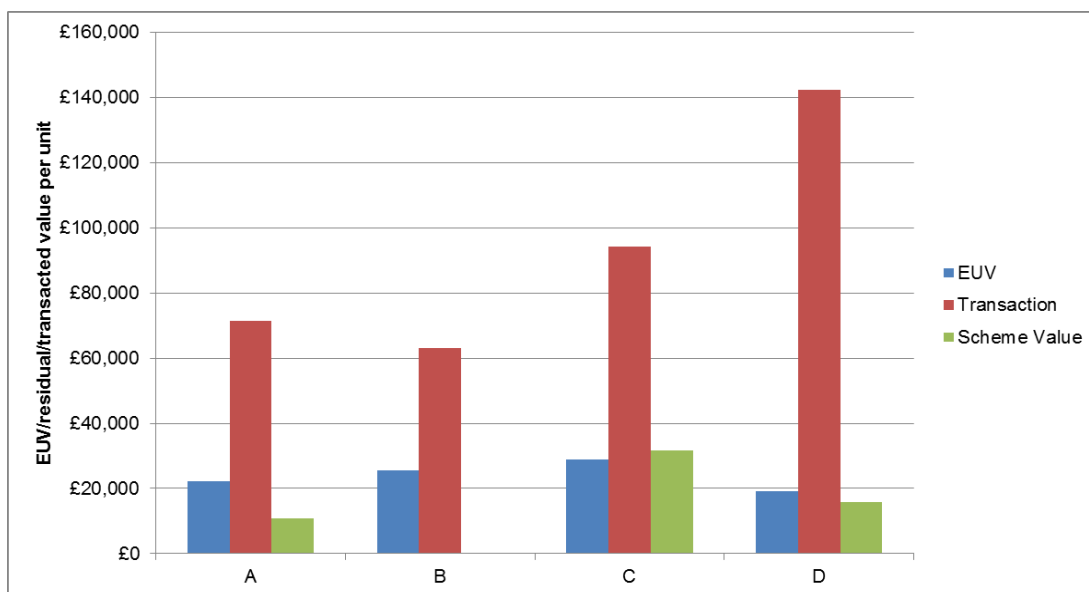
⁷ Viability Testing Local Plans: Advice for planning practitioners, Local Housing Delivery Group, Chaired by Sir John Harman, June 2012

which to test viability, as market values should reflect *existing policies already in place*, and would consequently tell us nothing as to how future (as yet un-adopted) policies might impact on viability. It has been widely accepted elsewhere that market values are inappropriate for testing planning policy requirements.

- 3.16 Relying upon historic transactions is a fundamentally flawed approach, as offers for these sites will have been framed in the context of current planning policy requirements, so an exercise using these transactions as a benchmark would tell the Council nothing about the potential for sites to absorb as yet unadopted policies. Various Local Plan inspectors and CIL examiners have accepted the key point that Local Plan policies and CIL will ultimately result in a reduction in land values, so benchmarks must consider a reasonable minimum threshold, which landowners will accept. For local authority areas such as Haringey, where the vast majority of sites are previously developed, the 'bottom line' in terms of land value will be the value of the site in its existing use. This fundamental point is recognised by the RICS at paragraph 3.4.4. of their Guidance Note on 'Financial Viability in Planning':
- "For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted should be able to meet the cost of planning obligations while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project (the NPPF refers to this as 'competitive returns' respectively). The return to the landowner will be in the form of a land value in excess of current use value".*
- 3.17 The Guidance goes on to state that *"it would be inappropriate to assume an uplift based on set percentages ... given the diversity of individual development sites"*.
- 3.18 Commentators also make reference to 'market testing' of benchmark land values. This is another variant of the benchmarking advocated by respondents outlined at paragraph 3.15. These respondents advocate using benchmarks that are based on the prices that sites have been bought and sold for. There are significant weaknesses in this approach which none of the respondents who advocate this have addressed. In brief, prices paid for sites are a highly unreliable indicator of their actual value, due to the following reasons:
- Transactions are often based on bids that 'take a view' on squeezing planning policy requirements below target levels. This results in prices paid being too high to allow for policy targets to be met. If these transactions are used to 'market test' CIL rates, the outcome would be unreliable and potentially highly misleading.
 - Historic transactions of housing sites are often based on the receipt of grant funding, which is no longer available in most cases.
 - There would be a need to determine whether the developer who built out the comparator sites actually achieved a profit at the equivalent level to the profit adopted in the viability testing. If the developer achieved a sub-optimal level of profit, then any benchmarking using these transactions would produce unreliable and misleading results.
 - Developers often build assumptions of growth in sales values into their appraisals, which provides a higher gross development value than would actually be achieved today. Given that our appraisals are based on current values, using prices paid would result in an inconsistent comparison (i.e. current values against the developer's assumed future values). Using these transactions would produce unreliable and misleading results.

- 3.19 These issues are evident from a recent BNP Paribas Real Estate review of evidence submitted in viability assessments where the differences between the value ascribed to developments by applicants and the amounts the sites were purchased for by the same parties. The prices paid exceeded the value of the consented schemes by between 52% and 1,300%, as shown in Figure 3.19.1. This chart compares the residual value of four central London development proposals to the sites' existing use values and the price, which the developers paid to acquire the sites (all the data is on a per unit basis).

Figure 3.19.1: Comparison of scheme residual value to existing use value and price paid for site



- 3.20 The issue is recognised in the May 2019 revisions to the PPG, which draw attention to the propensity for prices paid for sites to exceed benchmark land values “*due to different assumptions and methodologies used by individual developers, site promoters and landowners*” (Para 014, Ref ID 10-014-20190509). As a consequence, the NPPG goes on to identify in the same para that market evidence, “*should not be used in place of benchmark land value [as] there may be a divergence between benchmark land values and market evidence*”.
- 3.21 NPPG recognises the concerns we have outlined above in relation to the differences between purchase prices/market values, the proposed residual value of the scheme and an existing use benchmark value. As a consequence, the NPPG stresses on no fewer than five separate occasions that, “*price paid for land*” should not be reflected in viability assessments.
- 3.22 For the reasons set out above, the approach of using current use values is a more reliable indicator of viability than using market values or prices paid for sites, as advocated by certain observers. Our assessment follows this approach, as set out in Section 4.

4 Development appraisals

Residential development

- 4.1 We have appraised eight residential development typologies, reflecting both the range of sales values/capital values and also sizes/types of development and densities of development across the Eastern CIL Zone. The Council has considered these in light of historic planning applications and knowledge of anticipated future development within the borough. These typologies are therefore reflective of developments that have been consented/delivered as well as those expected to come forward in the eastern part of the borough in future.
- 4.2 Details of the schemes selected for testing purposes are provided below in Table 4.2.1. A consistent unit mix has been adopted for both private and affordable tenures, as shown in Table 4.2.2. The unit mix varies between type of development.

Table 4.2.1: Development typologies

| Typology No. | Number of units | Housing type | Development density units per ha | Net developable area (ha) |
|--------------|-----------------|--------------|----------------------------------|---------------------------|
| 1 | 5 | Houses | 50 | 0.100 |
| 2 | 10 | Flats | 140 | 0.071 |
| 3 | 11 | Flats | 140 | 0.079 |
| 4 | 25 | Flats | 140 | 0.179 |
| 5 | 50 | Flats | 160 | 0.313 |
| 6 | 100 | Flats | 250 | 0.400 |
| 7 | 250 | Flats | 250 | 1.000 |
| 8 | 500 | Flats | 250 | 2.000 |

Table 4.2.2: Unit Mix (across all tenures taken together)

| Site type | 1 Bed flat | 2 bed flat | 3 bed flat | 2 bed house | 3 bed house | 4 bed house |
|--------------------|------------|------------|------------|-------------|-------------|-------------|
| <i>Size (sq m)</i> | 50 | 70 | 86 | 79 | 93 | 115 |
| 1 | - | - | - | 20% | 40% | 40% |
| 2 | 30% | 40% | 30% | | | |
| 3 | 30% | 40% | 30% | | | |
| 4 | 30% | 40% | 30% | | | |
| 5 | 30% | 40% | 30% | - | - | - |
| 6 | 40% | 40% | 20% | - | - | - |
| 7 | 40% | 45% | 15% | - | - | - |
| 8 | 40% | 45% | 15% | | | |

- 4.3 With respect to the size of units adopted in the study, these have been informed by the minimum gross internal floor areas set out in the London Plan, which conform with MHCLG's Technical Housing Standards' Nationally Described Space Standard published in March 2015.

Residential sales values

- 4.4 Residential values in the area reflect national trends in recent years but do of course vary between different sub-markets. We note that since our 2012 CIL Viability report was published (with research undertaken in 2011), the Land Registry's database identifies that house prices in the borough have increased by circa 64% and the research we have undertaken specific to the east of the Borough has identified that values have more than doubled.
- 4.5 We reviewed residential values in the East of the borough in early 2017 using online database sources including Molior, Rightmove and Land Registry as well as pricing schedules submitted by developers with planning applications. This exercise indicates that developments in the Eastern CIL Zone attract average sales values of between circa £5,113 per square metre (£475 per square foot) and £6,728 per square metre (£625 per square foot). However, since then the Eastern CIL Zone residential markets have continued to improve and in particular, significant regeneration schemes have been consented and or come forward. This has changed the profile of the Eastern CIL Zone's residential sales values, with new build developments across the area identified as achieving or able to achieve similar values, at the higher end of the scale. In particular, we are aware that the viability evidence submitted by Tottenham Hotspur Football Club for the Tottenham Goods Yard ⁸ appeal, agreed in a Statement of Common Ground in May 2019, which confirmed that sales values achievable would be akin to those achieved in the regeneration schemes in Tottenham Hale at £7,373 per square metre (£685 per square foot)..
- 4.6 In light of this we have adopted the average sales value set out in Table 4.6.1 in our appraisals, which reflects the flatter structure of residential sales values now achievable in developments across the area under consideration in this Study.

Table 4.6.1: Average sales values adopted in appraisals

| Area | Ave values £s per sq m | Ave values £s per sq ft |
|------------------|---------------------------|----------------------------|
| Eastern CIL Zone | 6,728 | 625 |

- 4.7 As noted earlier in the report, both Knight Frank and Savills predict that sales values will increase over the medium term. Whilst this predicted growth cannot be guaranteed, we have run a sensitivity analysis assuming growth in sales values of 10%, accompanied by cost inflation of 5%. This sensitivity analysis provides the Council with an indication of the impact of changes in values and costs on scheme viability.

Affordable housing tenure and values

- 4.8 The Council's policy position seeks the maximum reasonable amount of affordable housing on sites with the capacity to accommodate 10 units or more subject to viability, with a borough wide target of 40% affordable housing. The Council seeks a tenure split of 60% Social / Affordable Rent and 40% intermediate housing with the exception of sites located within the Tottenham AAP area, where the tenure split is sought at 60% intermediate and 40% Affordable Rented accommodation.
- 4.9 We note the Council's preference in the updated Appendix C of the Council's Housing Strategy 2017-2022 (February 2019) is as follows:
- low cost rented housing for general needs: social rent at target rent levels – rather than Affordable Rent or London Affordable Rent; and

⁸ The Goods Yard 36 And 44-52 White Hart Lane, N17 8DP – Refs: HGY/2018/0187, HGY/2018/0188, APP/Y5420/W/18/3204591 & APP/Y5420/W/18/3204592

- intermediate housing: the Council is keen to promote a range of intermediate housing i.e. Shared Ownership is not the preferred product in all cases, Discounted Market Rent with rents set at London Living Rent levels is the preferred option and.

4.10 We have therefore undertaken our appraisals testing the following affordable housing tenure scenarios:

- Affordable Rent ('AR') and Shared Ownership ('SO');
- London Affordable Rent ('LAR') and SO;
- Social Rent ('SR') and SO; and
- SR and Discount Market Rent ('DMR') at London Living Rents ('LLR').

4.11 Our appraisals including AR assume that rents that do not exceed Local Housing Allowance ('LHA') rates, so that they are affordable to households subject to the Universal Credit, as shown in Table 4.11.1. The approach adopted is therefore consistent with the rent caps announced in the Autumn Statement in November 2015. It should be noted that the LHAs are lower than market rents. Prior to the 2015 Autumn Statement, rents for affordable rented units could have (in theory) been set as high as 80% of market rents (inclusive of service charges), but this is no longer an option.

Table 4.11.1: Weekly rents and Local Housing Allowance limits

| Unit type | Local Housing Allowance per week | Rent assumed in appraisals per week | Rent as a percentage of Local Housing Allowance |
|----------------|----------------------------------|-------------------------------------|---|
| 1 bed | £199.68 | £186.22 | 93% |
| 2 beds | £255.34 | £241.88 | 95% |
| 3 beds | £315.12 | £301.66 | 96% |
| 4 or more beds | £388.65 | £375.19 | 97% |

4.12 For LAR units we have adopted the 2019-2020 rents published by the GLA as set out in Table 4.12.1 below. For LLR we have adopted a conservative position assuming the lowest rents identified in the GLA's published LLR ward rent data for 2019-2020 as set out Table 4.12.1.

Table 4.12.1: GLA published 2019-2020 LAR and LLR Weekly rents

| Unit type | LAR per week 2019/2020 (exclusive of service charge) | LLR per week 2019/2020 White Hart Lane Ward (inclusive of service charge) |
|----------------|--|---|
| 1 bed | £155.13 | £161.03 |
| 2 beds | £164.24 | £178.93 |
| 3 beds | £173.37 | £196.82 |
| 4 or more beds | £182.49 | £214.71 |

4.13 We have used our bespoke model which replicates how RPs undertake such appraisals to value the rented (AR, LAR, SR and LLR) affordable housing tenures. This model runs cashflows for the rented tenures in the Eastern CIL Zone area over a period of circa 35 years, which capitalises the net rental income stream. With respect to the SR

accommodation the model calculates the gross rent for these properties derived from a combination of relative property values (as at January 1999) and relative local earnings. The net rent is calculated by taking into account factors such as standard levels for individual registered providers (RP's) management and maintenance costs; finance rates currently obtainable in the sector; allowances for voids and bad debt.

- 4.14 RPs are permitted to increase rents by CPI plus 1% per annum and we have reflected this in our appraisals.
- 4.15 For shared ownership units, we have assumed that RPs will sell 25% initial equity stakes and charge a rent of 2.75% on the retained equity. A 10% charge for management is deducted from the rental income and the net amount is capitalised using a yield of 5%.
- 4.16 The CLG/HCA 'Shared Ownership and Affordable Homes Programme 2016-2021: Prospectus' document clearly states that Registered Providers will not receive grant funding for any affordable housing provided through planning obligations on developer-led developments. The Mayor of London's "Homes for Londoners Affordable Housing Programme 2016-21 Funding Guidance" (November 2018) identifies that *"The Mayor has secured £3.15bn from the Government to fund new affordable homes for Londoners. This funding is expected to support starts for at least 90,000 new affordable homes in London through to 2021. The Mayor and Government have agreed at least 58,500 of this total will be a combination of London Living Rent and shared ownership"*. The guidance goes on to set out that *"The GLA will fund affordable housing through three different routes:*
- *The Approved Provider route, with a single set grant rate for London Affordable Rent at or below the benchmarks, and a different set grant rate for both London Living Rent and London Shared Ownership;*
 - *The Developer-led route, with a single set grant rate to increase the level of affordable homes provided on section 106 sites;*
 - *Negotiated grant rates mainly for supported and specialised housing, and for London Affordable Rent at levels above the benchmarks.*

The GLA does not expect to allocate its entire available grant in this programme through the initial bidding round. There will be further opportunities to bid on an ongoing basis, once the initial allocations are made".

- 4.17 We therefore consider that developments receiving grant funding will be the exception rather than the rule and consequently, all our appraisals, which we rely upon for testing Haringey's updated Eastern CIL Zone rates assume nil grant. Clearly where grant funding does become available over the plan period, it should facilitate an increase in the provision of affordable housing when developments come forward.

PRS

- 4.18 We have tested the 50 unit and 100 unit schemes (Typologies 5 and 6) delivered as PRS schemes in the borough. Based on PRS schemes in the borough we have adopted the unit mix as set out in table 4.18 below.

Table 4.18 Unit mix adopted in PRS testing

| Site type | 1 Bed flat | 2 bed flat | 3 bed flat | 2 bed house | 3 bed house | 4 bed house |
|-------------|------------|------------|------------|-------------|-------------|-------------|
| Size (sq m) | 50 | 70 | 86 | 79 | 93 | 115 |
| | 40% | 45% | 15% | - | - | - |

- 4.19 We have adopted the rents as set out in Table 4.19.1 below following research into rents achievable in PRS schemes in the area using the Molior London database and our knowledge of viability of PRS schemes coming forward in the area. We have capitalised these rents at a net yield of 3.75%, in line with market research published by Knight Frank⁹ and CBRE¹⁰. As we have adopted a net yield we have included an allowance at the upper end of the range of 25% for operating costs (this accounts for the costs of maintenance, lettings management, repairs, void periods, insurance, utilities and replacement of fixtures and fittings etc). We consider this to be a conservative allowance as in our experience this figure can be lower. We have tested the delivery of such schemes at a range of affordable housing (40% to 5%) provided as DMR units included at LLRs (as identified by the GLA). We have also tested the schemes as 100% market rental units. We have allowed for a developer return/profit level of 15% on the revenue given the reduced risk associated with this form of residential development, as many schemes are forward funded and the risks associated with void periods etc. are already factored into the 25% operating costs.

Table 4.19.1 Rents adopted in PRS testing

| Unit type | Rent per month | London Living Rents per month ¹¹ |
|-----------|----------------|---|
| 1 bed | £1,300 | £700 |
| 2 beds | £1,700 | £778 |
| 3 beds | £2,500 | £855 |

Residential Build costs

- 4.20 We have sourced build costs for the residential schemes from the RICS Building Cost Information Service ('BCIS'), which is based on tenders for actual schemes adjusted to reflect local circumstances in Haringey. However, adjustments to the base costs are necessary to reflect other factors which are not included in BCIS. In addition to the build costs outlined below, our appraisals include a contingency of 5% of build costs. Our approach is set out in the following paragraphs.
- 4.21 **Houses:** we have used the mean average BCIS 'Estate housing terraced – generally' cost, which is currently £1,343 per square metre. In addition to these base costs, we have included an allowance which equates to an additional 15% of the base cost for external works and 2% for demolition and site preparation costs. We have assumed a gross to net ratio of 100%.
- 4.22 **Flats:** we have used the mean average BCIS 'Flats – generally' cost, which is currently £1,634 per square metre for the lower density schemes in the borough (Typologies 2 and 3). For the medium density schemes (typologies 4 and 5) we have used the upper quartile BCIS 'Flats – generally', which is currently £1,836 per square metre. For high density schemes (typologies 6, 7 and 8) we have adopted the mean BCIS 'Flats – 6+ storeys', which is currently £2,055 per square metre. In addition to these base costs, we have included an allowance which equates to an additional 15% of the base cost for external works and 2% for demolition and site preparation costs. Our appraisals assume a gross to net ratio of between 75% and 80% for flats, depending on the density and notional height of each scheme.
- 4.23 A further allowance of 4% has been included to account for sustainability and accessibility policy requirements. This is in line with advice contained in the GLA's Housing Standards Review Viability Assessment published in May 2015 and prepared by David Lock Associates with Hoare Lea and Gardiner and Theobald. This identified that, *"the estimated cost impact of the optional access requirements represents circa an additional 2-2.4% of base build cost for small low rise developments which is where the requirement for step free access to all*

⁹ Knight Frank Residential Yield Guide Q1 2017

¹⁰ CBRE UK Residential Property Investment Yields March 2017

¹¹ We have adopted a cautious position allowing for the lowest LLR's based on Northumberland Park ward

homes is an additional requirement to current London Plan standards". It goes on to identify

that, *"the estimated cost impact of moving to zero carbon homes in 2016 represents circa an additional 1-1.4% of base build cost."* We note that the most recent London Plan Viability Study dated December 2017 indicates that to meet the proposed energy performance a premium of circa £1,500 per dwelling over base build costs is required, which is covered by the 1.4% allowance on base build costs identified above and included in our appraisals.

Professional fees

- 4.24 In addition to base build costs, schemes will incur professional fees covering design, valuation highways and planning consultants and the cost of preparing and submitting the planning application and so on. Our appraisals incorporate a 10% - 12% allowance, dependant on the typology, which is at the middle to higher end of the range for most schemes. The two larger typologies (7 and 8) incorporate a 12% allowance and the remainder a 10% allowance.

Development finance

- 4.25 Our appraisals assume that development finance can be secured at a rate of 7%, inclusive of arrangement and exit fees, which is considered to be a conservative assumption of current funding conditions.

Marketing costs

- 4.26 Our appraisals incorporate an allowance of 3% for marketing costs, which includes show homes and agents' fees, plus 0.5% for sales legal fees.

Acquisition costs

- 4.27 Our appraisals deduct Stamp Duty at 5%, acquisition agent's fees at 1%; and acquisition legal fees at 0.8% of residual land value.

Section 106 costs

- 4.28 To account for residual Section 106 requirements, we have included a notional allowance of £1,000 per unit for residential schemes. This is an estimate and actual sums sought vary according to site specific circumstances, however the figure is considered by the Council to be a reasonable proxy for the likely sums to be sought.

Mayoral CIL

- 4.29 As previously noted, Mayoral CIL has been payable on most developments that received planning consent from 1 April 2012 onwards. The Mayor's Charging Schedule for MCIL2 has been in effect from 1 April 2019. MCIL2 increased the charge in Haringey to £60 per square metre across the whole area. We have accordingly adopted the higher MCIL2 rates within our assessment.

Haringey CIL

- 4.30 As noted previously, the Council started charging CIL on 1 November 2014. The rates of Borough CIL are summarised in Table 4.30.1. As with Mayoral CIL the borough's Charging Schedule rates are also subject to annual indexation. The figures below reflect the adopted rates and in italics the 2017 inflated charging rates (i.e. inflated from November 2013 to April 2019).

Table 4.30.1: Haringey adopted and indexed CIL rates

| Use | Western | Central | Eastern |
|---|----------------|----------------|--------------|
| Residential | £265 (£329.13) | £165 (£204.93) | £15 (£18.63) |
| Student Accommodation | £265 (£329.13) | £165 (£204.93) | £15 (£18.63) |
| Supermarkets ¹² | £95 (£117.99) | | |
| Retail Warehousing ¹³ | £25 (£31.05) | | |
| Office, industrial, warehousing, small scale retail (use class A1-A5) | Nil | | |
| Health, school and higher education | Nil | | |
| All other uses | Nil | | |

- 4.31 The amended CIL Regulations specify that if any part of an existing building is in lawful use for 6 months within the 36 months prior to the time at which planning permission first permits development, all of the existing floorspace will be deducted when determining the amount of chargeable floorspace. This will be the case for many development sites in Haringey. However, for the purposes of our appraisals, we have assumed that there is no deduction for existing floorspace. This represents a worst-case scenario, as most sites in Haringey are likely to benefit from at least some off-setting of existing floorspace against proposed floorspace.

Development and sales periods

- 4.32 Development and sales periods vary between type of scheme. However, our sales periods are based on an assumption of a sales rate of up to 8 units per month. This is reflective of current market conditions, whereas in improved markets, a sales rate of up to 10-12 units per month might be expected. We also note that many schemes in London have sold entirely off-plan, in some cases well in advance of completion of construction. Clearly markets are cyclical and sales periods will vary over the economic cycle and the extent to which units are sold off-plan will vary over time.

Developer's profit

- 4.33 Developer's profit is closely correlated with the perceived risk of residential development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme. In 2007, profit levels were at around 13-15% of GDV. However, following the impact of the credit crunch and the collapse in interbank lending and the various government bailouts of the banking sector, profit margins have increased. It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the Boards of the major housebuilders will set targets for minimum profit).
- 4.34 The views of the banks which fund development are more important; if the banks decline an application by a developer to borrow to fund a development, it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals.

¹² Superstores /supermarkets are defined as shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the units.

¹³ Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering mainly for bar borne customers.

- 4.35 The near collapse of the global banking system in the final quarter of 2008 has resulted in a much tighter regulatory system, with UK banks having to take a much more cautious approach to all lending. In this context, and against the backdrop of the sovereign debt crisis in the Eurozone, the banks were for a time reluctant to allow profit levels to decrease. Perceived risk in the UK housing market had been receding with a range of developer profit of between 17% to 20% of private housing GDV being seen on developments across London, but the outcome of the referendum on the UK's membership of the European Union has resulted in a degree of uncertainty about the future trajectory of house prices, particularly in prime central London markets. Paragraph 018 of the PPG indicates that planning authorities should consider profit margins between 15% to 20% of GDV. We have therefore adopted a profit margin of 20% on private housing GDV for testing purposes (being at the higher end of the range previously experienced), although individual schemes may require lower or higher profits, depending on site specific circumstances.
- 4.36 Our assumed return on affordable housing GDV is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an RP prior to commencement. Any risk associated with take up of intermediate housing is borne by the acquiring RP, not by the developer. A reduced profit level on the affordable housing reflects the GLA 'Development Control Toolkit' guidance (February 2014) and the former Homes and Communities Agency's ('HCA') guidelines in its Development Appraisal Tool (August 2013). The NPPG on Viability also identifies that, *"A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk"* (Para 018).

Exceptional costs

- 4.37 Exceptional costs can be an issue for development viability on previously developed land. Exceptional costs relate to works that are 'atypical', such as remediation of sites in former industrial use and that are over and above standard build costs. However, in the absence of detailed site investigations, it is not possible to provide a reliable estimate of what exceptional costs might be, further these costs will vary on a site by site basis. Our analysis therefore excludes exceptional costs, as to apply a blanket allowance would generate misleading results. An 'average' level of costs for abnormal ground conditions and some other 'abnormal' costs is already reflected in BCIS data, as such costs are frequently encountered on sites that form the basis of the BCIS data sample.
- 4.38 It is expected however, that when purchasing previously developed sites developers will have undertaken reasonable levels of due diligence and would therefore have reflected obvious remediation costs/suitable contingencies into their purchase price.

Benchmark land values for residential analysis

- 4.39 The NPPG on Viability indicates that benchmark land values should be based on existing use value plus a premium to incentivise the release of sites for development. The NPPG states very clearly that transactional data should be treated with caution, as using historic transaction of non-policy compliant developments can inflate land values over time (Para 014). The NPPG also states that local planning authorities should not rely upon prices paid for sites for establishing benchmark land values and that hope value should be disregarded (Para 015). Furthermore, the NPPG indicates that any premium to be added to existing use value should provide an incentive to landowners to bring land forward, but critically this must be balanced with the need to provide *"a sufficient contribution to comply with policy requirements"* (Para 016).
- 4.40 Benchmark land values, based on the existing use value or alternative use value of sites are key considerations in the assessment of development economics for testing planning policies and tariffs. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the

land's existing use value. Existing use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. Existing use value or alternative use value are effectively the 'bottom line' in a financial sense and therefore a key factor in this study.

- 4.41 We have arrived at a broad judgement on the likely range of benchmark land values. On previously developed sites, the calculations assume that the landowner has made a judgement that the current use does not yield an optimum use of the site; for example, it has fewer storeys than neighbouring buildings; or there is a general lack of demand for the type of space, resulting in low rentals, high yields and high vacancies (or in some cases no occupation at all over a lengthy period). We would not expect a building which makes optimum use of a site and that is attracting a reasonable rent to come forward for development, as residual value may not exceed current use value in these circumstances.
- 4.42 The four benchmark land values used in this study (see Table 4.48 below) have been selected to provide a broad indication of likely land values across the borough, but it is important to recognise that other site uses and values may exist on the ground. There can never be a single threshold land value at which we can say definitively that land will come forward for development, especially in urban areas.
- 4.43 It is also necessary to recognise that a landowner will require an additional incentive to release the site for development¹⁴. The premium above current use value would be reflective of specific site circumstances (the primary factors being the occupancy level and strength of demand from alternative occupiers). For policy testing purposes it is not possible to reflect the circumstances of each individual site, so a blanket assumption of a 20% premium has been adopted, which is towards the higher end of the scale.
- 4.44 Redevelopment proposals that generate residual land values below existing use values are unlikely to be delivered. While any such thresholds are only a guide in 'normal' development circumstances, it does not imply that individual landowners, in particular financial circumstances, will not bring sites forward at a lower return or indeed require a higher return. If proven existing use value justifies a higher benchmark than those assumed, then appropriate adjustments may be necessary. As such, existing use values should be regarded as benchmarks rather than definitive fixed variables on a site by site basis.

Benchmark land values

- 4.45 **Benchmark Land Value 1:** This benchmark assumes higher value secondary office space on a hectare of land, with 40% site coverage and 4 storeys. The rent assumed is based on lettings of second hand offices in the borough at £166.30 per square metre (£15.45 per square foot). We have assumed a £538.20 per square metre (£50 per square foot) allowance for refurbishment and a letting void of three years. The capital value of the building would be £9.181 million, to which we have added a 20% premium, resulting in a benchmark of £11.017 million.
- 4.46 **Benchmark Land Value 2:** This benchmark assumes lower value secondary office space on a hectare of land, with 40% site coverage and 4 storeys. The rent assumed is based on lettings of second hand offices in the borough at £107.64 per square metre (£10 per square foot). We have assumed a £538.20 per square foot (£50 per square foot) allowance for refurbishment and a letting void of three years. The capital value of the building would be £4.173 million, to which we have added a 20% premium, resulting in a benchmark of £5.007 million.

¹⁴ This approach is therefore consistent with the NPPG, which sets out that, "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+) (Para 013)

- 4.47 **Benchmark Land Value 3:** This benchmark assumes secondary industrial/storage/distribution space on a hectare of land, with 60% site coverage and 1.5 storeys. The rent assumed is based on such lettings of second hand premises in the borough at £56.51 per square metre (£5.25 per square foot). We have assumed a £269.10 per square metre (£25 square foot) allowance for refurbishment and a letting void of two and a half years. The capital value of the building would be £2.823 million, to which we have added a 20% premium, resulting in a benchmark of £3.387 million.
- 4.48 **Benchmark Land Value 4:** This benchmark assumes community use on a hectare of land, with 50% site coverage and 1.5 storeys. The rent assumed is based on lettings of such space in the borough at £48.44 per square metre (£4.50 square foot). We have assumed a letting void of two and a half years. The capital value of the building would be £1.996 million, to which we have added a 20% premium, resulting in a benchmark of £2.395 million.

Table 4.48.1: Summary of Benchmark Land Values

| Use | Benchmark per gross hectare |
|---|-----------------------------|
| Higher Value Secondary Offices | £11,017,000 |
| Lower Value Secondary Offices | £ 5,007,000 |
| Secondary Industrial/Storage/Distribution | £ 3,387,000 |
| Community Use | £ 2,395,000 |

Student Accommodation and Warehouse Living

- 4.49 As part of this review we have considered the viability of purpose built student accommodation in the Eastern CIL Zone and the new residential use Warehouse Living in the borough. The Eastern CIL area has in particular seen a significant quantum of student accommodation consented and developed since Haringey's CIL Charging schedule was adopted. Current student accommodation CIL charges are set at the same level as residential developments. Given the quantum of student accommodation development that has come forward in the Eastern CIL Zone, the Council has requested we undertake testing of such developments. With respect to Warehouse Living, the designated Warehouse Living district is located within the Eastern CIL Zone. This was not considered within the last Charging Schedule, however given the significant quantum of development of such space in recent years and the formalisation of this new type of residential accommodation, the Council has requested that the viability of this use is assessed as part of this review.
- 4.50 We have appraised development typologies reflecting these uses at average rent levels achieved on lettings of such space in actual developments. In each case, our assessment assumes an intensification of the site, based on three current commercial uses of the site, providing a range of current use values. In each case, the existing use value assumes that the existing building is 30%-50% of the size of the new development, with a lower rent and higher yield reflecting the secondary nature of the building.

Rents and yields

- 4.51 Table 4.53.1 summarises our assumptions on appropriate rents and yields to arrive at a capital value of the commercial space. New build developments are on the whole likely to attract a premium rent above second hand rents.
- 4.52 Our appraisals of student and warehouse living developments test the viability of developments on commercial sites. We have assumed lower rents and higher yields for existing space than the planned new floorspace. This reflects the lower quality and lower demand for second hand space, as well as the poorer covenant strength of the likely occupier of second hand space. A modest refurbishment cost is allowed for to reflect costs that would be incurred to secure a letting of the existing space. A 20% landowner premium is added to the resulting existing use value as an incentive for the site to come forward for

development. The actual premium would vary between sites, and be determined by site-specific circumstances, so the 20% premium has been adopted as a 'top of range' scenario for testing purposes.

Build costs

- 4.53 We have sourced build costs from the BCIS, which is based on tenders for actual schemes. These costs vary between different uses and exclude external works and fees (our appraisals include separate allowances for these costs). Costs for each type of development are shown in Table 4.53.1.
- 4.54 It is noted that the Council's Policy SP4 'Working towards a low carbon Haringey' in the SP DPD sets out the Council's aspiration to achieve at least BREEAM 'very good' with an aim to achieve 'Excellent' on all non-residential development. In this regard we have included an allowance of 2% of base build costs towards achieving BREEAM 'very good' in our commercial appraisals, which reflects the advice contained in the BREEAM and Sweett Group Research 'Delivering Sustainable Buildings: savings and payback' 2014.

Profit

- 4.55 In common with residential schemes, commercial schemes need to show a risk adjusted profit to secure funding. Profit levels are typically around 20% of developments costs and we have incorporated this assumption into our appraisals.

Residual Section 106 costs

- 4.56 The extent to which the Council will seek Section 106 contributions on commercial floorspace is unclear at this stage, but we have incorporated a notional £20 per square metre allowance. This figure is considered to be a reasonable proxy for likely sums to be sought after CIL is adopted. It is noted that Section 106 contributions will remain negotiable and in this regard there is scope for these to flex according to viability.

Table 4.53.1: Student Accommodation and Warehouse Living appraisal assumptions

| Appraisal input | Source/Commentary | Student Accommodation | Warehouse Living |
|---|--|---|--|
| Total floor area sq m (sq ft) | Scheme | 500 rooms 13 239 sq m (142,500 sq ft) based on 26.48 sq m (285 sq ft) per room | (4 flats with 16 rooms in total) 1,060 sq m (11,408 sq ft) |
| Rent | Based on average lettings sourced from EGI and Focus | £179 per week for standard room £155 per week for affordable room £250 per week for a studio Blended rate adopted of £173 per week (60% market rent, 40% affordable rooms) | £700 per room per calendar month. |
| Rent free/void period (years) | BNPPRE assumption | 95% occupancy of rooms | 95% occupancy of rooms |
| Yield | BNPPRE prime yield schedule | 4.75% | 4.75% |
| Purchaser's costs (% of GDV) | Stamp duty 4%, plus agent's and legal fees | 6.80% | 6.8% |
| Demolition costs £s per sq m (£s per sq ft) of existing space | Based on experience from individual schemes | (£8) | N/A |

| Appraisal input | Source/Commentary | Student Accommodation | Warehouse Living |
|---|---|---|--|
| Gross to net (net as % of gross) | Based on experience from individual schemes | N/A as rent based on per room and room size based on gross area per room. | N/A as rent based on per room and size of warehouse based on gross area. |
| Base construction costs per sq m (£s per sq ft) | BCIS costs. Student Accommodation – ‘generally’ mean and Rehabilitation / conversion Flats ‘Generally’ mean | £2,038 per sq m (£189.33 per sq ft) | £1,061 per sq m (£98.57 per sq ft) |
| BREEAM Very Good (% of base build costs) | | 2% | N/A |
| External works (% of base build costs) | BNPPRE assumption | 10% | 0% |
| Contingency (% of build costs) | BNPPRE assumption | 5% | 5% |
| Letting agent's fee | (% of first year's rent) | N/A | N/A |
| Agent's fees and legal fees | (% of capital value) | 1.5% | 1.75% |
| Interest rate | BNPPRE assumption | 7% | 7% |
| Professional fees (% of build) | BNPPRE assumption, relates to complexity of scheme | 10% | 8% |
| Profit (% of costs) | BNPPRE assumption based on schemes submitted for planning | 20% | 20% |

Table 4.53.2 Student Accommodation and Warehouse Living appraisal assumptions – current use benchmarks

| Appraisal input | Source/Commentary | Student Accommodation | Warehouse Living |
|---|--|----------------------------------|----------------------------------|
| Existing floorspace | Assumed to be between 30% to 50% of new space (N.B. appraisals do not discount existing floorspace) | 50% | 100% |
| Rent on existing floorspace £ per sq m (£s per sq ft) | Reflects three types of poor quality second hand space (industrial, office and retail as appropriate), low optimisation of site etc. and ripe for redevelopment. | £129.17 per sq m (£12 per sq ft) | £43.06 per sq m (£4 per sq ft) |
| Yield on existing floorspace | BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc. | 7% | 8% |
| Rent free on existing space | Years | 2 | 3 |
| Refurbishment costs £ per sq m (£s per sq ft) | General allowance for bringing existing space up to lettable standard | £322.92 per sq m (£30 per sq ft) | £269.10 per sq m (£25 per sq ft) |
| Fees on refurbishment (% of refurb cost) | BNPPRE assumption | 7% | 7% |
| Landowner premium | BNPPRE assumption – in reality the premium is likely to be lower, therefore this is a conservative assumption | 20% | 20% |

5 Appraisal outputs

- 5.1 The full outputs from our appraisals of the various developments tested are set out in Section 6 and appendices 1 to 9. We have modelled eight development typologies, reflecting different densities and types of development in the borough. These have been tested against the typical land value benchmarks for the borough.

Residential appraisals scenarios tested

- 5.2 The purpose of the exercise is to test whether the rate of CIL can be varied from the current rates in the adopted Charging Schedule. We have therefore tested the eight development typologies with 40% to 10% affordable housing to reflect the range of affordable housing delivered on actual developments across the borough. The affordable housing has also been tested with a range of affordable housing tenures with 60% provided as affordable rented accommodation and 40% intermediate accommodation with the exception of the Tottenham AAP area where the tenure split is 40% affordable rented accommodation and 60% intermediate accommodation. We set out below the scenarios tested:
- 1 Policy position with base sales values and base costs (including extra overs for planning policy requirements);
 - 40% affordable housing (60% rented 40% intermediate) with the following tenures tested:
 - Rented as AR @LHA and intermediate as SO;
 - Rented as LAR and intermediate as SO;
 - Rented as SR and intermediate as SO; and
 - Rented as SR and intermediate as DMR at LLR.
 - 40% affordable housing (40% rented 60% intermediate) in Tottenham AAP area with the following tenures tested:
 - Rented as AR @LHA and intermediate as SO;
 - Rented as LAR and intermediate as SO;
 - Rented as SR and intermediate as SO; and
 - Rented as SR and intermediate as DMR at LLR.
 - 0% affordable housing for typologies 1 which falls below the threshold.
 - 2 As (1) above with 30%, 20%, 10% and 0% affordable housing;
 - 3 As (1) above with 10% increase in sales values and 5% increase in build costs; and
 - 4 As (1) above with 5% fall in sales values.
- 5.3 CIL applies to net additional floor area only. Our base appraisals assume no deduction for existing floorspace, thereby providing the worst case scenario¹⁵.
- 5.4 The residual land values from each of the scenarios above are then compared to the benchmark land value based on the assumptions set out in paragraphs 4.45 to 4.48. This comparison enables us to determine whether the imposition of higher rates of CIL than those in the adopted Charging Schedule (with indexation) would have a significant impact on development viability. In some cases, the equation RLV less BLV results in a negative number, so the development would not proceed, whether the adopted level of CIL was imposed or not. Given that the rates would apply to such scenarios currently, as the CIL is in force, the question we need to explore is the extent to which a higher rate of CIL would significantly change the result, such that the scheme would almost certainly not come forward.

¹⁵ Existing buildings must be occupied for their lawful use for at least six months in the three years prior to grant of planning permission to qualify as existing floorspace for the purposes of calculating CIL liability.

- 5.5 The results for each site type are presented in tables showing the CIL rate and the corresponding RLV (which is then converted into a RLV per hectare). The RLV per hectare is then compared to the four benchmark land values, which are also expressed as a per hectare value. Where the RLV exceeds the benchmark, the amount of CIL entered into the appraisal is considered viable.
- 5.6 A sample of the format of the results is provided in Figure 5.6.1 below. This sample relates to site type 3.

Figure 5.6.1: Sample format of residential results

**Community Infrastructure Levy
LB Haringey**

Benchmark Land Values (per gross ha)

| BLV1 | BLV2 | BLV3 | BLV4 |
|--------------------------------------|-----------------------------------|--|---------------|
| Higher Value Secondary offices | Low er Value Secondary offices | Secondary Industrial/Storage/ Distribution | Community Use |
| £11,017,000 | £5,007,000 | £3,387,000 | £2,395,000 |

Site type 3

| | |
|-----------------|----------|
| | Flats |
| No of units | 11 units |
| Density: | 140 dph |
| Sustainability: | 1 |

| | |
|---------------------|-----|
| Affordable % | 40% |
| % Social rent | 60% |
| % Shared owner | 40% |

| | |
|--------------|---------|
| Site area | 0.08 ha |
| Net to gross | 100% |

| | |
|---------------|----|
| Growth | |
| Sales | 0% |
| Build | 0% |

Eastern CIL Zone

Private values £6728 psm

| CIL amount per sq m | RLV | RLV per ha | RLV less BLV 1 | RLV less BLV 2 | RLV less BLV 3 | RLV less BLV 4 |
|------------------------|---------|------------|----------------|----------------|----------------|----------------|
| 0 | 390,775 | 4,973,497 | -6,043,503 | -33,503 | 1,586,497 | 2,578,497 |
| 65 | 349,900 | 4,453,271 | -6,563,729 | -553,729 | 1,066,271 | 2,058,271 |
| 85 | 339,391 | 4,319,525 | -6,697,475 | -687,475 | 932,525 | 1,924,525 |
| 105 | 328,882 | 4,185,767 | -6,831,233 | -821,233 | 798,767 | 1,790,767 |
| 125 | 318,373 | 4,052,021 | -6,964,979 | -954,979 | 665,021 | 1,657,021 |
| 145 | 307,865 | 3,918,276 | -7,098,724 | -1,088,724 | 531,276 | 1,523,276 |
| 165 | 297,356 | 3,784,530 | -7,232,470 | -1,222,470 | 397,530 | 1,389,530 |
| 185 | 286,846 | 3,650,772 | -7,366,228 | -1,356,228 | 263,772 | 1,255,772 |
| 205 | 276,338 | 3,517,027 | -7,499,973 | -1,489,973 | 130,027 | 1,122,027 |
| 225 | 265,829 | 3,383,281 | -7,633,719 | -1,623,719 | -3,719 | 988,281 |
| 275 | 239,557 | 3,048,911 | -7,968,089 | -1,958,089 | -338,089 | 653,911 |
| 300 | 226,421 | 2,881,719 | -8,135,281 | -2,125,281 | -505,281 | 486,719 |
| 325 | 213,284 | 2,714,528 | -8,302,472 | -2,292,472 | -672,472 | 319,528 |
| 350 | 200,149 | 2,547,349 | -8,469,651 | -2,459,651 | -839,651 | 152,349 |
| 400 | 173,877 | 2,212,979 | -8,804,021 | -2,794,021 | -1,174,021 | -182,021 |
| 435 | 155,487 | 1,978,921 | -9,038,079 | -3,028,079 | -1,408,079 | -416,079 |

6 Assessment of the results

- 6.1 This section sets out the results of our appraisals. This section should be read in conjunction with the full results attached at **Appendices 1 to 6** (residential appraisal results), **Appendix 7** (PRS appraisal results), **Appendix 8** (student accommodation appraisals) and **Appendix 9** (Warehouse living appraisals). In these results, the residual land values are calculated for scenarios with sales values and capital values reflective of market conditions across the borough. These residual land values are then compared to appropriate benchmark land values. The maximum CIL rates for each scheme and scenario are determined by deducting the benchmark land values from the residual land value and dividing any surplus by the number of square metres that would – in principle – be liable to pay CIL. On residential schemes for example, this means that the maximum CIL rates are determined by reference to the private floor area only, with affordable housing floorspace excluded from the calculation. This provides a significant number of results, depending on other factors tested, most notably the level of affordable housing.
- 6.2 The CIL regulations state that in setting a charge, local authorities *must 'strike an appropriate balance'* between securing sufficient revenue to fund necessary infrastructure on the one hand and the potentially adverse impact of CIL upon the viability of development across the whole area on the other. Our recommendations are that:
- Firstly, councils should take a strategic view of viability. There will always be variations in viability between individual sites, but viability testing should establish the most typical viability position; not the exceptional situations.
 - Secondly, councils should take a balanced view of viability – residual valuations are just one factor influencing a developer's decision making – the same applies to local authorities.
 - Thirdly, while a single charge is attractive, it may not be appropriate for all authorities, particularly in areas where sales values vary between areas.
 - Fourthly, markets are cyclical and subject to change over short periods of time. Sensitivity testing to sensitivity test levels of CIL to ensure they are robust in the event that market conditions improve over the life of a Charging Schedule is essential.
 - Fifthly, local authorities should not set their rates of CIL at the limits of viability. They should leave a margin or contingency to allow for change and site specific viability issues.
- 6.3 CIL rates should not necessarily be determined solely by viability evidence, but should not be logically contrary to the evidence. Councils should not follow a mechanistic process when setting rates – appraisals are just a guide to viability and are widely understood to be a less than precise tool.
- 6.4 This conclusion follows guidance in paragraph: Para 020 Ref ID: 25-020-20190901 of the NPPG on CIL, which states that *'there is no requirement for a proposed rate to exactly mirror the evidence... There is room for some pragmatism'*. Further, Para: 022 Ref ID: 25-022-20190901 of the NPPG identifies that, *'a charging authority that plans to set differential levy rates should seek to avoid undue complexity'*.

Residential development

- 6.5 As CIL is intended to operate as a fixed charge, the Council will need to consider the impact of any increase in the Eastern Charging Zone CIL rate on two key factors. Firstly, the need to strike a balance between securing enough revenue to invest in infrastructure on the one hand and the need to *minimise* the impact upon development viability on the other. Secondly, as CIL will effectively take a 'top-slice' of development value, there is a potential impact on the percentage or tenure mix of affordable housing that can be secured. This is a change from the historic system of negotiated financial contributions, where the planning authority can weigh the need for contributions against the requirement that schemes need to contribute towards affordable housing provision.
- 6.6 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable *regardless* of the level of CIL (including a nil rate) and schemes that are viable *prior* to the imposition of CIL at certain levels. If a scheme is unviable before CIL is levied, it is unlikely to come forward and CIL would not be a critical factor. We have therefore disregarded the 'unviable' schemes in recommending an appropriate level of CIL. The unviable schemes will only become viable following a degree of real house price inflation, or in the event that the Council agrees to a lower level of affordable housing for particular sites in the short term.
- 6.7 The critical issue to consider, therefore, is the extent to which an increase in CIL rates in the Eastern Charging Zone would move a development typology from showing as viable to being either only marginally viable or unviable. If there are many instances where this shift occurs, then the Council should avoid increasing CIL rates to avoid adversely impacting on housing and commercial land supply. If on the other hand, the impact is relatively modest, then the Council could confidently increase the CIL rates in the knowledge that land supply is unlikely to be affected.

The potential impact of increased CIL rates on development viability

- 6.8 As noted in paragraph 6.6, where a scheme is unviable the imposition of CIL at a zero level will not make the scheme viable. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable. For the purposes of establishing whether the currently adopted CIL rates can be revised upwards, we have undertaken an exercise which compares (a) residual values for each development typology reflecting the prevailing CIL rates to (b) residual values of each typology with a series of increased CIL rates.
- 6.9 There is clearly a balance that has to be struck between the aims of the Council's affordable housing policy and recent changes to the preferred tenure aspirations for affordable housing sought from schemes coming forward in the borough. Policy SP2 (Housing), Policy DM13 (Affordable Housing) and Policy AAP3 (Housing) set out the Council's policy position on the delivery of affordable housing (which sets a target of 40%, subject to individual scheme viability) and securing adequate contributions towards infrastructure from the developments that contribute towards the need for new infrastructure. The CIL rate cannot therefore be set on the basis that every single development typology right across the borough will deliver 40% affordable housing, as this is not always viable.
- 6.10 All the results for the Eastern Charging Zone summarised in tables 6.10.1 and 6.10.2 below assume that current affordable housing target of 40% is met in full and considers the impact of different affordable tenures and tenure splits. Notwithstanding this, we note that Site Type 1 is a scheme which falls below the affordable housing threshold, and the results below are based on 0% affordable housing.
- 6.11 We have however considered the full range of results of testing where we have included between 10% and 40% affordable housing, as the Council will need to secure adequate amounts of funding to support new development. Affordable housing cannot be maximised to the total exclusion of securing infrastructure funding and vice versa.

- 6.12 The appraisals generate a very wide spread of potential CIL rates, depending on the benchmark land value, residential sales values and the affordable housing tenure mix within each development typology. As one would expect, the capacity for schemes to absorb CIL is greater where the benchmark land value is lowest. Furthermore, it is clear that the capacity to absorb CIL contributions declines as the percentage of affordable housing increases and more affordable tenures of affordable housing are included.
- 6.13 Table 6.10.1 sets out a summary of the Maximum CIL charges at 40% affordable housing indicated by our appraisals inclusive of Mayoral CIL. Table 6.10.2 sets out a summary of the Maximum Borough CIL charges at 40% affordable housing indicated by our appraisals i.e. they exclude Mayoral CIL.

Table 6.10.1: Summary of Maximum CIL Results (inclusive of Mayoral CIL) at 40% affordable housing (£ per square metre)

| | Benchmark land value 1 - Higher Value Secondary Offices | | | | | | | | Benchmark land value 2- Lower Value Secondary Offices | | | | | | | |
|----------------------------|---|---------|---------------------|---------|--------------------|---------|---------------------------|---------|---|---------|---------------------|---------|--------------------|---------|---------------------------|---------|
| <i>Tenure tested</i> | <i>AR & SO</i> | | <i>LAR & SO</i> | | <i>SR & SO</i> | | <i>SR & DMR @ LLR</i> | | <i>AR & SO</i> | | <i>LAR & SO</i> | | <i>SR & SO</i> | | <i>SR & DMR @ LLR</i> | |
| <i>Affordable hsg %</i> | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% |
| <i>Tenure split</i> | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 |
| T1 - 5 Houses (NB - 0% AH) | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | NV | NV |
| T2 - 10 Flats | NV | NV | NV | NV | NV | NV | NV | NV | 435 | 435 | 435 | 435 | NV | 300 | NV | NV |
| T3 - 11 Flats | NV | NV | NV | NV | NV | NV | NV | NV | 435 | 435 | 435 | 435 | NV | 325 | NV | NV |
| T4 - 25 Flats | NV | NV | NV | NV | NV | NV | NV | NV | 85 | 185 | 0 | 145 | NV | NV | NV | NV |
| T5 - 50 Flats | NV | NV | NV | NV | NV | NV | NV | NV | 165 | 275 | 105 | 225 | NV | NV | NV | NV |
| T6 - 100 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV |
| T7 - 250 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV |
| T8 - 500 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV |

| | Benchmark land value 3 - Secondary Industrial/Storage/Distribution | | | | | | | | Benchmark land value 4- Community Use | | | | | | | |
|----------------------------|--|---------|---------------------|---------|--------------------|---------|---------------------------|---------|---------------------------------------|---------|---------------------|---------|--------------------|---------|---------------------------|---------|
| <i>Tenure tested</i> | <i>AR & SO</i> | | <i>LAR & SO</i> | | <i>SR & SO</i> | | <i>SR & DMR @ LLR</i> | | <i>AR & SO</i> | | <i>LAR & SO</i> | | <i>SR & SO</i> | | <i>SR & DMR @ LLR</i> | |
| <i>Affordable hsg %</i> | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% |
| <i>Tenure split</i> | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 |
| T1 - 5 Houses (NB - 0% AH) | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 | 435 |
| T2 - 10 Flats | 435 | 435 | 435 | 435 | 185 | 435 | NV | NV | 435 | 435 | 435 | 435 | 350 | 435 | NV | NV |
| T3 - 11 Flats | 435 | 435 | 435 | 435 | 205 | 435 | NV | NV | 435 | 435 | 435 | 435 | 350 | 435 | NV | NV |
| T4 - 25 Flats | 300 | 400 | 225 | 350 | NV | NV | NV | NV | 435 | 435 | 400 | 435 | NV | 125 | NV | NV |
| T5 - 50 Flats | 350 | 435 | 300 | 435 | NV | 0 | NV | NV | 435 | 435 | 435 | 435 | NV | 165 | NV | NV |
| T6 - 100 Flats | NV | 0 | NV | NV | NV | NV | NV | NV | NV | 85 | NV | 0 | NV | NV | NV | NV |
| T7 - 250 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV |
| T8 - 500 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV |

Table 6.10.2: Summary of Maximum Borough CIL Results (exclusive of Mayoral CIL) at 40% affordable housing (£ per square metre)

| | Benchmark land value 1 - Higher Value Secondary Offices | | | | | | | | Benchmark land value 2- Lower Value Secondary Offices | | | | | | | |
|----------------------------|---|---------|---------------------|---------|--------------------|---------|---------------------------|---------|---|---------|---------------------|---------|--------------------|---------|---------------------------|---------|
| <i>Tenure tested</i> | <i>AR & SO</i> | | <i>LAR & SO</i> | | <i>SR & SO</i> | | <i>SR & DMR @ LLR</i> | | <i>AR & SO</i> | | <i>LAR & SO</i> | | <i>SR & SO</i> | | <i>SR & DMR @ LLR</i> | |
| <i>Affordable hsg %</i> | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% |
| <i>Tenure split</i> | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 |
| T1 - 5 Houses (NB - 0% AH) | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | NV | NV |
| T2 - 10 Flats | NV | NV | NV | NV | NV | NV | NV | NV | 375 | 375 | 375 | 375 | NV | 240 | NV | NV |
| T3 - 11 Flats | NV | NV | NV | NV | NV | NV | NV | NV | 375 | 375 | 375 | 375 | NV | 265 | NV | NV |
| T4 - 25 Flats | NV | NV | NV | NV | NV | NV | NV | NV | 25 | 125 | NV | 85 | NV | NV | NV | NV |
| T5 - 50 Flats | NV | NV | NV | NV | NV | NV | NV | NV | 105 | 215 | 45 | 165 | NV | NV | NV | NV |
| T6 - 100 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV |
| T7 - 250 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV |
| T8 - 500 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV |

| | Benchmark land value 3 - Secondary Industrial/Storage/Distribution | | | | | | | | Benchmark land value 4- Community Use | | | | | | | |
|----------------------------|--|---------|---------------------|---------|--------------------|---------|---------------------------|---------|---------------------------------------|---------|---------------------|---------|--------------------|---------|---------------------------|---------|
| <i>Tenure tested</i> | <i>AR & SO</i> | | <i>LAR & SO</i> | | <i>SR & SO</i> | | <i>SR & DMR @ LLR</i> | | <i>AR & SO</i> | | <i>LAR & SO</i> | | <i>SR & SO</i> | | <i>SR & DMR @ LLR</i> | |
| <i>Affordable hsg %</i> | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% |
| <i>Tenure split</i> | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 | 60 : 40 | 40 : 60 |
| T1 - 5 Houses (NB - 0% AH) | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 | 375 |
| T2 - 10 Flats | 375 | 375 | 375 | 375 | 125 | 375 | NV | NV | 375 | 375 | 375 | 375 | 290 | 375 | NV | NV |
| T3 - 11 Flats | 375 | 375 | 375 | 375 | 145 | 375 | NV | NV | 375 | 375 | 375 | 375 | 290 | 375 | NV | NV |
| T4 - 25 Flats | 240 | 340 | 165 | 290 | NV | NV | NV | NV | 375 | 375 | 340 | 375 | NV | 65 | NV | NV |
| T5 - 50 Flats | 290 | 375 | 240 | 375 | NV | NV | NV | NV | 375 | 375 | 375 | 375 | NV | 105 | NV | NV |
| T6 - 100 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | 25 | NV | NV | NV | NV | NV | NV |
| T7 - 250 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV |
| T8 - 500 Flats | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV | NV |

- 6.14 Site types 2 and 3 are small scale flatted developments from which the Council would seek affordable housing. The results of our appraisals identify that dependant on the affordable housing tenure and split and benchmark land value, these schemes could support a maximum Borough CIL charge of between £65 per square metre and £375 per square metre at 40% affordable housing.
- 6.15 Site types 4 and 5 are medium density flatted developments of 25 and 50 units respectively. Such schemes incur higher build costs than the previous typologies and as a result this has an impact on the residual land values. As with site types 2 and 3 the results of our appraisals identify that dependant on the affordable housing tenure and split and benchmark land value, these schemes could support a CIL charge. The maximum viable borough CIL charge is identified as being between £25 per square metre and £375 per square metre at 40% affordable housing.
- 6.16 Site Types 6, 7 and 8 reflect high density flatted schemes. These schemes incur higher build costs than the previous schemes and understandably this can be seen to impact on viability. They are unviable in all except one instance at 40% affordable housing. Consequently, the imposition of a CIL charge cannot be considered to detrimentally impact on the viability or deliverability of such schemes in these locations.
- 6.17 When considering the results set out in tables 6.10.1 and 6.10.2, in conjunction with the sensitivity testing scenarios of lower levels of affordable housing, which reflects the range of affordable housing delivered on actual developments across the borough, it is noted that viability across the typology schemes is achievable. At lower affordable housing levels the maximum viable borough CIL charge dependant on the affordable housing tenure and split and benchmark land value is identified as being between £25 per square metre and £375 per square metre.
- 6.18 The results of our appraisals identify that at 40% affordable housing delivered as SR and DMR at LLR tenures viability is challenging. However our appraisals at lower levels of affordable housing do demonstrate some viability to accommodate a CIL charge. As identified above, the imposition of CIL at a zero level on such schemes will not make the scheme viable, rather other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable.
- 6.19 In the Eastern CIL Zone the flexibility of the Council's affordable housing policy will ensure that developments come forward. This would enable the Council to seek contributions towards infrastructure delivery as well as reasonable levels of affordable housing.

Sensitivity growth in sales values and increases in build costs

- 6.20 As noted in Section 5, we carried out further analyses which consider the impact of increases in sales values of 10%, accompanied by an increase in build costs of 5%. This data is illustrative only, as the future housing market trajectory is uncertain. However, if such increases were to occur, the tables contained within Appendix 5 set out the results of consequential impacts on how increased levels of CIL might be absorbed by developments. It is also worth noting that given the predicted improvement in the market in the medium term, there may be potential for developer's return/profits to reduce in future to the levels that were starting to be seen prior to the result of the EU Referendum vote. This would further improve viability, as would the ability for S106 developments to secure grant funding for affordable housing.

Suggested CIL rates

- 6.21 Although the results indicate that viability of residential development is currently challenging on certain types of development, it is possible for the Council to continue to levy rates across the Eastern CIL Zone and increase the rates, subject to allowing for a buffer or margin to address risks to delivery.

- 6.22 As previously identified we reiterate that it is important to consider that where a scheme is shown as unviable before the application of CIL, it will be movements in other key appraisal variables such as sales values and build costs that enable a scheme to become viable.
- 6.23 In arriving at a conclusion on recommended rates, it is necessary to consider the different weight that should be attached to appraisal results tested against each of the four benchmark land values. Where the appraisals indicate that the residual values generated by residential schemes are unlikely to outperform specific benchmark land values these buildings are more likely to remain in their existing use, rather than be redeveloped.
- 6.24 In determining the maximum levels of CIL and the recommended rates, we have based our assessment on current costs and values only. We have run a set of appraisals that show the impact of an increase in sales values, accompanied by an increase in build costs and a further set of results that show the impact of a fall in sales values (the results are set out at **appendices 5 and 6**). These appraisals provide an indication of the likely movement in viability that any 'buffer' below the maximum rates would need to accommodate.
- 6.25 The maximum rates of CIL indicated by our appraisals are outlined below. Given the range of results above, and the risk factors outlined in the previous paragraph, our conclusion is that the rates of CIL that the Council might set – having regard to the range of the results and taking account of viability across the borough as a whole are as shown in Table 6.25.1 below.

Table 6.25.1: Maximum and suggested Residential CIL rates based on evidence

| Tenure Tested | Maximum CIL Analysis £ per sq m (inclusive of Mayoral CIL) | Maximum Borough CIL £ per sq m | Proposed CIL Charges allowing for buffer |
|----------------|--|--------------------------------|--|
| AR & SO | £205 | £145 | £115 |
| LAR & SO | £205 | £145 | £115 |
| SR & SO | £145 | £85 | £65 |
| SR & DMR @ LLR | £125 | £65 | £50 |

- 6.26 In light of the above we recommend that the Council considers increasing the Eastern CIL Zone CIL charge to £50 per square metre. When considered in context of total scheme value, the recommended CIL rate will be a very modest amount, typically accounting for between 1% and 1.6% of development costs. This level of charge is considered to be nominal and is unlikely to have an impact on a developer's decision making as to whether to bring forward a scheme or not.

PRS schemes

- 6.27 PRS schemes are currently charged under the adopted Residential CIL charge, which is £15 per (£18.63 per square metre after indexation) in the Eastern CIL Zone. The results of our appraisals of residential developments in the Eastern CIL Zone provided as PRS (see **Appendix 4**) identify that such schemes can viably support a higher CIL charge to contribute towards infrastructure. In light of this, we recommend that the Council considers setting a rate for such developments in the East of the Borough of £100 per square metre. This is based on a maximum CIL charge of £185 per square metre. After allowing for Mayoral CIL2 this leaves a maximum borough charge of £125 per square metre, to which we have applied a buffer of 20%.
- 6.28 A CIL charge of £100 per square metre reflects a charge of no more than circa 4% of development costs, which in our experience is unlikely to be the determining factor in a developer's decision making as to whether they deliver such developments.

Student accommodation

- 6.29 The following section sets out the results of our analysis of the viability of student accommodation development in the Eastern CIL Zone. As previously identified the pre-existing rates of CIL in the adopted Charging Schedule for Student accommodation mirrors the residential rates adopted. The adopted charge in the Eastern CIL Zone is £15 per (£18.63 per square metre after indexation). Student schemes which can demonstrate an agreement between the provider and a recognised higher education institution are not required to provide affordable student housing, which has an impact on viability of developments.
- 6.30 Our testing considers whether there have been significant changes in viability that would give rise to an enhanced capacity to absorb a higher CIL rate than currently levied.
- 6.31 Student rents have continued to increase since the Charging Schedule was adopted and consequently scheme values have grown faster than build costs and residual land values have increased.
- 6.32 Our appraisal of student housing developments is attached at **Appendix 5**. Our analysis of a scheme entirely at private market rents (£185 per week on 51 week tenancies, which is the lower end of the range), indicates a maximum viable CIL rate of £435 per square metre. The currently adopted CIL rates are therefore identified as being significantly below the maximum CIL rate for such schemes. However, when an allowance of 40% affordable student accommodation is allowed for within the appraisal the CIL maximum charge reduces to £105 per square metre. Given this position and the quantum of Student Accommodation that has come forward in the Eastern CIL Zone of the borough, we recommend that the Council considers increasing its currently adopted Student Accommodation CIL charge in the Eastern CIL Zone of the borough to £85 per square metre. This would allow for a buffer of circa 20% from the maximum CIL charge of £160 per square metre and would also allow the Council to seek the maximum level of affordable student accommodation from schemes. .
- 6.33 A CIL charge of £100 per square metre would amount to circa 2.25% of development costs, which we consider would not have a significant bearing on a developer's decision to bring forward a scheme.

Warehouse living

- 6.34 The current Charging Schedule does not include a rate for such uses. The identified employment areas already contain varying elements of warehouse living. The Council's Policy DM39 (Warehouse Living) "*seeks to further regularise/legitimise this use, and through the planning process, ensure existing and future occupants are provided with an appropriate standard of living; the existing creative industries and SME sectors are supported and given room to grow; and the creative living and working offer of these sites is maximised*".
- 6.35 Given the above the Council has expressed an interest in understanding the viability characteristics of such uses with respect to whether they would be able to support a CIL charge.
- 6.36 Our appraisal of the conversion of such space is attached at **Appendix 9**. This has identified that such schemes generate significant residual land values that exceed the existing use values and can accommodate a maximum CIL Charge of £683 per square metre. We recommend that the Council considers maintaining the rate of £130 per square metre (as set out in the PDCS) for such uses, which will come forward within the designated Warehouse Living areas located in the Eastern CIL Zone. This would reflect a significant discount/buffer from the maximum charge which would account for site and scheme specific differences in such developments.

- 6.37 Notwithstanding the above, we would query with the Council as to whether many of such conversion schemes will be liable for CIL contributions given that they will be conversions of existing floorspace and we are aware that a large number of such schemes have achieved their legal status as a result of Certificates of Lawful use development as opposed to change of use planning applications.
- 6.38 A charge of £130 per square metre would equate to circa 5.5% of the likely conversion costs or 0.5% of the total development value. Although the costs by reference to the conversion costs are a higher percentage, the latter calculation, based on comparison to the development's value, demonstrates that the CIL cost is small by reference to the revenue achievable as compared to the development costs, which are lower due to there being refurbishment costs and not new full development costs. In our experience, this level of CIL charge is unlikely to have an impact on a developer's decision to deliver such schemes.

7 Conclusions and recommendations

- 7.1 The NPPF states that *“Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan”* (Para 34). The Council adopted its CIL Charging Schedule in July 2014 and it came into effect on 1 November 2014. The CIL rates are consequently embedded into both the planning requirements and the land market.
- 7.2 The residential and student accommodation rates in the Eastern CIL Zone however, are now low as a result of significant changes in market conditions in the borough since the evidence base for the first Charging Schedule was prepared. At the same time, the Council is facing significant challenges in the delivery of community infrastructure to support new development. Consequently, there is a compelling case to review the residential and student accommodation CIL rates in the Eastern CIL Zone to enhance income to support infrastructure delivery.
- 7.3 In addition, since the Charging Schedule was adopted in 2014, new formats of residential accommodation are being delivered in the borough including Warehouse Living, for which there is no current dedicated CIL charge.
- 7.4 This report and supporting appendices accordingly review the residential and student accommodation charges in the Eastern CIL Zone and considers the potential for a CIL charge on Warehouse Living schemes in the borough. The Study takes account of the cumulative impact of Haringey's current planning requirements, in line with the requirements of the NPPF, NPPG and the Local Housing Delivery Group guidance ‘Viability Testing Local Plans: Advice for planning practitioners’. In addition, we have reflected the impact of the Mayoral CIL2.
- 7.5 In considering the outputs of the appraisals, it is important to recognise that some developments will be unviable *regardless* of the Council's requirements. In these cases, the value of the existing building or the base costs (excluding policy requirements) will be higher than a redevelopment opportunity over the medium term. However, this situation should not be taken as an indication of the viability (or otherwise) of the Council's policies and requirements. In these situations, there will be little pressure from owners to redevelop for residential use and they might re-consider the situation when values change over time.

Suggested revisions to CIL Charging Schedule

- 7.6 Table 7.6.1 below summarises our recommended revisions to Haringey's CIL Charging Schedule in light of the results of our appraisals. The proposed rates are shown in bold whilst the adopted Charging Schedule rates are shown below with the corresponding 2019 indexed figures (in line with the requirements of CIL Regulation 40 (as amended)) shown in italics.

Table 7.6.1: Potential revisions to CIL Charging Schedule – Eastern CIL Zone

| Use | Adopted CIL rate £s per sqm | Adopted CIL rate after indexation £s per sqm | Proposed CIL rate £s per sqm |
|--------------------------|--------------------------------|--|---------------------------------|
| Residential | £15 | £18.63 | £50 |
| PRS | £15 | £18.63 | £100 |
| Student Accommodation | £15 | £18.63 | £85 |
| Warehouse Living | N/A | N/A | £130 |

- 7.7 We have tested residential schemes in the Eastern CIL Zone with a range of affordable housing tenures and percentages. In arriving at the updated recommended rate we have taken into consideration a balance of both the Council's current affordable housing policies target requirement for 40% as well as the Council's aspirations to deliver more affordable housing tenures in the borough. We recommend that the Council considers setting an increased CIL rate of £50 per square metre for residential development in the Eastern CIL Zone.
- 7.8 The recommended rate is set at a discount to the maximum rates identified, in line with the requirements set out in the NPPG. Consequently, there is sufficient flexibility for schemes to be able to withstand the impact of economic cycles over the life of the Charging Schedule. That said, current mainstream forecasts are that residential values will increase over the next five years.
- 7.9 We have also considered the viability of residential schemes delivered as PRS in the Eastern CIL Zone. We have allowed for affordable housing delivered at the Council's required target of 40% at LLRs. Our testing identifies that these schemes could viably support a CIL charge and we recommend that the Council considers adopting a charge of £100 per square metre in the Eastern CIL Zone
- 7.10 Our testing of student accommodation in the Eastern CIL Zone identifies that these schemes can viably support a higher CIL charge than that currently levied. Taking into consideration the requirement for the delivery of affordable student accommodation in such schemes, we have recommended an increased CIL rate of £85 per square metre.
- 7.11 The results of our appraisals of Warehouse Living schemes in the Eastern CIL Zone show that these schemes generate positive outcomes and can viably contribute towards the delivery of supporting infrastructure in the borough. We recommend a rate of £130 per square metre in the Eastern CIL Zone.
- 7.12 Our testing indicates that the proposed CIL rates will have a relatively modest impact on residual land values in most cases. Where it is not possible to pass the cost of increased CIL rates back to the landowner through a reduction in land value (for example, due to high existing use values), the increase will have a modest impact on affordable housing levels that can be delivered.
- 7.13 There is clearly a need to balance the need to deliver affordable housing with the need to secure contributions to fund community infrastructure that will support development and growth. The Council cannot seek to prioritise securing affordable housing to the exclusion of securing funding for infrastructure and vice versa. In our view, the proposed rates strike this balance appropriately.

- 7.14 The Council needs to strike a balance between achieving its aim of meeting needs for affordable housing with raising funds for infrastructure, and ensuring that developments generate acceptable returns to willing landowners and willing developers. This study demonstrates that the Council's flexible approach to applying its affordable housing requirements ensures that these objectives can be balanced appropriately.

Additional observations

- 7.15 Viability measured in present value terms is only one of several factors that determine whether a site is developed. Developers need to maintain a throughput of sites to ensure their staff are utilised and they can continue to generate returns for their shareholders. Consequently, small adjustments to residual land values resulting from the introduction of CIL can be absorbed in almost all circumstances by developers taking a commercial view on the impact. However, in most cases the impact on land value is sufficiently modest that this can be passed onto the land owner at the bid stage without adversely impacting on the supply of land for development.
- 7.16 In most cases, the changes in residual land values required to accommodate the increased CIL rates are very modest and the CIL itself accounts for a very small proportion of overall development costs (typically well below 5%). The imposition of CIL is therefore not the critical factor in determining whether or not a scheme will come forward.
- 7.17 In considering the outputs of the appraisals, it is important to recognise that some developments will be unviable regardless of the Council's requirements. In these cases, the value of the existing building will be higher than a redevelopment opportunity over the medium term. However, this situation should not be taken as an indication of the viability (or otherwise) of the Council's policies and requirements.
- 7.18 It is critical that developers do not over-pay for sites such that the value generated by developments is paid to the landowner, rather than being used to provide affordable housing. The Council should work closely with developers to ensure that landowners' expectations of land value are appropriately framed by the local policy context and adjusted for the proposed CIL rates. There may be instances when viability issues emerge on individual developments, even when the land has been purchased at an appropriate price (e.g. due to extensive decontamination requirements). In these cases, some flexibility may be required subject to submission of a robust site-specific viability assessment.
- 7.19 This study demonstrates that the proposed CIL charges are set at a level which will ensure an appropriate balance between delivering affordable housing, sustainability objectives, necessary infrastructure and the need for landlords and developers to achieve a return in line with the NPPF.

Appendix 1 - Residential appraisal results at base costs and values (AR and SO)

Appendix 2 - Residential appraisal results at base costs and values (LAR and SO)

Appendix 3 - Residential appraisal results at base costs and values (SR and SO)

Appendix 4 - Residential appraisal results at base costs and values (SR and DMR at LLR)

Appendix 5 - Residential appraisal results at 40% AH +10% sales values and +5% build costs

Appendix 6 - Residential appraisal results at 40% AH -5% sales values

Appendix 7 - Residential provided as PRS appraisal results

Appendix 8 - Student Accommodation appraisal results

Appendix 9 - Warehouse Living appraisal results