BNP PARIBAS REAL ESTATE

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Community Infrastructure Levy Review

Prepared for

London Borough of Tower Hamlets

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1 Executive Summary

1.1 This report reviews the Community Infrastructure Levy ("CIL") rates in the London Borough of Tower Hamlets' ("the Council") Charging Schedule, adopted on 25 February 2015 and implemented on 1 April 2015. Levels of CIL have been tested in combination with the cumulative impact of the requirements of the emerging Tower Hamlets Draft Local Plan (June 2016) ("THDLP"). This is in line with the requirements of the National Planning Policy Framework ("NPPF") and the Local Housing Delivery Group guidance 'Viability Testing Emerging Local Plans: Advice for planning practitioners' (June 2012). The report builds upon the Local Plan Viability testing update undertaken on behalf of the Council by BNP Paribas Real Estate in June 2017.

Methodology

1.2 The study methodology compares the residual land values of a range of development typologies on sites throughout the borough to their value in 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 judged that the site is viable and deliverable. Following the adoption of 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.

1.3 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, CIL[1] 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 THDLP policies at a time when there is a degree of uncertainty due to the result of the EU Referendum. Notwithstanding this, residential values in Tower Hamlets have recovered strongly following the severe recession and now exceed the April 2008 peak levels by over 50%.[2] Forecasts for future house price growth indicate continuing growth in the 'mainstream' UK and East England markets. 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. 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.

1.5 The viability analysis in this study provides a high level understanding of the viability of potential development sites in the context of the cumulative impact of the Council's emerging planning policies. It should be noted that some sites may require more detailed site and scheme specific viability analysis when they come forward through the development management process.

[1] Mayoral and Borough CIL indexed as appropriate.
[2] 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)

Key findings

1.6 The key findings of the study are as follows:

- The results of this study are reflective of current market conditions, which will inevitably change over the medium term. It is therefore important that the Council keeps the viability situation under review so that policy requirements can be adjusted should conditions change markedly. Since the 2013 Viability Study was completed, there has been an improvement in sales values, which has been partially offset by an increase in build costs. The net result is a degree of improvement in viability and increased capacity to contribute towards local infrastructure.

- As was the case in the 2013 Viability Study, some schemes tested were unviable due to market factors, rather than the impact of the Council's policy requirements. These schemes will not come forward until changes in site specific market conditions and their current unviable status should not be taken as an indication that the Council's requirements cannot be accommodated on other schemes. It reflects the increasing viability of commercial development, with some existing forms of commercial generated higher values than residential development, reducing pressure for commercial buildings to be redeveloped for alternative (residential) use.

Residential

- In most cases, schemes can accommodate the Council's affordable housing requirement at a level of circa 35%, with the capacity to make CIL payments increasing with lower affordable housing proportions.

- Our appraisals indicate that the Council's currently adopted rates of CIL could increase without adversely impacting on viability of developments. The currently adopted and suggested CIL rates are summarised in Table 1.6.1.

Table 1.6.1 Table showing adopted and suggested residential CIL rates

Area	Existing Borough CIL charge Borough (£s per sq m) (indexed charge)	Suggested Borough CIL after buffer (£s per sq m)
CIL Z1	£200 (£211.58)	£280
CIL Z2	£65 (£68.76)	£180
CIL Z3	£35 (£37.03)	£85

Commercial

- In the City Fringe and North Docklands, rents for both offices and retail developments have increased and our appraisals indicate that these uses will be able to absorb a CIL rate of £100 per sq m.

- Viability of retail and office markets outside the City Fringe and North Docklands have not changed sufficiently to warrant any changes to the adopted rates.

- Rents and yields of supermarkets and retail warehouses have improved since the adoption of the Charging schedule and appraisal identify that such uses should be able to support an increased CIL charge of £130 per sq m.

- Industrial and warehousing have seen increases in rents and a reduction in yields, partly as a result of a lack of available supply, however our appraisals identify that this does not generate a surplus above the benchmark land values and in this regard we recommend the Council maintains its existing nil charge on such uses.

- Market conditions for student housing and hotels have not changed significantly since the adoption of the Charging Schedule and we recommend no changes to the rates for these uses.

- The currently adopted and suggested CIL rates are summarised in Table 1.6.2.

Table 1.6.2 Table showing adopted and suggested Commercial CIL rates

Use and Location	Existing Borough CIL charge Borough (£s per sq m) (indexed charge)	Potential Borough CIL after buffer (£s per sq m)
Office in City Fringe	£90 *(indexed - £95.21)*	£100
Office in North Docklands	Nil	£100
Retail in City Fringe and North Docklands	£70 *(indexed - £74.05)*	£100
Supermarkets and retail warehouses	£120 *(indexed - £126.95)*	£130

<u>Strategic Sites</u>

- Our assessment of the identified strategic sites has concluded that the majority of the sites can viably support the Borough's proposed CIL. With regard to the sites identified as being unviable we note that CIL does not have a significant impact in that the sites are deliverable with between 30% - 35% affordable housing or at a level previously identified in the Local Plan Viability testing as being viable.

- On the two gasworks sites identified as having the most challenging viability, we would highlight that CIL is not the determining factor making the sites unviable, i.e. adopting a nil CIL rate on these sites would not result in the developments generating residual land values above the identified benchmark land value.

- To demonstrate this position we have undertaken an assessment of the proposed Borough CIL liability calculated for each of the strategic sites and compared this to the total development costs. This has identified that the proposed CIL rates result in a liability that is no more than 5% of development costs. In fact, in the three schemes where viability is identified as being most challenging, CIL amounts to no more than 1.42% of development costs. Further, on the schemes identified as being unviable at 35% affordable housing CIL is no more than 3.62% of development costs (see Table 7.18.1).

- In light of our findings we recommend that the Council considers maintaining the proposed CIL rates across the Borough and to Strategic Sites as they are not deemed to be of a sufficient magnitude that is likely to threaten the development of the strategic sites and as a result the *"delivery of the relevant Plan as a whole"* (NPPF paragraph 173 and NPPG Paragraph: 038 Reference ID: 25-038-20140612). Further, we consider that the proposed approach "strike(s) an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across (the Council's) area." (NPPG Paragraph 008 Reference ID: 25-008-20140612).

1.7 We summarise in Table 1.7.1 overleaf the suggested updated CIL charging schedule rates.

Table 1.7.1: Suggested rates for LB Tower Hamlets' Updated CIL Charging Schedule

Development Type	Suggested CIL Rate per sq m (GIA) of Development		
	Zone 1	Zone 2	Zone 3
Residential	£280	£180	£85
	City Fringe & North Docklands		Rest of Borough
Offices and Retail (Except Convenience Supermarkets/ Superstores and Retail Warehousing)	£100		Nil
	Borough Wide		
Convenience Supermarkets/ Superstores and Retail Warehousing	£130		
Hotel	£190		
Student Housing Let at Market Rents	£450		
Student Housing Let at Below Market Rents	Nil		
All other uses	Nil		

1.8 The application of CIL is unlikely to be an overriding factor in determining whether a developer brings forward a site or whether not a scheme is viable.

- For residential development, when considered in context of total scheme value, the recommended CIL rates will be a modest amount, typically accounting for between 1.46% and 3% of scheme costs. 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.

- With respect to commercial schemes, as identified in section 8 of this study the proposed CIL is a marginal factor in a scheme's viability i.e. between 1.45% and 3.13% of total development costs in terms of the uses where increases are proposed.

- In the case of the Strategic Sites, the increased CIL charges amount to no more than 5% of development costs i.e. between 0.31% and 4.39%, with the majority being below 2.5%.

2 Introduction

2.1 The Council has commissioned this study to contribute towards a review of its adopted CIL Charging Schedule, which has been in place since 1 April 2015. The evidence base that underpinned that adopted CIL Charging Schedule was compiled in late 2012 early 2013 and there had been a significant movement in sales values before adoption. The aim of the study is therefore to identify changes in viability that might give rise to amendments to the adopted CIL Charging Schedule. In line with the viability evidence supporting the adopted CIL Charging Schedule, this report tests the cumulative impact of planning policies to determine whether there is scope for CIL rates to change.

2.2 In terms of methodology, we adopted standard residual valuation approaches to test the viability of nine development typologies and 14 strategic sites, including the impact on viability of the Council's planning policies alongside the adopted levels 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.

2.3 In light of the 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 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 National Planning Practice Guidance 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.

2.4 As an area wide study this assessment makes overall judgements as to viability within the London Borough of Tower Hamlets and does not account for individual site circumstances. The assessment should not be relied upon for individual site applications. Notwithstanding this, we note that some judgement has been made within this study with regard to the individual characteristics of the strategic sites tested. However the schemes tested on these sites are based on assessments of likely development capacity on the sites by the Council and in this regard they may differ from actual planning applications that will come forward on these sites and scheme specific testing may still be required at the point where they come forward.

2.5 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."*

Economic and housing market context

2.6 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.

2.7 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. We are now in a period of uncertainty in relation to many factors that impact the property investment and letting markets. In March 2017, the Sterling Exchange Rate Index fell a further 1.5% from the end of February and was 10.5% lower compared with the end of March 2016. However in other areas there are tentative signs of improvement and resilience in the market. For example, the International Monetary Fund revised its forecast for UK growth in 2016 on 4 October 2016 from 1.7% to 1.8%, thereby partly reversing the cut it made to the forecast shortly after the referendum (1.9% to 1.7%). However it further trimmed its 2017 forecast from 1.3% to 1.1%, which stood at 2.2% prior to the Referendum.

2.8 The UK's first official growth figures following the referendum result vote exceeded initial estimates. Growth for Q3 according to the ONS figures was 0.5%, higher than analyst's predictions of 0.3%. The ONS highlighted that "*the pattern of growth continues to be broadly unaffected following the EU referendum*". Initial expectations were that the better than expected GDP figures would deter the Bank of England Monetary Policy Committee from going ahead with any further or planned interest rate cuts. The Economy slowed slightly from the Q2 figure of 0.7% and the pattern was a slightly unbalanced one with services being the only sector continuing to grow, achieving a rate of 0.8%. The Chancellor, Phillip Hammond, noted at the time that "*the fundamentals of the UK economy are strong and today's data show that the economy is resilient*". Production increased by 1.6% in the 3 months to February 2017 and manufacturing increased by 2.2% over the same period. Notwithstanding this the ONS indicate that "*manufacturing is dependent upon both domestic and overseas demand for UK produced goods. Changes in output will reflect both domestic demand and how UK trade is faring post-referendum*"; especially as Article 50 has now been triggered and the negotiation process to leave the EU is underway. Data from the construction sector indicated that the quarterly movement shows a growth of 1.5% in output, which the ONS state "*may act as an indicator of how confident enterprises are in investing in buildings and the infrastructure as longer term assets*".

2.9 It was further expected that manufacturing would be bolstered by the fall in the value of the pound; however this failed to materialise. We note however that ONS Head of GDP Darren Morgan stated that "*the economy grew slightly more in the last three months of 2016 than previously thought, mainly due to a stronger performance from manufacturing*".

2.10 Overall the figures from Q4 2016 and Q1 2017 were better than expected; however experts warned that forecasts for the remainder of 2017 would be lower, as Britain began the formal process of exiting the EU through triggering Article 50. This has been realised as Bank of England's May 2017 Inflation report identifies that *"GDP growth has slowed, in part reflecting the impact of lower real income growth on household consumption."* Further, the report highlights that *"the outlook for UK growth will continue to be influenced by the response of households, companies and financial market participants to the prospect of the United Kingdom's departure from the European Union, including their assumptions about the nature and timing of post-Brexit trading arrangements".*

2.11 The Bank of England's August 2017 Inflation report saw a reduction in the Bank's prediction for economic growth for 2017 to 1.9% form 2%, a small increase in the 2018 forecast from 1.6% to 1.7% and a slight increase again in 2019 to 1.8%. The revisions continue to reflect the fact that the Bank considers the impact of any potential exit from the EU will be experienced later than expected.

2.12 We note that in their 4 August 2017 "Brexit Watch: Investment to shake off recent weakness" note Capital Economics reported that despite "*Much of the focus of the press conference following the Bank of England's August policy decision and Inflation Report was on the contribution of Brexit to the downgrade of its near term growth forecast. A closer look at the forecasts reveals that it was actually stronger imports which account for the majority of the revision, as opposed to weaker business investment.*" In this regard, they consider that, the downgrade to the 2017 GDP forecast *"was driven by the expected contribution from net trade being lowered by 0.3pp, and from business investment by 0.1pp. Meanwhile, the adjustment to 2018 growth, now expected to be 1.7% as opposed to 1.8%, was due to consumption and investment being nudged down."*

2.13 They go on to identify that, *"Despite accounting for only a small share of the revision to the forecast, business investment attracted a lot attention. Admittedly, investment has clearly been hit by uncertainty around post-Brexit trading arrangements. In 2016 fixed investment contributed just 0.1ppts to annual GDP growth compared to an average of 0.6ppts over the five years prior. The weak showing is particularly concerning given that capital deepening is an important driver of productivity, which is a major determinant of the long-run potential growth rate of the economy."*

2.14 The update note also highlights that the UK's productivity performance is already poor. *"Since the crisis annual labour productivity (GDP per hour worked) growth has been 0.6% compared to a G7 average of 0.9%. Much of this shortfall has been attributed to weak investment. Notwithstanding this position, they consider that there is scope for investment growth to accelerate."* They state that, *"while business investment dipped in 2016, it returned to growth in Q1, and surveys of investment intentions point to the recovery continuing to gather pace. Indeed, business investment has held up better than the Bank initially feared, reflected by the upward revision to its forecast since last summer."* They go on to set out that they consider there to be *"more fundamental reasons to believe that investment will continue to recover. The weaker pound has boosted exporters' margins and returns, while the economy is approaching capacity, giving firms both the opportunity and incentive to invest. Admittedly, Brexit uncertainty will keep longer-term projects on hold for a while yet. But as the UK's future relationship with the EU becomes clearer, investment growth is likely to rebound faster than the Bank expects."*

2.15 BNP Paribas Real Estate's UK Housing Market Report Spring 2017 forecasted "*a less positive 12 months is likely ahead*". In this report we note that "*the weakening of real incomes will add to already challenging affordability issues in the housing market, both for first-time buyers and home movers. In addition, a buildup of uncertainty resulting from the on-going news cycle of political events is likely to take its toll on confidence and the propensity to take on a major financial commitment. RICS surveyors forecast a modest recovery in activity over the coming months, although still very subdued by historic standards. This will protect residential values to an extent, although we believe it inevitable that growth will be more subdued than in recent years. In 2017, we expect the average UK house price to rise by 2.2%, half that seen in 2016*".

2.16 ONS have highlighted that "*the median UK household disposable income was £26,300 in the financial year ending 2016; this was £600 higher than the previous year and £1,000 higher than the pre-downturn value of £25,400 in 2007/2008*". Despite this, the economic downturn has had an effect on non-retired households, with median incomes in 2015/2016 still 1.26% lower than pre-downturn levels in 2007/2008. Although household incomes are slightly above their pre-downturn peak overall, not everyone is better off. Claudia Wells (Head of Household and Income and Expenditure Analysis) states that "*while retired households' incomes have soared in recent years, non-retired households still have less money, on average, than before the crash*". While median income for the majority of households have recovered to pre-economic downturn levels, the ONS indicate that "*income for the richest fifth of households has fallen by £1,900 (3.4%) in real terms*". This has been predominantly due to a fall in average income from employment (including self-employment) for this group following the economic downturn. This has a negative effect on the economy, as this slow increase in average household income, has affected consumer spending and increased borrowing and personal debt overtime.

2.17 Further, stamp duty changes when purchasing residential property from 4 December 2014, has also had 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 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.

2.18 The July Halifax House Price Index Report identifies that overall prices in the three months to June were 0.1% lower than in the preceding quarter. The annual rate of growth fell to 2.6%, the lowest rate since May 2013. Martin Ellis, the Halifax housing economist comments that, *"Although employment levels continue to rise, household finances face increasing pressure as consumer prices grow faster than wages. This, combined the new stamp duty on buy to let and second homes in 2016, appears to have weakened housing demand in recent months.*

2.19 Nationwide's June House Price Index Report contrasted this position by reporting a modest annual house price growth rising to 3.1% from 2.1% in May, stating that, *"after two sluggish months, annual price growth has returned to the 3-6% range that had been prevailing since early 2015."* Notwithstanding this, Robert Gardiner, Nationwide's Chief Economist, shares the view that, *"The emerging squeeze on household incomes appears to be exerting a drag on housing market activity in recent months. The number of mortgages approved for house purchase has slowed a little in recent months and surveyors report that new buyer enquiries have softened."* As a result a key query raised in the report is that at present it is uncertain whether the reported increase in house price growth reflects "*the strengthening demand conditions on the back of healthy gains in employment and continued low mortgage rates, or whether the lack of homes on the market is the more important factor."* Whilst Nationwide's survey data suggests that *"new buyer enquiries have softened, it also indicates that this has been matched by a decline in new instructions".*

2.20 Nationwide considers that *"given the on-going uncertainties around the UK's future trading arrangements, the economic outlook remains unusually uncertain, and housing market trends will depend crucially on developments in the wider economy. Nevertheless, in our view, household spending is likely to slow in the quarters ahead, along with the wider economy, as rising inflation squeezes household budgets. This, together with on-going housing affordability pressures in key parts of the country, is likely to exert a drag on housing market activity and house price growth in the quarters ahead."*

2.21 Nationwide conclude that, "the subdued level of building activity and the shortage of properties on the market are likely to provide support for prices. As a result, we continue to believe that a small increase in house prices of around 2% is likely over the course of 2017 as a whole."

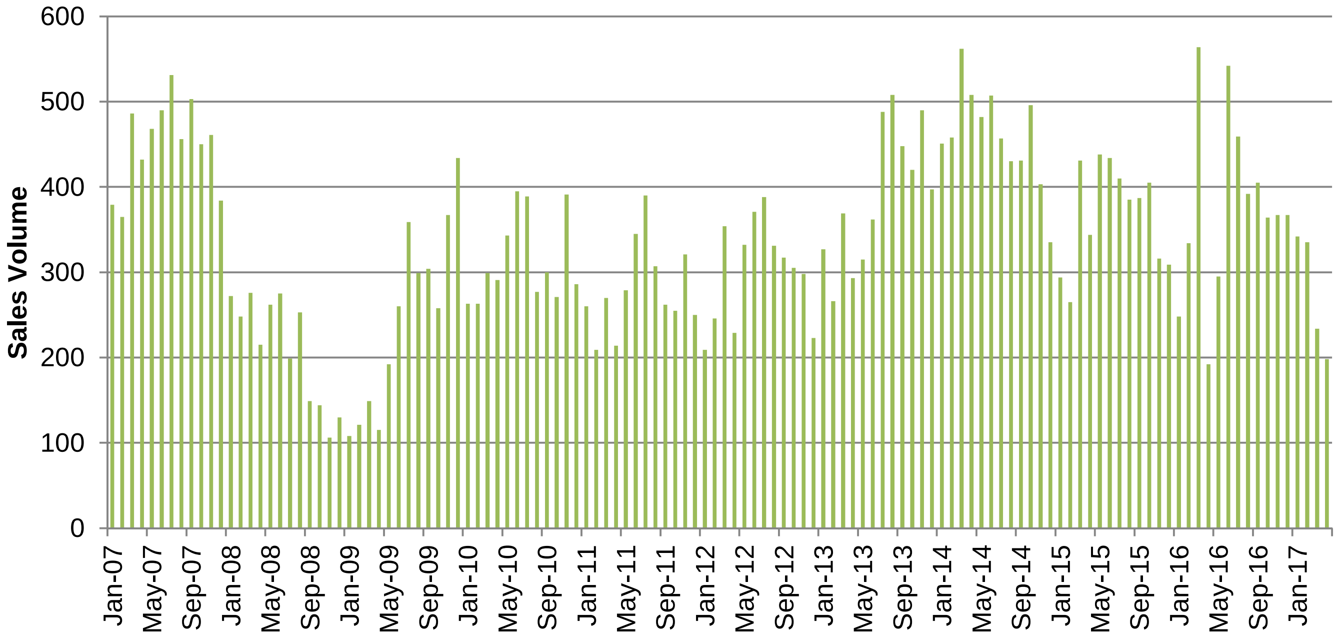
Local housing market context

2.22 According to Land Registry as of August 2009, values had fallen in Tower Hamlets by circa 25% from the April 2008 peak of the market values. Subsequently values recovered steadily to April 2010, from which point values fluctuated within a 7% range until May 2013. From May 2013 average values have been seen to increase at a more rapid rate exceeding the April 2008 peak of the market value in October 2013. As of June 2017 residential sales values in Tower Hamlets were circa 47% higher than the April 2008 peak of the market values.

2.23 Tower Hamlets has seen very strong growth in sales values across the borough, where values have been seen to almost double since BNP Paribas Real Estate prepared the Council's previous CIL viability evidence. Growth in values has resulted from a significant number of development schemes coming forward, regenerating the borough. Values in the city fringe, along the Thames and in Canary Wharf area also seen significant increases with a number of schemes achieving sales values in excess of £1,200 per sq ft. These areas are now considered part of the central London 'prime market'. Growth in values in these areas has resulted in part from active interest from domestic and overseas investors.

Figure 2.23.1: Average house prices in Tower Hamlets

Figure 2.23.2: Sales volumes in Tower Hamlets



Source: Land Registry

2.24 The future trajectory of house prices is currently uncertain, although BNP Paribas Real Estate, Knight Frank and Savills currently forecast growth in house prices over the next four/five years. They identify that the Mainstream London market will grow by 11% to 12.5% over the period between 2017 to 2021 inclusive, whilst the Prime Central London East/Prime Central London markets will grow by 15.9% to 21%. This is compared to a UK average of 13% to 14.2% cumulative growth over the same period.

Table 2.24.1: House price forecasts for prime and mainstream London markets and the UK market as a whole

London Markets	2017	2018	2019	2020	2021	Cumulative growth
Prime Central London – Savills (August 2017 – first published Nov 2016)	0.0%	0.0%	8.0%	5.0%	6.5%	21%
Prime Central London East - Knight Frank (May 2017)	1.0%	3.5%	3.0%	3.5%	4.0%	15.9%
London - BNP Paribas Real Estate (April 2017)	3.69%	1.27%	0.31%	1.74%	N/A	
Mainstream London – Savills (August 2017 – first published Nov 2016)	0.0%	3.0%	4.5%	2.0%	1.0%	11%
Mainstream London - Knight Frank (May 2017)	-1.0%	2.0%	2.5%	3.0%	5.5%	12.5%
UK - BNP Paribas Real Estate (April 2017)	2.16%	1.05%	2.48%	4.11%	N/A	
UK – Savills (August 2017 – first published Nov 2016)	0.0%	2.0%	5.5%	3.0%	2.0%	13.0%
UK - Knight Frank (May 2017)	1.0%	2.5%	3.0%	3.0%	4.0%	14.2%

National Policy Context

The NPPF

2.25 The NPPF sets out the government's planning policies including its preferred approach to meeting housing and employment requirements. The NPPF has subsequently been supplemented by the National Planning Practice Guidance ("NPPG").

2.26 The NPPF provides 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 NPPF requires that local planning authorities have regard to the impact on viability of the cumulative effect of all their planning requirements on viability. Paragraph 173 of the NPPF requires that local planning authorities give careful attention *"to viability and costs in plan-making and decision-taking"*. The NPPF requires 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"*.

2.27 The meaning of a "competitive return" has been the subject of considerable debate over the past few years. For the purposes of testing the viability of a local plan, the Local Housing Delivery Group[3] 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[4], although there is no consensus around this view.

[3] Viability Testing Local Plans: Advice for planning practitioners, June 2012
[4] RICS Guidance Note: Financial Viability in Planning, August 2012

CIL Policy Context

2.28 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. The adoption of a CIL charging schedule is discretionary for a charging authority; however, the scaling back of the use of pooled S106 obligations is not discretionary. As such, should the Council elect not to adopt a CIL Charging Schedule, it may have implications with regard to funding infrastructure in the District in future and the Council will need to be aware of such implications in their decision-making.

2.29 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 to the provision of affordable housing. They cannot be used for securing payments towards infrastructure[5] that benefit more than one development, unless they form part of a maximum of five S106 agreements, from which contributions to provide infrastructure can be pooled.

2.30 The CIL regulations state that in setting a charge, local authorities must 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).

2.31 Local authorities must consult relevant stakeholders on the nature and amount of any proposed CIL at two stages; after publication of the Preliminary Draft Charging Schedule ("PDCS") and the Draft Charging Schedule ("DCS"). Following consultation, a charging schedule must be submitted for independent examination.

2.32 The payment of CIL becomes mandatory on all new buildings and extensions to buildings with a gross internal floorspace over 100 square metres once a charging schedule has been adopted. The CIL regulations 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 authorities may, if they choose, elect to offer an exemption on proven viability grounds. A local 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. 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.

2.33 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 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.

2.34 CIL Regulation 40 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.

[5] This infrastructure should not be identified on the Council's Regulation 123 list.

2.35 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 (paragraph 022 Reference ID: 25-022-20140612) clarifies that CIL Regulation 13 permits charging authorities to levy *"differential rates by reference to different intended uses 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 (paragraph 023 Reference ID: 25-023-20140612) 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.

2.36 The 2010 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. The 2011 amendments to the regulations allowed charging 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).

2.37 The Government published the findings of the independent CIL review alongside the Housing White Paper in February 2017. The White Paper identified at paragraph 2.28 that the Government "*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."*

2.38 As a result the Government committed to *"examine the options for reforming the system of developer contributions including ensuring direct benefit for communities, and will respond to the independent review and make an announcement at Autumn Budget 2017."* At this stage there is no further information as to whether the Government will implement the independent CIL review panel's recommendations for reform to the approach of calculating and securing developer contributions towards infrastructure required to support development and if so what the transition period will be.

Mayoral CIL

2.39 Tower Hamlets falls within Mayoral CIL Zone 2, where based on the currently adopted Charging Schedule a CIL of £35 per square metre (un-indexed) is levied. In addition, the Crossrail and Mayoral CIL SPG[6] identifies that in particular locations, where appropriate, the Mayor could negotiate Section 106 contributions over and above the Mayoral CIL towards Crossrail, dependent on the size and impact of the development and viability issues.

2.40 Accordingly this study takes full account of Mayoral CIL indexed as appropriate to 2016 values, based on the All in Tender Price Index as required by the CIL Regulations (as amended) and any potential Crossrail top up charge that could be sought by the Mayor as a cost to development.

2.41 We note that the Mayor published the Mayor of London Community Infrastructure Levy 2 Preliminary Draft Charging Schedule (MCIL2 PDCS) on 26 June 2017 for consultation until 7 August 2017. The Mayor intends that from April 2019 MCIL2 will supersede the current Mayor's CIL (MCIL1) and the associated planning obligation/S106 charge scheme applicable in central London and the northern part of the Isle of Dogs. MCIL1 and the S106 scheme are being used to contribute to funding for Crossrail. MCIL2 will be used to contribute to funding

[6] The London Plan Supplementary Planning Guidance on 'Use of planning obligations and Mayoral Community Infrastructure Levy' (March 2016) ("Mayoral CIL and S106 SPG")

for Crossrail 2. In light of this, this study also takes into consideration the implications of the proposed increased cost associated with the MCIL2.

Tower Hamlets CIL

2.42 Tower Hamlets adopted its CIL Charging Schedule on 25 February 2015 and it came into effect on 1 April 2015. Table 2.42.1 below summarises the rates of CIL charged (un-indexed).

Table 2.42.1: CIL rates in the adopted Charging Schedule

Development Type	Proposed CIL Rate Per sq m (GIA) of Development			
	Zone 1	Zone 2	Zone 3	Large Allocated Sites
Residential	£200	£65	£35	Nil
	City Fringe	North Docklands	Rest of Borough	Large Allocated Sites
Offices	£90	Nil	Nil	Nil
Retail (Except Convenience Supermarkets/ Superstores and Retail Warehousing)	£70	£70	Nil	Nil
	Borough Wide, Except Large Allocated Sites			Large Allocated Sites
Convenience Supermarkets/ Superstores and Retail Warehousing	£120			Nil
Hotel	£180			Nil
Student Housing Let at Market Rents	£425			Nil
Student Housing Let at Below Market Rents	Nil			Nil
	Borough Wide			
All other uses	Nil			

Local Policy context

2.43 The study takes into account the emerging policies and standards set out in the Tower Hamlets Local Plan 2031, Managing growth and sharing the benefits, Regulation 19 Consultation document to be published in October 2017 (“THDLP”). These include *inter alia* affordable housing requirements; sustainability 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.).

2.44 We set out a summary of the policies identified as having cost implications for developments below:

- Policy D.SG5 – Developer contributions (sets out that requirements may include S106 agreements to make provisions to mitigate the impacts of the development and CIL and the Council's approach to the Vacant Building Credit ("VBC"))
- Strategic Policy S.H1 – (sets out the strategic affordable housing target of 50% and identifies the minimum requirement for 35%-affordable homes on sites providing net additional residential units (subject to viability);
- Policy D.H2 - (requires the delivery of affordable housing in a 70% Rent and 30% Intermediate tenure split). It also requires developments for estate regeneration to protect the existing quantum of affordable homes and provide an uplift in the number of affordable homes.
- Policy D.H3 – Housing Standards and Quality (in particular accessibility requirements in line with the London Plan)
- Policy D.ES5 – Sustainable Drainage (specifies requirements for SUDs and attenuation on development sites).
- Policy D.ES7 – A Zero Carbon Borough (identifies the Council's aspiration of achieving Zero Carbon development. From 2016 to 2019 a 45% CO2 emissions reduction from the 2013 building regulations is sought and Zero Carbon from 2019-2031 i.e. a minimum of 45% reduction of on-site with the remaining regulated carbon dioxide emissions to 100% to be off-set through a cash in lieu contribution for carbon saving projects elsewhere in the borough.)

Development context

2.45 Tower Hamlets is an inner London borough and sits in an important strategic location for London, linking central London with the rest of the Thames Gateway growth corridor. The THDLP identifies that the borough is the second most densely populated in London, and the townscape is evolving with the increase in density. Many areas have undergone significant change and regeneration, with a mix of redevelopment and restoration/adaption/reuse of buildings. In particular there has been a marked increase in the number of tall buildings, particularly residential ones, causing notable changes to the borough's skyline, with positive and negative implications.

2.46 Developments in Tower Hamlets range from small in-fill sites to major regeneration schemes. The City Fringe and Canary Wharf are strategically important employment locations for London and are the location of the headquarters for a large number of multinational businesses so commercial development is important and strong within these key locations within the Borough.

2.47 The THDLP identifies that the 2015 Indices of Deprivation (DCLG, 2015) show that while Tower Hamlets has become relatively less deprived, deprivation remains widespread and the Borough also continues to have the highest rates of child and pensioner poverty in England (LBTH, 2016). However the borough also contains a number of wards which are within the least deprived in England. This disparity is reflected in the borough's pay ratio which is the largest, reflecting the greatest inequality in London (London Poverty Profile, 2015).

2.48 Given the above it is unsurprising that there are significant variations in residential sales values between different parts of the Borough, with values in the City Fringe, wards along the River Thames and in Canary Wharf generally being the highest and the areas to the north east of the borough achieving lower values. Notwithstanding this position, values in the entire borough have seen significant growth in the last few years with the construction of new residential dwellings (building starts) in the borough exceeding the other London boroughs and the growth shows little signs of abating.

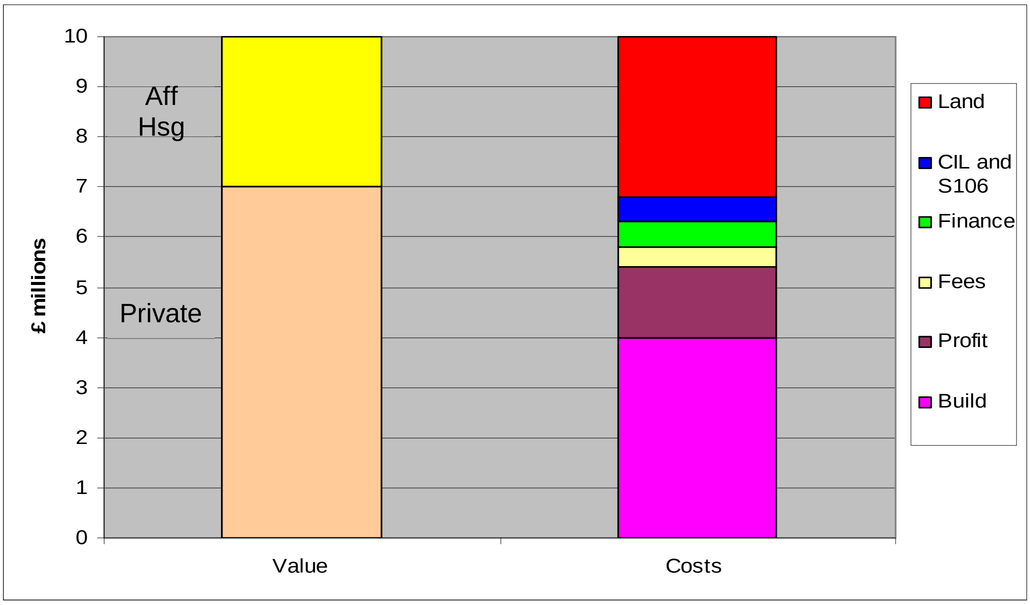
2.49 The THDLP identifies that *'The London Plan (GLA, 2016) identifies a ten-year minimum housing supply target of 39,314 homes within Tower Hamlets over the period 2015-2025. This is equivalent to a minimum requirement of 3,931 homes per annum. The London Plan does not set out specific housing targets beyond 2025 but expects boroughs to 'roll forward' their annual target. The London Plan ten-year target, plus the annual rolled forward target, results in a housing supply target for the borough (2016 – 2031) of 58,965 homes.'*

3 Methodology

3.1 Our methodology follows standard development appraisal conventions, using locally-based sites and assumptions that reflect local market circumstances and emerging planning policy requirements. The study is therefore specific to Tower Hamlets 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 (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, Section 106 contributions, CIL 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.



3.3 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 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'.

3.4 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 Tower Hamlets, the majority of 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;

- Development value and costs will also be significantly affected by assumptions about the nature and type of affordable housing provision and other Planning Obligations. In addition, on major projects, assumptions about development phasing; and infrastructure required to facilitate each phase of the development will affect residual values. Where the delivery of the obligations are 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;

- 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. However, following the result of the EU referendum and the commencement of negotiations to leave the EU following the triggering of Article 50, the market has started to reflect increased uncertainty through levels of profit at the higher end of this range.

3.5 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[7]' or another appropriate benchmark to make development worthwhile. i.e. provides a "competitive return" (para 173 NPPF). 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.

3.6 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. 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. However, landowner expectations and speculation on land values need to be balanced against the legitimate needs of communities which will accommodate new development, including the provision of infrastructure to support new residents.

Viability benchmark

3.7 The NPPF is not prescriptive on the type of methodology local planning authorities should use when assessing viability. The National Planning Practice Guidance indicates that the NPPF requirement for a 'competitive return' to the landowner will need to allow for an incentive for the land owner to sell and options may include "*the current use value of the land or its value for a realistic alternative use that complies with planning policy*" (Para 024; reference ID 10-024-20140306).

3.8 The Local Housing Delivery Group published guidance[8] in June 2012 which 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*".

[7] 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'.

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

3.9 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*".

3.10 The 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. This will ultimately be a matter of judgement for each planning authority.

3.13 Respondents to consultations on planning policy documents in Tower Hamlets and other local planning authorities in and out of London have made various references to the RICS Guidance on 'Viability in Planning' and have suggested that councils should run their analysis on market values. This would be an extremely misleading measure against 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.

3.14 Notably the GLA recently adopted the Affordable Housing and Viability SPG (August 2017). Paragraph 18 of the SPG clearly states that:

"The SPG is explicit about the Mayor's preference for using Existing Use Value Plus as the comparable Benchmark Land Value when assessing the viability of a proposal. The premium above Existing Use Value will be based on site specific justification reflecting the circumstances that apply."

3.15 Paragraph 3.40 goes on to reiterate the NPPG's position that *"in all cases, land or site value should: reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge"*. Paragraph 3.41 goes on to explain that this is a *"key requirement"* as assuming that the granting of planning permission will increase the value of the site, but not including the costs of meeting planning requirements will result in an overinflated site value, contrary to the NPPG. The SPG goes on to identify in the next paragraph (3.42) that,

"It is for this reason that the Mayor does not consider it appropriate within a development appraisal to apply a fixed land value as an input which is based on price paid for land or a purely aspirational sum sought by a landowner. Land transactions reflect the specific circumstances of the developer whereas planning viability appraisals are typically undertaken on a standardised basis. Reliance on land transactions for sites that are not genuinely comparable or that are based on assumptions of low affordable housing delivery, excess densities or predicted value growth, may lead to inflated site values. This undermines the implementation of Development Plan policies and the ability of planning authorities to deliver sustainable development."

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 Tower Hamlets, 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 its 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 3.13. 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.

- 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 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 18,000%.

3.20 The GLA's SPG references the 2015 research published by the RICS[9], which found that the 'market value' approach is not being applied correctly and sets out at page 26 that *"if market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for sites and try to recover some or all of the overpayment via reductions in planning obligations"*

3.21 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 respondents. Our assessment follows this approach, as set out in Section 4.

[9] RICS Financial Viability Appraisal in Planning Decisions: Theory and Practice. April 2015

4 Appraisal assumptions

Residential development

4.1 We have appraised 9 development typologies, reflecting both the range of sales values/capital values and also sizes/types of development and densities of development across the borough. The Council have reviewed historic planning applications and have based the appraisal typologies on a range of actual developments within the borough. These typologies are therefore reflective of developments that have been consented/delivered as well as those expected to come forward in Tower Hamlets in future. Details of the schemes appraised are provided below in tables 4.1.1 and 4.1.2 below.

Table 4.1.1 Development typologies

Typology No.	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	3	Houses	100	0.03
2	6	Flats	350	0.02
3	10	Flats	235	0.04
4	11	Flats	235	0.05
5	25	Houses and flats	375	0.07
6	50	Flats	380	0.13
7	100	Flats	210	0.48
8	250	Flats	280	0.89
9	400	Flats	630	0.63

Table 4.1.2: Unit Mix (as identified in the SHMAA)

<table>
<tr><th>Unit Size</th><th>Market</th><th>London Living Rent / Intermediate</th><th colspan="2">Social Target Rent / Tower Hamlets Living rent</th></tr>
<tr><td>1 bed</td><td>30%</td><td>15%</td><td colspan="2">25%</td></tr>
<tr><td>2 bed</td><td>50%</td><td>40%</td><td colspan="2">30%</td></tr>
<tr><td>3 bed</td><td rowspan="2">20%</td><td>35%</td><td rowspan="2">45%</td><td>30%</td></tr>
<tr><td>4 bed</td><td>10%</td><td>15%</td></tr>
<tr><td>Total</td><td>100%</td><td>100%</td><td colspan="2">100%</td></tr>
</table>

4.2 For typology 1 we have assumed 100% of the units are delivered as 3 bed houses and Typology 5 we have assumed that 10% of the 3 bed units are delivered as houses.

4.3 With respect to the size of units adopted in the study, these are set out in Table 4.3.1 below and have been informed by the minimum gross internal floor areas set out in Policy 3.5 and Table 3.3 of the London Plan Consolidated with Alterations since 2011 published in March 2016 and the DCLG's Technical Housing standards' nationally described space standard published in March 2015.

Table 4.3.1: Unit Sizes adopted in study

Unit type	1 Bed flat	2 bed flat	3 bed flat	4 bed flat	3 bed house
Unit size (sq m)	50	70	95	108	102

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 March 2013 CIL Viability Report was published (with research undertaken in mid 2012), the Land Registry's database identifies that house prices in the borough have increased by circa 65%.

4.5 We have undertaken research on updated residential values in the borough using online database sources including Molior London, the Land Registry, Rightmove and discussions with active local agents. We also have an excellent understanding of values attributed to new build developments from viability work undertaken on behalf of the Council. We have considered all of this evidence of transacted properties in the area as well as properties on the market and pricing of new developments to establish appropriate values for testing purposes. This exercise indicates that in general, developments in the city fringe, Thames waterfront regions (such as St Katherine's docks and Wapping), Canary Wharf and docklands will attract average the highest sales values in the borough ranging from circa £8,342 per square metre (£775 per square foot) to £12,917 per square metre (£1,200 per square foot). Lower values are generally achieved in the east of the borough, however in peripheral areas values of new build development have been seen to increase significantly over the last few years. We have established high medium and low values for each of the three adopted CIL Zones as identified in Table 4.5.1, however for the purposes of testing the level of CIL that can be accommodated in the Borough we have applied the medium average sales values in our appraisals.

Table 4.5.1: Average sales values adopted in Tower Hamlets appraisals

Area	Ave values £s per sq m	Ave values £s per sq ft
CIL Zone 1 - High	£12,917	£1,200
CIL Zone 1 - Medium	**£ 9,688**	**£ 900**
CIL Zone 1 - Low	£ 8,342	£ 775
CIL Zone 2 - High	£ 9,149	£ 850
CIL Zone 2 - Medium	**£ 8,073**	**£ 750**
CIL Zone 2 - Low	£ 7,266	£ 675
CIL Zone 3 - High	£ 8,611	£ 800
CIL Zone 3 - Medium	**£ 7,266**	**£ 675**
CIL Zone 3 - Low	£ 6,189	£ 575

4.6 As noted earlier in the report, BNP Paribas Real Estate, 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

4.7 With respect to affordable housing, the Council's Strategic Policy S.H1 identifies that the Council's strategic target for affordable homes of 50% will be achieved by requiring a minimum of 35% to 50% affordable homes on sites providing net additional residential units (subject to viability). Policy D.H2 'Affordable housing' goes on to identify that the Council will seek to maximise affordable housing in line with Policy S.H1 and will require delivery of housing in accordance with a 70% Rent and 30% Intermediate tenure split. The supporting text at paragraph 4.18 identifies that the plan:

"… sets a target of achieving 50% affordable homes through private development as well as council-led initiatives. This target is considered to best reflect local housing need. On developments that yield 11 or more net additional residential units, at least 35% of affordable housing is expected. Developments are expected to maximise the provision of affordable housing, having regard to availability of public subsidy, implications of phased development (including provision for re-appraising scheme viability at different stages of development) as well as financial viability. Affordable housing calculations will be made using habitable rooms. Given the extent of local need, it is considered necessary and appropriate to seek financial contributions towards the provision of affordable housing from sites of less than 10 units. Financial contributions will be calculated using our preferred methodology as set out in the Planning Obligations Supplementary Planning Document. Over the plan period, developments on small sites have the potential to contribute over 3,000 new homes and could make a significant contribution towards meeting local affordable housing need (see appendix 7). Financial contributions will be calculated using a sliding-scale target starting at 3.5% across the whole site and increasing to 3.5% for each additional home, reaching 35% for sites of 11 units of more. Further detail (including on financial viability assessments) is provided in the developer contributions policy (D.SG5) and in the latest Planning Obligations Supplementary Planning Document. Policy S.H1 also requires 'a mix of housing sizes and tenures on all sites providing new housing" and further supports *"a variety of housing products in the market and affordable tenure".*

4.8 Policy D.H2 'Affordable housing' sets out that The Council will seek to *'maximise the provision of affordable housing in accordance with a 70% rented and 30% intermediate tenure split.* The supporting text in paragraphs 4.28 and 4.29 identify that:

4.28 Where the development provides up to 35% affordable housing, as per policy S.H1 above, the affordable housing provision should be comprised of:

- *70% rented element, of which 50% should be London affordable rents and 50% should be Tower Hamlets living rent; and*
- *30% intermediate element, which can include London living rent, shared ownership and other intermediate products.*

4.29 Larger intermediate units (3 or more bedrooms) should be prioritised as London Living Rent products, and generally, shared ownership will not be considered appropriate where unrestricted market values of a unit exceed £600,000 (as per the Affordable Housing and Viability Supplementary Planning Guidance [GLA, 2016]). Where the development provides more than 35% affordable housing, the tenure of the additional affordable homes will be subject to negotiation. GLA developed products (including the London Affordable Rent and London Living Rent) may be subject to change over the plan period. Our affordable housing service will provide further guidance on suitable products when assessing applications. Rent levels are determined as part of the viability assessment of each planning application and undertakings are made to retain similar rent levels at the point of completion. The ownership of affordable homes must be transferred to one of our approved local registered providers or other approved affordable housing providers.

4.9 The Council have identified that given the identified need in the borough they require forthcoming applications to split the 70% rented affordable element between SR and THLR. These will be equally split 50/50 between all unit sizes.

4.10 With respect to the 30% intermediate units, the Council has indicated that they are willing to be flexible on these units and have requested that three options of this provision be tested as follows:

- 50% LLR and 50% SO;
- 100% SO; and
- 100% LLR.

4.11 We set out in Table 4.11.1 the weekly rents for Social Rent (based on London Affordable Rent ("LAR"), Tower Hamlets Living Rent and London Living Rent adopted in our appraisals, which were the rents as at the point of gathering appraisal input data for this study. We understand that moving forward 2017/2018 values will apply as identified in Table 4.11.2 below.

Table 4.11.1 Social Rent (based on London Affordable Rent), Tower Hamlets Living Rent and London Living Rent weekly rents adopted in appraisals

Sub Market	London Living Rent (16/17)				Tower Hamlets Living Rent (16/17)				Social Rent/London Affordable Rent (16/17)			
CIL Z1 High	£267.66	£297.40	£327.14	£359.86	£194.74	£214.21	£235.63	£259.20	£142.70	£151.09	£159.48	£167.87
CIL Z1 Med	£231.63	£257.37	£283.10	£311.41	£194.74	£214.21	£235.63	£259.20	£142.70	£151.09	£159.48	£167.87
CIL Z1 Low	£202.77	£225.30	£247.83	£272.62	£194.74	£214.21	£235.63	£259.20	£142.70	£151.09	£159.48	£167.87
CIL Z2 High	£267.66	£297.40	£327.14	£359.86	£194.74	£214.21	£235.63	£259.20	£142.70	£151.09	£159.48	£167.87
CIL Z2 Med	£217.98	£242.20	£266.42	£293.06	£194.74	£214.21	£235.63	£259.20	£142.70	£151.09	£159.48	£167.87
CIL Z2 Low	£178.44	£198.27	£218.09	£239.90	£194.74	£214.21	£235.63	£259.20	£142.70	£151.09	£159.48	£167.87
CIL Z3 High	£253.59	£281.77	£309.95	£340.94	£194.74	£214.21	£235.63	£259.20	£142.70	£151.09	£159.48	£167.87
CIL Z3 Med	£202.77	£225.30	£247.83	£272.62	£194.74	£214.21	£235.63	£259.20	£142.70	£151.09	£159.48	£167.87
CIL Z3 Low	£178.44	£198.27	£218.09	£239.90	£194.74	£214.21	£235.63	£259.20	£142.70	£151.09	£159.48	£167.87

Table 4.11.2 Social Rent (based on London Affordable Rent), Tower Hamlets Living Rent and London Living Rent weekly rents 2017/18

Sub Market	London Living Rent				Tower Hamlets Living Rent				Social Rent/London Affordable Rent(17/18)			
CIL Z1 High	£267.66	£297.40	£327.14	£356.88	£198.63	£218.49	£241.36	£264.38	£144.26	£152.73	£161.22	£169.70
CIL Z1 Med	£231.63	£257.37	£283.10	£308.84	£198.63	£218.49	£241.36	£264.38	£144.26	£152.73	£161.22	£169.70
CIL Z1 Low	£202.77	£225.30	£247.83	£270.37	£198.63	£218.49	£241.36	£264.38	£144.26	£152.73	£161.22	£169.70
CIL Z2 High	£267.66	£297.40	£327.14	£356.88	£198.63	£218.49	£241.36	£264.38	£144.26	£152.73	£161.22	£169.70
CIL Z2 Med	£217.98	£242.20	£266.42	£290.64	£198.63	£218.49	£241.36	£264.38	£144.26	£152.73	£161.22	£169.70
CIL Z2 Low	£178.44	£198.27	£218.09	£237.92	£198.63	£218.49	£241.36	£264.38	£144.26	£152.73	£161.22	£169.70
CIL Z3 High	£253.59	£281.77	£309.95	£338.12	£198.63	£218.49	£241.36	£264.38	£144.26	£152.73	£161.22	£169.70
CIL Z3 Med	£202.77	£225.30	£247.83	£270.37	£198.63	£218.49	£241.36	£264.38	£144.26	£152.73	£161.22	£169.70
CIL Z3 Low	£178.44	£198.27	£218.09	£237.92	£198.63	£218.49	£241.36	£264.38	£144.26	£152.73	£161.22	£169.70

4.12 We have used our bespoke model to value the affordable housing, which replicates how RPs undertake such appraisals. This model runs cashflows for the rented tenures in the borough over a period of circa 35 years which capitalises the net rental income stream. With respect to the social rented accommodation the model calculates the gross rent for these properties derived from a combination of property values (as at January 1999). The net rent is then 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.

4.13 In the July 2015 Budget, the Chancellor announced that RPs will be required to reduce rents by 1% per annum for the subsequent four years. This has reduced the capital values that RPs will pay developers for completed affordable housing units. At this stage, it is unclear whether this requirement will roll forward beyond the four year period 2015/16 to 2018/19. Our model accounts for this by reducing rents in years 1 to 4, which is a cautious assumption and assumes that the restriction will remain in place in perpetuity for rented accommodation in this study.

4.14 The CLG/HCA 'Shared Ownership and Affordable Homes Programme 2016 to 2021 – Prospectus' document clearly states that Registered Providers will not receive grant funding for any affordable housing provided through planning obligations. Consequently, all our appraisals assume nil grant. We note that the Government's 2016 Autumn Statement identified that the Government would "invest of a further £1.4 billion to deliver 40,000 additional affordable homes" and that they "will relax restrictions on government grant to allow a wider range of housing-types". However, we consider that the proposed sum is unlikely to achieve the delivery of 40,000 new homes as suggested given the increase in sales values since 2010 (i.e. when such grant was last available to fund all tenures of affordable housing). In addition we are aware that the GLA's Draft Affordable Housing and Viability SPG 2016 identifies that, "To enable the delivery of more affordable homes the Mayor will make funding available to increase the proportion of affordable homes above that which is viable on a nil-grant basis. Funding will be available on a tariff basis, details of which are set out in the Mayor's Homes for Londoners: Affordable Homes Programme 2016-21." BNP Paribas Real Estate is of the opinion that any grant funding will now have to work harder to achieve the same outcome that would have been possible in 2010 and therefore is unlikely to be available on all schemes. On this basis we have assumed no grant is available in the testing undertaken. Notwithstanding this we recommend that the Council revisits this assumption in future viability reviews.

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%.

Build costs

4.16 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 Tower Hamlets. We have then been provided with additional advice from WT Partnership ("WTP"), who were instructed by the Council to provide advice in relation to the likely extra over costs above the aforementioned base build costs associated with the Council's policy requirements. We set out the base build costs in Table 4.16.1 overleaf.

Table 4.16.1 Base Build costs adopted in study

Typology No.	Number of units	Housing type	Development density units per ha	Net developable area (ha)	Gross to net for flats	Base build costs per sq m
1	3	Houses	100	0.03	n/a	1,583
2	6	Flats	350	0.02	80%	1,700
3	10	Flats	235	0.04	80%	1,700
4	11	Flats	235	0.05	80%	1,700
5	25	Houses and flats	375	0.07	75%	1,583 2,100
6	50	Flats	380	0.13	75%	2,250
7	100	Flats	210	0.48	75%	2,250
8	250	Flats	280	0.89	75%	2,250
9	400	Flats	630	0.63	75%	2,500

4.17 In addition to the base build costs outlined above we have also allowed for other factors which are not included in BCIS. Our appraisals include allowances of 15% for external works and a contingency of 5% of base build costs.

4.18 WTP have advised that the costs of SUDs and attenuation is very much dictated by the size of a site, density and ground conditions. It is also dependant on the approach the developer undertakes e.g. using green roofs, permeable paving, simple rainwater harvesting, swales, or water storage etc. The typologies included in this area wide assessment vary greatly from a 3 units to 400 units. WTP's considered advice to test in this study is that the Policy requirements would add circa 0.4% of base build costs.

4.19 WTP consider that the cost of providing step free access to a block of apartments over 3 floors is very small as a lift would normally be provided for a scheme over 4 floors and it would only require a step free ramped access at the entrance, which would be a minor cost. The cost of providing step free access to low-rise developments where a lift would not be part of a scheme would be disproportionately expensive as you would need to add in a lift and ramps. This would include providing external ramp, lift pit, lift core and overrun, lift installation to which you need to add Contractor's overheads and profit and preliminaries and in our opinion would cost in the order of £100,000 for samples 2, 3 and 4.

4.20 The Greater London Housing Standard Review Viability Assessment dated May 2015 indicates an increase in cost of between 2% - 2.4% of the construction costs to provide step free access in low rise developments. This would equate to circa £40,000-50,000 based on samples 2, 3 and 4, which in their opinion could only be achieved on a two storey scheme using a platform type lift but not on a three storey block using a standard lift. They have therefore advised that an allowance of £100,000 should be adopted in the viability study for achieving step free access to samples 2, 3 and 4.

4.21 WTP identify that the Greater London Housing Standards Review Viability Document refers to an increase of circa 1% to 1.5% on construction costs to achieve 35% CO2 reduction standard. This is based on the whole of Greater London Authority (GLA) area and WTP have advised that in their opinion, Tower Hamlets being an Inner London Borough would be at the upper end of this assessment. They have therefore advised that an extra over cost of 1.5% is appropriate to achieve 35% CO2 reduction.

4.22 To achieve Zero Carbon WTP have advised that a circa 3% mark up on the base build costs (i.e. not cumulative on the above 1.5% allowance) adopted on flatted developments and 5% on houses would in their opinion be appropriate.

Professional fees

4.23 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 an allowance of 10-12%, which is at the middle to higher end of the range for most schemes.

Development finance

4.24 Our appraisals assume that development finance can be secured at a rate of 7%, inclusive of arrangement and exit fees, reflective of current funding conditions.

Marketing costs

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

Section 106 and CIL

4.26 We have adopted an allowance of £1,220 per unit for residual S106 contributions as per the Council's previous CIL viability study, which we understand from the Council remains a reasonable assumption based on elements they would seek S106 towards from such schemes.

4.27 In addition to an allowance for Borough CIL tested at a range of costs, we have also included Mayoral CIL based on the MCIL2 PDCS rate of £60 per sq m.

4.28 CIL applies to net additional floorspace[10]. Given the urban nature of Tower Hamlets our appraisals assume a deduction of 15% for existing floorspace.

[10] Existing buildings must be occupied for their lawful use for at least six months out of the previous 36 months (three years) prior to grant of planning permission to qualify as existing floorspace for the purposes of calculating CIL liability.

Development and sales periods

4.29 Development and sales periods vary between type of scheme. However, our sales periods are based on an assumption of a sales rate of 8 units per month. This is reflective of current market conditions, whereas in improved markets, a sales rate of 10 to 12 units per month might be expected.

Developer's profit

4.30 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).

4.31 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.

4.32 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 were for a time reluctant to allow profit levels to decrease. Perceived risk in the in the UK housing market had been receding with a range of developer profit of between 17% to 20% being seen on developments across London, but the outcome of the referendum on the UK's membership of the European Union and the commencement of negotiations to leave the EU following the triggering of Article 50, has resulted in a degree of uncertainty about the future trajectory of house prices. We have therefore adopted a profit margin of 20% 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.

4.33 Our assumed return on the traditional 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 HCA's guidelines in its Development Appraisal Tool (August 2013).

Exceptional costs

4.34 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.

4.35 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

4.36 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.

4.37 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.

4.38 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.

4.39 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, especially in urban areas.

4.40 It is also necessary to recognise that a landowner will require an additional incentive to release the site for development[11]. 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 to reflect the 'average' situation.

4.41 **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 £25 per sq ft. We have assumed a £50 per sq ft allowance for refurbishment and a letting void of three years. The capital value of the building would be £46.225 million, to which we have added a 20% premium, resulting in a benchmark of £55.471 million.

4.42 **Benchmark Land Value 2**: This benchmark assumes medium value secondary office space

[11] This approach is therefore consistent with the National Planning Policy Framework, which indicates that development should provide "competitive returns" to landowners. A 20% return above current use value is a competitive return when compared to other forms of investment.

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 £17 per sq ft. We have assumed a £50 per sq ft allowance for refurbishment and a letting void of three years. The capital value of the building would be £25.531 million, to which we have added a 20% premium, resulting in a benchmark of £30.637 million.

4.43 **Benchmark Land Value 3**: This benchmark assumes lower value secondary office space or community use on a hectare of land, with 50% site coverage and 2 storeys. The rent assumed is based on such lettings of second hand premises in the Borough at £12.50 per sq ft. We have assumed a £35 per sq ft allowance for refurbishment and a letting void of three years. The capital value of the building would be £11.923 million, to which we have added a 20% premium, resulting in a benchmark of £14.308 million.

4.44 **Benchmark Land Value 3**: This benchmark assumes lower value secondary industrial space on a hectare of land, with 60% site coverage and 1.5 storeys. The rent assumed is based on lettings of secondary industrial floorspace in the Borough at £4.95 per sq ft. We have assumed a letting void of two and a half years. The capital value of the building would be £6.243 million, to which we have added a 20% premium, resulting in a benchmark of £7.497 million.

Table 4.44.1: Summary of Benchmark Land Values

Use	Benchmark per gross hectare
Higher Value Secondary Offices	£55,470,629
Medium Value Secondary Offices	£30,637,362
Lower Value Secondary Offices / Community Use	£14,307,614
Secondary Industrial/Warehousing	£7,491,054

Commercial development

4.45 We have appraised a series of commercial development typologies, 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 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.

Commercial rents and yields

4.46 Our research on lettings of commercial floorspace indicates a range of rents achieved, as summarised in Table 4.46.1. This table also includes our assumptions on appropriate 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, particularly in such areas of the borough where commercial development achieves higher rents i.e. City Fringe and Docklands areas. The rents and yields adopted in our appraisals are summarised in Table 4.46.1.

4.47 Our appraisals of commercial floorspace test the viability of developments on existing commercial sites. For these developments, we have assumed that the site could currently accommodate one of three existing uses (i.e. thereby allowing the site to be assessed in relation to a range of three current use values ('CUVs')) and the development involves the intensification of site. 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.

Commercial build costs

4.48 We have sourced build costs for the commercial schemes 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 4.46.1.

4.49 It is noted that the Council's Policy SP4 'Working towards a low carbon Haringey' in the PS 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

4.50 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

4.51 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.

Mayoral CIL

4.52 We have allowed for Mayoral CIL based on the MCIL2 PDCS rates as set out in Table 4.52.1 below.

Table 4.52.1 MCIL2 PDCS rates

Use and loction	MCIL 2 £ per sq m
Office (Docklands and City Fringe)	£185
Retail (Docklands and City Fringe)	£165
Hotel (Docklands and City Fringe)	£140
All other uses and the above developments outside of the Docklands and City Fringe area	£60

Table 4.46.1: Commercial appraisal assumptions for each use

Appraisal input	Source/Commentary	Offices	Industrial and warehousing	Supermarkets and Retail warehousing	All other Retail (A1-5)	Hotels	Student Accommodation
Total floor area (sq ft)	Scheme	30,000	15,000	30,000	9,000	4* Hotel - 190 rooms (93,496 sq ft) 5* Hotel – 155 rooms (136,584 sq ft) Budget Hotel – 189 rooms (54,649 sq ft)	500 rooms (142,500 based on 285 sq ft per room)
Rent (£s per sq ft)	Based on average lettings sourced from Costar and property market reports from property companies including BNP Paribas Real Estate, Colliers, Savills, Knight Frank, Cushman and Wakefield, Glenny's etc.	City Fringe - £65 North Docklands and Canary Wharf ("CW") - £45 South Docklands - £35 Rest of Borough - £20	£12.75	£24	Prime (North Docklands CW & City Fringe) - £50 Rest of Borough - £30	4* Hotel - £313,158 cap val per room 5* Hotel – £1,161,290 cap val per room Budget Hotel – £185,185 cap val per room	£224 per week for private let room £155 per week for affordable room
Rent free/void period (years)	BNPPRE assumption	2	2	0.6	1.5	n/a	95% occupancy of rooms
Yield	Knight Frank yield schedule and property company reports as above.	City Fringe - 4.75% North Docklands and Canary Wharf ("CW") – 4.75% South Docklands – 5.5% Rest of Borough - 6.5%	4.75%	4.75%	Prime (North Docklands CW & City Fringe) - 4.5% Rest of Borough - 6%	4.75% - 5%	4.5%
Purchaser's costs (% of GDV)	Stamp duty 5%, plus agent's and legal fees	6.80%	6.80%	6.80%	6.80%	6.80%	6.80%
Demolition costs (£s per sq ft of existing space)	Based on experience from individual schemes	£8	£8	£8	£8	£8	£8
Gross to net (net as % of gross)	Based on experience from individual schemes	82%	90%	82%	82%	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 room size based on gross area per room.
Base construction costs (£s per sq ft)	BCIS costs	City Fringe - £219 North Docklands and Canary Wharf ("CW") – £219 South Docklands - £208 Rest of Borough - £191	£90	£155	Prime (North Docklands CW & City Fringe) - £242 Rest of Borough - £190	£176 - £224	£196
BREEAM Very Good (% of base build costs)	BREEAM and Sweett Group Research 'Delivering Sustainable Buildings: savings and payback' 2014	2%	2%	2%	2%	2%	2%
External works (% of base build costs)	BNPPRE assumption	10%	10%	10%	10%	10%	10%
Contingency (% of build costs)	BNPPRE assumption	5%	5%	5%	5%	5%	5%
Letting agent's fee	(% of first year's rent)	10%	10%	10%	10%	10%	N/A
Agent's fees and legal fees	(% of capital value)	1.75%	1.75%	1.75%	1.75%	1.75%	1.5%
Interest rate	BNPPRE assumption	7%	7%	7%	7%	7%	7%
Professional fees (% of build)	BNPPRE assumption, relates to complexity of scheme	10%	10%	10%	10%	10%	10%
Profit (% of costs)	BNPPRE assumption based on schemes submitted for planning	20%	20%	20%	20%	20%	20%

Table 4.46.2 Commercial appraisal assumptions for each use – current use benchmarks

Appraisal input	Source/Commentary	Offices	Industrial and warehouses	Supermarkets and Retail warehousing	All other Retail (A1-5)	Hotels	Student Accommodation
Existing floorspace	Assumed to be between 30% to 50% of new space (N.B. appraisals do not discount existing floorspace)	50%	50%	50%	50%	50%	50%
Rent on existing floorspace (£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.	City Fringe - £35 -£55 North Docklands and Canary Wharf ("CW") – £20 - £30 South Docklands - £15 - £25 Rest of Borough - £9 - £15	£7 - £9	£13 - £20	Prime (North Docklands CW & City Fringe) - £30 - £40 Rest of Borough - £9 - £15	Docklands 7& City Fringe - £25 - £45 Docklands and Rest of Borough - £15 - £25	£20
Yield on existing floorspace	BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc.	City Fringe - 5.5% - 5% North Docklands and Canary Wharf ("CW") – 6.25% - 5.75% South Docklands - £7% - 6% Rest of Borough – 7.5% - 7%	7%	7% - 6.5%	Prime (North Docklands CW & City Fringe) - 5.75% – 5.25% Rest of Borough - 7%	Docklands 7& City Fringe – 6% - 5.25% Docklands and Rest of Borough – 7% - 6%	6.25%
Rent free on existing space	Years	2	2	2	2	2	2
Refurbishment costs (£s per sq ft)	General allowance for bringing existing space up to lettable standard	£50	£30	£35	£50	£50	£50
Fees on refurbishment (% of refurb cost)	BNPPRE assumption	7%	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%	20%

5 Appraisal outputs

Residential appraisals

5.1 The full outputs from our appraisals of residential development are attached as **Appendix 1 to 5**. We have modelled nine site types, reflecting different densities and types of development, which are tested in the nine broad housing market areas identified in Section 4 and against the typical land value benchmarks for the borough.

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 50% to 10% affordable housing to reflect the range of affordable housing required by the Council's policies. We set out below the scenarios tested:

1. Policy position with base sales values and base costs (including extra overs for planning policy requirements);

- 35% affordable housing:
  - Current costs and values:
    - AH split 35% SR, 35% THLR, 15% LLR and 15% SO;
    - AH split 35% SR, 35% THLR, 30% SO; and
    - AH split 35% SR, 35% THLR, 30% LLR.

2. As (1) above with 50%, 40%, 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 scenario[12].

5.4 The residual land values from each of the scenarios above in each housing market area are then compared to the benchmark land value based on the assumptions set out in paragraphs 4.41 to 4.44. The outcome of this analysis is compared to 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 demonstrably more significant impact on development viability in comparison to the adopted rates. 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.

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.

[12] 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.

5.6 A sample of the format of the results is provided in Figure 5.6.1 below. This sample relates to site type 5.

Figure 5.6.1: Sample format of residential results

Community Infrastructure Levy
LB Tower Hamlets

Benchmark Land Values (per gross ha)

BLV1	BLV2	BLV3	BLV4
Benchmark land value 1 - Higher value secondary offices	Benchmark land value 2- Medium value secondary offices	Benchmark land value 3 - Lower value secondary office or community use	Benchmark land value 4 - Lower value secondary industrial
£55,470,629	£30,637,362	£14,307,614	£7,491,054

Site type 5	
	Houses & Flats
No of units	25 units
Density:	375 dph

Affordable %	35%
% Social Rent	35%
% LBTH Living Rent	35%
% Lon Living Rent	15%
% Shered Ownership	15%

Site area	0.07 ha
Net to gross	100%

Growth

Sales	0%
Build	0%

CIL Z1 Med (£900 psf)

Private values	£9688 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	2,539,924	38,098,855	-17,371,774	7,461,493	23,791,241	30,607,801
80	2,405,951	36,089,262	-19,381,367	5,451,899	21,781,648	28,598,208
100	2,383,378	35,750,665	-19,719,964	5,113,303	21,443,051	28,259,611
125	2,355,163	35,327,442	-20,143,187	4,690,080	21,019,828	27,836,388
150	2,326,948	34,904,218	-20,566,410	4,266,856	20,596,605	27,413,164
175	2,298,732	34,480,980	-20,989,649	3,843,618	20,173,367	26,989,926
200	2,270,517	34,057,757	-21,412,872	3,420,395	19,750,143	26,566,703
225	2,242,302	33,634,534	-21,836,095	2,997,171	19,326,920	26,143,480
250	2,214,086	33,211,295	-22,259,333	2,573,933	18,903,682	25,720,241
275	2,185,871	32,788,072	-22,682,557	2,150,710	18,480,458	25,297,018
300	2,157,656	32,364,834	-23,105,795	1,727,472	18,057,220	24,873,780
325	2,129,441	31,941,611	-23,529,018	1,304,248	17,633,997	24,450,557
350	2,101,226	31,518,387	-23,952,241	881,025	17,210,774	24,027,333
375	2,073,010	31,095,149	-24,375,480	457,787	16,787,535	23,604,095
400	2,044,795	30,671,926	-24,798,703	34,564	16,364,312	23,180,872
450	1,988,364	29,825,464	-25,645,164	-811,898	15,517,851	22,334,410

Maximum CIL rates (per square metre)

BLV1	BLV2	BLV3	BLV4
#N/A	£400	£450	£450

Commercial appraisals

5.7 Our research on rents achieved on commercial lettings indicates a range of rents within each main use class. Our commercial appraisals therefore model base position and test the range of rates (higher and lower than the base level) and changes to yields. This enables us to draw conclusions on maximum potential rates of CIL. For each type of development tested, we have run appraisals of a quantum of floorspace, each with rent levels reflecting the range identified by our research.

5.8 The appraisals include a 'base' rent level, with sensitivity analyses which model rents above and below the base level (an illustration is provided in Chart 5.8.1). The maximum CIL rates are then shown per square metre, against three different current use values (see Table 4.46.1). Chart 5.8.2 provides an **illustration** of the outputs in numerical format, while Chart 5.8.3 shows the data in graph format. In this example, the scheme could viably absorb a CIL of between £0 and £275 per square metre, depending on the current use value. The analysis demonstrates the significant impact of very small changes in yields (see appraisals 4 and 6, which vary the yield by 0.25% up or down) on the viable levels of CIL.

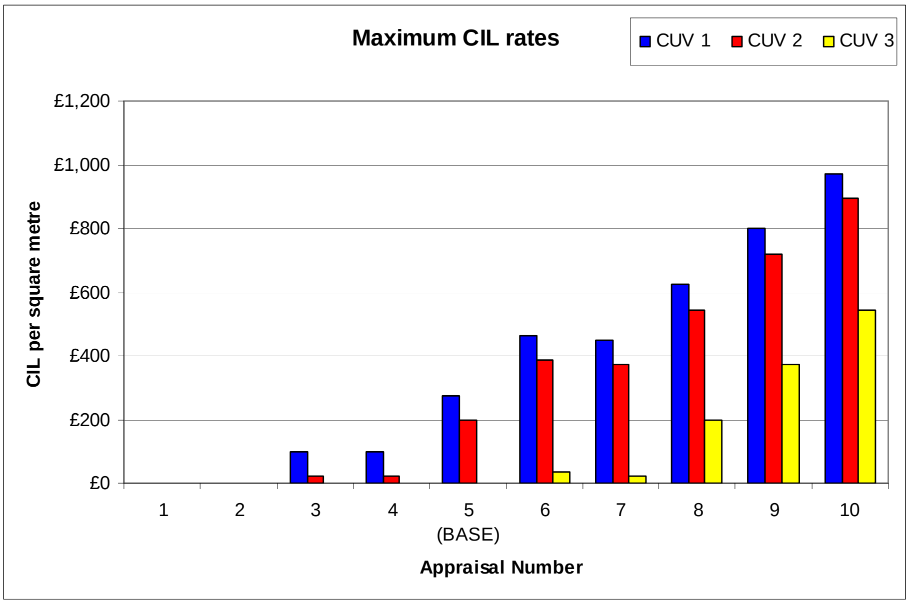
Chart 5.8.1: Illustration of sensitivity analyses

	£s per sq ft	Yield	Rent free
Appraisal 1	£21.00	6.50%	2.00 years
Appraisal 2	£22.00	6.50%	2.00 years
Appraisal 3	£23.00	6.50%	2.00 years
Appraisal 4	£24.00	6.75%	2.00 years
Appraisal 5 (base)	**£24.00**	**6.50%**	**2.00 years**
Appraisal 6	£24.00	6.25%	2.00 years
Appraisal 7	£25.00	6.50%	2.00 years
Appraisal 8	£26.00	6.50%	2.00 years
Appraisal 9	£27.00	6.50%	2.00 years
Appraisal 10	£28.00	6.50%	2.00 years

Chart 5.8.2: Maximum CIL rates – numerical format

	Change in rent from base	CUV 1	CUV 2	CUV 3
Appraisal 1	-14%	£0	£0	£0
Appraisal 2	-9%	£0	£0	£0
Appraisal 3	-4%	£100	£23	£0
Appraisal 4	0%	£99	£21	£0
Appraisal 5 (base)	**-**	**£275**	**£197**	**£0**
Appraisal 6	0%	£465	£387	£38
Appraisal 7	4%	£449	£371	£23
Appraisal 8	8%	£624	£546	£197
Appraisal 9	11%	£798	£720	£371
Appraisal 10	14%	£972	£894	£546

Chart 5.8.3: Maximum CIL rates – graph format



6 Assessment of the results

6.1 This section sets out the results of our appraisals with the residual land values 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 for each site.

6.2 Development value is finite and – in densely developed Boroughs such as Tower Hamlets - is rarely enhanced through the adoption of new policy requirements. This is because existing use values are sometimes relatively high prior to development. In contrast, areas which have previously undeveloped land clearly have greater scope to secure an uplift in land value through the planning process.

6.3 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable *regardless of the Council's policy requirements, including the level of CIL* (including a nil rate) and schemes that are viable *prior* to the imposition of policy requirements. If a scheme is unviable before policy requirements and CIL are levied, it is unlikely to come forward and policy requirements and CIL would not be a factor that comes into play in the developer's/landowner's decision making. The unviable schemes will only become viable following an increase in values and sites would remain in their existing use.

6.4 The CIL regulations state that in setting a charge, local authorities must "strike an appropriate balance" between revenue maximisation 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.

6.5 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.

6.6 This conclusion follows guidance in paragraph: 019 Reference ID: 25-019-20140612 of the CIL Guidance set out in the NPPG, which states that *'there is no requirement for a proposed rate to exactly mirror the evidence… There is room for some pragmatism.'* The Council 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. Further, Paragraph: 021 Reference ID: 25-021-20140612 of the NPPG identifies that, *'Charging authorities that plan to set differential levy rates should seek to avoid undue complexity.'*

Assessment – residential development

6.7 CIL operates as a fixed charge and - as was previously the case with the adopted rates - 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, although experience to date indicates that this is a very rare occurrence. 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.

6.8 As previously stated, 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 term[13].

Determining maximum viable rates of CIL for residential development

6.9 As noted in paragraph 6.8, 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 (at the current rate of £35 per sq m (un-indexed) and £60 per sq m for MCIL2).**

6.10 We set out below the results of our appraisals identifying the maximum CIL rates against each of the four benchmark land values for the nine typologies we have tested all of which include affordable housing at 35% provided as 70% rented (split 35% Social Rent and 35% THLR) and 30% intermediate (split 15% LLR and 15% SO).

Table 6.10.1: Site type 1 (3 houses)

Site type	T1 - 3 Houses			
	BLV1	BLV2	BLV3	BLV4
CIL Z1 Med (£900 psf)	N/V[14]	N/V	450	450
CIL Z2 Med (£750 psf)	N/V	N/V	450	450
CIL Z3 Med (£675 psf)	N/V	N/V	N/V	450

[13] 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 – it is simply that the value generated by residential development is lower than some existing use values. In these situations, sites would remain in their existing use.

[14] N/V = not viable

Table 6.10.2: Site type 2 (6 flats)

Site type	T2 - 6 Flats			
	BLV1	BLV2	BLV3	BLV4
CIL Z1 Med (£900 psf)	N/V	450	450	450
CIL Z2 Med (£750 psf)	N/V	N/V	450	450
CIL Z3 Med (£675 psf)	N/V	N/V	300	450

Table 6.10.3: Site type 3 (10 flats)

Site type	T3 - 10 Flats			
	BLV1	BLV2	BLV3	BLV4
CIL Z1 Med (£900 psf)	N/V	0	450	450
CIL Z2 Med (£750 psf)	N/V	N/V	450	450
CIL Z3 Med (£675 psf)	N/V	N/V	0	450

Table 6.10.4: Site type 4 (11 flats)

Site type	T4 - 11 Flats			
	BLV1	BLV2	BLV3	BLV4
CIL Z1 Med (£900 psf)	N/V	100	450	450
CIL Z2 Med (£750 psf)	N/V	N/V	450	450
CIL Z3 Med (£675 psf)	N/V	N/V	0	450

Table 6.10.5: Site type 5 (25 houses and flats)

Site type	T5 - 25 Houses and Flats			
	BLV1	BLV2	BLV3	BLV4
CIL Z1 Med (£900 psf)	N/V	400	450	450
CIL Z2 Med (£750 psf)	N/V	N/V	300	450
CIL Z3 Med (£675 psf)	N/V	N/V	N/V	175

Table 6.10.6: Site type 6 (50 flats)

Site type	T6 - 50 Flats			
	BLV1	BLV2	BLV3	BLV4
CIL Z1 Med (£900 psf)	N/V	N/V	450	450
CIL Z2 Med (£750 psf)	N/V	N/V	N/V	N/V
CIL Z3 Med (£675 psf)	N/V	N/V	N/V	N/V

Table 6.10.7: Site type 7 (125 flats)

Site type	T7 - 100 Flats			
	BLV1	**BLV2**	**BLV3**	**BLV4**
CIL Z1 Med (£900 psf)	N/V	N/V	N/V	325
CIL Z2 Med (£750 psf)	N/V	N/V	N/V	N/V
CIL Z3 Med (£675 psf)	N/V	N/V	N/V	N/V

Table 6.10.8: Site type 8 (250 flats)

Site type	T8 - 250 Flats			
	BLV1	**BLV2**	**BLV3**	**BLV4**
CIL Z1 Med (£900 psf)	N/V	N/V	N/V	450
CIL Z2 Med (£750 psf)	N/V	N/V	N/V	N/V
CIL Z3 Med (£675 psf)	N/V	N/V	N/V	N/V

Table 6.10.9: Site type 9 (400 flats)

Site type	T9 - 400 Flats			
	BLV1	**BLV2**	**BLV3**	**BLV4**
CIL Z1 Med (£900 psf)	N/V	N/V	N/V	0
CIL Z2 Med (£750 psf)	N/V	N/V	N/V	N/V
CIL Z3 Med (£675 psf)	N/V	N/V	N/V	N/V

Sensitivity analysis: growth in sales values and increases in build costs

6.11 We have re-run our appraisals to test the impact that growth in sales values alongside inflation on costs might have on scheme viability and the consequential impacts on how increased levels of CIL might be absorbed by developments.

6.12 We have run two sensitivity analyses, the first assuming 10% growth in sales values alongside cost inflation of 5%, while the second assumes 20% growth in sales values alongside cost inflation of 10%. This represents medium term (5 year) growth and inflation but is not a prediction.

6.13 See appendices 4 and 5 for the results of these sensitivity analyses. In some cases, there is no change, but in others the maximum CIL rate would increase as values increase. However, we would caution against attaching significant weight to these results as the future trajectory of house prices is inherently uncertain.

Sensitivity analysis on affordable housing percentage

6.14 All the results above reflect the Council's 35% affordable housing target, which is applied to individual schemes having regard to viability. In order to test the relationship between different affordable housing percentages and levels of CIL, we have run a series of sensitivity analyses which test the affordable housing percentage from 50% to 0%. The results at **Appendix 1** test 50%, 40%, 35%, 30%, 25%, 20%, 10% and 0%.

6.15 Given that affordable housing has a much more significant bearing on viability than CIL (with the latter having a much smaller impact on residual land value than the latter), the maximum CIL rate increases when lower affordable housing percentages are applied.

Suggested CIL rates

6.16 Although the results indicate that viability of residential development is currently challenging in certain locations and on certain types of development at full affordable housing policy levels, it is possible for the Council to continue to levy rates across all areas and increase the rates in the borough subject to allowing for a buffer or margin to address risks to delivery.

6.17 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 other factors such as sales values and build costs that will need to adjust for the scheme to become viable.

6.18 We set out below a summary of the maximum residential CIL charges as indicated by the results of our appraisals in **Appendix 1**. We have then analysed the maximum borough CIL i.e. removing MCIL2. From this we have then derived the potential CIL charges allowing for a 25% buffer from the maximum borough CIL, which we consider to be a reasonable margin to deal with the risks associated with site specific development and changes to the market.

Table 6.18.1 Table showing maximum CIL charges indicated by appraisals

Area	Maximum CIL indicated by appraisals[15] (£s per sq m)	Maximum Borough CIL indicated by appraisals (£s per sq m)	Potential Borough CIL after buffer (£s per sq m)	Existing Borough CIL charge Borough (£s per sq m) (*indexed charge)*
CIL Z1	£450	£390	£280	£200 *(£211.58)*
CIL Z2	£300	£240	£180	*£65 (£68.76)*
CIL Z3	£175	£115	£85	£35 (£37.03)

Assessment - Commercial development

6.19 As there are existing CIL charges in place for certain types of commercial development in certain locations of the Borough, our testing considers whether there have been significant changes in viability that would give rise to an enhanced capacity for commercial development to absorb a higher CIL rate than currently levied. We have allowed for the MCIL 2 rates in our commercial appraisals and therefore the maximum rates stated below are net of the MCIL2 liability.

Offices

6.20 The current charging schedule has a CIL charge of £90 per sq m (£95.21 per sq m indexed) on office development in the city fringe area and a nil rate elsewhere. We have undertaken research which has identified that rents have increased and yields moved in since the last charging schedule was examined in the City Fringe and North Docklands areas.

6.21 The results of our appraisals identify that:

- the City Fringe area could accommodate a significant increase with a maximum borough CIL rate of between £0 and £2,516 per sq m dependant on the current use of the site, however this is identified as being sensitive to changes in inputs, for example a shift in yield out by 0.25% would reduce the maximum CIL by circa £500 per sq m;

- the North Docklands area could accommodate a borough CIL charge of between £192 per sq m and £1,292 per sq m dependant on the current use of the site. However, as with the City Fringe results the maximum CIL rate is identified as being sensitive to

[15] Covering both Borough and Mayoral CIL requirements.

changes in rents and yield e.g. the Maximum CIL rate drops by circa £350 per sq m where the yield increases by 0.25%; and

- in the South Docklands and Elsewhere it remains unchanged that no CIL charge can be levied.

6.22 We set out below analysis of the potential borough CIL charge, allowing for indexed Mayoral CIL and Crossrail S106 and a reasonable buffer taking into consideration the aforementioned sensitivity of the results.

Table 6.22.1 Table showing maximum and recommended CIL charges indicated by appraisals

Area	Maximum CIL indicated by appraisals[16] (£s per sq m)	BNPPRE Suggested Borough CIL (£s per sq m)	Existing Borough CIL charge Borough (£s per sq m) (*indexed charge)*
City Fringe	Nil - £2,516	£100	£90 *(£95.21)*
North Docklands	£192 - £1,292	£100	Nil *(Nil)*
South Docklands and Elsewhere	Nil	Nil	Nil *(Nil)*

Industrial and warehousing

6.23 The current Charging Schedule has a nil rate on industrial development across the borough as a whole. Rents have increased and yields compressed since the previous CIL Viability Study, but cost increases have offset increased value to an extent.

6.24 Our appraisals of industrial and warehousing development are attached as **Appendix 6**. The schemes do not generate residual land values that exceed the existing use values. On this basis we recommend that the Council considers maintaining a nil rate on such uses.

Supermarkets and retail warehouse

6.25 The current Charging Schedule applies a rate of £120 per sq m (£126.95 per sq m indexed) on supermarket and retail warehouse development across the borough as a whole.

6.26 The results of our appraisals suggest that maximum CIL charge of between £0 per sq m and £401 per sq m can be levied. Adopting benchmark land value 2 indicates a maximum borough CIL charge of £203 per sq m. We would suggest the Council considers a Borough CIL charge of £130 per sq m which would allow for an appropriate buffer form the maximum CIL charge.

All other retail

6.27 The current charging schedule applies a CIL charge of £70 per sq m (£74.05 per sq m indexed) on retail development (except supermarkets and retail warehousing) in the city fringe and North Docklands area and a nil rate elsewhere.

6.28 The results of our appraisals have identified that:

- Prime retail in the City Fringe and North Docklands areas could accommodate a maximum CIL rate of between £0 per sq m and £892 per sq m; and

- Elsewhere it remains unchanged that no CIL charge can be levied.

[16] Covering both Borough and Mayoral CIL requirements.

6.29 Considering the maximum CIL rate indicated when measured against benchmark land value 2 of £230 per sq m we therefore suggest the Council considers a borough CIL charge of £100 per sq m in the City Fringe and North Docklands areas, which allows for a suitable buffer from the maximum CIL charge. Elsewhere in the Borough we recommend the Council maintains the existing nil CIL charge on such uses.

Hotel

6.30 The current Charging Schedule applies a rate of £180 per sq m (£190 per sq m indexed) on hotel development across the borough as a whole.

6.31 The results of our appraisals suggest a maximum CIL charge of between £0 per square metre and £2,577 dependant on the scheme and benchmark land value. We note that the maximum CIL rates vary significantly and given the results we suggest that the Council considers maintaining the CIL charge at £190 per sq m.

Student housing

6.32 The current Charging Schedule applies a rate of £425 per sq m (£449.62 per sq m indexed) on student accommodation development at market rents across the borough as a whole.

6.33 The results of our appraisals identify that with no affordable student accommodation (at the London Housing Supplementary Planning Guidance 2016 rental level) the maximum borough CIL charge (i.e. having already deducted MCIL 2) of £920 per sq m. Our appraisal allowing for 35% affordable student accommodation identifies a maximum borough CIL charge of £300 per sq m. Reducing the affordable student accommodation to 30% and 25% identifies maximum borough CIL charges of £426 per sq m and £535 per sq m respectively. Given this position we suggest the Council maintains the existing indexed student accommodation CIL charge.

7 Strategic sites

7.1 We have run high level appraisals of 14 strategic sites selected by the Council to test the viability of key sites in the Borough which will be instrumental in the delivery of the THDLP's growth strategy.

7.2 The sites considered and their key features are summarised in Table 7.2.1 below.

Table 7.2.1 Details of strategic sites assessed

Site No.	Site name	Existing use	Gross Site size (ha)	Infrastructure requirement	Current ownership
1	Bishopsgate Goods Yard	Shoreditch High Street Overground Station; "Box Park" Football Pitches Vacant Land	4.24	1. Strategic Open space 2. Local Presence Facility 3. Leisure Uses – Football Pitches	Private
2	Bow Common Gas Works	Gas Works	3.94	1. Secondary School 2. Strategic Open Space	Private
3	Billingsgate Market	Wholesale Market	5.74	1. Secondary School 2. Open Space	Private
4	North Quay	Vacant land	2.22	1. Open space	Private
5	Vacant land adjacent to new Reuters Ltd server building	Vacant land	2.71	1. Primary School 2. Open space	Private
6	Limeharbour - Skylines Site	Industrial and office space	1.56	Primary School	Private
7	Marsh Wall East - Thames Key site	Offices	1.6	Primary School	Private
8	Marsh Wall West - Marsh Wall, Alpha Square	Medical centre Pub Business uses	0.4	1. Primary School 2. Health facility	Private
9	Millharbour - Mastmaker Road/ Lightermans Road Site	Education and Training Centre	0.97	Health Centre	Private
10	Crossharbour Town Centre	Supermarket, car parking	6.06	1. Local Presence Facility 2. Health Facility 3. Primary School	Private
11	Leven Road Gas Works	Active gas holders	8.56	1. Secondary School 2. Open Space	Private
12	Whitechapel South - Site bound by raven row	Warehouse Facility used for sports	1.39	None	Private
13	Millharbour South - 5, 6, 7, 8 Greenwich View Place	Secondary Offices	0.95	1. Primary School	Private
14	Marian Place Gas Works	Gas works	1.9	1. Strategic Open Space	Private

Methodology

7.3 We have used *Argus Developer* ("Argus") to undertake the high level appraisals of developments on the 14 strategic sites. Argus is a commercially available development appraisal package in widespread use throughout the development industry. It has been accepted by a number of local planning authorities for the purpose of viability assessments and has also been accepted at planning appeals. Banks also consider Argus to be a reliable tool for secured lending valuations. Further details can be accessed at www.argussoftware.com

7.4 Argus is essentially a cash-flow model. Such models all work on a similar basis:

- Firstly, the value of the completed development is assessed.
- Secondly, the development costs are calculated, including either the profit margin required or land costs. In our appraisals we include profit as a development cost.

7.5 The difference between the total development value and total costs equates to the residual land value ("RLV"). The model is normally set up to run over a development period from the date of the commencement of the project until the project completion, when the development has been constructed and is occupied.

7.6 The cash-flow approach allows the finance charges to be accurately calculated over the development period. This approach can accommodate more complex arrangements where a number of different uses are provided or development is phased.

7.7 In order to assess whether a development scheme can be regarded as being economically viable, with a given level of planning obligations, it is necessary to compare the RLV that is produced with a benchmark land value. If a development generates a RLV that is higher than the benchmark it can be regarded as being economically viable and therefore capable of providing a greater quantum of obligations. However, if a development generates a RLV that is lower than the benchmark, it should be deemed economically unviable and the quantum of planning obligations would need to be reduced until viability is achieved.

7.8 The approach taken to appraising the larger sites (Bishopsgate Goods Yard, Billingsgate Market, Crossharbour Town Centre and Leven Road Gas Works) is based on the assessment of an un-geared and ungrown IRR assuming a fixed land cost (the identified benchmark land value). For long term projects of this nature it would not be unreasonable for a developer / landowner to measure profitability on this basis.

Inputs

7.9 Further details of the schemes tested and the inputs adopted in the appraisals for the 16 sites are set out clearly in **Appendix 7**.

Viability Benchmarks

7.10 We have undertaken an assessment of the existing use values ("EUVs") of each of the sites, using either pro-rata values from the benchmark land values identified in section 4 or an assessment of the existing floorspace and uses on the site. In order to encourage the landowners to bring the sites forward for development (allowing for a 'competitive return'), we have added a premium of 20% to the value. The benchmark land values that result from this assessment are shown in Table 7.10.1 below.

Table 7.10.1: Viability benchmarks

Site No.	Site	Existing Use Value (£ millions)
1	Bishopsgate Goods Yard	£23.472
2	Bow Common Gas Works	£21.811
3	Billingsgate Market	£31.775
4	North Quay	£12.289
5	Vacant land adjacent to new Reuters Ltd server building	£15.002
6	Limeharbour - Skylines Site	£31.732
7	Marsh Wall East - Thames Key site	£43.773
8	Marsh Wall West - Marsh Wall, Alpha Square	£5.982
9	Millharbour - Mastmaker Road/ Lightermans Road Site	£8.202
10	Crossharbour Town Centre	£56.167
11	Leven Road Gas Works	£23.693
12	Whitechapel South - Site bound by raven row	£26.045
13	Millharbour South - 5, 6, 7, 8 Greenwich View Place	£31.992
14	Marian Place Gas Works	£10.512

Appraisal results allowing for proposed Borough CIL and MCIL2 rates

7.11 Table 7.11.1 below shows the residual land value for each site taking into account the proposed Borough CIL and MCIL2 rates against the viability benchmark, whilst Table 7.11.2 identifies the ungrown IRR for the four large sites tested.

Table 7.11.1: Appraisal results of smaller sites with 35% affordable housing, proposed Borough CIL and MCIL2 rates

Site No.	Site/scenario	Residual Land Value (£ millions)	Viability Benchmark (£ millions)	Surplus / deficit against benchmark (£ millions)
2	Bow Common Gas Works	-£16.181	£21.811	-£37.992
5	Vacant land adjacent to new Reuters Ltd	£14.559	£15.002	-£0.443
6	Limeharbour – Skylines Site	£46.674	£31.732	£14.942
7	Marsh Wall East – Thames Key Site	£75.915	£43.773	£32.142
8	Marsh Wall West – Marsh Wall, Alpha Square	£25.893	£5.982	£19.911
9	Millharbour – Mastmaker Road	£48.520	£8.202	£40.318
12	Whitechapel South – Site bound by Raven Row	£25.866	£26.045	-£0.179
13	Millharbour South – 5,6,7,8 Greenwich View Place	£17.755	£31.992	-£14.237
14	Marian Place Gas Works	£7.595	£10.512	-£2.917

Table 7.11.2: Appraisal results of large sites with 35% affordable housing, proposed Borough CIL and MCIL2 rates measured using IRR

Site No.	Site/scenario	Fixed Land cost (£ millions)	Ungrown and ungeared IRR achieved
1	Bishopsgate Goods Yard	£23.472	27.28%
3	Billingsgate Market	£31.775	22.73%
4	North Quay	£12.289	32.43%
10	Crossharbour Town Centre	£56.167	14.46%
11	Leven Road Gas Works	£23.693	5.36%

Assessment and Suggested CIL rates

7.12 We have undertaken an assessment of each of the strategic sites identified by the Council, applying the applying the CIL liability that the sites would incur, based on the suggested CIL charges as set out in section 6 of this report. We have also allowed for MCIL2. See in **Appendix 7** for a copy for the results of the testing and sensitivity testing undertaken.

7.13 With respect to the larger sites we appreciate that developers often suggest that they are targeting an IRR of 20%, however, it has been our experience on large schemes in London that this is often based on grown IRRs given the long term nature of such schemes. Further, we are aware of developers having agreed to proceed with developments identified as generating IRRs of 13% (ungrown). On this basis we are of the opinion that the large majority of the sites tested can viably deliver the suggested CIL rates along with the emerging THDLP policy requirements.

7.14 With respect to the small number of sites identified as being unviable we highlight that sites 5 Vacant land adjacent to new Reuters Ltd, 12 Whitechapel South – Site bound by Raven Row and 14 Marian Place Gas Works are all only marginally unviable at 35% affordable housing. The results of our sensitivity testing has identified that these sites are deliverable with between 30% and 35% affordable housing. We note that Site 13 Millharbour South was identified as being viable at between 20% and 25% affordable housing in the Local Plan Viability testing of the strategic sites at current adopted Borough and Mayoral CIL rates and this position remains unchanged with the proposed CIL charges tested in this study.

7.15 As highlighted in the Local Plan Viability testing, Site 2 Bow Common Gas Works and Site 11 Leven Road Gas Works are identified as having challenging viability, regardless of CIL i.e. it is not CIL that is impacting on the viability of these sites. Given the nature of the existing use on the sites there is potential for a significant decontamination works bill. We have included an allowance of £3.2m her pa for the sites, based on our experience of the costs associated with decontamination of similar gasworks sites in London, which amounts to abnormal costs of £12.608 million and £27.329 million respectively. We have assumed a worst case scenario in our testing in that we have allowed for the full EUV plus a 20% premium of the site as well as the decontamination bill being paid by the developer. In reality a developer is likely to take these costs into consideration in bidding for the site or alternatively the landowner will bear the cost of the decontamination, delivering a clean site to the market and recovering the costs through a higher purchase price than would otherwise have been achieved. On this basis we have undertaken sensitivity testing of the two schemes.

7.16 Our sensitivity testing in the Local Plan testing of Site 2 Bow Common Gas Works assumed that a developer deducts the cost of the decontamination from the purchase price of the site and on this basis the site is deliverable as a 100% private scheme. This position remains the same with the proposed CIL charge.

7.17 Our sensitivity testing of Site 11 Leven Road Gas Works in the Local Plan Viability testing confirmed that where the decontamination is assumed to be carried out by the landowner and the full EUV plus 20% premium is paid, the site can deliver circa 25% affordable housing. Once again this viability position remains unchanged with the Council's proposed CIL tested in this study.

7.18 Furthermore, the proposed Borough CIL, which will deliver much needed infrastructure to support the growth envisaged by these sites, has been identified as being no more than circa 5% of scheme costs (see table 7.18.1 below). This is considered to be a very small part of a development's cost and should not be the determining factor as to whether or not a development goes ahead.

Table 7.18.1 Analysis of Borough CIL as a percentage of development costs

Site No.	Site/scenario	LBTH CIL	Costs excluding LBTH CIL	CIL as a % of costs
1	Bishopsgate Goods Yard	£28,191,229	£915,521,305	3.08%
2	Bow Common Gas Works	£2,423,663	£187,463,041	1.29%
3	Billingsgate Market	£47,765,374	£1,320,820,787	3.62%
4	North Quay	£39,677,307	£1,113,966,085	3.56%
5	Vacant land adjacent to new Reuters Ltd server building	£7,608,522	£210,432,533	3.62%
6	Limeharbour - Skylines Site	£10,351,518	£452,378,619	2.29%
7	Marsh Wall East - Thames Key site	£7,323,344	£502,078,722	1.46%
8	Marsh Wall West - Marsh Wall, Alpha Square	£10,254,072	£420,923,357	2.44%
9	Millharbour - Mastmaker Road/ Lightermans Road Site	£4,921,644	£236,129,277	2.08%
10	Crossharbour Town Centre	£27,933,594	£636,599,799	4.39%
11	Leven Road Gas Works	£7,586,893	£535,925,143	1.42%
12	Whitechapel South - Site bound by raven row	£1,012,264	£323,066,524	0.31%
13	Millharbour South - 5, 6, 7, 8 Greenwich View Place	£3,082,227	£232,880,750	1.32%
14	Marian Place Gas Works	£6,909,084	£321,714,655	2.15%

7.19 In light of the above findings, we recommend the Council considers maintaining the proposed CIL rates across the Borough as they are not deemed to be of a sufficient magnitude that is likely to threaten the development of the strategic sites and as a result the *"delivery of the relevant Plan as a whole"* (NPPF paragraph 173 and NPPG Paragraph: 038 Reference ID: 25-038-20140612). On this basis we consider that the proposed approach *"strike(s) an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across (the Council's) area."* (NPPG Paragraph 008 Reference ID: 25-008-20140612).

8 Conclusion and recommendations

8.1 The NPPF states that the cumulative impact of emerging local planning authority standards and policies "*should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle*". This report reviews the CIL rates in the Council's Charging Schedule, adopted on 1 April 2015. The study takes account of the cumulative impact of the Council's current planning requirements, in line with the requirements of the NPPF 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 CIL and (where relevant) Crossrail Section 106 obligations. We have also considered the implications of the MCIL2.

Key findings and suggested revisions to CIL rates

8.2 The key findings of the study are as follows:

- The results of this study are reflective of current market conditions, which will inevitably change over the medium term. It is therefore important that the Council keeps the viability situation under review so that policy requirements can be adjusted should conditions change markedly. Since the 2013 Viability Study was completed, there has been an improvement in sales values, which has been partially offset by an increase in build costs. The net result is a degree of improvement in viability and increased capacity to contribute towards local infrastructure.

- As was the case in the 2013 Viability Study, some schemes tested were unviable due to market factors, rather than the impact of the Council's policy requirements. These schemes will not come forward until changes in site specific market conditions and their current unviable status should not be taken as an indication that the Council's requirements cannot be accommodated on other schemes. It reflects the increasing viability of commercial development, with some existing forms of commercial generated higher values than residential development, reducing pressure for commercial buildings to be redeveloped for alternative (residential) use.

Residential

- In most cases, schemes can accommodate the Council's affordable housing requirement at a level of circa 35%, with the capacity to make CIL payments increasing with lower affordable housing proportions.

- Our appraisals indicate that the Council's currently adopted rates of CIL could increase without adversely impacting on viability of developments. The currently adopted and suggested CIL rates are summarised in Table 8.2.1. We also set out an analysis of the proposed CIL charge as a percentage of the development costs.

Table 8.2.1 Table showing suggested changes to residential CIL charges

Area	Existing Borough CIL charge Borough (£s per sq m) (indexed charge)	Suggested Borough CIL after buffer (£s per sq m)	Proposed CIL as % of Development Costs
CIL Z1	£200 (£211.58)	£280	2.2% - 3.0%
CIL Z2	£65 (£68.76)	£180	1.8% - 2.6%
CIL Z3	£35 (£37.03)	£85	1.0% - 1.4%

Commercial

- In the City Fringe and North Docklands, rents for both offices and retail developments have increased and our appraisals indicate that these uses will be able to absorb a CIL rate of £100 per sq m.
- Viability of retail and office markets outside the City Fringe and North Docklands have not changed sufficiently to warrant any changes to the adopted rates.
- Rents and yields of supermarkets and retail warehouses have improved since the adoption of the Charging schedule and appraisal identify that such uses should be able to support an increased CIL charge of £130 per sq m.
- Industrial and warehousing have seen increases in rents and a reduction in yields, partly as a result of a lack of available supply, however our appraisals identify that this does not generate a surplus above the benchmark land values and in this regard we recommend the Council maintains its existing nil charge on such uses.
- Market conditions for student housing and hotels have not changed significantly since the adoption of the Charging Schedule and we recommend no changes to the rates for these uses.
- The currently adopted and suggested CIL rates are summarised in Table 8.2.2. We also set out an analysis of the proposed rate as a percentage of the total scheme costs.

Table 8.2.2 Table showing suggested changes to Commercial CIL charges

Use and Location	Existing Borough CIL charge Borough (£s per sq m) (indexed charge)	Potential Borough CIL after buffer (£s per sq m)	Proposed CIL as % of Dev Costs
Office in City Fringe	£90 *(indexed - £95.21)*	£100	1.46%
Office in North Docklands	Nil	£100	1.67%
Retail in City Fringe and North Docklands	£70 *(indexed - £74.05)*	£100	1.45%
Supermarkets and retail warehouses	£120 *(indexed - £126.95)*	£130	3.13%

Strategic Sites

- Our assessment of the identified strategic sites has concluded that the majority of the sites can viably support the Borough's proposed CIL. With regard to the sites identified as being unviable we note that CIL does not have a significant impact in that the sites are deliverable with between 30% - 35% affordable housing or at a level previously identified in the Local Plan Viability testing as being viable.
- On the two gasworks sites identified as having the most challenging viability, we would highlight that CIL is not the determining factor making the sites unviable, i.e. adopting a nil CIL rate on these sites would not result in the developments generating residual land values above the identified benchmark land value.
- To demonstrate this position we have undertaken an assessment of the proposed Borough CIL liability calculated for each of the strategic sites and compared this to the total development costs. This has identified that the proposed CIL rates result in a liability that is no more than 5% of development costs. In fact, in the three schemes where viability is identified as being most challenging, CIL amounts to no more than 1.42% of development costs. Further, on the schemes identified as being unviable at

35% affordable housing CIL is no more than 3.62% of development costs (see Table 7.18.1).

- In light of our findings we recommend that the Council considers maintaining the proposed CIL rates across the Borough as they are not deemed to be of a sufficient magnitude that is likely to threaten the development of the strategic sites and as a result the *"delivery of the relevant Plan as a whole"* (NPPF paragraph 173 and NPPG Paragraph: 038 Reference ID: 25-038-20140612). Further, we consider that the proposed approach "strike(s) an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across (the Council's) area." (NPPG Paragraph 008 Reference ID: 25-008-20140612).

8.3 We summarise in Table 8.3.1 overleaf the suggested updated CIL charging schedule rates.

Table 8.3.1: Suggested rates for LB Tower Hamlets' Updated CIL Charging Schedule

Development Type	Suggested CIL Rate per sq m (GIA) of Development		
	Zone 1	**Zone 2**	**Zone 3**
Residential	£280	£180	£85
	City Fringe & North Docklands		**Rest of Borough**
Offices and Retail (Except Convenience Supermarkets/ Superstores and Retail Warehousing)	£100		Nil
	Borough Wide		
Convenience Supermarkets/ Superstores and Retail Warehousing	£130		
Hotel	£190		
Student Housing Let at Market Rents	£450		
Student Housing Let at Below Market Rents	Nil		
All other uses	Nil		