



**Note on affordable housing sensitivity testing**

**1 INTRODUCTION**

1.1 During the hearing sessions, which took place on the 28 to 30 May 2014, the Examiner, Mr Malcolm Rivett, requested the Council provide further information on the likely impact of the proposed CIL rates on affordable housing in the Borough. In order to address this query BNP Paribas Real Estate has undertaken further sensitivity testing on the Development Typologies identified in the submitted Revised Draft Charging Schedule Viability Report<sup>1</sup>. This note sets out the findings of the testing undertaken and draws conclusions from the results.

**2 SENSITIVITY TESTING**

- 2.1 We have undertaken sensitivity testing appraising Typologies 4 and 5 both with and without the proposed CIL rates. This has identified the change in the percentage of affordable housing that could viably be provided as a consequence of charging the proposed CIL rates. Tables 2.1.1 and 2.1.2 set out our results and the opportunity cost of charging the proposed residential CIL rates.
- 2.2 In setting the CIL rates we did not allow for any discounts to chargeable floorspace as a result of existing floorspace, which assumed a cautious or 'worst case scenario'. However, given the urban nature of Tower Hamlets and the changes to the vacancy test which now allows existing floorspace to qualify if it has been occupied for six months in the last three years it is most likely that scheme swill benefit from existing floorspace discounts, which will have a direct impact on the CIL charge. In light of this BNP Paribas Real Estate considered it prudent to undertake a further sensitivity test allowing for 25% existing floorspace. The results of these tests are also included within Tables 2.1.1 and 2.1.2.

**Table 2.1.1 Change in viable level of affordable housing between charging CIL at proposed level and nil CIL on Typology 4**

Value Area	Change in viable level of AH							
	BLV1		BLV2		BLV3		BLV4	
	No discount	25% existing floorspace	No discount	25% existing floorspace	No discount	25% existing floorspace	No discount	25% existing floorspace
<b>Zone 3</b> - Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4)	0.00% <sup>2</sup>	0.00%	0.00%	0.00%	-1.68%	-1.25%	-1.20%	-0.89%
<b>Zone 3</b> - South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6)	0.00%	0.00%	-1.82%	-1.36%	-1.09%	-0.81%	-0.73%	-0.54%
<b>Zone 3</b> - Bethnal Green (E2 6), Globe Town (E2 9), East Bow (E3 5) North Whitechapel (E1 5), Stepney (E1 0 E1 3, E1 4, E2 0) and South Isle of Dogs (E14 3)	0.00%	0.00%	-1.37%	-1.02%	-0.78%	-0.58%	-0.50%	-0.37%
<b>Zone 2</b> - Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)	-3.22%	-2.39%	-2.11%	-1.57%	-1.17%	-0.87%	-0.71%	-0.53%

<sup>1</sup> ED2.2: Viability Study - Revised Draft Charging Schedule

<sup>2</sup> A result of 0% identifies that a scheme is unviable, regardless of the application of CIL



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**Table 2.1.1 Change in viable level of affordable housing between charging CIL at proposed level and nil CIL on Typology 4 (cont.)**

Value Area	Change in viable level of AH							
	BLV1		BLV2		BLV3		BLV4	
	No discount	25% existing floorspace	No discount	25% existing floorspace	No discount	25% existing floorspace	No discount	25% existing floorspace
<b>Zone 1 - Tower Limehouse &amp; West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) and Blackwall (riverside) (E14 0)</b>	-6.88%	-5.04%	-4.33%	-3.17%	-2.17%	-1.59%	-1.10%	-0.81%
<b>Zone 1 - Spitalfields (E1 6)</b>	-4.67%	-3.43%	-2.80%	-2.06%	-1.20%	-0.88%	-0.42%	-0.31%
<b>Zone 1 - Canary Wharf (E14 4, E14 5 &amp; E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2)</b>	-3.67%	-2.70%	-2.11%	-2.56%	-0.79%	-0.58%	-0.14%	-0.10%

**Table 2.1.2 Change in viable level of affordable housing between charging CIL at proposed level and nil CIL on Typology 5**

Value Area	Change in viable level of AH							
	BLV1		BLV2		BLV3		BLV4	
	No discount	25% existing floorspace	No discount	25% existing floorspace	No discount	25% existing floorspace	No discount	25% existing floorspace
<b>Zone 3 - Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4)</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-1.19%	-1.19%
<b>Zone 3 - South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6)</b>	0.00%	0.00%	0.00%	0.00%	-2.07%	-1.54%	-1.83%	-1.37%
<b>Zone 3 - Bethnal Green (E2 6), Globe Town (E2 9), East Bow (E3 5) North Whitechapel (E1 5), Stepney (E1 0 E1 3, E1 4, E2 0) and South Isle of Dogs (E14 3)</b>	0.00%	0.00%	-1.95%	-1.45%	-1.56%	-1.16%	-1.38%	-1.03%
<b>Zone 2 - Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)</b>	0.00%	0.00%	-3.05%	-2.27%	-2.43%	-1.80%	-4.13%	-1.58%
<b>Zone 1 - Tower Limehouse &amp; West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) and Blackwall (riverside) (E14 0)</b>	-8.17%	-5.97%	-6.48%	-4.74%	-5.04%	-3.69%	-4.34%	-3.18%
<b>Zone 1 - Spitalfields (E1 6)</b>	-5.59%	-4.11%	-4.35%	-3.20%	-3.29%	-2.41%	-2.77%	-2.04%
<b>Zone 1 - Canary Wharf (E14 4, E14 5 &amp; E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2)</b>	-4.43%	-3.26%	-3.66%	-2.49%	-2.51%	-1.85%	-2.08%	-1.53%



## **Note on affordable housing sensitivity testing**

- 2.3 The results of this testing identify that scheme viability is significantly more sensitive to changes to the level of affordable housing than the CIL rate. The proposed residential CIL rates are a marginal factor in a scheme's viability, typically accounting for between 0.75% and 3.25% of value (see table 8.9.1 of the submitted Revised Draft Charging Schedule Viability Report) and an opportunity cost of on average circa 3.5% affordable housing excluding any allowance for existing floorspace and circa 2.5% allowing for 25% existing floorspace.
- 2.4 It should be noted however that this assessment treats CIL as an entirely additional burden on development; however, this will largely be replacing current S106 requirements. Therefore, in reality the reduction to affordable housing that would be required would be lower than this sensitivity testing demonstrates as a starting position. . In this regard it is likely to be less than an opportunity cost of 4%.

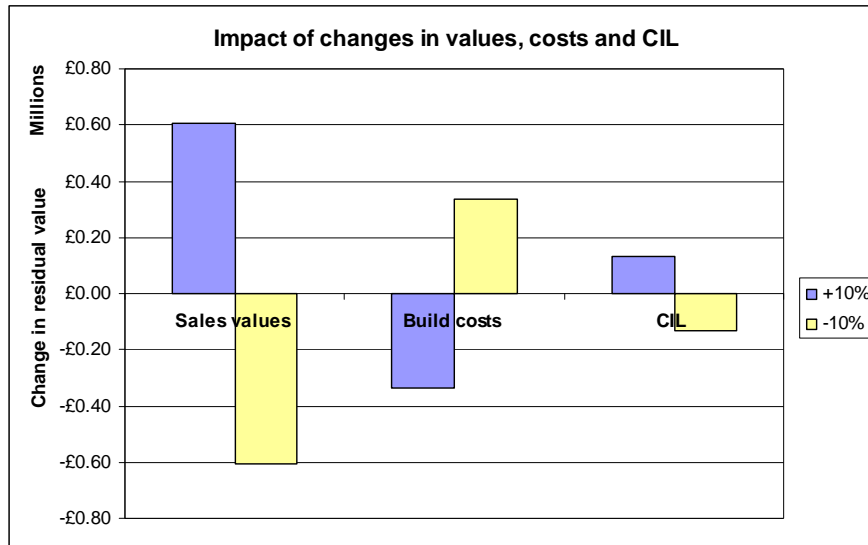
### **3 CONCLUSIONS**

- 3.1 As demonstrated by the sensitivity testing set out in this note, CIL is a marginal factor in a scheme's viability (less than 5% of total development costs), and an opportunity cost of on average circa 3.5% affordable housing excluding any allowance for existing floorspace and circa 2.5% allowing for 25% existing floorspace. In this regard the quantum of affordable housing delivered on a site will have a greater impact on viability than the proposed CIL rates.
- 3.2 The delivery of affordable housing in a borough is based on all sites delivering the maximum possible amount of affordable housing. This means that delivery of affordable housing on some sites will exceed the target, including 100%, whilst others will only be able to support levels lower than the target. This is due to all sites having different viability characteristics, and as such the ability to deliver of affordable housing will differ from site to site and potentially even from scheme to scheme on a particular site.
- 3.3 In light of the above, we consider that setting a nil rate of CIL would not ensure that the Council achieved its target level of affordable housing on every site. Further, we are of the opinion that this approach would also not strike an appropriate balance between the delivery of development and the provision of infrastructure to support the growth envisaged in the Council's Local Plan.
- 3.4 As identified in the submitted Revised Draft Charging Schedule Viability Report, development appraisals are highly dependent upon the inputs, which will vary significantly between individual developments. In the main, the imposition of CIL is not the critical factor in determining whether a scheme is viable or not (with the relationship between scheme value (including the level of affordable housing provided), costs and land value benchmarks being far more important). This point is illustrated in Figure 3.4.1 below, which compares the impact on the residual value of a scheme of a 10% increase and decrease in sales values and a 10% increase and decrease in build costs to a £100 per sq metre change in CIL. This position is also confirmed by the results of the sensitivity testing undertaken in this supplementary report.



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**Figure 3.4.1: Impact of changing levels of CIL in context of other factors**



Factors that are likely to improve development viability in the borough include:

- real growth in sales values (i.e. by comparison to build costs);
- value engineering in relation to the costs of schemes;
- increased density of development on sites (in some cases);
- potential for developer's profit to reduce to peak of the market levels due to perceived lower risk; and
- Improved availability of finance for schemes.