



Community Infrastructure Levy: Viability Study

Prepared for
London Borough of Haringey

July 2012

Contents

1	Executive Summary	3
2	Introduction	5
3	Methodology and appraisal inputs	9
4	Development appraisals	12
5	Appraisal outputs	22
6	Assessment of the results	26
7	Conclusions and recommendations	35

Appendices

- Appendix 1 Residential appraisal results
- Appendix 2 Commercial appraisal results

Contact details:

Anthony Lee MRTPI MRICS
Senior Director – Development Consulting
BNP Paribas Real Estate
5 Aldermanbury Square
London EC2V 7BP

Tel: 020 7338 4061
Fax: 020 7404 2028
Email: anthony.lee@bnpparibas.com

1 Executive Summary

- 1.1 This report tests the ability of a range of development types throughout Haringey to yield contributions to infrastructure requirements through the Community Infrastructure Levy ('CIL'). Levels of CIL have been tested in combination with the Council's other planning requirements, including contributions towards the provision of affordable housing.

Methodology

- 1.2 The study methodology compares the residual land values of a range of generic developments to a range of benchmark land values. If a development incorporating a given level of CIL generates a higher value than the benchmark land value, then it can be judged that the proposed level of CIL will be viable.
- 1.3 The study utilises the residual land value method of calculating the value of each development. 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 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.
- 1.4 The housing and commercial property markets are inherently cyclical and the Council is testing its proposed rates of CIL at a time when values have fallen below their peak. We have allowed for this by running a sensitivity analysis which inflates sales values by 10% and build costs by 5%. This analysis is indicative only, but is intended to assist the Council in understanding the levels of CIL that are viable in today's terms but also the impact of changing markets on viability. 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.

Key findings

- 1.5 The key findings of the study are as follows:
- The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future improvements.
 - The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future changes.
 - The ability of **residential schemes** to make CIL contributions varies depending on area and the current use of the site. Viability of development is very different in the west of the Borough to the east. Having regard to these variations, residential schemes should be able to absorb a CIL rate of between £0 to £300 per square metre, leaving a margin in many areas for site-specific factors that might affect viability. Suggested ranges of rates are as follows:

-
- Highgate and Hornsey - £100 - £300 per square metre;
 - Muswell Hill - £60 - £300 per square metre;
 - Finsbury Park - £100 - £300 per square metre;
 - Wood Green - £100 - £20 per square metre;
 - Seven Sisters – nil - £50 per square metre;
 - Tottenham Hale – nil - £50 per square metre; and
 - Tottenham – nil - £50 per square metre.

 - Whilst the maximum rates are significantly higher than the proposed rates in some areas, the buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and ‘shocking’ the market).

 - At current rent levels, **Office development** is unlikely to come forward in the short to medium term as the capital values generated are insufficient to cover development costs. We therefore recommend that the Council sets a nil rate for offices.

 - Residual values generated by **Retail developments** vary significantly between high street retail (which is just marginally viable or unviable) on the one hand, and supermarkets and retail warehouse developments (which generate sufficient residual values to enable the payment of CIL). If the Council anticipates major supermarket or retail warehouse developments to come forward, then it might wish to consider adopting a CIL for these types of retail only (our appraisals indicate that supermarkets could absorb a CIL of up to £130 per square metre and retail warehouses £60 per square metre, both inclusive of Mayoral CIL).

 - Our appraisals of developments of **industrial and warehousing floorspace** indicate that these uses are unlikely to generate positive residual land values. We therefore recommend a zero rate for industrial floorspace.

 - D1 and D2 uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 uses.

2 Introduction

- 2.1 This study has been commissioned to contribute towards an evidence base to inform Haringey Council's ('the Council') CIL Preliminary Draft Charging Schedule ('PDCS'), as required by Regulation 14 of the CIL Regulations April 2010 (as amended in 2011). The aims of the study are summarised as follows:
- to test the impact upon the economics of residential development of a range of levels of CIL;
 - for residential schemes, to test CIL alongside the Council's requirements for affordable housing and other planning obligations; and
 - to test the ability of commercial schemes to make a contribution towards infrastructure through CIL.
- 2.2 In terms of methodology, we adopted standard residual valuation approaches to test the impact on viability of a range of levels 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. It is therefore essential that levels of CIL are set so as to allow a sufficient margin to allow for these site specific variations.

Policy Context

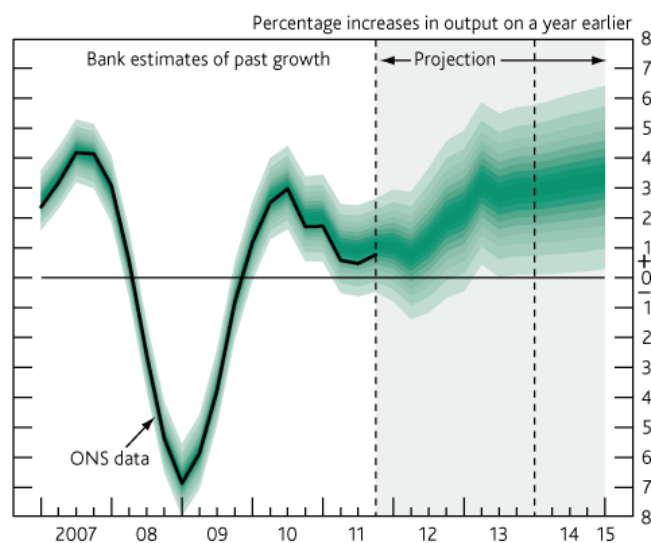
- 2.3 The CIL regulations state that in setting a charge, local authorities must aim to strike "*an appropriate balance*" between revenue maximisation on the one hand and the potentially adverse impact upon the viability of development on the other. The regulations also state that local authorities should 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 (this is considered elsewhere within the Council's evidence base).
- 2.4 Local authorities must consult relevant stakeholders on the nature and amount of any proposed CIL. Following consultation, a charging schedule must be submitted for independent examination.
- 2.5 The regulations allow a number of reliefs and exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if controlled by a charity) are subject to relief. Secondly, local authorities may, if they choose, elect to offer an exemption on proven viability grounds. The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed. To be eligible for exemption, regulation 55 states that the Applicant must enter into a Section 106 agreement (and the costs of complying with the agreement must exceed the amount of CIL that would have been payable); and that the Authority must be satisfied that granting relief would not constitute state aid.
- 2.6 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.
- 2.7 The 2010 regulations set out clear timescales for payment of CIL, which varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allow local

authorities to set their own timescales for the payment of CIL if they choose to do so. This is an important issue that the Council will need 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).

- 2.8 Several local authorities have undertaken viability assessments and have drafted CIL charging schedules, which they have submitted for independent examination. To date, a number of charging authorities (including Portsmouth, Newark and Sherwood Council, Shropshire Council and Redbridge Borough Council) have been through the examination process and are at various stages of implementation.

Economic and housing market context

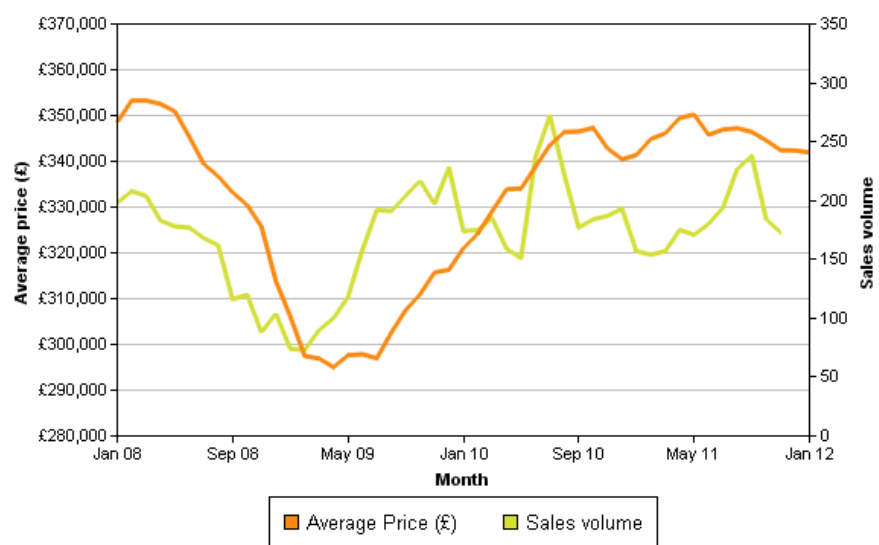
- 2.9 The historic highs achieved in the UK housing market by mid 2007 followed a prolonged period of real house price growth. However, a period of 'readjustment' began in the second half of 2007, triggered initially by rising interest rates and the emergence of the US sub prime lending problems in the last quarter of 2007. The subsequent reduction in inter-bank lending led to a general "credit crunch" including a tightening of mortgage availability. The real crisis of confidence, however, followed the collapse of Lehman Brothers in September 2008, which forced the government and the Bank of England to intervene in the market to relieve a liquidity crisis.
- 2.10 The combination of successive shocks to consumer confidence and the difficulties in obtaining finance led to a sharp reduction in transactions and a significant correction in house prices in the UK, which fell to a level some 21% lower than at their peak in August 2007 according to the Halifax House Price Index. Consequently, residential land values fell by some 50% from peak levels. One element of government intervention involved successive interest rate cuts and as the cost of servicing many people's mortgages is linked to the base rate, this financial burden has progressively eased for those still in employment. This, together with a return to economic growth early 2010 (see February 2012 Bank of England GDP fan chart below, showing the range of the Bank's predictions for GDP growth to 2015) has meant that consumer confidence has started to improve to some extent.



Source: Bank of England

- 2.11 Throughout the first half of 2010 there were some tentative indications that improved consumer confidence was feeding through into more positive interest from potential house purchasers. Against the background of a much reduced supply of new housing, this would lead one to expect some recovery in prices. However it is evident that this brief resurgence has abated, with the Halifax House Price Indices showing a fall of 1.9% in the year to February 2012.
- 2.12 The balance of opinion is that house prices will remain flat in the short term, with continuing high levels of unemployment likely to result in increased repossessions and increased supply of homes into the market. At the same time, demand is expected to remain subdued, due to the continuing difficulties consumers face in securing mortgages.

Figure 2.12.1: House prices and sales volumes in Haringey



Source: Land Registry

- 2.13 According to Land Registry data, residential sales values in Haringey have recovered since the lowest point in the cycle in April 2009. Prices increased by 17.7% between April 2009 and October 2010 but have since fallen back in 2011 and remain 3.2% below their December 2007 level.
- 2.14 The future trajectory of house prices is currently uncertain, although Savills' current prediction is that values are expected to increase over the next five years. Medium term predictions are that properties in regional mainstream markets (i.e. non-prime) will return to growth in 2013¹. Savills predict that values in London will fall by 1% in 2012, but increase by 1% in 2013, 5% in 2014, 6% in 2015 and 6.5% in 2016. This equates to cumulative growth of 19.1% between 2012-2016 inclusive, compared to a UK average of 6% cumulative growth over the same period.

¹ Savills Research: Residential Property Focus, November 2011

Local Policy context

- 2.15 In addition to financing infrastructure, the Council expects residential developments to provide a mix of affordable housing tenures, sizes and types to help meet identified housing needs and contribute to the creation of mixed, balanced and inclusive communities. The Council expects developments of 10 or more units to contribute towards affordable housing, with a target of up to 50%, subject to viability, with a tenure mix of 70% rented and 30% for shared ownership. This tenure requirement is varied on developments in the east of the Borough.

Development context

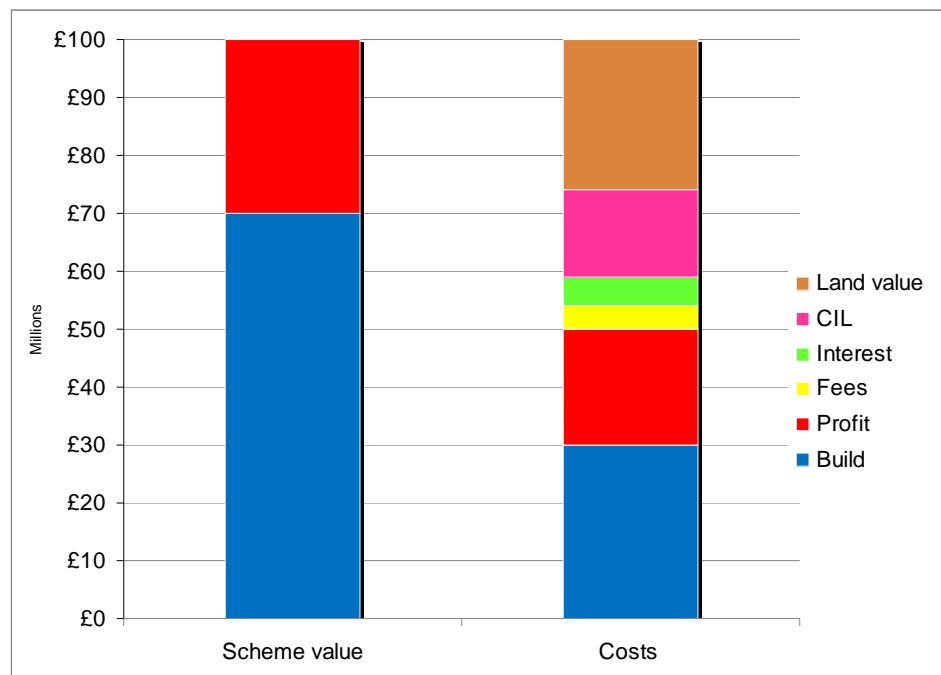
- 2.16 Developments in Haringey range from small in-fill sites to major regeneration schemes. The bulk of development (in terms of volume of units) is expected to come forward on sites in the centre and the east of the Borough. Commercial markets in the east of the Borough are not strong, particularly high street retail. There are variations in residential sales values between different parts of the Council's area, with Highgate, Crouch End and Muswell Hill attracting the highest values and Tottenham and Seven Sisters the lowest values.

3 Methodology and appraisal inputs

- 3.1 Our methodology follows standard development appraisal conventions, using assumptions that reflect local market and planning policy circumstances. The study is therefore specific to Haringey and reflects the Council's planning policy requirements.

Approach to testing development viability

- 3.2 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 and the payment from a Registered Social Landlord ('RSL') for the completed affordable housing units. The model then deducts the build costs, fees, interest, CIL (at varying levels) 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 brown portion of the right hand bar in the diagram.



- 3.3 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 current use value), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.
- 3.4 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' or another appropriate benchmark to make development worthwhile. The margin above current 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.

- 3.5 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the current use. CIL will be a cost to the scheme and will impact on the residual land value. 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. 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

- 3.6 The CIL Regulations provide no specific guidance on how local authorities should test the viability of their proposed charges. However, there is a range of good practice generated by both the Homes and Communities Agency and appeal decisions that assist in guiding planning authorities on how they should approach viability testing for planning policy purposes.
- 3.7 In 2009, the Homes and Communities Agency published a good practice guidance manual 'Investment and Planning Obligations: Responding to the Downturn'. This defines viability as follows: *"a viable development will support a residual land value at level sufficiently above the site's existing use value (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner"*.
- 3.8 A number of planning appeal decisions provide guidance on the extent to which the residual land value should exceed existing use value to be considered viable:

Barnet & Chase Farm: APP/Q5300/A/07/2043798/NWF

"the appropriate test is that the value generated by the scheme should exceed the value of the site in its current use. The logic is that, if the converse were the case, then sites would not come forward for development"

Bath Road, Bristol: APP/P0119/A/08/2069226

"The difference between the RLV and the existing site value provides a basis for ascertaining the viability of contributing towards affordable housing."

Beckenham: APP/G5180/A/08/2084559

"without an affordable housing contribution, the scheme will only yield less than 12% above the existing use value, 8% below the generally accepted margin necessary to induce such development to proceed."

Oxford Street, Woodstock: APP/D3125/A/09/2104658

"The main parties' valuations of the current existing value of the land are not dissimilar but the Appellant has sought to add a 10% premium. Though the site is owned by the Appellants it must be assumed, for valuation purposes, that the land is being acquired now. It is unreasonable to assume that an existing owner and user of the land would not require a premium over the actual value of the land to offset inconvenience and assist with relocation. The Appellants addition of the 10% premium is not unreasonable in these circumstances."

- 3.9 It is clear from the planning appeal decisions above and HCA good practice publication that the most appropriate test of viability for planning policy purposes is to consider the residual value of schemes compared to the

existing use value plus a premium. As discussed later in this report, our study adopts a range of benchmark land values, reflecting differing circumstances in which sites are brought forward.

- 3.10 The recent examination on the Mayor of London's CIL charging schedule 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." (para 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).

- 3.11 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).

- 3.12 It is important to stress, therefore, that there is no single threshold land value at which land will come forward for development. 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.

4 Development appraisals

Residential development

- 4.1 We have appraised a series of generic developments, reflecting both the range of sales values/capital values and also sizes/types of development and densities of development across the area. The Council invited key developers and other stakeholders to attend a workshop to provide their views on appropriate appraisal inputs.

Residential sales values

- 4.2 Residential values in the area reflect national trends in recent years but do of course vary between different sub-markets. We have considered comparable evidence of transacted properties in the area to establish appropriate values for testing purposes. This exercise indicates that developments will attract sales values ranging from £3,197 to £6,340 per square metre.
- 4.3 Sales values vary between different parts of the Council's area, with Highgate, Crouch End and Muswell Hill attracting the highest values and Tottenham and Seven Sisters the lowest values. The average values we have assumed in our appraisals are shown in Table 4.3.1. These average values are supported by pricing on individual schemes, including Moselle Place(Bellway) £553 per sq ft in Hornsey; Roden Court (One Housing Group) £661 per sq ft²; and Ferry Lane (Bellway) £347 per sq ft.

Table 4.3.1: Average sales values

Area	Average values £s per sq m	Average values £s per sq ft
Highgate (N6)	6,340	589
Hornsey/Crouch End (N8)	5,942	552
Muswell Hill (N10)	5,124	476
Finsbury Park (N4)	5,683	528
Wood Green (N22)	4,833	449
Seven Sisters/Stamford Hill (N15)	3,509	326
Tottenham Hale (N17)	3,552	330
Tottenham (N17)	3,197	297

- 4.4 As noted earlier in the report, 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 5% increase in costs (the latter assuming a pick up in construction activity and higher labour and materials costs). We have also modelled a fall in prices of 5%, to provide the Council with an indication of the impact a reverse in values would have on viability.

Affordable housing tenure and values

- 4.5 The Council's policy position is that developments should provide up to 50% affordable housing, subject to viability, with a tenure mix of 70% social rented

² This scheme has considerably smaller average unit size than other properties on market, hence higher rate per sq ft.

housing and 30% shared ownership housing (with some relaxation on this tenure split in the east of the Borough). We have also run a sensitivity analysis which assumes that the rented housing element is provided as 'Affordable Rent' at rents reflecting Local Housing Allowance levels.

- 4.6 The CLG/HCA '2011-2015 Affordable Homes Programme – Framework' (February 2011) document clearly states that RSLs will not receive grant funding for any affordable housing provided through planning obligations. Consequently, all our appraisals assume nil grant. We recommend that the Council revisits this assumption when it next reviews its charging schedule.

Residential development types, density and mix

- 4.7 We have run appraisals using the range of densities that are typically encountered in the Borough. Densities are assumed to be between 50 and 250 units per hectare. A consistent unit mix has been adopted for both private and affordable tenures, as shown in Table 4.7.1. The mix varies between type of development. Table 4.7.2 summarises the different development types selected for testing purposes.

Table 4.7.1: Unit Mix

Site type	1 Bed flat	2 bed flat	3 bed flat	2 bed house	3 bed house	4 bed house
1	-	-	-	20%	40%	40%
2	15%	20%	-	25%	35%	5%
3	30%	40%	30%	-	-	-
4	40%	40%	20%	-	-	-
5	40%	45%	15%	-	-	-

Table 4.7.2: Housing Mix

	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	5	Houses	50	0.10
2	25	Houses and flats	75	0.33
3	50	Flats	100	0.50
4	100	Flats	175	0.57
5	250	Flats	250	1.00

Residential build costs

- 4.8 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. Site type 1 is a scheme of 5 houses; the basic cost for houses (adjusted for Haringey) is £937 per square metre (£87 per square foot), which excludes external works and fees.
- 4.9 Site type 2 incorporates a mix of houses and low rise flats, with an assumed gross to net ratio of 85%. We have used the same cost for houses as for Site

type 1 and have adopted the BCIS build costs for low rise flats £1,082 per square metre (£1,021 per square metre (£101 per square foot)).

- 4.10 Site types 3 to 5 are wholly flatted schemes. We have adopted the BICS build cost for buildings of 6 or more storeys (£1,475 per square metre or £137 per square foot), with additional allowances for the higher density schemes.
- 4.11 Our appraisals include a 15% allowance for external works (roads, pavements, street lights etc).
- 4.12 A further 6% allowance is included for on affordable housing units the costs associated with meeting Code for Sustainable Homes level 4, which is reflective of the findings of work undertaken by Cyril Sweett on behalf of CLG. Private housing is assumed to meet Code for Sustainable Homes level 3, which is already reflected in the BCIS costs.

Professional fees

- 4.13 In addition to base build costs, schemes will incur professional fees, covering design, valuation, highways consultants and so on. Our appraisals incorporate a 12% allowance, which is at the higher end of the range for most schemes.

Mayoral CIL

- 4.14 Mayoral CIL will be payable on all developments that receive planning consent after 1 April 2012. Haringey falls within Zone 2, where a CIL of £35 per square metre will be levied. The Mayoral CIL takes precedence over Borough requirements, including affordable housing. The Council is required to have regard to the Mayoral CIL when setting its own CIL.

Section 278 and residual Section 106 costs

- 4.15 Our appraisals incorporate an allowance of £1,000 per unit to address any Section 278 and residual Section 106 costs.

Development and sales periods

- 4.16 Development and sales periods vary between type of scheme. However, our sales periods are based on an assumption of a sales rate of 3 units per month. This is reflective of current market conditions, whereas in improved markets, a sales rate of up to 8 units per month might be expected. The build and sales periods for each scheme type are summarised in Table 4.38.1 below.

Developer's profit

- 4.17 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 15-17% of development costs. 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).
- 4.18 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.

- 4.19 The near collapse of the global banking system in the final quarter of 2008 is resulting 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 current sovereign debt crisis in the Eurozone, the banks may not allow profit levels to decrease much lower than their current level, if at all.
- 4.20 Our assumed return on the 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 RSL prior to commencement. Any risk associated with take up of intermediate housing is borne by the acquiring RSL, not by the developer. A reduced profit level on the affordable housing reflects the Homes and Communities Agency's guidelines in its Economic Appraisal Tool.

Phasing of CIL payments

- 4.21 The Council is yet to formulate its instalment policy. For testing purposes, we have assumed that any CIL due will be split into three equal instalments, payable at the months shown in Table 4.30.1

Benchmark land values for the residential analysis

- 4.22 Benchmark land values, based on the current 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 current use value. Current 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. Current use value or alternative use value are effectively the 'bottom line' in a financial sense and therefore a key factor in this study.
- 4.23 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.
- 4.24 In considering the value of sites in existing commercial use, it is necessary to understand the concept of 'yields'. Yields form the basis of the calculation of a building's capital value, based on the net rental income that it generates. Yields are used to calculate the capital value of any building type which is rented, including both commercial and residential uses. Yields are used to calculate the number of times that the annual rental income will be multiplied to arrive at a capital value. Yields reflect the confidence of a potential purchaser of a building in the income stream (i.e. the rent) that the occupant will pay. They also reflect the quality of the building and its location, as well as

general demand for property of that type. The lower the covenant strength of the occupier (or potential occupiers if the building is currently vacant), and the poorer the location of the building, the greater the risk that the tenant may not pay the rent. If this risk is perceived as being high, the yield will be high, resulting in a lower number of years rent purchased (i.e. a lower capital value).

- 4.25 Over the past four years, yields for commercial property have 'moved out' (i.e. increased), signalling lower confidence in the ability of existing tenants to pay their rent and in future demand for commercial space. This has the effect of depressing the capital value of commercial space. However, as the economy recovers, we would expect yields to improve (i.e. decrease), which will result in increased capital values. Consequently, current use values might increase, increasing the base value of sites that might come forward, which may have implications for landowners' decisions on releasing sites for alternative uses.
- 4.26 Redevelopment proposals that generate residual land values below current 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 current use value justifies a higher benchmark than those assumed, then appropriate adjustments may be necessary. As such, current use values should be regarded as benchmarks rather than definitive fixed variables on a site by site basis.
- 4.27 The four benchmark land values used in this study 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.
- 4.28 We have included a risk-adjusted Valuation Office Agency ('VOA') 'residential land value' for outer London (£4.15 million) as one of our benchmarks. In arriving at this value, the VOA makes the following assumptions:
- Full planning consent in place;
 - Site has full servicing available up the boundary;
 - Grant funding is available to subsidise the affordable housing (the valuation exercise pre-dates the Comprehensive Spending Review in October 2010³);
 - Values are based on maximum two storey construction
- 4.29 It is therefore necessary to make some adjustments to the VOA land values to ensure direct comparability with sites without consent that are being promoted for development through the planning system. These adjustments are outlined as follows:
- Valuers typically deduct an allowance for planning risk from the value of sites without consent. We have therefore adjusted the £4.15 million

³ It should also be noted that the Homes and Communities Agency's *Affordable Homes Programme 2011-2015 – Framework* document also explicitly states that affordable housing delivered through Section 106 obligations will not receive grant.

headline figure by 20% to account for planning risk, reducing the benchmark figure down to £3.32 million.

- Recognising that grant funding is no longer available for developer-led Section 106 sites, we have adjusted the VOA land value to reflect this. We have assumed that across a hectare of development, 25 units would have received grant at an average of £50,000 per unit (based on a density of 100 units per hectare and 35% affordable housing). This would total £1.25 million, reducing the land value benchmark to £2.07 million.
 - We note that the VOA land values assume two storey construction only and therefore low density development. While higher density will increase the gross development value of a scheme, costs will also increase, offsetting some (or in a number of cases) all of the additional value.
 - We have also had regard to two land sales for residential development where the details have been made available. The first is a 0.3642 hectare site in Crouch Hill which was sold in January 2009 for £1.35 million (equating to £3.7 million per hectare). The second is a 6.362 hectare site in Hornsey, which was sold in November 2011 for £16 million (equating to £2.5 million per hectare).
 - Considering these values in relation to each other, we have adopted three benchmark land values, as follows:
 - Higher residential land benchmark: £4.0 million;
 - Medium residential land benchmark: £2.75 million;
 - Lower residential land benchmark: £2.05 million
- 4.30 We understand that many of the sites coming forward for redevelopment will be former employment sites. We have had regard to the sale in November 2011 of 8.01 hectares of employment land in Tottenham for £5 million, which equates to £0.588 million per hectare. Allowing for an element of uplift on this figure for development of alternative uses, our fourth benchmark is £0.75 million.
- 4.31 We would draw readers' attention to the comments on land values in Examiner's report on the Mayor of London's CIL⁴, which indicates that owners will need to adjust their expectations to accommodate allowances for infrastructure.
- 4.32 Our residential appraisal inputs are summarised in Table 4.30.1.

⁴ Para 32: "the price paid for development land may be reduced... a reduction in development land value is an inherent part of the CIL concept... 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."

Table 4.30.1: Residential appraisal assumptions for each site type

Appraisal input	Source/Commentary	Site type number and assumptions				
		1	2	3	4	5
Number of units		5	75	100	175	250
Base construction costs (£s per sq metre)	BCIS adjusted for location. Site 1 – median cost for 'one off housing' (3 units or less). Other schemes 'Estate housing – generally'.	£937	£937 (H) £1,200 (F)	£1,475	£1,575	£1,675
External works (% of build costs)	Based on average scheme cost. £15,000 and £20,000 per unit respectively for greenfield infrastructure on sites 4 and 5	15%	15%	15%	15%	15%
Contingency (% of build cost)	Industry norm (5%) plus additional allowance for abnormal costs	5%	5%	5%	5%	5%
Construction period (months)	We assume that developers will build at the rate they are able to sell.	6	18	24	30	36
Professional fees (% of build)	BNPPRE assumption, relates to complexity of scheme	12%	12%	12%	12%	12%
Sales period (months)	Determined by ability of market to absorb new development	1	4	8	17	40
Sale start (month from commencement)	Linked to later stages of construction period	6	15	20	24	20
Sales rate (units per month)	Reflective of current market, could improve.	6	6	6	6	6
Profit on private (% of GDV)	BNPPRE assumption – reflective of current funder requirements	20%	20%	20%	20%	20%
Profit on affordable (% of GDV)	Reduced risk due to pre-sale to RSL	6%	6%	6%	6%	6%
Phasing of CIL payments	BNPPRE assumption – equal splits, paid in months shown in table	1/1/1	1/6/12	1/12/18	1/12/24	1/15/30
Gross to net ratio for flats	BNPPRE assumption	n/a	85%	85%	85%	85%
Density and site area (ha, developable area)		50uph 0.10	75 uph 0.33	50 uph 0.55	175 uph 0.57	250 uph 1.00

Commercial development

- 4.33 We have appraised a series of generic commercial developments, reflecting a range of use classes at average rent levels achieved on lettings of commercial space in actual developments. In each case, our assessment assumes an intensification of the existing use on the site, based on the same type of commercial development. In each case, the existing use value assumes that the existing building is half the size of the new development, with a lower rent and higher yield reflecting the secondary nature of the building.

Commercial rents and yields

- 4.34 Our research on lettings of commercial floorspace indicates a range of rents achieved, as summarised in table 4.23.1. This table also includes our assumptions on appropriate yields to arrive at a capital value of the commercial space. There does not appear to have been substantial development activity in the office sector over the past few years. While new build office developments are likely to attract a premium rent above second hand rents, we would expect this to be relatively modest. The rents and yields adopted in our appraisals are summarised in Table 4.32.1.
- 4.35 Our appraisals of commercial floorspace test the viability of developments on existing commercial sites. For these developments, we have assumed that the site currently accommodates the same use class and the development involves intensification of that use. 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 premium would vary between sites, but has been adopted as a worst case scenario for testing purposes.

Commercial build costs

- 4.36 We have sourced build costs for the commercial schemes from the RICS Building Cost Information Service (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).

Profit

- 4.37 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.

Table 4.32.1: Commercial appraisal assumptions for each use

Appraisal input	Source/Commentary	Offices	Town centre retail	Retail warehouse	Super-market retail	Industrial
Total floor area (sq ft)	Generic scheme	10,000	4,000	20,000	30,000	15,000
Rent (£s per sq ft)	Based on average lettings sourced from EGI	£21	£20	£16	£18	£8
Rent free/void period (years)	BNPPRE assumption	2	2	2	2	2
Yield	BNPPRE prime yield schedule	6.5%	7%	7%	6%	8%
Purchaser's costs (% of GDV)	Stamp duty 4%, plus agent's and legal fees	5.75%	5.75%	5.75%	5.75%	5.75%
Demolition costs (£s per sq ft of existing space)	Based on experience from individual schemes	£5	£5	£5	£5	£5
Gross to net (net as % of gross)	Based on experience from individual schemes	85%	85%	90%	90%	90%
Base construction costs (£s per sq ft)	BCIS costs. Offices – 'generally' for air conditioned offices. 'Generally' figure for industrial, supermarkets, retail warehouse and town centre retail.	£141	£101	£68	£90	£65
External works (% of build costs)	BNPPRE assumption	15%	15%	15%	15%	15%
Contingency (% of build costs)	BNPPRE assumption	5%	5%	5%	5%	5%
Letting agent's fee	(% of first year's rent)	10%	10%	10%	10%	10%
Agent's fees and legal fees	(% of capital value)	1.75%	1.75%	1.75%	1.75%	1.75%
Interest rate	BNPPRE assumption	6.5%	6.5%	6.5%	6.5%	6.5%
Professional fees (% of build)	BNPPRE assumption, relates to complexity of scheme	10%	10%	10%	10%	10%
Profit (% of costs)	BNPPRE assumption based on schemes submitted for planning	20%	20%	20%	20%	20%

Table 4.32.1 (continued) Commercial appraisal assumptions for each use – existing uses

Appraisal input	Source/Commentary	Offices	Town centre retail	Retail warehouse	Super-market retail	Industrial
Existing floorspace (sq ft)	Assumed to be 50% of new space	5,000	2,000	10,000	15,000	7,500
Rent on existing floorspace	Reflects poor quality second hand space of same use, low optimisation of site etc and ripe for redevelopment	£10	£10	£9	£10	£3
Yield on existing floorspace	BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc	7.5%	8%	8%	7%	9%
Rent free on existing space	Years	3	3	3	3	3
Refurbishment costs (£s per sq ft)	General allowance for bringing existing space up to lettable standard	£25	£25	£20	£25	£0
Fees on refurbishment (% of refurb cost)	BNPPRE assumption	7%	7%	7%	7%	7%
Landowner premium	BNPPRE assumption – in reality the premium is likely to be lower, therefore this is a conservative assumption	20%	20%	20%	20%	20%

5 Appraisal outputs

Residential appraisals

- 5.1 The full outputs from our appraisals of residential development are attached as Appendix 1. We have modelled five generic site types, reflecting different densities and types of development, which are tested in each of the 8 sub-market areas in the Borough and against four land value benchmarks. These types are summarised in table 5.1.1 below.

Table 5.1.1: Development types

	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	5	Houses	50	0.10
2	25	Houses and flats	75	0.33
3	50	Flats	100	0.50
4	100	Flats	175	0.57
5	250	Flats	250	1.00

Scenarios tested

- 1. Base sales and base costs (including Code for Sustainable Homes Level 4); 50% affordable housing (excluding Site type 1);
 - 2. Sales fall by 5%;
 - 3. Sales increase by 10% and costs increase by 5%;
 - 4. As (1) with 40% affordable housing;
 - 5. As (1) with 30% affordable housing; and
 - 6. As (1) with 20% affordable housing.
- 5.2 We assume that all development types will meet Code for Sustainable Homes level 4. Level 4 is reflected through a 6% adjustment to our base build costs.
- 5.3 For all types of site, we have run two sensitivity analyses; firstly, with sales values increasing by 10% and build costs also increasing by 5%; and secondly, with sales values falling by 5%. This is provided for illustrative purposes and may assist the Council in understanding how viability might be affected by movements in sales values over time. However, the future trajectory of the housing market is inherently uncertain and predictions cannot be relied upon.
- 5.4 The residual land values from each of the scenarios above in each of the eight housing market areas are then compared to four benchmark land values ('BLVs') based on the assumptions set out in paragraphs 4.21 to 4.30. This comparison enables us to determine whether the imposition of CIL would have an impact on development viability. In some cases, the equation RLV less BLV results in a negative number, so the development would not proceed, whether CIL was imposed or not. We therefore focus on situations where the RLV is greater than BLV and where (all other things being equal) the development would proceed. In these situations, CIL has the potential to 'tip the balance' of viability into a negative position.

Commercial appraisals

- 5.5 Our research on rents achieved on commercial lettings indicates a range of rents within each main use class. Our commercial appraisals therefore model the lower end of the range of rents and capital values to test the impact on viability and the ability of commercial schemes to contribute towards CIL. For each use class tested (B1, B2/B8, retail etc), we have run appraisals of a quantum of floorspace, each with rent levels reflecting the range identified by our research.

Presentation of data

Residential appraisals results

- 5.6 The results for each site are presented in three spreadsheets, as follows:
- Base sales values, CSH level 4 on affordable, CSH level 3 on private;
 - Sales values + 10%, build costs + 5%;
 - Sales values -5%;
 - First scenario with reduced affordable housing (40%);
 - First scenario with reduced affordable housing (30%); and
 - First scenario with reduced affordable housing (20%).
- 5.7 A sample of the format of the results is provided below. This sample relates to site type 1.

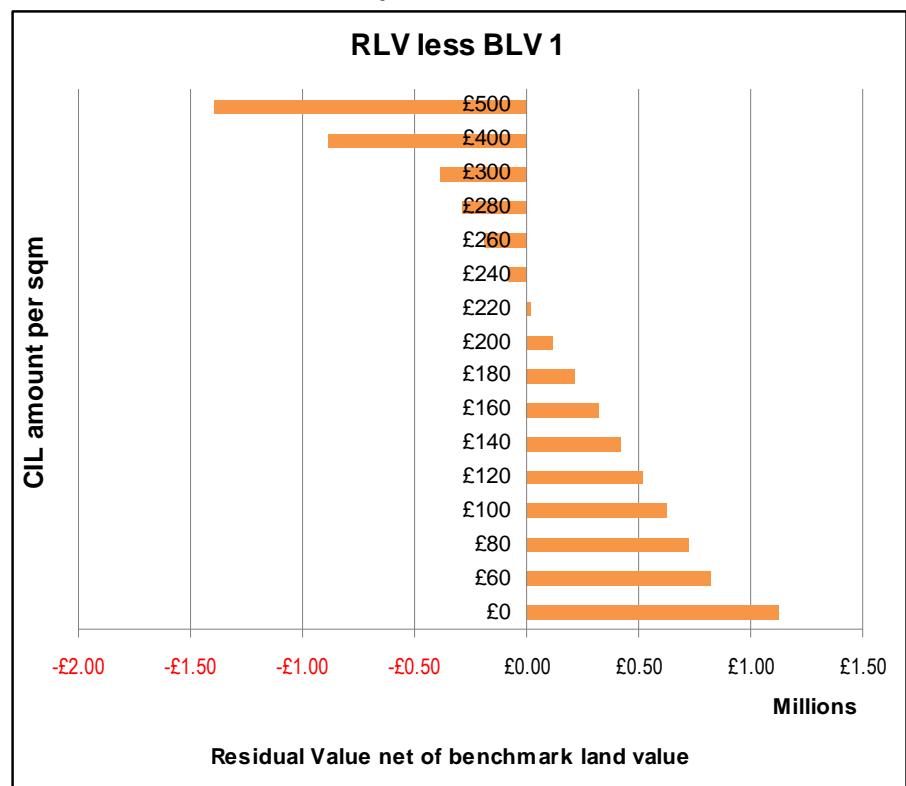
CIL Viability	Haringey	Benchmark Land Values (per net developable ha)				
SITE TYPE	1	BLV1	BLV2	BLV3	BLV4	
5 UNITS		Resi land (high)	Resi land (Imed)	Resi land (low)	Fmr Empyment	
HOUSES		£4,000,000	£2,750,000	£2,050,000	£750,000	
50 UPH	Net area as percentage of gross	100%				
CSH level:	4 on AH	Sales value inflation				
	4 on private	Build cost inflation				
Aff Hsg:	0%					
Site type 1	Description:	Area 1 £6340 psm Highgate (N6)			Site area:	0.10 ha
CIL amount	RLV	RLV per ha	RLV less BLV 1	RLV less BLV 2	RLV less BLV 3	RLV less BLV 4
0	1,666,642	16,666,423	12,666,423	13,916,423	14,616,423	15,916,423
60	1,636,473	16,364,727	12,364,727	13,614,727	14,314,727	15,614,727
80	1,626,416	16,264,161	12,264,161	13,514,161	14,214,161	15,514,161
100	1,616,360	16,163,595	12,163,595	13,413,595	14,113,595	15,413,595

- 5.8 Each spreadsheet provides residual values at varying amounts of CIL, starting at £0 and increasing to £500 per square metre. Whilst CIL applies to net additional floor area only, our appraisals assume that it is applied to the whole development (excluding affordable housing). This reflects a worst case scenario, as many sites in the Borough will have existing buildings, although not necessarily occupied⁵.

⁵ Existing buildings must be occupied for their lawful use for at least six months out of the twelve to qualify as existing floorspace for the purposes of calculating CIL liability.

- 5.9 Separate data tables are provided in each spreadsheet for each of the housing market areas:
- Area 1: Highgate;
 - Area 2: Hornsey;
 - Area 3: Muswell Hill;
 - Area 4: Finsbury Park;
 - Area 5: Wood Green;
 - Area 6: Seven Sisters;
 - Area 7: Tottenham Hale; and
 - Area 8: Tottenham.
- 5.10 The RLV is converted to a per hectare rate and compared to the four benchmark land values (see paragraphs 4.21 to 4.30). This is shown in the columns headed 'RLV less BLV1, BLV2' etc. A positive number indicates that the development is viable, as the developer will receive a normal level of development profit and the land value will be sufficient for the site to come forward.
- 5.11 The numerical data is then displayed in four graphs, one for each threshold land value. The graphs show the amount by which the RLV exceeds BLV (or is less than BLV) for each level of CIL. In the illustrative example below (Chart 5.12.1), the graph shows that the maximum viable level of CIL would be £220 per square metre, but that above this level, higher levels of CIL would render the scheme unviable. It is important to note that the charts do not have the same scale and the reader needs to bear this in mind if comparing one chart to another.

Chart 5.12.1: Illustrative example of data chart



Commercial appraisal results

- 5.12 The commercial appraisal results are more straightforward, due to the narrower range of variables that need to be considered in comparison to residential development. The appraisal results are presented in a similar way to the residential results, using the same charts to show the 'surplus' or negative scheme value after CIL is deducted.

6 Assessment of the results

- 6.1 This section should be read in conjunction with the full results attached at Appendix 1 (residential appraisal results) and Appendix 2 (commercial appraisal results). 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 RLVs are then compared to benchmark land values.
- 6.2 Charging authorities are required to strike “*an appropriate balance*” between the need to raise funding to provide infrastructure to ensure development is sustainable and the potential impact of CIL on the economic viability of development. 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 The early examinations have seen a debate on how viability evidence should translate into CIL rates. It has now been widely recognised that there is no requirement for a Charging Authority to slavishly follow the outputs of residual valuations. At Shropshire Council’s examination in public, Newark & Sherwood Council argued that rates of CIL should be set at the level dictated by viability evidence which would (if followed literally) have resulted in a Charging Schedule with around thirty different charging zones across the Shropshire area. Clearly this would have resulted in a level of complexity that CIL is intended to avoid. The conclusion of this debate was that 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.

Assessment – residential development

- 6.4 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 maximising revenue to invest in infrastructure on the one hand and the need to *minimise* the impact upon development viability on the other. CLG guidance recognises that CIL may make some developments unviable. 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 current 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.

- 6.5 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 in the short term⁶.

Determining a maximum viable rate of CIL for residential development

- 6.6 As noted in paragraph 6.5, 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 a maximum viable rate of CIL, we have had regard to the development scenarios that are currently viable and that might, therefore, be affected by a CIL requirement. All the results summarised below assume that current affordable housing requirements are met in full. In addition, the rates discussed below are **inclusive of the Mayoral CIL of £35 per square metre**.
- 6.7 In the main, Site type 1 generates residual values that are higher than the benchmark land values, even in some cases with CIL of as much as £500 per square metre. Scheme viability becomes more difficult in the east of the Borough; Tottenham Hale could absorb a CIL of up to £80 per square when the scheme is tested against the lower resi land value benchmark. All areas in the east could absorb a CIL of up to £500 per square metre when the scheme is tested against the former employment land benchmark, with the exception of Tottenham, where the maximum is £240 per sqm (see Table 6.7.1).

Table 6.7.1: Site type 1 - maximum viable rates of CIL (£s per square metre)

Area	Resi land value higher)	Resi land value (mid)	Resi land value (lower)	Former employment land
Highgate	500	500	500	500
Hornsey	500	500	500	500
Muswell Hill	500	500	500	500
Finsbury Park	500	500	500	500
Wood Green	400	500	500	500
Seven Sisters	NV ⁷	NV	0	500
Tottenham Hale	NV	NV	80	500
Tottenham	NV	NV	NV	240

⁶ However, as shown by the sensitivity analyses (which reduce affordable housing to 40%, 30% and 20%) even a reduction in affordable housing does not always remedy viability issues. In these situations, it is not the presence or absence of planning obligations that is the primary viability driver.

⁷ NV indicates that the scheme generates a residual land value that is lower than the benchmark land value **before** CIL is applied. In these situations, the site would not come forward in the current market unless the landowner is prepared to trade the land for a lower land value.

- 6.8 In most areas, the viable scenarios for Site type 2 indicate that the viable level of CIL is between £400 to £500 per square metre. In Seven Sisters and Tottenham Hale, where schemes are viable a much reduced rate of CIL would be viable when scheme residual values are compared to the lower resi land benchmark. However, when the scheme residual is compared to the former employment land benchmark, a CIL of up to £500 per square metre could be absorbed, while in Tottenham, a rate of up to £240 could be absorbed (see Table 6.8.1). Similar results emerge for Site type 3 (see Table 6.8.2) although the maximum viable levels of CIL are slightly lower due to the higher costs of developing a wholly flatted scheme. In Seven Sisters, Tottenham Hale and Tottenham, schemes would not be viable with any level of CIL.

Table 6.8.1: Site type 2 - maximum viable rates of CIL (£s per square metre)

Area	Resi land value (higher)	Resi land value (mid)	Resi land value (lower)	Former employment land
Highgate	500	500	500	500
Hornsey	500	500	500	500
Muswell Hill	500	500	500	500
Finsbury Park	500	500	500	500
Wood Green	400	500	500	500
Seven Sisters	NV ⁸	NV	0	500
Tottenham Hale	NV	NV	80	500
Tottenham	NV	NV	NV	240

Table 6.8.2: Site type 3 - maximum viable rates of CIL (£s per square metre)

Area	Resi land value (higher)	Resi land value (mid)	Resi land value (lower)	Former employment land
Highgate	40	500	500	500
Hornsey	100	400	500	500
Muswell Hill	NV	NV	60	400
Finsbury Park	NV	280	400	500
Wood Green	NV	NV	NV	220
Seven Sisters	NV	NV	NV	NV
Tottenham Hale	NV	NV	NV	NV
Tottenham	NV	NV	NV	NV

- 6.9 Site type 4 is a denser scheme, which reduces the site area required (saving costs of land purchase) but build costs increase due to the need to construct taller buildings. Due to this additional pressure on scheme value, the

⁸ NV indicates that the scheme generates a residual land value that is lower than the benchmark land value **before** CIL is applied. In these situations, the site would not come forward in the current market unless the landowner is prepared to trade the land for a lower land value.

maximum levels of CIL fall in all areas in comparison to schemes with lower densities (see Table 6.9.1). Nevertheless, the maximum rate in some areas is as high as £500 per square metre in the higher value areas.

Table 6.9.1: Site type 4: Maximum viable rates of CIL (£s per square metre)

Area	Resi land value (higher)	Resi land value (mid)	Resi land value (lower)	Former employment land
Highgate	500	500	500	500
Hornsey	220	400	500	500
Muswell Hill	NV ⁹	NV	NV	200
Finsbury Park	0	260	300	500
Wood Green	NV	NV	NV	NV
Seven Sisters	NV	NV	NV	NV
Tottenham Hale	NV	NV	NV	NV
Tottenham	NV	NV	NV	NV

- 6.10 Site type 5 assumes a further increase in density to 250 units per hectare. This means that the whole development can be constructed on a single hectare, which reduces land costs, but at the expense of a further increase in build costs. The maximum viable levels of CIL fall slightly in all scenarios (see Table 6.10.1) with the highest rate at £500 per square metre in Highgate and Hornsey.

Table 6.10.1: Site type 5: Maximum viable rates of CIL (£s per square metre)

Area	Resi land value (higher)	Resi land value (mid)	Resi land value (lower)	Former employment land
Highgate	400	500	500	500
Hornsey	160	300	400	500
Muswell Hill	NV ¹⁰	NV	NV	NV
Finsbury Park	NV	120	220	300
Wood Green	NV	NV	NV	NV
Seven Sisters	NV	NV	NV	NV
Tottenham Hale	NV	NV	NV	NV
Tottenham	NV	NV	NV	NV

⁹ NV indicates that the scheme generates a residual land value that is lower than the benchmark land value **before** CIL is applied. In these situations, the site would not come forward in the current market unless the landowner is prepared to trade the land for a lower land value.

¹⁰ NV indicates that the scheme generates a residual land value that is lower than the benchmark land value **before** CIL is applied. In these situations, the site would not come forward in the current market unless the landowner is prepared to trade the land for a lower land value.

Sensitivity analysis on affordable housing percentage

- 6.11 We re-rested sites 2, 3, 4 and 5 with a reduced level of affordable housing (40%, 30% and 20% of units). The results of these analyses are included within Appendix 1. The primary purpose of this exercise was to determine whether rebalancing the Council's affordable housing requirements would enable sites in the east of the Borough to contribute towards infrastructure. The results show very little positive movement when affordable housing levels are reduced and, indeed, in some cases, the results worsen. This is because the profit assumption in the appraisals for affordable housing is considerably lower than the profit on private housing. Reducing the affordable housing percentage increases the number of private units, upon which the appraisals assume a much higher profit, which the appraisals treat as a cost. The value uplift from converting an affordable unit into a private unit is less than the additional cost of the higher profit.

Suggested CIL rates

- 6.12 Although the results indicate that relatively high rates of CIL could be levied, we would advise that a substantial buffer or margin should be allowed for to deal with risk. There are three key risks:
- the first is that individual sites might incur exceptional costs (decontamination, difficult ground conditions etc) and as a result the residual land value could fall. Developers will try and reflect such costs in their offer to the landowner, but the extent of any issues is not always fully apparent until the land value is fixed. Where sites have an existing use, an owner will not be prepared to accept a reduction below the value of the current building to accommodate exceptional costs on a redevelopment;
 - Secondly, values could fall or normal build costs could rise over the life of the Charging Schedule, adversely affecting scheme viability;
 - Thirdly, imposing a high rate of CIL in the Council's first Charging Schedule could 'shock' the land market with a consequential risk that land supply falls.
- 6.13 Given the range of results above, and the risk factors outlined in the previous paragraph, our recommendation is that the Council might set a CIL rate of in the following ranges (shown **inclusive** of Mayoral CIL):
- Highgate and Hornsey - £100 - £300 per square metre;
 - Muswell Hill - £60 - £300 per square metre;
 - Finsbury Park - £100 - £300 per square metre;
 - Wood Green - £100 - £20 per square metre;
 - Seven Sisters – nil - £50 per square metre;
 - Tottenham Hale – nil - £50 per square metre; and
 - Tottenham – nil - £50 per square metre.
- 6.14 When setting rates of CIL for the east of the Borough in particular, the Council will need to carefully consider the extent to which sites will come forward on former employment sites, rather than sites in other uses or deemed to be residential land. Sensitivity will required due to the marginal nature of development in these areas, particularly high density developments.
- 6.15 In determining the maximum levels of CIL and the recommended rates above, 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. These appraisals provide an indication of the likely movement in viability that the 'buffer' below the maximum rates would need to accommodate. The ranges in paragraph 6.13 allow for a sufficient buffer to accommodate these changes.

Continued use of Section 106 agreements

- 6.16 Given the marginality of development in the east of the Borough, setting a fixed levy for infrastructure risks adversely affecting deliverability of schemes and reducing land supply. As an alternative, the Council could consider the continued use of Section 106 agreements on sites in this part of the Borough, accepting the limitations around pooling of contributions. The CIL regulations permit councils to pool contributions from up to five separate planning obligations for an item of infrastructure that is not intended to be funded by the levy. The Council would need to identify such infrastructure in advance and not collect CIL for these items.

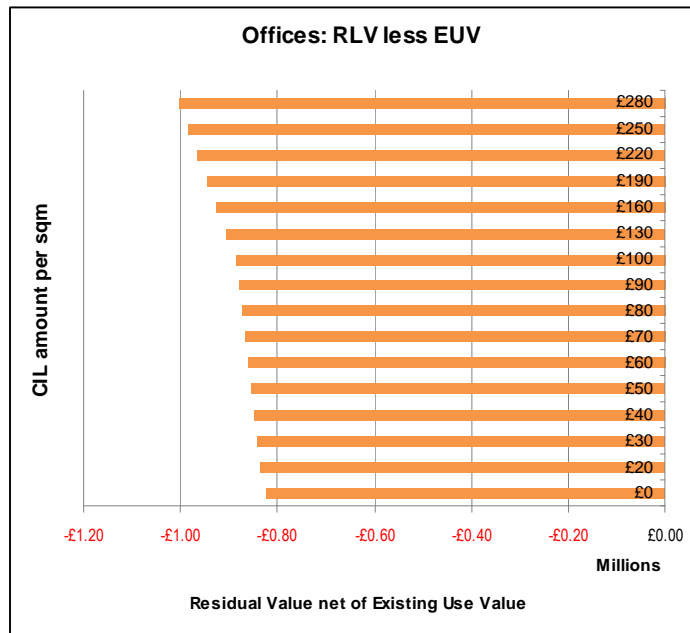
Assessment – commercial development

- 6.17 Our appraisals indicate that the potential for commercial schemes to be viably delivered is under considerable pressure at the current time. Although retail warehousing and supermarket developments generate positive RLVs in excess of existing use value benchmarks, the margin is modest and therefore small changes could adversely affect the ability of developments to absorb CIL. High street retail, office developments and industrial developments are at best marginal or unviable in the current market.
- 6.18 As noted in section 4, the level of rents that can be achieved for commercial space varies according to exact location; quality of building; and configuration of space. Consequently, our appraisals reflect the 'least viable' scenario where rents are lowest. For uses where even the higher levels of rent result in unviable development scenarios, we have not tested with the lower rent levels.

Office development

- 6.19 The results of our office appraisals indicate that the rent levels that could be secured on new developments in the Borough are unlikely to be sufficiently high to generate positive residual land values. Comparable evidence and recent marketing activity indicates that average office rents are unlikely to exceed circa £21 per sq ft at the current time. In common with other outer London boroughs, long term demand for offices has fallen and it is unlikely that office development will come forward in the short to medium term. The results of our appraisal, with varying rates of CIL, are shown in Chart 6.18.1 below.

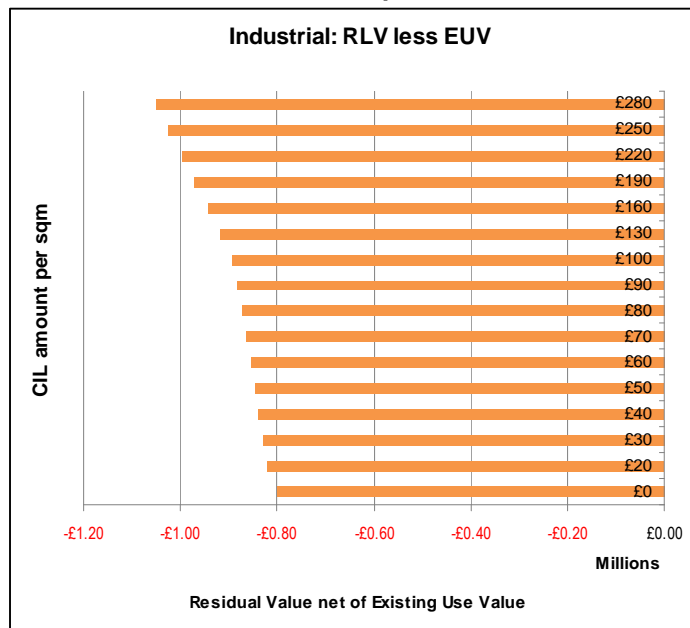
**Chart 6.18.1: Residual land values generated by office developments
(rent of £21 per square ft or £226 per square metre)**



Industrial/warehouse development

6.20 Industrial and warehousing uses in the Borough attract rents averaging £86 per square metre (£8 per sq ft). Industrial yields are currently around 7% - 8%. As a result of relatively low rents, industrial floorspace does not currently generate positive residual land values, as shown in Chart 6.19.1. As a consequence, it is unlikely that a significant quantum of industrial development will come forward in the short term.

Chart 6.19.1: Industrial development



Retail development

- 6.21 While rent levels do not vary hugely between the different types of retail, there are variations in yield, reflecting the relative strength of covenant offered by each type of occupier. Yields for supermarket operators are typically much lower than for independent retailers, resulting in higher capital values for supermarket developments. We also assume higher build costs for high street retail, reflecting the additional design and quality requirements in comparison to retail warehouses and supermarkets that are designed in a more functional manner.
- 6.22 Our appraisals indicate that retail warehouses and retail supermarkets generate higher capital values than high street retail. Our appraisals indicate that supermarket developments could absorb a CIL of up to £130 per square metre, inclusive of Mayoral CIL, while retail warehouse developments could absorb a CIL of up to £60 per square metre, inclusive of Mayoral CIL (see Charts 6.21.1 and 6.21.2).

Chart 6.21.1: Supermarket development

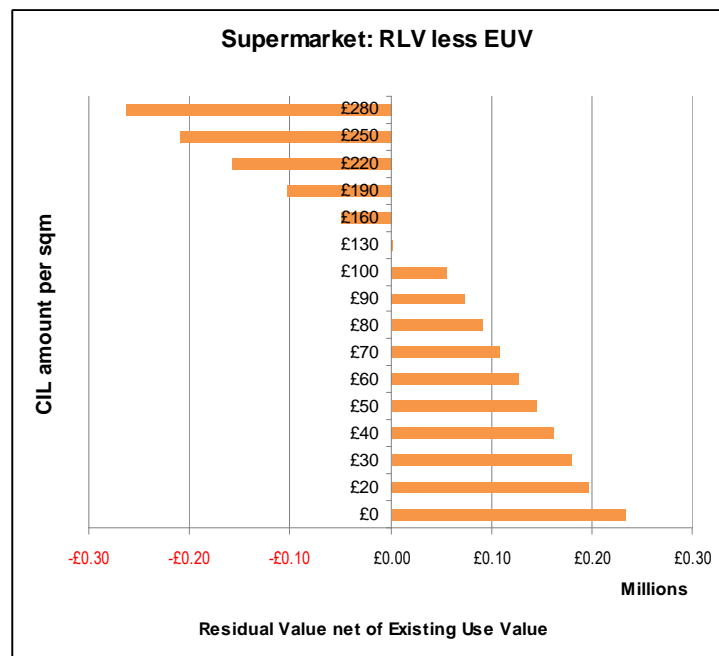
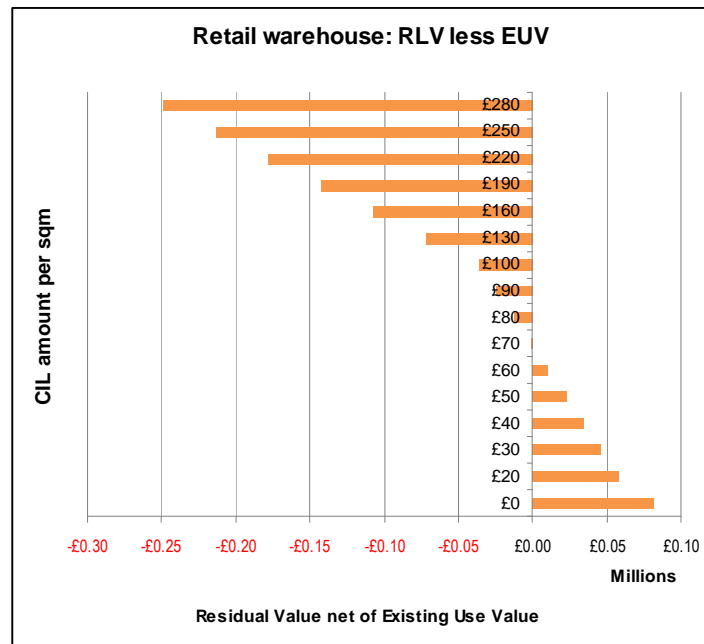


Chart 6.21.2: Retail warehouse development



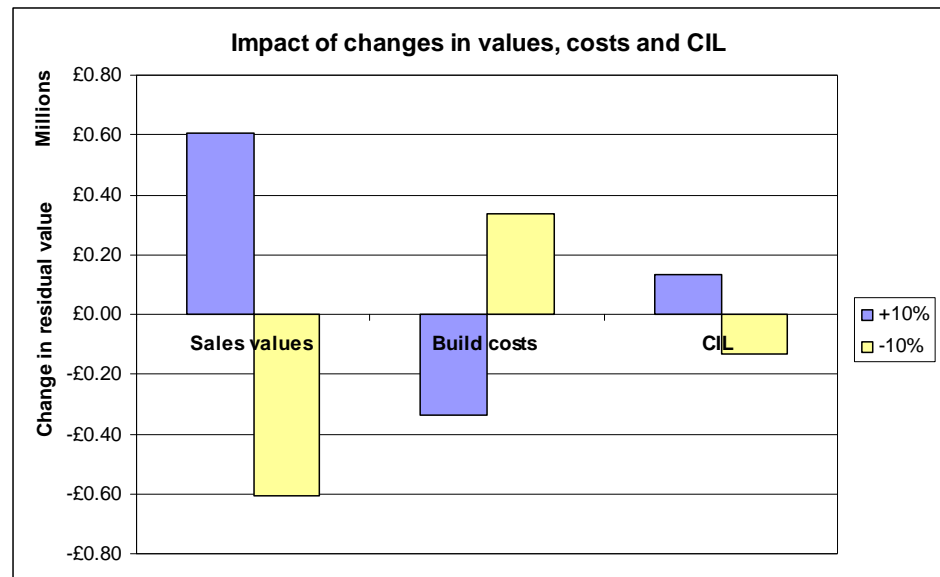
D1 and D2 floorspace development

6.23 D1 and D2 floorspace typically includes uses that do not accommodate revenue generating operations, such as schools, health centres, museums and places of worship. Other uses that do generate an income stream (such as swimming pools) have operating costs that are far higher than the income and require public subsidy. Many D1 uses will be infrastructure themselves, which CIL will help to provide. It is therefore unlikely that D1 and D2 uses will be capable of generating any contribution towards CIL.

7 Conclusions and recommendations

- 7.1 The results of our analysis indicate a degree of variation in viability of development in terms of different uses. In light of these variations, two options are available to the Council under the CIL regulations. Firstly, the Council could set a single CIL rate across the Borough, having regard to the least viable types of development and least viable locations. This option would suggest the adoption of the ‘lowest common denominator’, with sites that could have provided a greater contribution towards infrastructure requirements not doing so. In other words, the Council could be securing the benefit of simplicity at the expense of potential income foregone that could otherwise have funded infrastructure. Secondly, the Council has the option of setting different rates for different types of development and different areas. The results of our study point firmly towards the second option as our recommended route, particularly for residential development.
- 7.2 We have also referred to the results of development appraisals as being highly dependent upon the inputs, which will vary significantly between individual developments. In the main, the imposition of CIL is not *the* critical factor in determining whether a scheme is viable or not (with the relationship between scheme value, costs and land value benchmarks being far more important). This is evidenced by the very marginal differences between the ‘pre’ and ‘post’ CIL residential appraisals shown in the charts in Section 6. This point is also illustrated in Chart 8.2.1 below, which compares the impact on the residual value of a scheme of a 10% increase and decrease in sales values and a 10% increase and decrease in build costs to a £100 per sq metre change in CIL.

Chart 8.2.1: Impact of changing levels of CIL in context of other factors



- 7.3 Given CIL’s nature as a fixed tariff, it is important that the Council selects rates that are not on the limit of viability. This is particularly important for commercial floorspace, where the Council does not have the ability to ‘flex’ other planning obligations to absorb site-specific viability issues. In contrast, the Council could in principle set higher rates for residential schemes as the level of affordable housing could be adjusted in the case of marginally viable

schemes. However, this approach runs the risk of frustrating one of the Council's other key objectives of delivering affordable housing. Consequently, sensitive CIL rate setting for residential schemes is also vital.

7.4 Our recommendations on levels of CIL are therefore summarised as follows:

- The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future changes.
- The ability of **residential schemes** to make CIL contributions varies depending on area and the current use of the site. Viability of development is very different in the west of the Borough to the east. Having regard to these variations, residential schemes should be able to absorb a CIL rate of between £0 to £300 per square metre, leaving a margin in many areas for site-specific factors that might affect viability. Suggested ranges of rates are as follows:
 - Highgate and Hornsey - £100 - £300 per square metre;
 - Muswell Hill - £60 - £300 per square metre;
 - Finsbury Park - £100 - £300 per square metre;
 - Wood Green - £100 - £20 per square metre;
 - Seven Sisters – nil - £50 per square metre;
 - Tottenham Hale – nil - £50 per square metre; and
 - Tottenham – nil - £50 per square metre.
- Whilst the maximum rates are significantly higher than the proposed rates in some areas, the buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and 'shocking' the market).
- At current rent levels, **Office development** is unlikely to come forward in the short to medium term as the capital values generated are insufficient to cover development costs. We therefore recommend that the Council sets a nil rate for offices.
- Residual values generated by **Retail developments** vary significantly between high street retail (which is just marginally viable or unviable) on the one hand, and supermarkets and retail warehouse developments (which generate sufficient residual values to enable the payment of CIL). If the Council anticipates major supermarket or retail warehouse developments to come forward, then it might wish to consider adopting a CIL for these types of retail only (our appraisals indicate that supermarkets could absorb a CIL of up to £130 per square metre and retail warehouses £60 per square metre, both inclusive of Mayoral CIL).
- Our appraisals of developments of **industrial and warehousing floorspace** indicate that these uses are unlikely to generate positive residual land values. We therefore recommend a zero rate for industrial floorspace.
- D1 and D2 uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 uses.

- 7.5 For residential schemes, the application of CIL of up to £300 per square metre is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme costs, a CIL of £100 per square metre is a very modest amount, accounting for less than 3% of total development costs (i.e. less than a developer's contingency which is typically around 5%). Some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these sites.

Appendix 1 Residential appraisal results

Appendix 2 Commercial appraisal results