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Community Infrastructure Levy: Viability Study

Prepared for

London Borough of Tower Hamlets

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1 Executive Summary

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

Methodology

1.2 The study methodology compares the residual land values of a range of development typologies to a range of benchmark land values. The study also considers the impact of CIL on a number of strategic sites within the Borough. If a development incorporating a given level of CIL generates a higher value than the benchmark land value, then it can be judged that the proposed level of CIL will be viable.

1.3 The study utilises the residual land value method of calculating the value of each development. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance and CIL) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site.

1.4 The housing and commercial property markets are inherently cyclical and the Council is testing its proposed rates of CIL at a time when values have fallen below their peak but have subsequently recovered to some degree. Despite this recovery, there is some uncertainty as to the likely short term trajectory of house prices. We have allowed for this by running a sensitivity analysis which inflates sales values by 10% and build costs by 5%. This analysis is indicative only, but is intended to assist the Council in understanding the levels of CIL that are viable in today's terms but also the impact of changing markets on viability. We have also tested a fall in sales values of 5%, to enable the Council to take a view on the impact of any adverse movements in sales values in the short term. Our commercial appraisals incorporate sensitivity analyses on rent levels and yields.

1.5 Whilst the appraisals were undertaken according to postcode area groups (based on bottom-up research on sales values and rents), further analysis of specific sites has been undertaken to ensure that the boundaries are correctly placed. The boundaries are placed according to the variation in the level of CIL sites in each area can absorb without having a significant impact on development viability taking each area as a whole. The boundaries also have regard to the practicality of divisions between areas (e.g. down the centre of roads, rather than through the middle of development sites), as well as the need to avoid undue complexity in the charging schedule. The boundaries for office and retail zones account for the Core Strategy "Central Activity Zones" and "Town Centres" as well as other areas identified through the viability assessment as being capable of accommodating a CIL charge.

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 are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future changes. In this regard we are of the opinion that the Council should consider reviewing the Charging Schedule by at least 2016 and potentially earlier if the Mayoral CIL for Crossrail is increased before this date.

Residential – excluding affordable housing contributions in CIL

- The ability of **residential schemes** to make CIL contributions varies depending on area and the current use of the site. Having regard to these variations, residential schemes should be able to absorb a **maximum** CIL rate of between £80 to £300 per square metre. The department for Communities and Local Government ('DCLG') guidance requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount (buffer) to the maximum rate, with discounts ranging from circa 20% to 50%. We would recommend a buffer of circa 25% for Tower Hamlets. Taking a broad view across our appraisals, the maximum rates suggested are as follows:

Table 1.5.1: Proposed Maximum CIL rates – residential

Area	Maximum CIL indicated by appraisals (£s per sqm)	Maximum CIL, net of Mayoral CIL (£s per sqm)	Suggested CIL after buffer (£s per sqm)
Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4)	80	45	35
South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6)	100	65	50
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)	120	85	65
Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non-riverside) and Leamouth (E14 0, E 14 2)	160	125	95
Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) Blackwall (riverside) (E14 0)	300	265	200
Spitalfields (E1 6)	300	265	200
Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2	300	265	200

- Whilst the maximum rates are higher than the proposed rates, the inclusion of a buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and 'shocking' the market). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority's judgement.
- Should the Council wish to do so, it would be possible to combine areas into one charging zone, thereby simplifying the charging schedule into three charging areas. This is shown in table 1.5.2 below. A map showing the boundaries of the three zones is attached as Appendix 1.

Table 1.5.2: Proposed CIL charging zones and rates - residential

CIL Zones	Maximum CIL indicated by appraisals (£s per sqm)	Suggested CIL after buffer (£s per sqm)
Zone 1 Tower Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7), Blackwall (riverside) (E14 0), Spitalfields (E1 6), Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2)	300	200
ZONE 2 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), South Isle of Dogs (E14 3), Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non-riverside) and Leamouth (E14 0, E 14 2)	120-160	65
ZONE 3 Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4), South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6, E14 0)	80-100	35

<u>Residential – including affordable housing contributions within CIL</u>

- In light of the Government's consultation on the inclusion of affordable housing within the scope of CIL, we have run sensitivity tests to understand the level of CIL contributions residential developments could viably afford assuming no affordable housing is provided on site.
- Our conclusion having regard to the range of the results and taking account of viability across the Borough as a whole is that the rates of CIL that the Council might set were the rate to include contributions towards affordable housing are set out in tables 1.5.3 and 1.5.4 below.

Table 1.5.3: Maximum and Proposed CIL rates – residential including AH contributions within CIL

Area	Maximum CIL indicated by appraisals (£s per sqm)	Suggested CIL after buffer (£s per sqm)
Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4)	120	85
South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6)	400	280
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)	700	490
Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)	900	630
Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) Blackwall (riverside) (E14 0)	1,250	875
Spitalfields (E1 6)	1,500	1,050
Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2	1,750	1,225

Table 1.5.4: Proposed CIL charging zones and rates – residential including AH contributions within CIL

CIL Zones	Suggested CIL after buffer (£s per sqm)
Zone 1 Tower Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7), Blackwall (riverside) (E14 0), Spitalfields (E1 6), Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2)	1,000
ZONE 2 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), South Isle of Dogs (E14 3), Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)	500
ZONE 3 Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4), South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6, E14 0)	85

Commercial

- In specified locations in the Borough the Mayor may seek to negotiate Section 106 contributions over and above Mayoral CIL towards Crossrail on office, hotel and retail developments, dependant on the size and impact of the proposed development and viability issues. This potential additional burden on developments has been taken into consideration when recommending the proposed CIL rates.
- When recommending rates, full account has been taken of the Mayoral CIL tariff of £35 per square metre required in Tower Hamlets and in areas where Crossrail Section 106 contributions are applicable, the recommended rates account for 100% of the top-up payable with the exception of the North Docklands area. In order to allow for both funding towards Crossrail and Borough infrastructure requirements in this area the Council and BNP Paribas Real Estate consider that a reasonable approach would be to share the viable level of charge identified.
- **Office developments** in the City Fringe and north Docklands areas have the potential to generate residual values which would support a CIL rate based on higher rents and yields. Office developments in the south Docklands area, however, are achieving lower rents and our appraisals indicate that CIL could not be viably levied. At current rent and yield levels, office development elsewhere in the Borough is unlikely to come forward in the short to medium term as the capital values generated are insufficient to cover development costs.
    - At current rent levels, office development in **City Fringe** locations have been identified as being able to absorb a maximum CIL of £298 per square metre (inclusive of any Crossrail Section 106 top up that may be sought). After allowing for a buffer of 25%, which in our experience we consider to be appropriate to deal with site-specific issues and changes in values over time, as well as the full Mayoral indicative Crossrail Section 106 top-up of £105 per square metre) we suggest the Council considers setting a rate of £120 per square metre.
    - In the **north Docklands area**, our appraisals have identified that office development could support a maximum CIL rate of £180 per square metre (inclusive of any Crossrail Section 106 top up sought) based on CUV 1. After allowing for a buffer of 25%, which we consider to be appropriate to deal with site-specific issues and changes in values over time this produces a maximum rate of £135 per square metre. BNP Paribas Real Estate and the Council consider it reasonable for the Council and the GLA to share the remaining sum available to provide infrastructure to support growth in this area.[1] On this basis we would suggest that the Council considers setting a rate of £60 per square metre.
    - At current rent levels, our base appraisals indicate that no CIL could be levied on office development in the **south Docklands area and elsewhere in the Borough** and therefore recommend that the Council sets a nil rate for these areas. It is unlikely that office space will come forward in the short to medium term as the capital values generated are insufficient to cover development costs.

[1] It is noted that in mixed use schemes including residential this percentage will be higher given the methodology of discounting Mayoral CIL from the top up liability.

- **Convenience based supermarkets and superstores and retail warehousing (over 280 square metres)** is likely to be viable across the Borough with a maximum borough CIL rate of £293 per square metre (inclusive of any Crossrail Section 106 top up sought). After allowing a buffer of 25%, to address any site specific issues and the full indicative Crossrail Section 106 top up charge liable on developments in the borough (the highest being in the Docklands area of £86 per square metre) we would recommend the Council considers adopting a single CIL rate of £135 per square metre for such uses in the Borough.
- Residual values generated by **retail developments (excluding convenience based supermarkets and superstores and retail warehousing (over 280 square metres))** are higher than current use values to varying degrees across the Borough. However, to a degree smaller retail development will involve the re-use of existing retail space, which will not be CIL liable.
  - Residual values generated **by such retail developments in the City Fringe and north Docklands locations** are sufficiently higher than current use values and could absorb a CIL of up to £258 per square metre. Allowing for a buffer, which we consider to be appropriate to deal with site-specific issues and changes in values over time as well as the full indicative Crossrail Section 106 top up charge liable on developments in the borough (the highest being in the Docklands area of £86 per square metre), we suggest the Council considers a CIL of £70 per square metre in the City Fringe and north Docklands areas.
  - **Elsewhere in the Borough,** rents for such retail development are considerably lower and our appraisals identify that developments are unable to viably support to absorb CIL. We therefore recommend that the Council considers a nil rate on retail development outside the City Fringe and north Docklands locations.
- Our appraisals of developments of **industrial and warehousing** floorspace indicate that these uses are unlikely to generate positive residual land values. We therefore recommend a nil rate for industrial floorspace.
- **Student housing** in the Borough generates sufficient surplus residual values to absorb a maximum CIL of up to £651 per square metre excluding affordable housing. After allowing for a buffer, which in our experience we consider to be reasonable to deal with site-specific factors, we suggest a rate of no higher than £425 per square metre.
- We consider that **Hotel developments** are able to generate a sufficient surplus to absorb a maximum borough CIL (including Crossrail Section 106 top up) of £343 per square metre. After allowing for a buffer of 25%, which we consider to be appropriate to deal with site-specific factors, as well as the full indicative Crossrail Section 106 top up charge liable on developments in the borough (the highest being in the Docklands area of £46 per square metre), we suggest the Council considers a rate of £210 per square metre for such uses across the Borough.
- **D1 and D2** uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 uses.

Strategic Sites

1.7 Our assessment of the identified strategic sites has concluded that the majority of the sites can viably afford to pay the Borough's CIL liability identified. With regard to the remainder of the sites, it is evident 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. In this regard we have undertaken an assessment of the Borough CIL liable for each of the strategic sites and this has identified that, this charge is no more than 5% of development costs.

1.8 The viable development of the strategic sites identified as being unviable is more likely to depend upon growth in sales values over the plan period or a commercial decision taken by developers based on an expectation of growth in future.

1.9 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' (CIL Guidance 2012 Para 11).

Proposed rates

1.10 The proposed Tower Hamlets CIL rates are summarised in Table 1.10.1.

Table 1.10.1: Proposed CIL rates

Development type	Proposed CIL rate per square metre		
	ZONE 1	**ZONE 2**	**ZONE 3**
Residential[2]	£200	£65	£35
Student Housing	£425		
Hotel	£210		
Convenience retail/retail warehousing (over 280 sq m)	£135		
Retail (except Convenience supermarkets, superstores and retail warehousing over 280sqm)	**Elsewhere in Borough**	**City Fringe**	**North Docklands**
	Nil	£70	
Offices	Nil	£120	£60
All other uses	Nil		

1.11 For residential schemes, the application of CIL is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme value, CIL will be a modest amount, typically accounting for between 0.75 and 3.25% of value (see Table 8.9.1). Some schemes would be unviable even if a nil CIL were adopted. We therefore recommend that the Council pays limited regard to these schemes.

[2] These rates assume that affordable housing will be secured through Section 106

2 Introduction

2.1 This study has been commissioned to contribute towards an evidence base to inform the London Borough of Tower Hamlets' ('the Council') CIL Charging Schedule ('CS'), as required by Regulation 14 of the CIL Regulations April 2010 (as amended). The aims of the study are summarised as follows:

- to test the impact upon the economics of residential development of a range of levels of CIL;
- for residential schemes, to test CIL alongside the Council's requirements for affordable housing and other planning obligations;
- to test the ability of commercial schemes to make a contribution towards infrastructure through CIL; and
- to test a number of strategic sites to assess whether they should be identified as their own CIL Zone.

2.2 Consultation on the Council's Preliminary Draft Charging Schedule ('PDCS') took place between 16 November 2012 and 2 January 2013 and consultation on the Draft Charging Schedule ('DCS') took place between 22 April 2013 and 5 June 2013. Comments made during these consultations were taken into consideration and as appropriate revisions were made to the viability study after both consultations. A further stage of consultation is being undertaken prior to submission of the charging schedule for independent examination.

2.3 In terms of methodology, we adopted standard residual valuation approaches to test the impact on viability of a range of levels of CIL. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. With the exception of the strategic sites tested, individual site characteristics (which are unique), mean that conclusions must always be tempered by a level of flexibility in application of policy requirements on a site by site basis. It is therefore essential that levels of CIL are set so as to allow a sufficient margin to allow for these site specific variations.

CIL Policy Context

2.4 As of April 2014[3] or the adoption of a CIL Charging Schedule (whichever is the sooner), the current Section 106/planning obligations system i.e. the use of 'pooled' Section 106 obligations will be limited. The adoption of a CIL Charging Schedule is discretionary for the Council, however, the scaling back of the use of pooled Section 106 obligations is not discretionary. As such, should the Council elect not to adopt a CIL Charging Schedule, it is likely to have significant implications with regard to funding infrastructure in the borough and the Council will need to be aware of such implications in their decision-making.

2.5 It is worth noting that some site specific Section 106 obligations will remain available for negotiation after the adoption of CIL/April 2014[3]. However these will be restricted to site specific mitigation and to the provision of affordable housing. They cannot be used for securing payments towards infrastructure that benefit more than one development unless they form part of the Council's five sites which would be able to pool Section 106 contributions form to

[3] This date may change to April 2015, based on the Consultation on Community Infrastructure Levy further reforms document published in April 2013.

provide infrastructure which is not identified on the Council's Regulation 123 list.

2.6 The CIL regulations enable local authorities to set differential rates (including nil rates) for different zones within which development would take place and also for different types of development. The amendment to the Statutory CIL Guidance in December 2012 clarified that CIL Regulation 13 permits charging authorities to levy 'differential rates by reference to different intended uses of development provided that the different rates can be justified by a comparative assessment of the economic viability of those categories of development. 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.' (Para 35)

2.7 The CIL regulations state that in setting a charge, local authorities must aim to strike *"what appears to the Charging Authority to be 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).

2.8 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 controlled by a charity) 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:

- the cost of complying with the signed section 106 agreement is greater than the levy's charge on the development; and
- paying the full CIL charge would have an unacceptable impact on the development's economic viability.

2.9 The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed. To be eligible for exemption, regulation 55 states that the Applicant must enter into a Section 106 agreement (and the costs of complying with the agreement must exceed the amount of CIL that would have been payable); and that the Authority must be satisfied that granting relief would not constitute state aid. It should be noted however that CIL cannot simply be negotiated away or the local authority decide not to charge CIL. In the case of development where the level of s106 is not higher than the levy, the owner must pay the entire levy.

2.10 At present 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 has not been in lawful use for a continuous period of at least six months within the last 12 months, ending on the day planning permission first permits the chargeable development, the floorspace may not be offset. However, in the recent Consultation on Community Infrastructure Levy further reforms document, published in April 2013, the DCLG identified that, *'We are aware that for certain developments (particularly those that require a building to be emptied, demolished and re-built), the vacancy test is preventing the offsetting of vacant floorspace and requiring payment of the levy even when the floorspace is not increasing. In other similar refurbishment cases, where floorspace is increasing, the whole development is being charged the levy, rather than just the increased floorspace.'*

2.11 The consultation document goes on to identify that, 'The test was designed because it was felt that where development has an impact on infrastructure need the levy should be paid. However we are aware that the current test may not be working effectively and may be difficult to enforce.' Given this position the DCLG identify within the Consultation Document that they are, *'considering removing the vacancy test from regulation 40. The effect of this change would be that the levy would not generally be paid on buildings that are refurbished or redeveloped and would only be payable on any increases in floorspace in refurbishment and redevelopment schemes'.*

2.12 The 2010 regulations set out clear timescales for payment of CIL, which varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allow local authorities to set their own timescales for the payment of CIL if they choose to do so. This is an important issue that the Council will need to consider, as the timing of payment of CIL can have an impact on an Applicant's cashflow (the earlier the payment of CIL, the more interest the Applicant will bear before the development is completed and sold).

2.13 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.

2.14 Several local authorities have undertaken viability assessments and have drafted CIL charging schedules, which they have submitted for independent examination. To date, a number of charging authorities (including inter alia the Mayor of London, Portsmouth, Newark and Sherwood, Huntingdonshire, Wandsworth, Shropshire, Bristol, Poole, Waveney, Brent, Barnet, Croydon, Harrow, Wycombe, Plymouth, Havant, Newham, Exeter and Redbridge) have been through the examination process and are at various stages of implementation.

Mayoral CIL and Crossrail Section 106

2.15 London is the only place where a strategic tier authority may also set a CIL. The two-tier charging system is intended to ensure that strategic infrastructure, that is important for economic growth, is delivered in London as well as local infrastructure. The CIL Guidance sets out at Para 32 that, *'the Government expects the Mayor and the boroughs to work closely in setting and running the Community Infrastructure Levy in London, including through mutual co-operation and the sharing of relevant information'*.

2.16 In having regard to the potential effects of the imposition of CIL on the economic viability of development across their areas, the London boroughs are required (by regulation 14(3) and (4)) to take into account any CIL rates set by the Mayor (in the most recent CS already approved by the Mayor). The purpose of this requirement is to ensure that rates are set in a manner that retains viability across London for both local and strategic infrastructure, permitting both the boroughs and the Mayor to realise their development strategies. Once set, the Mayor's CIL is mandatory, so as a matter of good practice, the Council in proposing a draft CIL rate for consultation, should also take into account any Mayoral CIL rate (or rates) that has been published.

2.17 On 29 February 2012, the Mayor of London agreed his CIL CS and from 1 April 2012 developments granted planning permission throughout Greater London (to varying degrees) are liable to pay the Mayor of London's CIL. The proceeds of the CIL are intended, in the first instance, to raise £300 million towards the delivery of Crossrail by 2019.

2.18 The Mayoral CIL takes precedence over borough requirements, including affordable housing. CIL regulation 14(3) requires that the Council has regard to the Mayoral CIL when assessing the viability of development for the purposes of setting its own rates of CIL.

2.19 London Borough of Tower Hamlets falls within the London Mayoral CIL Charging Zone 2. This requires a £35 per square metre charge on the net additional increase in floorspace (Gross Internal Areas) of most development (i.e. equal or over 100 square metres or involving creating one dwelling, even where this is below 100 square metres excluding health, education and affordable housing floorspace). As a London borough, Tower Hamlets is required to calculate, collect and enforce the Mayoral CIL.

2.20 The Crossrail and Mayoral CIL SPG[4] identifies that in particular locations, where appropriate, the Mayor could negotiate Section 106 contributions over and above the Mayoral CIL towards Crossrail, dependant on the size and impact of the development and viability issues.

2.21 Although not a requirement under the CIL regulations, this viability assessment has regard to the potential Section 106 contributions towards Crossrail that could be sought by the Mayor. The Mayor has identified a series of *'indicative contributions'* in Table 2 of the Crossrail SPG. These contributions are summarised in Table 2.16.1 below. The SPG provides guidance for *'ensuring that developers do not have unreasonable demands made of them'* (para 4.20). This is to be achieved by treating CIL and Section 106 payments towards Crossrail as a credit towards any payment sought under the Crossrail obligations policy, should the former be less than the latter, and not to seek a contribution at all should the obverse be the case. i.e.

- *'Where the amount payable under the planning obligations policy is equal to, or less than, that payable by CIL, only the CIL will be payable.*
- *Where the amount payable under the planning obligations policy is more than that payable in CIL, the CIL will be payment plus a "top up" so that in combination the two payments make up the amount payable under the obligations policy.'* (para 4.21)

2.22 The treatment of mixed uses schemes in calculating the Crossrail top up is somewhat more complicated as firstly, the Guidance identifies that, *'it is the total payable for the development concerned that should be taken into account, not the amounts for the separate uses involved' (*para 4.21). In addition it is noted that para 3.36 identifies that *'Where a mixed-use scheme containing uses attracting Crossrail charges is proposed, the Crossrail charge should relate to the net additional transport impact from the new development. This should be calculated by deducting the theoretical charge that would be*

[4] Paragraph 4.20- 8.21 of Use of planning obligations in the funding of Crossrail, and the Mayoral Community Infrastructure Levy (April 2013)

paid by the existing uses covered by this policy from the charge applicable to the new development.'

2.23 The SPG identifies that a small proportion of the west of the Borough lies within the Central London designation and an approximate 1 km indicative radius outwards around the proposed Canary Wharf station at West India Quay inclusive of and south of the Poplar DLR is identified as being located within the Isle of Dogs designation. There are other areas in which the Rest of London designation applies. However, we note that the indicative contributions for these uses are identified as being lower than the Mayoral CIL and therefore would not result in a top up being sought.

Table 2.16.1 Indicative Crossrail Section 106 charge

Use	Central London Charge psm	Isle of Dogs Charge psm	Rest of London psm
Office	£140	£190	£31
Retail	£90	£121	£16
Hotels	£61	£84	-

Source: Table 2: Indicative Level of Charge per sq.m, by land use and location as at July 2010 SPG: use of planning obligations in the funding of Crossrail, and the Mayoral Community Infrastructure Levy (April 2013)

Local Policy context

2.24 In addition to financing infrastructure, the Council expects residential developments to provide a mix of affordable housing tenures, sizes and types to help meet identified housing needs and contribute to the creation of mixed, balanced and inclusive communities. In accordance with Policy SP02 the Council expects developments of 10 or more units to provide 35% - 50% affordable housing on-site, with a tenure mix of 70% rented and 30% shared ownership. The Council's policy identifies that regard will be had to viability of development.

2.25 The Core Strategy acknowledges that Tower Hamlets sits within a unique regional context, given the amount of growth, investment and regeneration planned to take place in the area over the next 50 years. The London Plan (2011) sets out that 'the Olympic Park is at the fulcrum of two nationally important growth corridors: the London-Stansted-Cambridge-Peterborough corridor to the north and the Thames Gateway to the east. The 2012 Olympic and Paralympic Games, their infrastructure and investment have created the most important strategic regeneration opportunities in London for the next 25 years. Successful, viable and sustainable regeneration of the Olympic Park and its surrounding areas is the Mayor's highest regeneration priority and offers a unique opportunity to secure and accelerate the delivery of many elements of his strategies and lessen inequality across London.' (Para 2.18 of the Core Strategy)

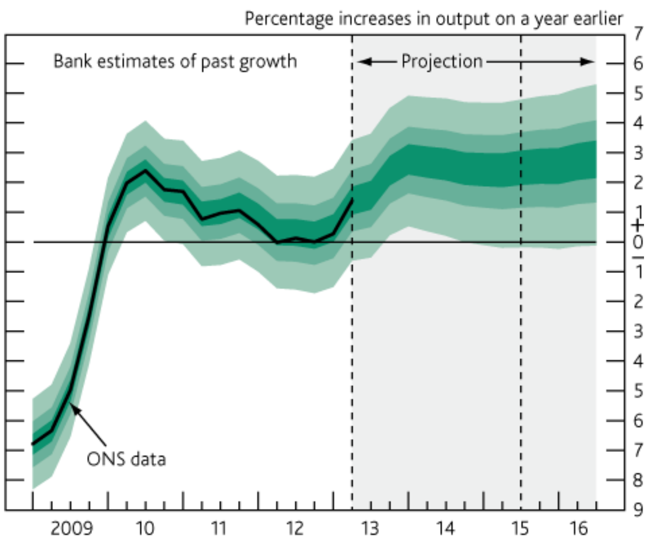
2.26 The Core Strategy identifies that these growth areas will significantly help to address the regional need for more housing and in particular, the legacy of the Olympic Park, (including the Legacy Masterplan Framework and Stratford City), will have immediate and lasting impacts, helping to transform Tower Hamlets. However, this extra growth will place additional pressures on Tower Hamlets' infrastructure.

2.27 In addition to this, the London Plan also identifies two Opportunity Areas (OA) of growth within Tower Hamlets. These being the Isle of Dogs OA and the City Fringe OA. Opportunity Areas are London's major reservoir of brownfield land with significant potential to accommodate new housing, commercial and other development, and require infrastructure to support this development.

Economic and housing market context

2.28 The historic highs achieved in the UK housing market by mid 2007 followed a prolonged period of real house price growth. However, a period of 'readjustment' began in the second half of 2007, triggered initially by rising interest rates and the emergence of the US sub prime lending problems in the last quarter of 2007. The subsequent reduction in inter-bank lending led to a general "credit crunch" including a tightening of mortgage availability. The real crisis of confidence, however, followed the collapse of Lehman Brothers in September 2008, which forced the government and the Bank of England to intervene in the market to relieve a liquidity crisis.

2.29 The combination of successive shocks to consumer confidence and the difficulties in obtaining finance led to a sharp reduction in transactions and a significant correction in house prices in the UK, which fell to a level some 21% lower than at their peak in August 2007 according to the Halifax House Price Index. Consequently, residential land values fell by some 50% from peak levels. One element of government intervention involved successive interest rate cuts and as the cost of servicing many people's mortgages is linked to the base rate, this financial burden has progressively eased for those still in employment. This, together with a return to economic growth early 2010 (see August 2013 Bank of England GDP fan chart below, showing the range of the Bank's predictions for GDP growth to 2016) has meant that consumer confidence has started to improve to some extent.



Source: Bank of England

2.30 Throughout the first half of 2010 there were some tentative indications that improved consumer confidence was feeding through into more positive interest from potential house purchasers. Against the background of a much reduced supply of new housing, this would lead one to expect some recovery in prices. However, this brief resurgence abated with figures falling and then fluctuating in 2011 and 2012, with the Halifax House Price Indices showing a fall of 0.6% in the year to March 2012. The Halifax attributed some of recovery during that period to first time buyers seeking to purchase prior to the reintroduction of Stamp Duty from 1 April 2012. The signs of improvement in the housing market towards the end of 2012 have continued in 2013 and both The Halifax and Nationwide have report positively in their July 2013 Housing Price Index updates. They both refer to signs of an upturn in the housing market, identifying July 2013 as having the *"strongest rate of annual growth since 2010".*

2.31 The Halifax report identifies that prices in the three months to July are 2.1% higher than in the previous three months, and prices in the three months to July were 4.6% higher than in the same three months a year earlier. This was higher than June's 3.7% increase and is the highest annual rate since August 2010 (4.6%). Prices are also identified as being 1.3% higher than in the same period in January 2012, marking the first annual rise for 27 months. They appear to be more optimistic than Nationwide in their view of the market, identifying that, *"Signs of improvement in the economy, underlined by the recent evidence of a rise in gross domestic product in Quarter 2 and increases in employment, appear to have boosted consumer confidence. Greater confidence is likely to have underpinned the increase in housing demand."*

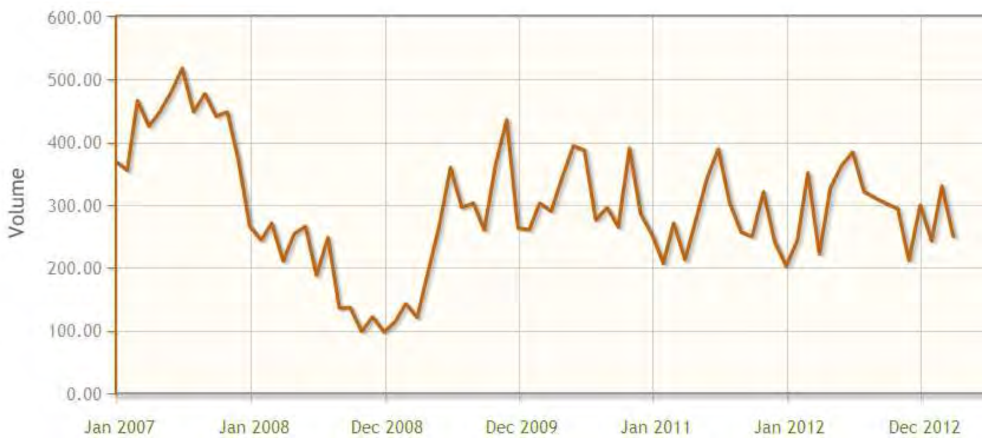
2.32 Nationwide, although positive, is more cautious in its outlook, reporting a modest increase in market activity and growth qualified by still being muted by comparison to historic standards. The annual rate of house price growth is identified as having increased to 3.9% in July 2013, however, this figure is identified as having been boosted by a low base for comparison, as prices declined by 2.6% in July 2012. Further, it is reported that *"House prices are currently around 12% higher than the lows seen in the midst of the financial crisis, though they are still around 10% below the all time highs recorded in late 2007."* They too consider that *"Signs of a modest improvement in wider economic conditions and further modest gains in employment are likely to be lifting buyer sentiment."*

2.33 Both Halifax and Nationwide refer to the improvement in the availability and a reduction in the cost of credit as a result of official schemes, such as the Funding for Lending Scheme and the Help to Buy equity loan scheme. These are identified as sources which may be boosting demand.

2.34 The outlook for the UK economy and house prices is identified by Martin Ellis, (the housing economist at Halifax) as being *"expected to continue to rise gradually through this year with only modest economic growth and still falling real earnings constraining housing demand and activity."*

Figure 2.12.1: House price index in Tower Hamlets

Figure 2.12.2: Sales volumes in Tower Hamlets



Source: Land Registry

2.35 According to Land Registry data, residential sales values in Tower Hamlets have recovered significantly since the lowest point in the cycle in April 2009. Prices increased by 12.2% between April 2009 and August 2010, but fell back by 1% by December 2010. Following this, prices have generally risen albeit in a fluctuating manner, with the June 2013 sales values being identified as only 3.5% lower than the April 2008 peak values.

2.36 The future trajectory of house prices is currently uncertain, although Savills' current prediction is that values are expected to increase over the next five years. Medium term predictions are that properties in mainstream London markets will grow over the period between 2013 to 2017[5.] Savills predict that values in mainstream London markets (i.e. non-prime) will increase by 6.5% in 2013, 6% in 2014, 4% in 2015, 4.5% in 2016 and 2% in 2017. This equates to cumulative growth of 25.1% between 2013-2017 inclusive, compared to a UK average of 18.1% cumulative growth over the same period. Notwithstanding this Savills identify in their report that, "*We are still far from a housing market boom – although the next three years may look like a mini boom in relation to the last five.*"

Development context

2.37 Developments in Tower Hamlets range from small in-fill sites to major regeneration schemes. There are significant variations in residential sales values between different parts of the Borough, with values in Canary Wharf and City Fringe with the highest values and the areas to the east achieving lower values. The north east (Fish island, Bow, Mile End) and south east (Cubit Town) areas are identified as having the lowest values.

2.38 Commercial development is identified throughout the Borough, however, the majority of the commercial development is located within the city fringe and Docklands areas. Recent reports have shown that take up of office space in the Docklands area in the three months to the end of June were circa 60% lower than the quarterly average of 232,000 sq ft. Of this we understand that one deal (The Economist) accounted for half of the overall activity. The total Docklands vacancy rate now stands at 1.6m sq ft, or 8.63%, the highest since Q4 2009.

[5] Savills Research Residential Property Focus Q3 2013

2.39 We understand that the amount of available space in Docklands is due to increase with law firm Clifford Chance planning to market up to 420,000 sq ft at its 1m sq ft headquarters at 10 Upper Bank Street over the coming months. It will start with 100,000 sq ft let to the London Organising Committee of the Olympic and Paralympic Games, which is now surplus to requirements. Further, the Olympic organiser also occupies 90,000 sq ft at Citibank's 25 Canada Square, with a lease expiry in December and 100,000 sq ft at Barclays' 1 Churchill Place. Agents are predicting that given the current levels of demand and impending increase in available floorspace, it is going to take a very long time to fill the vacant space, which will in turn have a depressing effect on deals in the area. Take-up rates in Docklands are traditionally lumpy, but a lack of significant requirements targeting the area could mean the figures remain low.

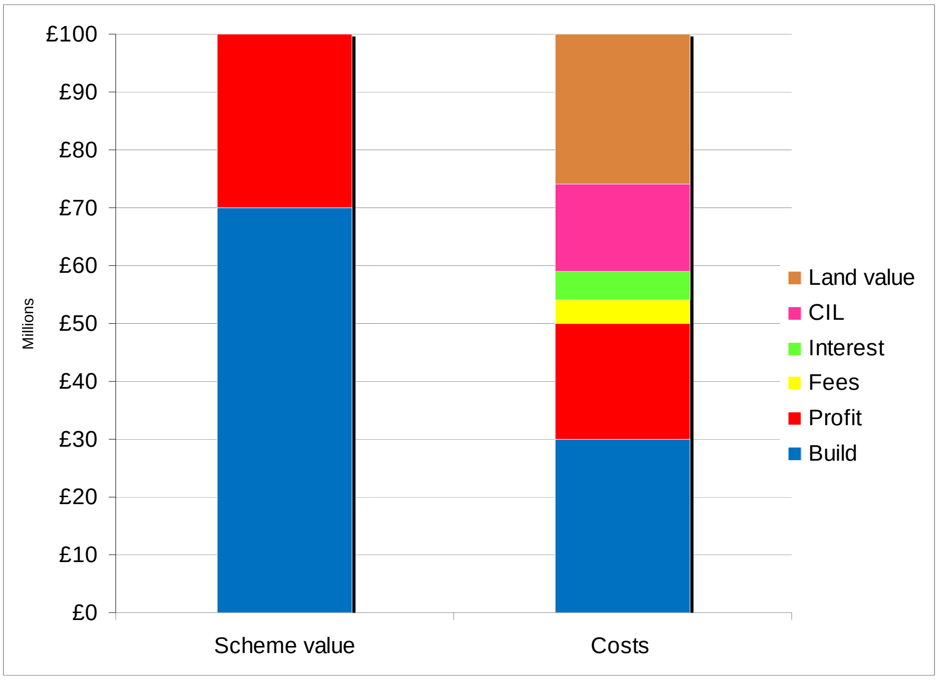
2.40 The Borough's retail centres are performing well and the Council anticipates significant additional floorspace to be developed in areas such as Wood Wharf in the medium to long term.

3 Methodology and appraisal inputs

3.1 Our methodology follows standard development appraisal conventions, using assumptions that reflect local market and planning policy circumstances. The study is therefore specific to 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 and the payment from a Registered Provider ('RP') for the completed affordable housing units. The model then deducts the build costs, fees, interest, CIL (at varying levels) and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the brown portion of the right hand bar in the diagram.



3.3 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of current use value), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.

3.4 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value' or another appropriate benchmark to make development worthwhile. The margin above current use value may be considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.

3.5 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the current use. CIL will be a cost to the scheme and will impact on the residual land value. Ultimately, if landowners' expectations are not met, they will not voluntarily sell their land and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that policy may change at some future point with reduced requirements. It is within the scope of those expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

Viability benchmark

3.6 The CIL Regulations provide no specific guidance on how local authorities should test the viability of their proposed charges. However, there is a range of good practice generated by both the Homes and Communities Agency and appeal decisions that assist in guiding planning authorities on how they should approach viability testing for planning policy purposes.

3.7 In 2009, the Homes and Communities Agency published a good practice guidance manual 'Investment and Planning Obligations: Responding to the Downturn'. This defines viability as follows: "*a viable development will support a residual land value at level sufficiently above the site's existing use value*[6] *(EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner*".

3.8 A number of planning appeal decisions provide guidance on the extent to which the residual land value should exceed existing use value to be considered viable:

Barnet & Chase Farm: APP/Q5300/A/07/2043798/NWF
"the appropriate test is that the value generated by the scheme should exceed the value of the site in its current use. The logic is that, if the converse were the case, then sites would not come forward for development"

Bath Road, Bristol: APP/P0119/A/08/2069226
"The difference between the RLV and the existing site value provides a basis for ascertaining the viability of contributing towards affordable housing."

Beckenham: APP/G5180/A/08/2084559
"without an affordable housing contribution, the scheme will only yield less than 12% above the existing use value, 8% below the generally accepted margin necessary to induce such development to proceed."

Oxford Street, Woodstock: APP/D3125/A/09/2104658
"The main parties' valuations of the current existing value of the land are not dissimilar but the Appellant has sought to add a 10% premium. Though the site is owned by the Appellants it must be assumed, for valuation purposes, that the land is being acquired now. It is unreasonable to assume that an existing owner and user of the land would not require a premium over the actual value of the land to offset inconvenience and assist with relocation. The Appellants addition of the 10% premium is not unreasonable in these circumstances."

[6] This term should not be confused with the RICS *Red Book* definition. Existing Use Value in this context is taken to mean the value of the site in its current use, disregarding opportunities for redevelopment of the site for other uses.

3.9 The guidance issued by the Local Housing Delivery Group[7] ('LHDG') on 22 June 2012 advocates the use of current use value plus an appropriate premium as a benchmark for testing CIL and local plan policy requirements.

3.10 It is clear from the LHDG guidance, planning appeal decisions and HCA good practice publication that the most appropriate test of viability for planning policy purposes is to consider the residual value of schemes compared to the existing or current use value plus a premium. As discussed later in this report, our study adopts a range of benchmark land values, reflecting differing circumstances in which sites are brought forward.

3.11 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).

3.12 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).

3.13 It is important to stress, however, 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 individual Charging Authority.

[7] This group was led by the Homes and Communities Agency and comprises representatives from the National Home Builders Federation, the Royal Town Planning Institute, local authorities and valuers (including BNP Paribas Real Estate).

4 Development appraisals

Residential development

4.1 We have appraised a series of 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 inputs to the appraisals are based on research on the local housing market and the inputs adopted by applications in scheme-specific development appraisals submitted with planning applications.

Residential sales values

4.2 Residential values in the area reflect national trends in recent years but do of course vary between different sub-markets. We have considered comparable evidence of both transacted properties in the area and properties currently on the market to establish appropriate values for testing purposes. This exercise indicates that developments in the Borough will attract average sales values ranging from circa £4,090 to £7,535 per square metre.

4.3 Sales values vary between different parts of the Borough with Canary Wharf and the Tower of London/St Katherine's Docks, Aldgate and Wapping areas achieving the highest values and Cubit Town, Victoria Park, Fish Island, Bow and Mile End areas having been identified to have the lowest values. The average values we have assumed in our appraisals are shown in Table 4.3.1. These average values are supported by three sources; firstly, Land Registry data on sales values achieved, secondly, pricing on individual development proposals from databases such as Molior and EGi London Residential Research, and finally Right Move and local agents.

Table 4.3.1: Average sales values used in appraisals

Market Area	Market Area Description	Average values £s per sq ft	Average values £s per sq m
1	Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4)	£380	£4,090
2	South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6)	£430	£4,629
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)	£470	£5,059
4	Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)	£500	£5,382
5	Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) Blackwall (riverside) (E14 0)	£575	£6,189
6	Spitalfields (E1 6)	£650	£6,997
7	Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2)	£700	£7,535

4.4 As noted earlier in the report, Savills predict that sales values will increase over the medium term. Whilst this predicted growth cannot be guaranteed, we have run a sensitivity analysis assuming growth in sales values of 10%, accompanied by 5% increase in costs (the latter assuming a pick up in construction activity and higher labour and materials costs). We have also modelled a fall in prices of 5%, to provide the Council with an indication of the impact a reverse in values would have on viability.

Affordable housing tenure and values

4.5 The Council's policy position seeks the maximum reasonable amount of housing provision. Developments comprised of 10 or more units should provide at least 35%-50% affordable housing, subject to viability, with a tenure mix of 70% rented housing and 30% intermediate housing.

4.6 The Council has set out its approach to the 'Affordable Rent' tenure in the emerging Managing Development DPD. This provides an indication of the average levels of Affordable Rent expected across the Borough as a whole (see table below). However, the Council acknowledge that Affordable Rent levels will vary based on the local market rent levels in different parts of the Borough. As such, Affordable Rent levels will be informed by the research carried out by POD (2011), which takes account of local socio-economic circumstances.

4.7 For modelling purposes we have adopted target rents for the base position and we have applied the POD rents in our sensitivity tests (which include service charges), i.e. replacing social rented units with Affordable Rent units. These are shown in the table below:

Postcode	Weekly Rents (Inclusive of all Service Charges)				
	1 Bed	2 Bed	3 Bed	4 Bed	5 bed
E1	£200.25	£213.23	£241.85	£279.35	£295.34
E2	£199.20	£219.70	£265.04	£292.21	£325.77
E3	£163.05	£190.38	£210.00	£240.00	£265.69
E14 (inc Docklands)	£206.55	£231.00	£244.50	£271.04	£304.69
E14 (Excl Docklands)	£152.70	£168.17	£187.85	£250.04	£282.98

Table 4.7.1 LB Tower Hamlets POD Rents

4.8 The DCLG/HCA '*2011-2015 Affordable Homes Programme – Framework'* (February 2011) document clearly states that RPs will not receive grant funding for any affordable housing provided through planning obligations. Consequently, all our appraisals assume nil grant. We recommend that the Council revisits this assumption when it next reviews its charging schedule, by which time a new funding programme may have been introduced by central government.

4.9 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 5.25%.

4.10 A table setting out the blended rates adopted in this study for the affordable housing are set out at Appendix 3.

Residential development types, density and mix

4.11 We have run appraisals using the range of densities that are typically encountered in the Borough. We have had regard to the density of development indicated by the London Plan density matrix and the Council's Core Strategy.

4.12 Tables 4.11.1 and 4.11.2 summarise the different development typologies selected for testing purposes. These reflect the range of developments that have and will in future come forward across the Borough.

Table 4.11.1: Unit Mix

Site type	1 Bed flat	2 bed flat	3 bed flat	4 Bed Flat	3 bed house
Unit size	*50 sqm*	*70 sqm*	*86 sqm*	*90 sqm*	*96 sqm*
1					100%
2	33%	33%	33%		-
3	35%	35%	20%		10%
4	35%	35%	22%	8%	-
5	40%	30%	20%	10%	-
6	25%	30%	30%	15%	-
7	35%	35%	20%	10%	-

Table 4.11.2: Development typologies

	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	3	Houses	50	0.06
2	6	Flats	120	0.05
3	25	Houses and flats	80	0.31
4	50	Flats	125	0.40
5	100	Flats	200	0.50
6	250	Flats	175	1.43
7	400	Flats	400	1.00

Residential build costs

4.13 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. In addition to the build costs outlined below, our appraisals include a contingency of 5% of build costs. Our approach for each site is set out in the following paragraphs.

4.14 **Site type 1** is a scheme of 3 houses. The BCIS base cost for 'One-off housing semi-detached (3 units or less)' is £1,025 per square metre, excluding external works and fees. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,240 per square metre. As the scheme is comprised wholly of houses, we have assumed a gross to net ratio of 100%.

4.15 **Site type 2** is a scheme of 6 flats. We have adopted the BCIS base cost for "flats – generally" of £1,058 per square metre, excluding external works and fees. After a 15% allowance for external works has been added, together with an allowance for meeting the costs of CSH level 4 (6%) the final build cost is £1,280 per square metre. We have assumed a net to gross ratio of 85%, so costs expressed per net square metre are £1,506 per square metre.

4.16 **Site type 3** is a scheme of 25 flats and houses. We have adopted the BCIS base cost for "flats – generally" of £1,058 per square metre, excluding external works and fees. After a 15% allowance for external works has been added, together with an allowance for meeting the costs of CSH level 4 (6%) the final build cost is £1,280 per square metre. We have assumed a net to gross ratio of 85%, so costs expressed per net square metre are £1,506 per square metre. For the houses we have adopted the BCIS base cost for 'houses – generally' of £919 per square metre. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,112 per square metre.

4.17 **Site type 4** is a scheme of 50 flats. We have adopted the BCIS base cost for "flats – generally" of £1,058 per square metre, excluding external works and fees. After a 15% allowance for external works has been added, together with an allowance for meeting the costs of CSH level 4 (6%) the final build cost is £1,280 per square metre. We have assumed a net to gross ratio of 85%, so costs expressed per net square metre are £1,506 per square metre.

4.18 **Site type 5** is a scheme of 100 flats and houses. For the flats, we have adopted the BCIS base cost for "flats of 6 or more storeys" of £1,412 per square metre, excluding external works and fees. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,709 per square metre. We have assumed a net to gross ratio of 80%, so costs expressed per net square metre are £2,136 per square metre.

4.19 **Site type 6** is a scheme of 250 flats. We have adopted the BCIS for "flats of 6 or more storeys" of £1,412 per square metre. After adding external works (15%) and an allowance for CSH level 4 (6%), the costs increase to £1,709 per square metre. On the basis of an assumed net to gross ratio of 80%, the costs expressed on a net basis equate to £2,136 per square metre.

4.20 **Site type 7** is a scheme of 400 flats and houses. Given the higher density of the scheme, we have adopted the BCIS upper quartile figure "flats of 6 or more storeys" of £1,572 per square metre, excluding external works and fees. After a 15% allowance for external works and a 6% allowance for CSH level 4 has been added, the final build cost is £1,902 per square metre. We have assumed a net to gross ratio of 75%, so costs expressed per net square metre are £2,536 per square metre.

4.21 A summary of build costs for each scheme type is provided in Table 4.20.1.

Table 4.20.1: Build costs

Site type	BCIS base – quarter 2 2012	Base cost	External works and CSH level 4	All-in cost (gross)	All-in cost (net)
1	Houses - One-off housing semi-detached (3 units or less)	£1,025	£215	£1,240	£1,240
2	Flats - generally	£1,058	£222	£1,280	£1,506
3	Flats - generally	£1,058	£222	£1,280	£1,506
3	Houses - generally	£919	£193	£1,112	£1,112
4	Flats - generally	£1,058	£222	£1,280	£1,506
5	Flats 6+ storeys	£1,412	£297	£1,709	£2,136
6	Flats 6+ storeys	£1,412	£297	£1,709	£2,136
7	Flats 6+ storeys	£1,572	£330	£1,902	£2,536

4.22 As identified above, an additional 6% allowance is included across all tenures for meeting Code for Sustainable Homes level 4, which is reflective of the findings of work undertaken by Davis Langdon on behalf of the DCLG[8].

Professional fees

4.23 In addition to base build costs, schemes will incur professional fees, covering design, valuation, highways consultants and so on. Our appraisals incorporate an allowance of between 10% to 12%, depending on the complexity of the scheme. This allowance incorporates all professional inputs and planning fees, EPCs and NHBC costs.

4.24 Our appraisals incorporate an allowance of 3% of GDV to cover marketing costs. An additional £600 per unit is included for legal costs on sales.

Finance costs

4.25 Our appraisals incorporate finance costs on land and build at 7%.

Stamp duty and acquisition costs

4.26 We include stamp duty at 4% of land costs, agents fees of 1% and legal fees on acquisition of 0.8%.

Mayoral CIL

4.27 Mayoral CIL will be payable on all developments that receive planning consent after 1 April 2012. Tower Hamlets falls within Zone 2, where a CIL of £35 per square metre will be levied. The Mayoral CIL takes precedence over Borough requirements, including affordable housing. CIL regulation 14(3) requires that the Council has regard to the Mayoral CIL when assessing the viability of development for the purposes of setting its own rates of CIL. Our appraisals test the ability of the typologies to absorb a range of CIL rates, included in which is the Mayoral CIL, so as to establish the maximum CIL that the development can afford. In this regard CIL is treated as a cost to development and to establish the maximum Borough CIL a development can absorb,

[8] The Cost of building to the Code for Sustainable Homes, Updated cost review (August 2011) by Davis Langdon on behalf of the DCLG.

Mayoral CIL will need to be deducted from the output maximum CIL level identified in our appraisals.

Section 278 and residual Section 106 costs

4.28 Our appraisals incorporate an allowance of £1,220 per unit to address any Section 278 and residual Section 106 costs. This figure is considered to be a reasonable proxy for likely sums to be sought after CIL is adopted. The figure adopted is broadly in line with those adopted by many other London boroughs and is regarded as reasonable for testing purposes and incorporates an appropriate top-up to account for factors specific to Tower Hamlets. Once CIL is adopted, Section 106 contributions will remain negotiable and in this regard there is scope for these to flex according to viability.

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 5 units per month. This is reflective of current market conditions, whereas in improved markets, a sales rate of up to 8 units per month might be expected. The build and sales periods for each scheme type are summarised in Table 4.46.1 below.

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 and as such 20% has been factored into the appraisals. 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 may not allow profit levels to decrease much lower than their current level of 20%.

4.33 Our assumed return on the affordable housing GDV is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an 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 and Homes and Communities Agency's guidelines in its Economic Appraisal Tool.

Phasing of CIL payments

4.34 For testing purposes, we have assumed that any CIL due will be split into three equal instalments, payable at the months shown in Table 4.46.1. It should be noted that this approach does not necessarily reflect the instalments policy which the Council is intending to adopt – this is currently under consideration and will be confirmed in due course. A sensitivity analysis of adopting the London Mayoral CIL instalments approach has been undertaken for testing purposes. This has identified that this results in a marginal impact on viability. It is noted that an instalments policy can be amended at any time by a Charging Authority and is not a matter that the Examiner is required to consider.

Benchmark land values for the residential analysis

4.35 Benchmark land values, based on the current use value or alternative use value of sites are key considerations in the assessment of development economics for testing planning policies and tariffs. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the land's current use value. Current use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. Current use value or alternative use value are effectively the 'bottom line' in a financial sense and therefore a key factor in this study.

4.36 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.

4.37 In considering the value of sites in existing commercial use, it is necessary to understand the concept of 'yields'. Yields form the basis of the calculation of a building's capital value, based on the net rental income that it generates. Yields are used to calculate the capital value of any building type which is rented, including both commercial and residential uses. Yields are used to calculate the number of times that the annual rental income will be multiplied to arrive at a capital value. Yields reflect the confidence of a potential purchaser of a building in the income stream (i.e. the rent) that the occupant will pay. They also reflect the quality of the building and its location, as well as general demand for property of that type. The lower the covenant strength of the occupier (or potential occupiers if the building is currently vacant), and the poorer the location of the building, the greater the risk that the tenant may not pay the rent. If this risk is perceived as being high, the yield will be high, resulting in a lower number of years rent purchased (i.e. a lower capital value).

4.38 Over the past four years, yields for commercial property have 'moved out' (i.e. increased), signalling lower confidence in the ability of existing tenants to pay their rent and in future demand for commercial space. This has the effect of depressing the capital value of commercial space. However, as the economy recovers, we would expect yields to improve (i.e. decrease), which will result in increased capital values. Consequently, current use values might increase, increasing the base value of sites that might come forward, which may have implications for landowners' decisions on releasing sites for alternative uses.

4.39 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.

4.40 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.

4.41 It is also necessary to recognise that a landowner will require an additional incentive to release the site for development[9]. 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

4.42 **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 £12.62 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 £12.95 million, to which we have added a 20% premium, resulting in a benchmark of £15.54 million.

4.43 **Benchmark Land Value 2**: This benchmark assumes lower value secondary office space on a hectare of land, with 40% site coverage and 4 storeys. The rent assumed is based on lettings of second hand offices in the Borough at £9.92 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 £8.34 million, to which we have added a 20% premium, resulting in a benchmark of £10.01 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 three years. The capital value of the building would be £4.41million, to which we have added a 20% premium, resulting in a benchmark of £5.3 million.

4.45 **Benchmark Land Value 4**: This benchmark assumes a community building, which could include buildings owned by the Council and other public sector bodies, and community/charity groups. We have assumed site coverage of

[9] 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.

50% across a hectare of land, with a single storey building. The rent assumed is based on our estimate of £4 per sq ft. We have assumed a letting void of one year. The capital value of the building would be £2.49 million, to which we have added a 20% premium, resulting in a benchmark of £2.99 million.

4.46 We would draw readers' attention to the comments on land values in Examiner's report on the Mayor of London's CIL[10], which indicates that owners will need to adjust their expectations to accommodate allowances for infrastructure.

4.47 Our residential appraisal inputs are summarised in Table 4.46.1.

[10] Para 32: *"the price paid for development land may be reduced…. a reduction in development land value is an inherent part of the CIL concept…. in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges."*

Table 4.46.1: Residential appraisal assumptions for each site type

Appraisal input	Source/Commentary	Site type number and assumptions						
		1	2	3	4	5	6	7
Number of units		3	6	25	50	100	250	400
Base construction costs (£s per sq metre)	BCIS adjusted for location. Based on gross areas before external works. Additional adjustments as set out in Table 4.19.1	£1,025	£1,058	Flats - £1,058 Houses - £919	£1,058	£1,412	£1,412	£1,572
External works (% of build costs)	Based on average scheme cost.	15%	15%	15%	15%	15%	15%	15%
Code for sustainable homes level 4	Based on DCLG/ Davis Langdon Study	6%	6%	6%	6%	6%	6%	6%
Contingency (% of build cost)	Industry norm (5%)	5%	5%	5%	5%	5%	5%	5%
Professional fees (% of build)	BNPPRE assumption	10%	10%	10%	10%	10%	12%	12%
Construction period (months)	We assume that developers will build at the rate they are able to sell.	12	12	18	18	20	24	24
Sales period (months)	Determined by ability of market to absorb new development	2	2	5	10	12	25	30
Sale start (month from commencement)	Linked to later stages of construction period	12	12	18	16	20	20	20
Sales rate (units per month)	Reflective of current market, could improve.	1.5	3	5	5	5	5	5
Profit on private (% of GDV)	BNPPRE assumption – reflective of current funder requirements	20%	20%	20%	20%	20%	20%	20%
Profit on affordable (% of GDV)	Reduced risk due to pre-sale to RP	n/a	n/a	6%	6%	6%	6%	6%
Phasing of CIL payments	BNPPRE assumption – equal splits, paid in months shown in table	1 / 6 / 6	1 / 6 / 6	1 / 6 / 12	1 / 6 / 12	1 / 12 / 18	1 / 12 / 24	1/18/24
Gross to net ratio for flats	BNPPRE assumption	n/a	85%	85%	85%	80%	80%	75%
Density and site area (ha, developable area)		50 uph 0.06 ha	120 uph 0.05 ha	80 uph 0.31 ha	125 uph 0.40 ha	200 uph 0.50 ha	175 uph 1.43 ha	400 uph 1.00 ha

Commercial development

4.48 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 types of commercial development. 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

4.49 Our research on lettings of commercial floorspace indicates a range of rents achieved, as summarised in table 4.48.1. This table also includes our assumptions on appropriate yields to arrive at a capital value of the commercial space. New build office developments are likely to attract a premium rent above second hand rents, however such development is likely to be relatively modest and limited to parts of the borough where offices achieve higher rents i.e. City Fringe and Docklands areas. The rents and yields adopted in our appraisals are summarised in Table 4.48.1.

4.50 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 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 15% - 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 15% - 20% premium has been adopted as a 'top of range' scenario for testing purposes.

Commercial build costs

4.51 We have sourced build costs for the commercial schemes from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes. These costs vary between different uses and exclude external works and fees (our appraisals include separate allowances for these costs). Costs for each type of development are shown in Table 4.48.1.

Profit

4.52 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.

Mayoral CIL and Crossrail Section 106

4.53 As identified in para 4.26, a Mayoral CIL tariff of £35 per square metre has been payable on all developments that receive planning consent in Tower Hamlets from 1 April 2012. Our appraisals include Mayoral CIL as a cost, so the outputs identified are the maximum viable levels of Borough CIL and any potential Crossrail top up charge liable on developments.

4.54 As mentioned in section 2, there are three designated areas in Tower Hamlets that are identified as areas, where if considered appropriate, the Mayor may seek to negotiate a top up on Mayoral CIL towards Crossrail Section 106 for certain developments, dependant on their perceived impact in contributing to transport needs.

4.55 As identified in sections 2.21 and 2.22, calculating the level of top up to be assumed is not entirely straightforward particularly in relation to mixed-use developments. In areas where Crossrail Section 106 contributions are applicable, the recommended rates account for the full indicative top up charge, with the exception of offices in the North Docklands area where viability is identified as being challenging. In order to allow for both funding towards Crossrail and Borough infrastructure requirements to support the growth identified in the Local Plan, the Council and BNP Paribas Real Estate consider that a reasonable approach would be to share the viable level of charge identified. Further, this takes into consideration that the actual Crossrail Section 106 top up charge that will be secured is likely to be lower than the indicative level set out in the SPD. This is as a result of office developments coming forward during the life of the charging schedule in the north Docklands area being likely to form part of mixed use schemes, which attract further discounts. In this context, we consider this to be a reasonable basis to set CIL rates within Tower Hamlets.

Section 278 and residual Section 106 costs

4.56 Our appraisals incorporate an allowance of £5 per square foot (£53.82 per square metre) to address any Section 278 and residual Section 106 costs. This figure is considered to be a reasonable proxy for likely sums to be sought after CIL is adopted. It is noted that Section 106 contributions will remain negotiable and in this regard there is scope for these to flex according to viability.

Table 4.48.1: Commercial appraisal assumptions for each use

Appraisal input	Source/Commentary	Offices City Fringe	Offices north Docklands	Offices South Docklands	Offices elsewhere	All other retail (A1-A5) City Fringe and north Docklands	All other retail (A1-A5) elsewhere	Conv based supermarkets & superstores & retail warehousing	Industrial	Student housing	Hotel
Total floor area (sq ft)	Generic scheme	30,000	30,000	30,000	30,000	30,000	30,000	10,764 and 53,820	30,000	149,367	30,000
Rent (£s per sq ft)	Based on average lettings sourced from EGI and Focus	£35	£35	£25	£20	£30	£20	£21.50	£10	£200 per week (51 week let)	£30.59 and £36.56 (£110,201 and £221,893 per rm cap value)
Rent free/void period (years)	BNPPRE assumption	2 years	2.5 years	2.5 years	2 years	2 years	2 years	2 years	2 years	n/a	n/a
Yield	BNPPRE prime yield schedule, research on comparable evidence and discussions with local agents	5.75%	6.25%	6.25%	7%	6.25%	6.75%	5.75%	7.5%	6.25%	6.4% and 6.6%
Purchaser's costs (% of GDV)	Stamp duty 4%, plus agent's and legal fees	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%
Demolition costs (£s per sq ft of existing space)	Based on experience from individual schemes	£5	£5	£5	£5	£5	£5	£5	£5	£5	£5
Gross to net (net as % of gross)	Based on experience from individual schemes	82%	82%	82%	82%	82%	82%	82%	90%	72.5%	75%
Base construction costs (£s per sq ft)	BCIS costs. Offices – 'generally' for air conditioned offices with adjustment for quality. 'Generally' figure for industrial, supermarkets, retail warehouse and town centre retail.	£200	£200	£200	£137	£150	£137	£121 and £117	£60	£137.40	£155 and £175
External works (% of build costs)	BNPPRE assumption	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Contingency (% of build costs)	BNPPRE assumption	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%

Table 4.48.1 (continued) Commercial appraisal assumptions for each use

Appraisal input	Source/Commentary	Offices City Fringe	Offices north Docklands	Offices South Docklands	Offices elsewhere	All other retail (A1-A5) City Fringe and north Docklands	All other retail (A1-A5) elsewhere	Convenience based supermarkets & superstores & retail warehousing	Industrial	Student housing	Hotel
Letting agent's fee	(% of first year's rent)	10%	10%	10%	10%	10%	10%	10%	10%	n/a%	10%
Agent's fees and legal fees	(% of capital value)	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
Interest rate	BNPPRE assumption	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Professional fees (% of build)	BNPPRE assumption, relates to complexity of scheme	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Profit (% of costs)	BNPPRE assumption based on schemes submitted for planning	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%

Table 4.48.2 Commercial appraisal assumptions for each use – current use benchmarks

Appraisal input	Source/Commentary	Offices City Fringe	Offices north Docklands	Offices South Docklands	Offices elsewhere	All other retail (A1-A5) City Fringe and north Docklands	All other retail (A1-A5) elsewhere	Convenience based supermarkets & superstores & retail warehousing	Industrial	Student housing	Hotel
Existing floorspace (sq ft)	Assumed to be between 25% to 50% of new space	30%	30%	30%	30%	30%	30%	30%	50%	30%	30%
Rent on existing floorspace	Reflects poor quality second hand space of same use, low optimisation of site etc and ripe for redevelopment	£12.50 to £18	£8 to £18	£8 to £18	£5 - £10	£10 to £20	£6 to £10	£6 - £10	£5 - £8	£12	£10 - £20
Yield on existing floorspace	BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc	7% - 6.75%	7.25% -8%	7.25% -8%	8%	6.5% -7.5%	8%	8%	8%	8%	7% - 6.75%
Rent free on existing space	Years	3	3	3	3	3	3	3	3	3	3
Refurbishment costs (£s per sq ft)	General allowance for bringing existing space up to lettable standard	£50	£50	£50	£30	£50	£50	£50	£30	£50	£50

Table 4.48.2 (continued) Commercial appraisal assumptions for each use – existing uses

Appraisal input	Source/Commentary	Offices City Fringe	Offices north Docklands	Offices South Docklands	Offices elsewhere	All other retail (A1-A5) City Fringe and north Docklands	All other retail (A1-A5) elsewhere	Convenience based supermarkets & superstores & retail warehousing	Industrial	Student housing	Hotel
Fees on refurbishment (% of refurb cost)	BNPPRE assumption	7%	7%	7%	7%	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%	15% - 20%	15% - 20%	15% - 20%	20%	15% - 20%	15% - 20%	15% - 20%	20%	20%

5 Appraisal outputs

Residential appraisals

5.1 The full outputs from our appraisals of residential development are attached as Appendix 4. We have modelled seven site types, reflecting different densities and types of development, which are tested in each of the seven sub-market areas identified in Section 4 and against four land value benchmarks. These types are summarised in table 5.1.1 below.

Table 5.1.1: Development types

	Number of units	Housing type	Development density units per ha	Net developable area (ha)
1	3	Houses	50	0.06
2	6	Flats	120	0.05
3	25	Houses and flats	80	0.31
4	50	Flats	125	0.40
5	100	Flats	200	0.50
6	250	Flats	175	1.43
7	400	Flats	400	1.00

Scenarios tested

- 1. Base sales and base costs (including Code for Sustainable Homes Level 4); 35% affordable housing (excluding Site type 1 and 2, which fall below the threshold of 10 units) with rented element let at rents linked to LHAs;
- 2. Sales values fall by 5%;
- 3. Sales values increase by 10% and build costs increase by 5%;
- 4. As (1) with Affordable Rent instead of social rented;
- 5. As (1) with 50% affordable housing;
- 6. As (1) with 30% affordable housing;
- 7. As (1) with 20% affordable housing; and
- 8. As (1) with 0% affordable housing.

5.2 We assume that all development types will meet Code for Sustainable Homes Level 4. Level 4 is reflected through a 6% adjustment to our base build costs for all tenures.

5.3 For all types of site, we have run two sensitivity analyses; firstly, with sales values falling by 5% and secondly, with sales values increasing by 10% and build costs also increasing by 5%. This analysis is provided for illustrative purposes and may assist the Council in understanding how viability might be affected by movements in sales values (up and down) over time and increased sustainability requirements. However, the future trajectory of the housing market is inherently uncertain and predictions cannot be relied upon.

5.4 The residual land values from each of the scenarios above in each of the nine housing market areas are then compared to four benchmark land values ('BLVs') based on the assumptions set out in paragraphs 4.34 to 4.45 This comparison enables us to determine whether the imposition of CIL would have an impact on development viability. In some cases, the equation RLV less BLV results in a negative number, so the development would not proceed, whether CIL was imposed or not. We therefore focus on situations where the RLV is greater than BLV and where (all other things being equal) the development would proceed. In these situations, CIL has the potential to 'tip the balance' of viability into a negative position.

Commercial appraisals

5.5 Our research on rents achieved on commercial lettings indicates a range of rents within each main use class. Our commercial appraisals therefore model base position and test the range of rates (higher and lower than the base level) and changes to yields. This enables us to drawn 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.

Presentation of data

Residential appraisals results

5.6 The results for each site are presented in six spreadsheets, as follows:

- Base sales values, 35% affordable housing (where applicable) CSH level 4 on all tenures;
- Sales values -5%;
- Sales values + 10%, build costs + 5%;
- Scenario 1 with Affordable Rent in place of social rent;
- Scenario 1 with increased affordable housing (50%);
- Scenario 1 with reduced affordable housing (30%);
- Scenario 1 with reduced affordable housing (20%); and
- Scenario 1 with no affordable housing (0%).

5.7 A sample of the format of the results is provided below. This sample relates to site type 1.

CIL Viability **LB Tower Hamlets**

SITE TYPE **1**
3 UNITS
HOUSES
50 UPH Net area as percentage of gross: 100%

Benchmark Land Values (per net developable ha)

BLV1	BLV2	BLV3	BLV4
Offices (higher)	Offices (lower)	Industrial/WH	Community uses
£15,547,081	£10,010,044	£5,300,227	£2,990,000

CSH level:	4 on AH
	4 on private
Aff Hsg:	

	Sales value inflation
	Build cost inflation

Site type 1	Description:	**Area 1 £4090 psm CT,Fish,Bow,Mile**	Site area:	0.06 ha

CIL amount	**RLV**	**RLV per ha**	**RLV less BLV 1**	**RLV less BLV 2**	**RLV less BLV 3**	**RLV less BLV 4**
0	557,513	9,291,892	- 6,255,190	- 718,153	3,991,664	6,301,892
60	536,262	8,937,705	- 6,609,376	- 1,072,339	3,637,478	5,947,705
80	529,179	8,819,643	- 6,727,439	- 1,190,402	3,519,415	5,829,643
100	522,095	8,701,580	- 6,845,501	- 1,308,464	3,401,353	5,711,580
120	507,927	8,465,456	- 7,081,625	- 1,544,588	3,165,229	5,475,456

5.8 Each spreadsheet provides residual values at varying amounts of CIL, starting at £0 and increasing to £500 per square metre. CIL applies to net additional floor area only. Our appraisals assume no deduction for existing floorspace, thereby providing the worst case scenario[11].

5.9 Separate data tables are provided in each spreadsheet for each of the housing market areas:

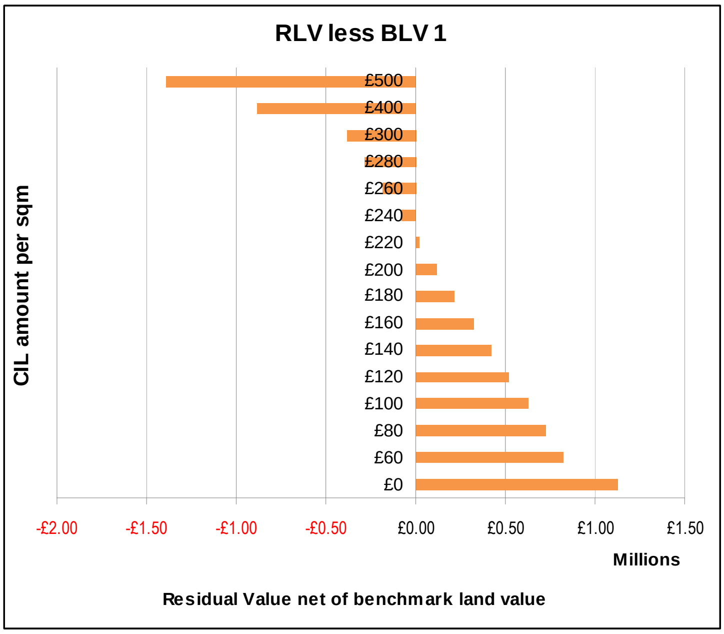
- Area 1: Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4);
- Area 2: South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6) Blackwall (non riverside) and Leamouth (E14 0, E 14 2)
- Area 3: Bethnal Green (E2 6), Globe Town (E2 9), East Bow (E3 5) North Whitechapel (E1 5) and Stepney (E1 0, E1 3, E1 4, E2 0) and South Isle of Dogs (E14 3);
- Area 4: Shadwell and South Whitechapel (E1 1, E1 2) and E14 7;
- Area 5: Tower Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) and Blackwall (riverside) (E14 0);
- Area 6: Spitalfields (E1 6); and
- Area 7: Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2).

5.10 The RLV is converted to a per hectare rate and compared to the four benchmark land values (see paragraphs 4.41 to 4.44). This is shown in the columns headed 'RLV less BLV1, BLV2' etc. A positive number indicates that the development is viable, as the developer will receive a normal level of development profit and the land value will be sufficient for the site to come forward.

5.11 The numerical data is then displayed in four graphs, one for each threshold land value. The graphs show the amount by which the RLV exceeds BLV (or is less than BLV) for each level of CIL. In the **illustrative** example overleaf (Chart 5.11.1), the graph shows that the maximum viable level of CIL would be £220 per square metre, but that above this level, higher levels of CIL would render the scheme unviable. It is important to note that the charts do not have the same scale and the reader needs to bear this in mind if comparing one chart to another.

[11] Existing buildings must be occupied for their lawful use for at least six months out of the twelve months prior to grant of planning permission to qualify as existing floorspace for the purposes of calculating CIL liability.

Chart 5.11.1: Illustrative example of data chart



Commercial appraisal results

5.12 The commercial appraisal results are more straightforward, due to the narrower range of variables that need to be considered in comparison to residential development. The appraisals include a 'base' rent level, with sensitivity analyses which model rents above and below the base level (an illustration is provided in Chart 5.12.1). The maximum CIL rates are then shown per square metre, against three different current use values (see Table 4.48.2). Chart 5.12.1 provides an **illustration** of the outputs in numerical format, while Chart 5.12.2 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.

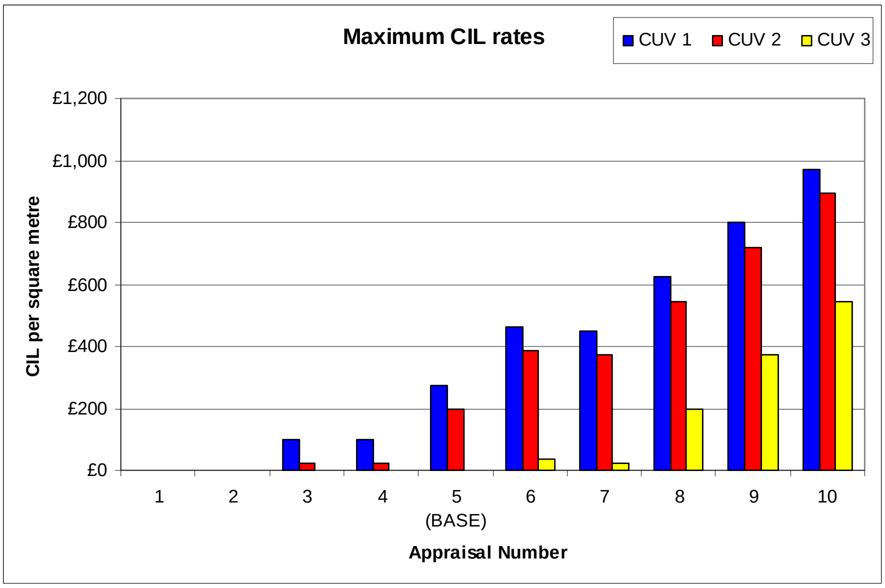
Chart 5.12.1: Illustration of sensitivity analyses

	£s per sqft	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 5.12.2: 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 5.12.3: Maximum CIL rates – graph format



6 Assessment of the results

6.1 This section should be read in conjunction with the full results attached at Appendix 4 (residential appraisal results) and Appendix 5 (commercial appraisal results). In these results, the residual land values are calculated for scenarios with sales values and capital values reflective of market conditions across the Borough. These RLVs are then compared to benchmark land values.

6.2 The CIL regulations state that in setting a charge, local authorities must "aim to strike *what appears to the charging authority* to be 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, the Council 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, the Council 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, the Council should not set their rates of CIL at the limits of viability. They should leave a margin or contingency to allow for change and site specific viability issues.

6.3 The early examinations have seen a debate on how viability evidence should translate into CIL rates. It has now been widely recognised that there is no requirement for a Charging Authority to slavishly follow the outputs of residual valuations. At Shropshire Council's examination in public, Newark & Sherwood Council argued that rates of CIL should be set at the level dictated by viability evidence which would (if followed literally) have resulted in a Charging Schedule with around thirty different charging zones across the Shropshire area. Clearly this would have resulted in a level of complexity that CIL is intended to avoid. The conclusion of this debate was that CIL rates should not necessarily be determined solely by viability evidence, but *should not be logically contrary* to the evidence. 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.

6.4 This conclusion follows para 28 of the CIL Guidance, 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, Para 37 of the CIL Guidance also identifies that, *'Charging authorities that plan to set differential levy rates should seek to avoid undue complexity, and limit the permutations of different charges that they set within their area.'*

Assessment – residential development

6.5 As CIL is intended to operate as a fixed charge, the Council will need to consider the impact on two key factors. Firstly, the need to strike a balance between maximising revenue to invest in infrastructure on the one hand and the need to *minimise* the impact upon development viability on the other. DCLG guidance recognises that CIL may make some developments unviable. Secondly, as CIL will effectively take a 'top-slice' of development value, there is a potential impact on the percentage or tenure mix of affordable housing that can be secured. This is a change from the current system of negotiated financial contributions, where the planning authority can weigh the need for contributions against the requirement that schemes need to contribute towards affordable housing provision.

6.6 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable *regardless of the level of CIL* (including a nil rate) and schemes that are viable *prior* to the imposition of CIL at certain levels. If a scheme is unviable before CIL is levied, it is unlikely to come forward and CIL would not be a factor that comes into play in the developer's/landowner's decision making. 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[12].

Determining maximum viable rates of CIL for residential development

6.7 As noted in paragraph 6.5, where a scheme is unviable the imposition of CIL at a nil 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 (sensitivity analyses which adopt reduced levels of affordable housing are provided in subsequent sections). In addition, as identified at para 4.26, the rates discussed below are **inclusive of the Mayoral CIL of £35 per square metre.**

6.8 Site type 1 generates residual values that are predominantly higher than the lower value 'office use' benchmark land values, and site type 2 generates residual values higher than the higher value 'office use' benchmark land values, even in some cases with CIL of as much as £500 per square metre (see Tables 6.8.1 and 6.8.2).

[12] However, as shown by the sensitivity analyses (which reduce affordable housing to 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.

Table 6.8.1: Site type 1 - maximum viable rates of CIL (£s per square metre)

Area	Existing use: Offices (higher)	Existing use: Offices (lower)	Existing use: Industrial	Existing use: community bldgs
Area 1	Not Viable (NV)	NV	500	500
Area 2	NV	180	500	500
Area 3	NV	300	500	500
Area 4	NV	500	500	500
Area 5	260	500	500	500
Area 6	500	500	500	500
Area 7	500	500	500	500

Table 6.8.2: Site type 2 - maximum viable rates of CIL (£s per square metre)

Area	Existing use: Offices (higher)	Existing use: Offices (lower)	Existing use: Industrial	Existing use: community bldgs
Area 1	180	300	500	500
Area 2	300	500	500	500
Area 3	500	500	500	500
Area 4	500	500	500	500
Area 5	500	500	500	500
Area 6	500	500	500	500
Area 7	500	500	500	500

6.9 Tables 6.9.1 to 6.9.5 summarise the results for site types 3, 4, 5, 6 and 7. Each table includes the maximum amounts of CIL that could be charged (including Mayoral CIL) in combination with varying levels of affordable housing and tenure (35% (with Affordable Rent), 35% (with social rented), 50%, 30% and 20%). In general terms, viability for these site types is worse in comparison to site type 1, due to the requirement for a percentage of the units to be provided as affordable housing.

6.10 Viability for higher density schemes (with high build costs) are identified as being more challenging and are generally unviable in the lower value areas and are unviable in the higher value areas (when compared to the higher benchmark land values) at policy levels of affordable housing. These types of development are therefore unlikely to come forward in the lower value areas, with lower rise developments being the optimum form of development. In lower value areas, site type 4 and 3 would generate the optimum results in terms of maximum viable levels of CIL.

Sensitivity analysis on affordable housing percentage

6.11 Current experience in the Borough indicates that delivering the Council's affordable housing target without grant can be challenging and in many cases a reduced level of provision is being accepted upon the acceptance of a proven viability case. We re-rested sites 3, 4, 5, 6 and 7 with the higher policy target of 50% as well as a reduced level of affordable housing (30% and 20%

of units). In addition we tested the policy level (35%) with Affordable Rent units instead of social rented units. The results of these analyses are included within tables 6.10.1 to 6.10.5. The primary purpose of this exercise was to determine whether changes to affordable housing requirements on individual schemes would enable unviable sites to contribute towards infrastructure. The results show positive movement in terms of the viability of CIL rates when affordable housing levels are reduced. While we are not suggesting that the Council should change its affordable housing policies, the exercise demonstrates that the Council's flexible application of its policy will ensure that CIL will not render development unviable. However, we appreciate that the Council will be keen to minimise the impact on affordable housing as far as possible and this is a key risk factor when determining rates of CIL.

6.12 In light of the Government's consultation on proposed changes to include affordable housing within the scope of CIL we have also tested schemes 3,4 5, 6 and 7 with 0% affordable housing to understand the maximum viable levels of CIL that could be levied if the Council were minded to pursue this approach. As expected and already demonstrated in site types 1 and 2, the results show positive movement and a higher level of CIL can be supported by development in all areas. The Council will need to consider whether this approach would be suitable in their area as there may be implications to this approach for achieving mixed and balanced communities.

Sensitivity analysis on values and costs

6.13 As noted in Section 5, we carried out further analyses which consider the impact of increases in sales values of 10%, accompanied by an increase in build costs of 5%. This data is **illustrative only**, as the future housing market trajectory is very uncertain given the economic outlook and technologies for sustainability measures are likely to become cheaper over time. However, **if** such increases were to occur, tables 6.13.1 to 6.13.7 show the results in terms of the levels of CIL that could be absorbed.

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Table 6.9.1: Site type 3 - maximum viable rates of CIL[13] (£s per square metre)

Area	Existing use: Offices (higher)						Existing use: Offices (lower)						Existing use: Warehousing/ storage						Existing use: community buildings					
Affordable hsg %	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*
Area 1	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	140	NV	180	120	160	220	500
Area 2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0	NV	NV	160	500	140	500	280	400	500	900
Area 3	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	240	160	220	280	800	300	500	500	500	500	1000
Area 4	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	140	0	300	260	300	500	1000	500	500	500	500	500	1250
Area 5	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	180	600	400	500	500	500	500	1500	500	500	500	500	500	1750
Area 6	NV	NV	NV	NV	NV	200	NV	300	220	280	500	1000	500	500	500	500	500	2000	500	500	500	500	500	2000
Area 7	NV	NV	NV	NV	NV	500	60	500	500	500	500	1500	500	500	500	500	500	2000	500	500	500	500	500	2000

Table 6.9.2: Site type 4 - maximum viable rates of CIL (£s per square metre)

Area	Existing use: Offices (higher)						Existing use: Offices (lower)						Existing use: Warehousing/ storage						Existing use: community buildings					
Affordable hsg %	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*
Area 1	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	120	0	100	180	400	100	300	240	260	300	700
Area 2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	200	0	280	240	260	400	800	280	500	500	500	500	1000
Area 3	NV	NV	NV	NV	NV	NV	NV	60	NV	NV	180	500	240	500	500	500	500	1000	500	500	500	500	500	1250
Area 4	NV	NV	NV	NV	NV	120	NV	160	100	180	260	750	400	500	500	500	500	1250	500	500	500	500	500	1500
Area 5	NV	0	NV	NV	160	600	160	500	500	500	500	1250	500	500	500	500	500	1750	500	500	500	500	500	2000
Area 6	NV	280	200	260	500	1000	500	500	500	500	500	1500	500	500	500	500	500	2000	500	500	500	500	500	2000
Area 7	0	500	500	500	500	1250	500	500	500	500	500	2000	500	500	500	500	500	2000	500	500	500	500	500	2000

Table 6.9.3: Site type 5 - maximum viable rates of CIL (£s per square metre)

Area	Existing use: Offices (higher)						Existing use: Offices (lower)						Existing use: Warehousing/ storage						Existing use: community buildings					
Affordable hsg %	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*
Area 1	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	120	NV	NV	NV	NV	0	200
Area 2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	120	NV	0	NV	0	140	400	NV	160	100	160	220	600
Area 3	NV	NV	NV	NV	NV	0	NV	NV	NV	NV	0	240	NV	200	140	180	260	700	0	300	240	280	500	850
Area 4	NV	NV	NV	NV	NV	200	NV	0	NV	0	180	500	NV	280	240	280	500	900	180	500	400	500	500	1000
Area 5	NV	100	NV	0	200	600	NV	500	260	300	500	1000	300	500	500	500	500	1250	500	500	500	500	500	1500
Area 6	NV	400	240	300	500	1000	280	500	500	500	500	1500	500	500	500	500	500	1750	500	500	500	500	500	1750
Area 7	140	500	500	500	500	1250	500	500	500	500	500	1750	500	500	500	500	500	2000	500	500	500	500	500	2000

[13] NV = Site is not viable before CIL is applied. These results are disregarded for the purpose of recommended CIL rates, as the sites would remain in their current use, unless other (non-CIL related) factors were to change.

Table 6.9.4: Site type 6 - maximum viable rates of CIL (£s per square metre)

Area	Existing use: Offices (higher)						Existing use: Offices (lower)						Existing use: Warehousing/ storage						Existing use: community buildings					
Affordable hsg %	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20 %*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*
Area 1	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0	NV	NV	NV	NV	NV	140
Area 2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	0	200	NV	100	NV	80	180	400
Area 3	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	200	NV	120	0	100	200	500	NV	240	180	220	280	700
Area 4	NV	NV	NV	NV	NV	0	NV	NV	NV	NV	80	400	NV	200	160	200	280	750	100	300	260	300	500	900
Area 5	NV	200	NV	NV	60	400	NV	260	160	200	300	850	200	500	500	500	500	1000	500	500	500	500	500	1250
Area 6	NV	500	100	180	300	950	160	500	500	500	500	1250	500	500	500	500	500	1500	500	500	500	500	500	1750
Area 7	NV	500	260	400	500	1000	400	500	500	500	500	1500	500	500	500	500	500	1750	500	500	500	500	500	2000

Table 6.9.5: Site type 7 - maximum viable rates of CIL (£s per square metre)

Area	Existing use: Offices (higher)						Existing use: Offices (lower)						Existing use: Warehousing/ storage						Existing use: community buildings					
Affordable hsg %	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20 %*	*0%*	*50%*	*35% (AR)*	*35% (SR)*	*30%*	*20%*	*0%*
Area 1	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	N	NV	NV	NV	NV	NV	0
Area 2	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	NV	60	NV	NV	NV	NV	NV	200	NV	NV	NV	NV	0	200
Area 3	NV	NV	NV	NV	NV	100	NV	NV	NV	NV	0	200	NV	0	NV	0	140	400	NV	120	0	100	180	500
Area 4	NV	NV	NV	NV	NV	200	NV	NV	NV	NV	140	400	NV	140	80	140	220	600	NV	200	140	200	260	700
Area 5	NV	200	80	140	240	700	NV	300	220	260	500	900	140	500	300	500	500	1000	200	500	500	500	500	1000
Area 6	60	500	300	500	500	1000	240	500	500	500	500	1250	500	500	500	500	500	1250	500	500	500	500	500	1500
Area 7	240	500	500	500	500	1250	500	500	500	500	500	1500	500	500	500	500	500	1750	500	500	500	500	500	1750

Table 6.13.1: Site type 1 - maximum viable rates of CIL[14] (£s per square metre) – sales value inflation of 10% and build cost inflation of 5% (Inflated)

Area	Existing use: Offices (higher)		Existing use: Offices (lower)		Existing use: Warehousing/ storage		Existing use: community buildings	
Sales values and costs	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*
Area 1	NV	NV	NV	100	500	500	500	500
Area 2	NV	NV	180	280	500	500	500	500
Area 3	NV	NV	300	500	500	500	500	500
Area 4	NV	140	500	500	500	500	500	500
Area 5	260	500	500	500	500	500	500	500
Area 6	500	500	500	500	500	500	500	500
Area 7	500	500	500	500	500	500	500	500

Table 6.13.2: Site type 2 - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%

Area	Existing use: Offices (higher)		Existing use: Offices (lower)		Existing use: Warehousing/ storage		Existing use: community buildings	
Sales values and costs	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*
Area 1	180	240	300	500	500	500	500	500
Area 2	300	500	500	500	500	500	500	500
Area 3	500	500	500	500	500	500	500	500
Area 4	500	500	500	500	500	500	500	500
Area 5	500	500	500	500	500	500	500	500
Area 6	500	500	500	500	500	500	500	500
Area 7	500	500	500	500	500	500	500	500

[14] NV = Site is not viable before CIL is applied. These results are disregarded for the purpose of recommended CIL rates, as the sites would remain in their current use, unless other (non-CIL related) factors were to change.

Table 6.13.3: Site type 3 - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%

Area	Existing use: Offices (higher)		Existing use: Offices (lower)		Existing use: Warehousing/ storage		Existing use: community buildings	
Sales values and costs	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*
Area 1	NV	NV	NV	NV	NV	NV	120	200
Area 2	NV	NV	NV	NV	NV	120	280	500
Area 3	NV	NV	NV	NV	NV	260	500	500
Area 4	NV	NV	NV	NV	160	500	500	500
Area 5	NV	NV	NV	100	260	500	500	500
Area 6	NV	NV	220	500	500	500	500	500
Area 7	NV	NV	500	500	500	500	500	500

Table 6.13.4: Site type 4 - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%

Area	Existing use: Offices (higher)		Existing use: Offices (lower)		Existing use: Warehousing/ storage		Existing use: community buildings	
Sales values and costs	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*
Area 1	NV	NV	NV	NV	0	140	240	300
Area 2	NV	NV	NV	NV	240	400	500	500
Area 3	NV	NV	NV	120	500	500	500	500
Area 4	NV	NV	100	220	500	500	500	500
Area 5	NV	60	500	500	500	500	500	500
Area 6	200	500	500	500	500	500	500	500
Area 7	500	500	500	500	500	500	500	500

Table 6.13.5: Site type 5 - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%

Area	Existing use: Offices (higher)		Existing use: Offices (lower)		Existing use: Warehousing/ storage		Existing use: community buildings	
Sales values and costs	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*
Area 1	NV	NV	NV	NV	NV	NV	NV	NV
Area 2	NV	NV	NV	NV	NV	0	100	180
Area 3	NV	NV	NV	NV	140	220	240	400
Area 4	NV	NV	NV	100	240	400	400	500
Area 5	NV	120	260	500	500	500	500	500
Area 6	240	500	500	500	500	500	500	500
Area 7	500	500	500	500	500	500	500	500

Table 6.13.6: Site type 6 - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%

Area	Existing use: Offices (higher)		Existing use: Offices (lower)		Existing use: Warehousing/ storage		Existing use: community buildings	
Sales values and costs	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*
Area 1	NV	NV	NV	NV	NV	NV	NV	NV
Area 2	NV	NV	NV	NV	NV	NV	NV	NV
Area 3	NV	NV	NV	NV	0	140	180	100
Area 4	NV	NV	NV	NV	160	240	260	240
Area 5	NV	NV	160	260	500	500	500	500
Area 6	100	240	500	500	500	500	500	500
Area 7	260	500	500	500	500	500	500	500

Table 6.13.7: Site type 7 - maximum viable rates of CIL (£s per square metre) – sales value inflation of 10% and build cost inflation of 5%

Area	Existing use: Offices (higher)		Existing use: Offices (lower)		Existing use: Warehousing/ storage		Existing use: community buildings	
Sales values and costs	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*	*Current*	*Inflated*
Area 1	NV	NV	NV	NV	NV	NV	NV	NV
Area 2	NV	NV	NV	NV	NV	NV	NV	NV
Area 3	NV	NV	NV	NV	NV	0	0	120
Area 4	NV	NV	NV	0	80	160	140	220
Area 5	80	180	220	300	300	500	500	500
Area 6	300	500	500	500	500	500	500	500
Area 7	500	500	500	500	500	500	500	500

Suggested CIL rates

6.14 Although the results indicate that viability of residential development is currently challenging, it should be possible for rates of CIL to be levied across all areas, subject to allowing for a buffer or margin to address risks to delivery. There are four key risk factors:

- The first is that individual sites might incur exceptional costs (decontamination, difficult ground conditions etc) and as a result the residual land value could fall. Developers will try and reflect such costs in their offer to the landowner, but the extent of any issues is not always fully apparent until the land value is fixed. Where sites have an existing use, an owner will not be prepared to accept a reduction below the value of the current building to accommodate exceptional costs on a redevelopment;

- Secondly, current use values on individual sites will inevitably vary and will fall somewhere between the values used in our appraisals. As a result, the ability of schemes to absorb high rates of CIL could be adversely affected;

- Thirdly, sales values could fall or normal build costs could rise over the life of the Charging Schedule, adversely affecting scheme viability; and

- Fourthly, imposing a high rate of CIL (that vastly exceeds the current levels of Section 106 obligations) in the Council's first Charging Schedule could 'shock' the land market with a consequential risk that land supply falls. This factor has led many charging authorities to seek to limit their CIL rates to around 5% of development costs, or to set their CIL rates so that they are broadly comparable to existing Section 106 contributions[15].

6.15 In arriving at a conclusion on recommended rates, it is necessary to consider the different weight that should be attached to appraisal results tested against each of the four benchmark land values. The appraisals indicate that the residual values generated by residential schemes are unlikely to outperform the value of higher value existing offices. Consequently, these buildings are more likely to remain in their existing use in many parts of the Borough, rather than be redeveloped. The bulk of housing supply is therefore likely to come from sites in lower values uses, where the appraisals indicate that CIL would be absorbed.

6.16 It is also 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.

6.17 The maximum rates of CIL indicated by our appraisals are outlined below. Given the range of results above, and the risk factors outlined in the previous paragraph, our conclusion is that the rates of CIL that the Council might set – having regard to the range of the results and taking account of viability across the Borough as a whole – should be set at a discount of circa 25% to the maximum rates, as shown in Table 6.17.1.

[15] For example, Wandsworth Council has adopted this approach in the Vauxhall Nine Elms Opportunity Area, where the existing tariff has been converted into a per square metre CIL rate.

Table 6.17.1: Maximum and suggested CIL rates

Area	Maximum CIL indicated by appraisals (£s per sqm)	Maximum CIL, net of Mayoral CIL (£s per sqm)	Suggested CIL after buffer (£s per sqm)
Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4)	80	45	35
South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6)	100	65	50
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)	120	85	65
Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non-riverside) and Leamouth (E14 0, E 14 2)	160	125	95
Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) Blackwall (riverside) (E14 0)	300	265	200
Spitalfields (E1 6)	300	265	200
Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2	300	265	200

6.18 In determining the maximum levels of CIL and the recommended rates above, we have based our assessment on current costs and values only. We have run a set of appraisals that show the impact of an increase in sales values, accompanied by an increase in build costs and a further set of results that show the impact of a fall in sales values (the results are summarised in tables 6.13.1 to 6.13.7 and included in Appendix 4). These appraisals provide an indication of the likely movement in viability that any ‘buffer’ below the maximum rates would need to accommodate.

6.19 Should the Council wish to do so, it would be possible to combine areas into one charging zone, thereby simplifying the charging schedule into three charging areas. This is shown in table 6.19.1 below:

Table 6.19.1: Suggested CIL charging zones and rates

Area	Suggested CIL (£s per sqm)
Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4), South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6, E14 0)	35
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), South Isle of Dogs (E14 3), Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)	65
Tower Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7), Blackwall (riverside) (E14 0), Spitalfields (E1 6), Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2)	200

Suggested CIL Rates - including affordable housing contributions within CIL

6.20 Given the Government's recent consultation on the inclusion of affordable housing within the scope of CIL, the Council wish to understand the levels of CIL which could be levied should they choose to apply this approach. In this regard we have sensitivity tested viability in the Borough assuming no affordable housing is provided on site.

6.21 In order to test this, we have run our appraisals with higher levels of CIL charges (up to £2,000 per square metre) and 0% affordable housing. Our conclusion is that the rates of CIL that the Council might set, having regard to the range of the results and taking account of viability across the Borough as a whole, are as follows.

Table 6.21.1: Maximum and Proposed CIL rates - including AH contributions within CIL

Area	Maximum CIL indicated by appraisals (£s per sqm)	Suggested CIL after buffer (£s per sqm)
Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4)	120	85
South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6)	400	280
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)	700	490
Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)	900	630

Area	Maximum CIL indicated by appraisals (£s per sqm)	Suggested CIL after buffer (£s per sqm)
Tower Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) and Blackwall (riverside) (E14 0)	1,250	875
Spitalfields (E1 6)	1,500	1,050
Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2)	1,750	1,225

6.21.2: Proposed CIL charging zones and rates - including AH contributions within CIL

Area	Suggested CIL after buffer (£s per sqm)
Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4), South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6, E14 0)	85
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), South Isle of Dogs (E14 3), Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)	500
Tower Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7), Blackwall (riverside) (E14 0), Spitalfields (E1 6), Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2)	1,000

6.22 We would caution the Council against taking this approach and recommend that the Council carefully consider the implications of this option. On the positive side, all developments will contribute towards affordable housing through CIL, which will be a fixed requirement. It would also allow the Council flexibility to spend the money on repairing or bringing existing stock within the Borough up to decent homes standard. On the downside, however, all CIL money collected will remain in one central fund and it will be up to the Council to prioritise how this is spent. Including affordable housing into this fund may result in affordable housing being prioritised over other infrastructure that would otherwise be delivered. This option would also require the Council to either deliver affordable housing themselves or fund RPs to deliver affordable housing developments in the Borough. Further, as no affordable housing will be provided on-site this will result in mono-tenure housing developments being delivered in the Borough.

Assessment – commercial development

6.23 Our appraisals indicate that the potential for commercial schemes to be viably delivered varies between different uses as well as location. That is to say that higher rents are achieved in the City Fringe and Canary Wharf/Docklands areas, which result in sufficient surplus residual value to absorb a CIL. Outside these areas rents for commercial developments are lower, which reduces the ability of developments to absorb CIL.

6.24 As noted in section 4, the level of rents that can be achieved for commercial space varies according to exact location; quality of building; and configuration of space. Consequently, our appraisals adopt a 'base' position based on average rents for each type of development and show the results of appraisals with lower and higher rents. This analysis will enable the Council to consider the robustness of potential CIL charges on commercial uses, including the impact that changes in rents might have on viability.

Office development - City Fringe, and north Docklands locations

6.25 Our research on offices in the City Fringe and north Docklands areas indicate that the rent levels are significantly higher than those achieved in the rest of the Borough (circa £25 to £40 per sq ft, compared to circa £15 to £25 per sq ft elsewhere). Rents in the south Docklands area are identified to be lower than those currently achieved in the north at circa £25 per sq ft. Currently yields in the City Fringe locations are stronger (identified as being as keen as just over 4%, however generally being between 5.25% and 5.8%) than those in the Docklands locations (identified as being circa 6.25%) and as a result office values are higher in the City Fringe. This is demonstrated in Charts 6.25.1, 6.25.2.

Chart 6.25.1: Office development - City Fringe

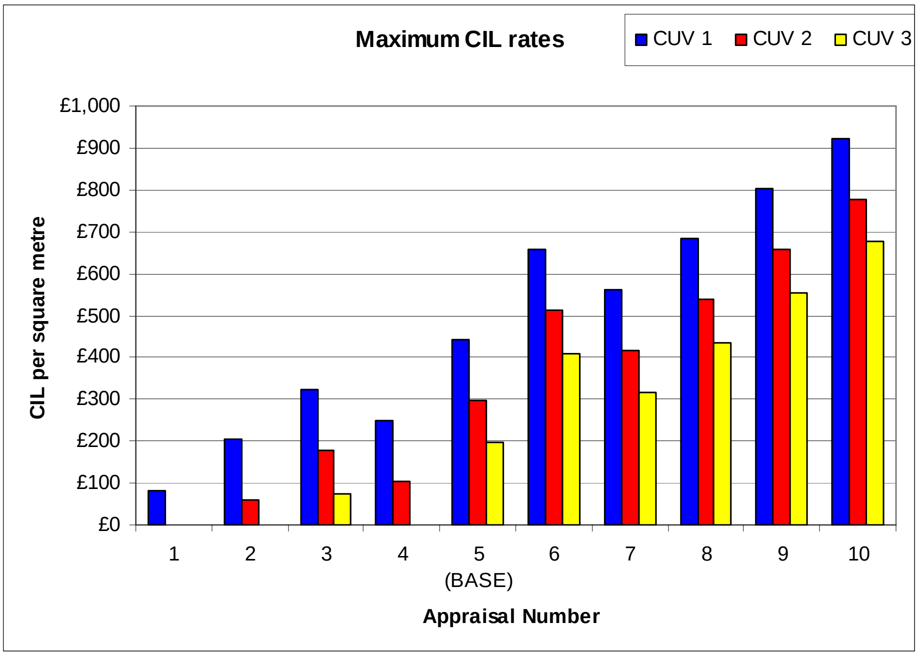
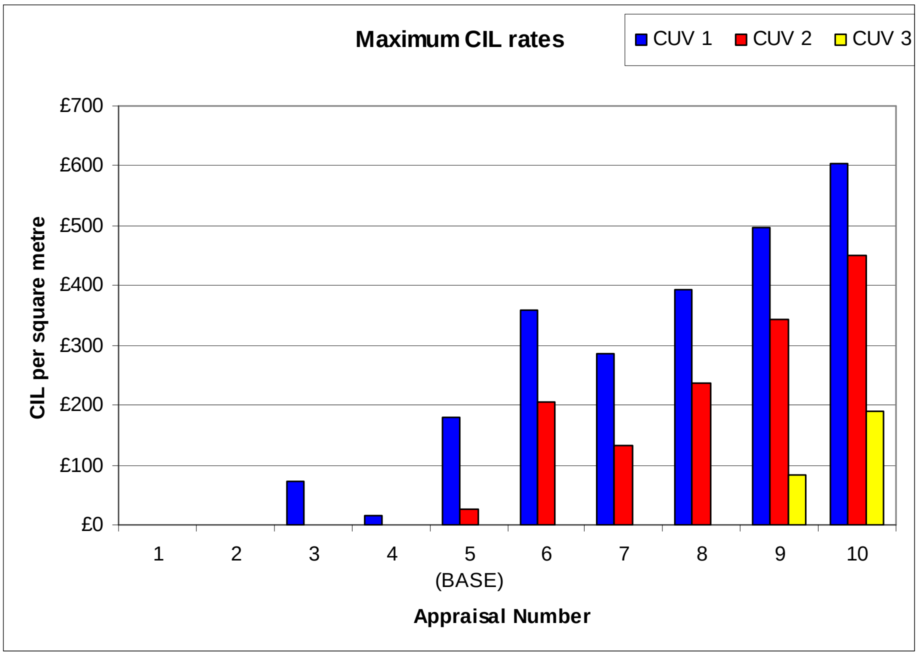


Chart 6.24.2: Office development – north Docklands



6.26 The results of our office appraisals indicate that at present, only developments in the City Fringe and north Docklands locations are likely to generate positive residual land values. It is therefore likely that office development will be focused in the City Fringe and north Docklands locations over the life of the Charging Schedule.

6.27 Focusing on the 'Base' scenario in north Docklands (appraisal 5 in Chart 6.25.2), office developments can support a CIL rate of between £0 and £180 per square metre (inclusive of any Crossrail Section 106 sought) dependant on the existing use of the site.

6.28 With regard to the City Fringe area, the viable level of borough CIL ranges from £196 per square metre to £443 per square metre (inclusive of any Crossrail Section 106 top up sought), depending on the current use value of the site. Based on current use value 2, the maximum potential CIL rate would be circa £298 per square metre (inclusive of any Crossrail Section 106 sought).

Office development – other locations in the Borough

6.29 The results of our office appraisals in the rest of the Borough indicate that the rent levels achievable are likely to be considerably lower than in the City Fringe, and north and south Docklands areas (circa £15 - £20 per sq ft).

6.30 Consequently, office developments are unlikely to be viable, unless rents increase significantly over the life of the Charging Schedule. Long term demand for offices outside the City Fringe, north and south Docklands areas is likely to be weak and it is therefore unlikely that any significant level of office development will come forward in areas beyond these locations.

Convenience based supermarkets and superstores and retail warehousing (over 280 square metres)

6.31 Our appraisals of convenience based supermarkets and superstores[16] and retail warehousing[17] development indicate a greater degree of viability than for comparison retail.

6.32 Other charging authorities have considered the differences in viability between comparison retail and convenience based retail and retail warehousing. It is acknowledged that size does not necessarily result in the higher values generated by convenience based supermarkets and superstores and retail warehousing uses. Rather, is it a combination of factors including:

- The availability of car parking;
- The operational economics of supermarkets/superstores (these uses are known to be efficient at generating volume sales whilst having low operating costs);
- The rents that retailers are willing to pay to occupy these units tend to be high (particularly with regard to comparison retailing as these locations will command prime rents in the area);
- The value which the investment market ascribe to such units is high. This is due to such units being occupied by operators with greater covenant strength, which results in lower yields being applied; and
- Such large developments are also likely to come forward on sites which have lower existing use values i.e. a large majority of large retail units have historically been developed on former industrial sites and as a result a lower benchmark land value is achieved, which results in a higher surplus and consequently a potential for a higher CIL rate.

6.33 We have undertaken a review of convenience based supermarkets in the borough using the VOA business rates website, which has identified that units of this nature, which attract such occupiers are all, with a small number of exceptions, larger than the Sunday Trading Law threshold of 280 square metres. We have also researched such occupiers published space requirements when seeking sites as identified on their websites which has also confirmed this position.

6.34 Our appraisals show that a maximum borough CIL ranging from £293 to £502 per square metre (inclusive of any Crossrail Section 106 that might be sought) could be levied on such retail space, depending on the size of the store and the value of the existing use of the site (see Charts 6.34.1 and 6.34.2).

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

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

Chart 6.34.1: Convenience based supermarkets and superstores and retail warehousing (whole area) (1,000 sq m)

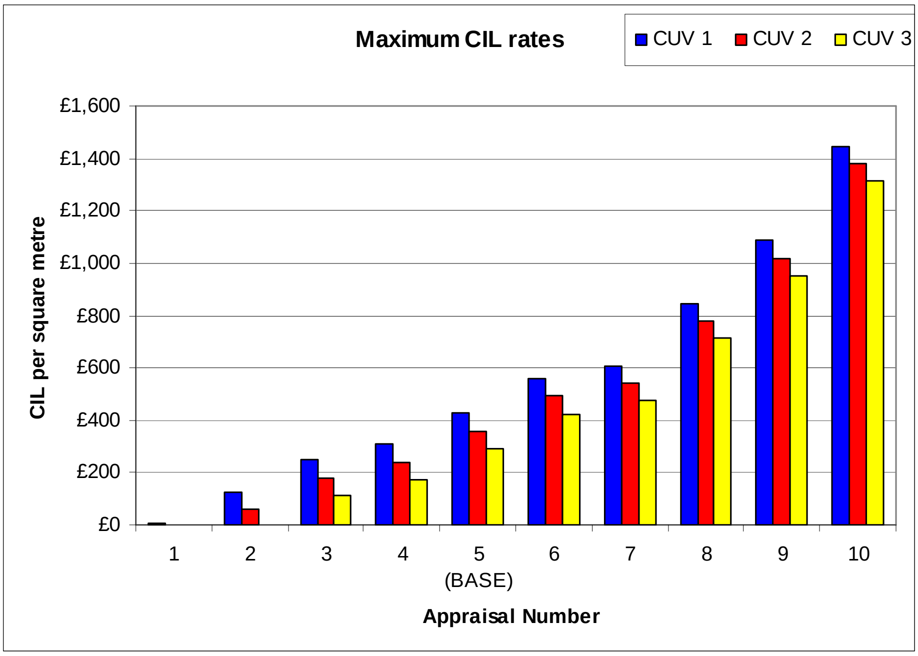
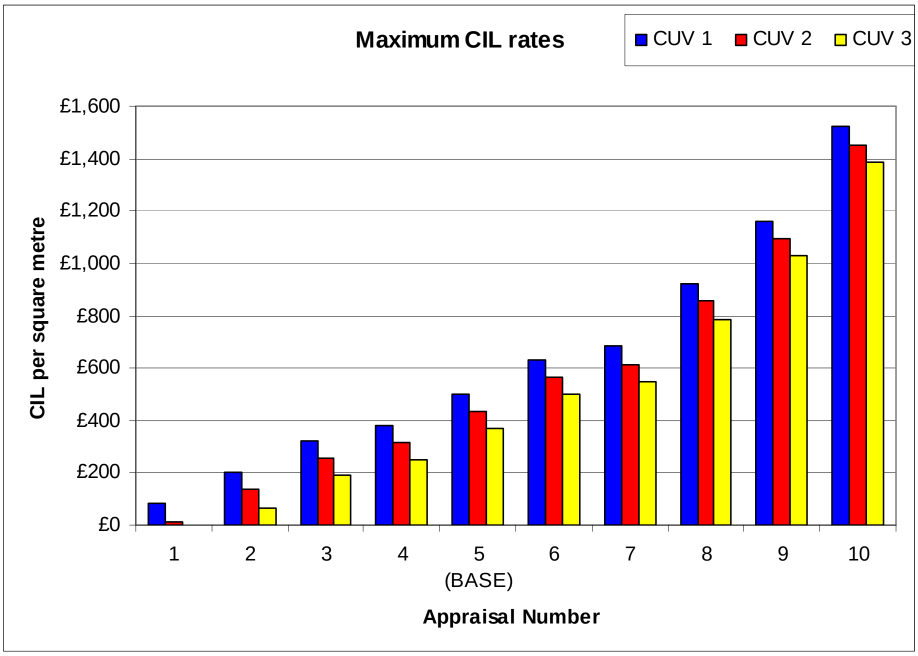


Chart 6.34.2: Convenience based supermarkets and superstores and retail warehousing (whole area) (5,000 sq m)

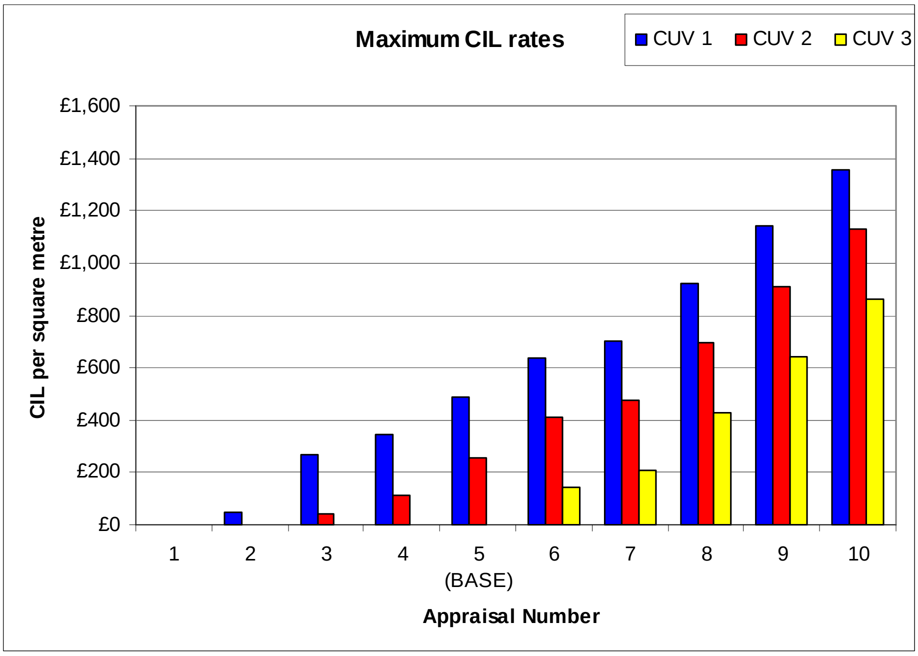


6.35 Given the above, we would recommend the Council sets it CIL rate in the context of a maximum CIL of up to £293 per square metre (inclusive of any Crossrail Section 106 that might be sought) based on CUV 3 of the 1,000 square metre unit appraisal).

Retail development – City Fringe and Canary Wharf/Docklands (excluding convenience based supermarkets and superstores and retail warehousing (over 280 square metres)

6.36 Our appraisals of the City Fringe and north Docklands retail developments (excluding convenience based supermarkets and superstores and retail warehousing (over 280 square metres)) indicate that residual land values will exceed current use values by a sufficient margin to allow for a CIL to be levied. The maximum borough CIL (inclusive of any Crossrail Section 106 that might be sought) the Council could levy on this development type would be between £0 and £485 per square metre. However, it should be noted that this is sensitive to small changes in the rent or yield i.e. if the yield were to shift out by 0.25% the maximum levels of CIL would be £0 - £343 per square metre, whilst a reduction in the rent by circa 10% would result in a maximum CIL of £0 - £267 per square metre. We consider that a maximum borough CIL rate (inclusive of any Crossrail Section 106 top up sought) of £258 per square metre would be reasonable for such developments in Tower Hamlets based on CUV 2.

Chart 6.36.1: Retail developments in the City Fringe and north Docklands areas (excluding convenience based supermarkets and superstores and retail warehousing (over 280 square metres))



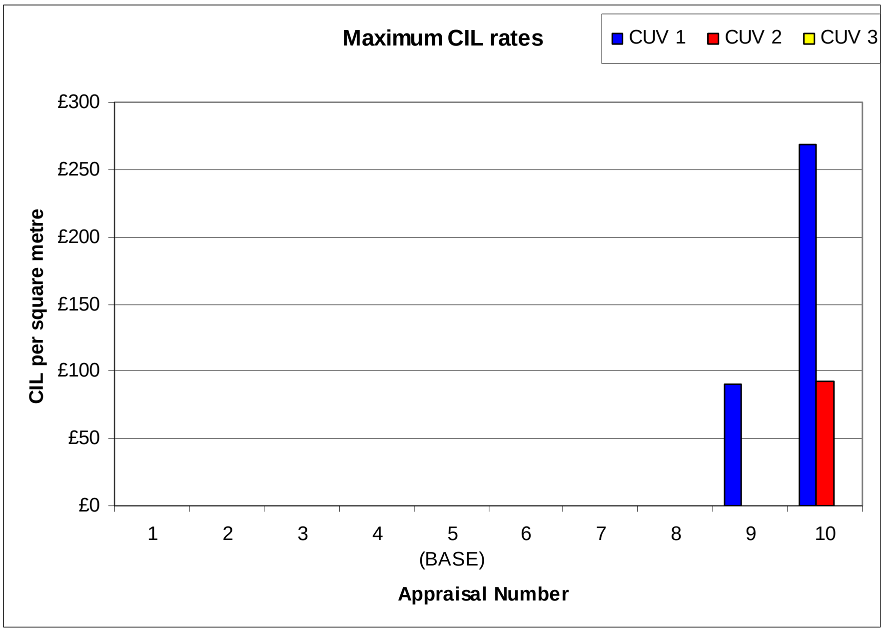
Retail development – rest of the Borough (excluding convenience based supermarkets and superstores and retail warehousing (over 280 square metres)

6.37 Rents for retail development (excluding convenience based supermarkets and superstores and retail warehousing (over 280 square metres) across the rest of the Borough are significantly lower than rents in City Fringe and north Docklands locations (circa £15 - £20 per sq ft). Consequently, it is unlikely that such retail development will be sufficiently viable to attract significant interest from developers at the current time and our appraisals indicate that in the base case CIL cannot viably be levied on retail development outside the prime shopping locations of the City Fringe and north Docklands.

Industrial and warehouse development

6.38 Our appraisals of industrial development indicate that residual values are likely to be too low to absorb any level of CIL above the existing Mayoral CIL requirement of £35 per square metre. A considerable increase in new build industrial rents would be required before any CIL could be absorbed (see Chart 6.38.1).

Chart 6.38.1: Industrial development



Student Housing

6.39 Rents for student housing in the Borough are not dissimilar from schemes in other non-central London boroughs (circa £200 per week for a single en-suite room), however it is noted that accommodation in the city fringe area is able to achieve rents well in excess of this starting level. Two markets for Student housing in the Borough have been identified. The first is schemes let at reduced rent levels by universities, which require cross subsidy from university resources, and are identified as being unviable. It is noted, however, that when developed, these schemes may be exempt from CIL given the universities' charitable status. The second market is comprised by those let at private sector rent levels, which generate sufficient surplus residual values to absorb a maximum borough CIL of up to £654 per square metre, net of an affordable housing contribution. Policy DM6 in the Managing development Document requires student housing to contribute to the provision of affordable housing if not providing accommodation specifically for accredited universities within the borough. We have therefore sensitivity tested student accommodation allowing for an affordable housing contribution of 35%. Our appraisal identifies the maximum CIL available to be £231 per square metre. (See Appendix 5 for a copy of our appraisals).

Hotel development

6.40 Our hotel development appraisals are attached at Appendix 5. This indicates that at current values, this type of development could absorb a maximum borough CIL rate of between £759 to £112 per square metre, which includes any Crossrail Section 106 that might be sought, dependant on the type of hotel and current use value of the site. However, it should be noted that this is sensitive to small changes in the rent or yield i.e. if the yield were to shift out by 0.25% the maximum levels of CIL would be £0 - £602 per square metre, whilst a reduction in the rent by circa 10% would result in a maximum CIL of £0 - £226 per square metre. We consider that a maximum borough CIL rate (inclusive of any Crossrail Section 106 top up sought) of £343 per square metre would be reasonable for such developments in Tower Hamlets based on CUV 2 of the second appraisal.

D1 and D2 floorspace development

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

7 Strategic Sites

Background

7.1 In December 2012, the Department for Communities and Local Government published new CIL Statutory Guidance (and subsequent to this a further set of guidance has been published in April 2013). The December 2012 Guidance brought in a requirement for charging authorities to consider the viability of the strategic sites in their Local Plan, which has been maintained in the 2013 Guidance. Para 27 states, *'the focus should be in particular on strategic sites on which the relevant Plan relies and those sites (such as brownfield sites) where the impact of the levy on economic viability is likely to be most significant.'* The new guidance goes on to specify that after viability testing their major strategic sites, charging authorities can consider setting rates specific to these sites. Para 34 identifies that, *'in some cases, charging authorities could treat a major strategic site as a separate geographical zone where it is supported by robust evidence on economic viability.'*

7.2 In February 2012 BNP Paribas Real Estate produced a report assessing the viability of strategic allocation sites within the Council's Managing Development Document, where infrastructure was to be provided on-site such as schools, open space, idea stores etc. It is considered that this work provides *'appropriate available evidence'* for the Council to consider when preparing their draft charging schedule, in line with the CIL legislation (section 211 (7A)). As such, the viability exercise undertaken on the sites included in Managing Development Document viability report, where considered appropriate, have been reviewed and updated accordingly to accord with and form part of the CIL viability evidence base.

7.3 We note that 17 months have elapsed since the Managing Development Document viability assessment was undertaken. During this intervening period residential sales values in the Borough are identified by the Land Registry to have increased by circa 3.5%.

Sites

7.4 We have run high level appraisals of eight strategic sites with such infrastructure requirements as highlighted above. The eight sites were selected with reference to the requirements set out in section 27 of the DCLG's CIL Statutory Guidance. The sites considered and their key features are summarised in table 7.4.1 below. It is noted that some of the sites require a District Heating System; as on site combined heat and power one of the most cost effective methods of meeting Code for Sustainable Homes level 4, we have not identified this requirement separately in the table.

Table 7.4.1 Details of strategic sites assessed

Site name	Existing use	Site size (ha)	Infrastructure requirement	Current ownership
Bishopsgate Goods Yard	Shoreditch High Street Overground Station and vacant land	4.24	Local park and Idea Store	Private
Marian Place Gas Works and The Oval	Active gas holders and warehousing	3.75	Local park	Council and private

Site name	Existing use	Site size (ha)	Infrastructure requirement	Current ownership
London Dock	Offices and parking	4.28	Secondary school	Private
Bow Common Gas Works	Gas holders	3.94	Primary school	Private
Ailsa Street (south)	Industrial activities, former primary school and vacant land	3.50[18]	Primary school	Council and private
Leven Road Gas Works	Active gas holders	8.56	Local park and primary school	Private
Wood Wharf	Industrial, offices, open storage and residential	7.26	Health Facility and Idea Store	Private
Westferry Printworks	Offices, printworks and car parking	6.16	Secondary school and local park	Private

Methodology

7.5 As per the viability assessment undertaken for the Sites and Place Making DPD we have used *Argus Developer* ("Argus") to undertake the high level appraisals of developments on the eight 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

7.6 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.

7.7 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.

7.8 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.

7.9 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

[18] Net of north site (3.5 ha) for Waste facility

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.

7.10 Following comments made to the DCS consultation the approach to appraising the larger sites (Bishopsgate Goods Yard, London Docks, Wood Wharf and Westferry Printworks) have been amended from a RLV assuming a profit on GDV and finance costs to an un-geared 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

7.11 The inputs for the appraisals undertaken on the eight sites are set out clearly in Appendix 6.

Viability Benchmarks

7.12 We have estimated the existing use values ("EUVs") of each of the sites, using pro-rata values from other sites in the same use and published benchmarks (*Valuation Office Agency January 2011 Property Market Report*). In order to encourage the landowners to bring the sites forward for development, we have added a premium of 20% to the value, in addition to a 20% buffer to account for individual site constraints and unknown factors. The benchmark land values that result from this calculation are shown in Table 7.12.1 below.

Table 7.12.1: Viability benchmarks

Site	Existing Use Value (£ millions)
Bishopsgate Goods Yard	17.808
Marian Place Gas Works and The Oval	15.750
London Docks	48.55
Bow Common Gas Works	8.720
Ailsa Street	4.354
Leven Road Gas Works	17.976
Wood Wharf	(extant consent) 4.250 (industrial Land value) 38.480
Westferry Printworks	51.744

Appraisal results

7.13 Table 7.13.1 below shows the residual land value for each site against the viability benchmark.

Table 7.13.1: Appraisal results of smaller sites

Site/scenario	Residual Land Value (£ millions)	Viability Benchmark (£ millions)	Surplus / deficit against benchmark (£ millions)
Marian Place Gas Works and The Oval	10.890	15.750	-5.14
Bow Common Gas Works	3.156	8.720	-5.564
Ailsa Street	4.826	4.354	0.472
Leven Road Gas Works	15.043	17.976	-2.933

Table 7.13.1: Appraisal results of large sites

Site/scenario	Fixed Land cost (£ millions)	IRR achieved	IRR achieved with no Borough CIL
Bishopsgate Goods Yard	17.808	13.67%	19.04%
London Docks	48.55	14.02%	17.12%
Wood Wharf	(ext consent) 4.250 (ind land value) 38.480	17.79% 13.28%	25.62% 18.59%
Westferry Printworks	51.744	15.33%	18.11%

Assessment and suggested CIL rates

7.14 We have undertaken an assessment of each of the strategic sites identified by the Council, applying the CIL liability that the sites would incur, based on the CIL Zone they are located within in the Borough. We have assumed a 'worst case scenario' approach in that all proposed floorspace (with the exception of affordable housing) is CIL liable, and no discount has been assumed for existing floorspace. We have also accounted for a full Crossrail Section 106 top up as appropriate.

7.15 With respect to the larger sites the schemes are identified as achieving IRRs of over 13%. We appreciate that developer's often identify that they are targeting an IRR of 20%, however, it has been our experience on large schemes in London that developers have agreed to proceed with developments identified as generating IRRs of between 11% and 13%. On this basis we are of the opinion that the majority of the sites tested can viably afford to pay the Borough's proposed CIL. With regard to smaller sites identified as being unviable, we have undertaken sensitivity analysis and consider that it is not the Borough's proposed CIL rate that is making the sites unviable. That is to say, adopting a nil rate for CIL on the sites would not result in the developments generating residual land values above the identified benchmark land value. It is considered that the development of the sites is more likely to depend upon growth in sales values over the plan period.

7.16 Furthermore, the Borough CIL proposed for each of the strategic sites has been identified as being no more than circa 5% of scheme costs (see table 7.16.1 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 7.16.1 Analysis of Borough CIL as a percentage of development costs

Site/scenario	LBTH CIL	Costs excluding LBTH CIL	CIL as a % of costs
Bishopsgate Goods Yard	£17,128,482	£340,426,121	5.03%
Marian Place Gas Works and The Oval	£1,543,621	£122,791,474	1.26%
London Docks	£25,675,112	£813,800,110	3.15%
Bow Common Gas Works	£879,867	£106,897,570	0.82%
Ailsa Street	£664,516	£81,333,226	0.82%
Leven Road Gas Works	£1,066,483	£145,811,608	0.73%
Wood Wharf	£56,738,487	£2,491,620,089	2.28%
Westferry Printworks	£11,599,291	£361,079,859	3.21%

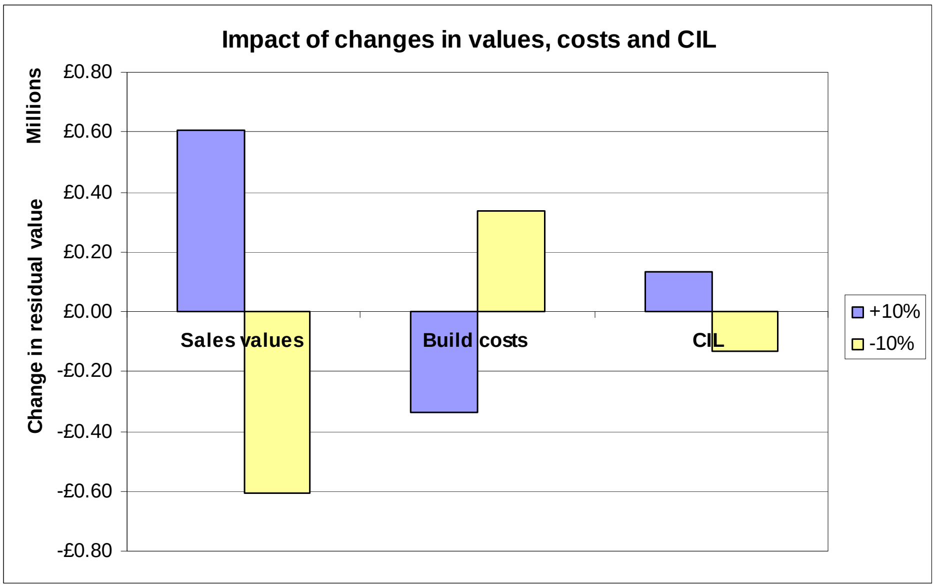
7.17 In light of the above findings, we recommend the Council considers maintaining the proposed CIL rates across the Borough as they are not deemed to be of a sufficient magnitude that is likely to threaten the development of the strategic sites and as a result the *'delivery of the relevant Plan as a whole'* (CIL Guidance 2012 Para 11).

8 Conclusions and recommendations

8.1 The results of our analysis indicate a degree of variation in viability of development in terms of different uses. In light of these variations, two options are available to the Council under the CIL regulations. Firstly, the Council could set a single CIL rate across the Borough, having regard to the least viable types of development and least viable locations. This option would suggest the adoption of the 'lowest common denominator', with sites that could have provided a greater contribution towards infrastructure requirements not doing so. In other words, the Council could be securing the benefit of simplicity at the expense of potential income foregone that could otherwise have funded infrastructure. Secondly, the Council has the option of setting different rates for different types of development and different areas. The results of our study point firmly towards the second option as our recommended route, particularly for residential development.

8.2 We have also referred to the results of development appraisals as being highly dependent upon the inputs, which will vary significantly between individual developments. In the main, the imposition of CIL is not *the* critical factor in determining whether a scheme is viable or not (with the relationship between scheme value, costs and land value benchmarks being far more important). This is evidenced by the very marginal differences between the 'pre' and 'post' CIL residential appraisals shown in the charts in Section 6. This point is also illustrated in Chart 8.2.1 below, which compares the impact on the residual value of a scheme of a 10% increase and decrease in sales values and a 10% increase and decrease in build costs to a £100 per sq metre change in CIL.

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



8.3 Given CIL's nature as a fixed tariff, it is important that the Council selects rates that are not on the limit of viability. This is particularly important for commercial floorspace, where the Council does not have the ability to 'flex' other planning obligations to absorb site-specific viability issues. In contrast, the Council could in principle set higher rates for residential schemes as the level of affordable housing could be adjusted in the case of marginally viable schemes. However, this approach runs the risk of frustrating one of the Council's other key objectives of delivering affordable housing. Consequently, sensitive CIL rate setting for residential schemes is also vital.

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

- The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be adjusted to reflect any future changes. In this regard we are of the opinion that the Council should consider reviewing the Charging Schedule by at least 2016 and potentially earlier if the Mayoral CIL for Crossrail is increased before this date.

Residential – excluding affordable housing contributions in CIL

- The ability of **residential schemes** to make CIL contributions varies depending on area and the current use of the site. Having regard to these variations, residential schemes should be able to absorb a **maximum** CIL rate of between £80 to £300 per square metre. The department for Communities and Local Government ('DCLG') guidance requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount (buffer) to the maximum rate, with discounts ranging from circa 25% to 50%. We would recommend a buffer of circa 25% for Tower Hamlets. Taking a broad view across our appraisals, the maximum rates suggested are as follows:

Table 8.4.1: Proposed Maximum CIL rates – residential

Area	Maximum CIL indicated by appraisals (£s per sqm)	Maximum CIL, net of Mayoral CIL (£s per sqm)	Suggested CIL after buffer (£s per sqm)
Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4)	80	45	35
South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6)	100	65	50
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)	120	85	65
Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non-riverside) and Leamouth (E14 0, E 14 2)	160	125	95
Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) Blackwall (riverside) (E14 0)	300	265	200
Spitalfields (E1 6)	300	265	200
Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2	300	265	200

- Whilst the maximum rates are higher than the proposed rates, the inclusion of a buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and 'shocking' the market). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority's judgement.
- Should the Council wish to do so, it would be possible to combine areas into one charging zone, thereby simplifying the charging schedule into three charging areas. This is shown in table 8.4.2 below. A map showing the boundaries of the three zones is attached as Appendix 1.

Table 8.4.2: Proposed CIL charging zones and rates - residential

CIL Zones	Maximum CIL indicated by appraisals (£s per sqm)	Suggested CIL after buffer (£s per sqm)
Zone 1 Tower Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7), Blackwall (riverside) (E14 0), Spitalfields (E1 6), Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2)	300	200
ZONE 2 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), South Isle of Dogs (E14 3), Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non-riverside) and Leamouth (E14 0, E 14 2)	120-160	65
ZONE 3 Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4), South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6, E14 0)	80-100	35

<u>**Residential – including affordable housing contributions within CIL**</u>

- In light of the Government's consultation on the inclusion of affordable housing within the scope of CIL, we have run sensitivity tests to understand the level of CIL contributions residential developments could viably afford assuming no affordable housing is provided on site.
- Our conclusion having regard to the range of the results and taking account of viability across the Borough as a whole is that the rates of CIL that the Council might set were the rate to include contributions towards affordable housing are set out in tables 8.4.3 and 8.4.4 below.

Table 8.4.3: Maximum and Proposed CIL rates – residential including AH contributions within CIL

Area	Maximum CIL indicated by appraisals (£s per sqm)	Suggested CIL after buffer (£s per sqm)
Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4)	120	85
South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6)	400	280
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)	700	490
Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)	900	630
Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) Blackwall (riverside) (E14 0)	1,250	875
Spitalfields (E1 6)	1,500	1,050
Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2	1,750	1,225

Table 8.4.4: Proposed CIL charging zones and rates – residential including AH contributions within CIL

CIL Zones	Suggested CIL after buffer (£s per sqm)
Zone 1 Tower Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7), Blackwall (riverside) (E14 0), Spitalfields (E1 6), Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2)	1,000
ZONE 2 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), South Isle of Dogs (E14 3), Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)	500
ZONE 3 Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4), South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6, E14 0)	85

Commercial

- In specified locations in the Borough the Mayor may seek to negotiate Section 106 contributions over and above Mayoral CIL towards Crossrail on office, hotel and retail developments, dependant on the size and impact of the proposed development and viability issues. This potential additional burden on developments has been taken into consideration when recommending the proposed CIL rates.
- When recommending rates, full account has been taken of the Mayoral CIL tariff of £35 per square metre required in Tower Hamlets and in areas where Crossrail Section 106 contributions are applicable, the recommended rates account for 100% of the top-up payable with the exception of the North Docklands area. In order to allow for both funding towards Crossrail and Borough infrastructure requirements in this area the Council and BNP Paribas Real Estate consider that a reasonable approach would be to share the viable level of charge identified.
- **Office developments** in the City Fringe and north Docklands areas have the potential to generate residual values which would support a CIL rate based on higher rents and yields. Office developments in the south Docklands area, however, are achieving lower rents and our appraisals indicate that CIL could not be viably levied. At current rent and yield levels, office development elsewhere in the Borough is unlikely to come forward in the short to medium term as the capital values generated are insufficient to cover development costs.
  - At current rent levels, office development in **City Fringe** locations have been identified as being able to absorb a maximum CIL of £298 per square metre (inclusive of any Crossrail Section 106 top up that may be sought). After allowing for a buffer of 25%, which in our experience we consider to be appropriate to deal with site-specific issues and changes in values over time, as well as the full Mayoral indicative Crossrail Section 106 top-up of £105 per square metre) we suggest the Council considers setting a rate of £120 per square metre.
  - In the **north Docklands area**, our appraisals have identified that office development could support a maximum CIL rate of £180 per square metre (inclusive of any Crossrail Section 106 top up sought) based on CUV 1. After allowing for a buffer of 25%, which we consider to be appropriate to deal with site-specific issues and changes in values over time this produces a maximum rate of £135 per square metre. BNP Paribas Real Estate and the Council consider it reasonable for the Council and the GLA to share the remaining sum available to provide infrastructure to support growth in this area.[19] On this basis we would suggest that the Council considers setting a rate of £60 per square metre.
  - At current rent levels, our base appraisals indicate that no CIL could be levied on office development in the **south Docklands area and elsewhere in the Borough** and therefore recommend that the Council sets a nil rate for these areas. It is unlikely that office space will come forward in the short to medium term as the capital values generated are insufficient to cover development costs.
- **Convenience based supermarkets and superstores and retail warehousing (over 280 square metres)** is likely to be viable across the Borough with a maximum borough CIL rate of £293 per square metre

[19] It is noted that in mixed use schemes including residential this percentage will be higher given the methodology of discounting Mayoral CIL from the top up liability.

(inclusive of any Crossrail Section 106 top up sought). After allowing a buffer of 25%, to address any site specific issues and the full indicative Crossrail Section 106 top up charge liable on developments in the borough (the highest being in the Docklands area of £86 per square metre) we would recommend the Council considers adopting a single CIL rate of £135 per square metre for such uses in the Borough.

- Residual values generated by **retail developments (excluding convenience based supermarkets and superstores and retail warehousing (over 280 square metres))** are higher than current use values to varying degrees across the Borough. However, to a degree smaller retail development will involve the re-use of existing retail space, which will not be CIL liable.
  - Residual values generated **by such retail developments in the City Fringe and north Docklands locations** are sufficiently higher than current use values and could absorb a CIL of up to £258 per square metre. Allowing for a buffer, which we consider to be appropriate to deal with site-specific issues and changes in values over time as well as the full indicative Crossrail Section 106 top up charge liable on developments in the borough (the highest being in the Docklands area of £86 per square metre), we suggest the Council considers a CIL of £70 per square metre in the City Fringe and north Docklands areas.
  - **Elsewhere in the Borough,** rents for such retail development are considerably lower and our appraisals identify that developments are unable to viably support to absorb CIL. We therefore recommend that the Council considers a nil rate on retail development outside the City Fringe and north Docklands locations.
- Our appraisals of developments of **industrial and warehousing** floorspace indicate that these uses are unlikely to generate positive residual land values. We therefore recommend a nil rate for industrial floorspace.
- **Student housing** in the Borough generates sufficient surplus residual values to absorb a maximum CIL of up to £651 per square metre excluding affordable housing. After allowing for a buffer, which in our experience we consider to be reasonable to deal with site-specific factors, we suggest a rate of no higher than £425 per square metre.
- We consider that **Hotel developments** are able to generate a sufficient surplus to absorb a maximum borough CIL (including Crossrail Section 106 top up) of £343 per square metre. After allowing for a buffer of 25%, which we consider to be appropriate to deal with site-specific factors, as well as the full indicative Crossrail Section 106 top up charge liable on developments in the borough (the highest being in the Docklands area of £46 per square metre), we suggest the Council considers a rate of £210 per square metre for such uses across the Borough.
- **D1 and D2** uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 uses.

Strategic Sites

8.5 Our assessment of the identified strategic sites has concluded that the majority of the sites can viably afford to pay the Borough's CIL liability identified. With regard to the remainder of the sites, it is evident 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. In this regard we have undertaken an assessment of the Borough CIL liable for each of the strategic sites and this has identified that, this charge is no more than 5% of development costs.

8.6 The viable development of the strategic sites identified as being unviable is more likely to depend upon growth in sales values over the plan period or a commercial decision taken by developers based on an expectation of growth in future.

8.7 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' (CIL Guidance 2012 Para 11).

<u>Proposed rates</u>

8.8 The proposed Tower Hamlets CIL rates are summarised in Table 8.8.1.

Table 8.8.1: Proposed CIL rates

Development type	Proposed CIL rate per square metre		
	ZONE 1	**ZONE 2**	**ZONE 3**
Residential[20]	£200	£65	£35
Student Housing	£425		
Hotel	£210		
Convenience retail/retail warehousing (over 280 sq m)	£135		
Retail (except Convenience supermarkets, superstores and retail warehousing over 280sqm)	**Elsewhere in Borough**	**City Fringe**	**North Docklands**
	Nil	£70	
Offices	Nil	£120	£60
All other uses	Nil		

8.9 For residential schemes, the application of CIL is unlikely to be an overriding factor in determining whether or not a scheme is viable. When considered in context of total scheme value, CIL will be a modest amount, typically accounting for between 0.75 and 3.25% of value (see Table 8.9.1). Some schemes would be unviable even if a zero CIL were adopted. We therefore recommend that the Council pays limited regard to these schemes.

[20] These rates assume that affordable housing will be secured through Section 106

Table 8.9.1: CIL as a proportion of scheme value

Area	Maximum CIL indicated by appraisals (£s per sqm)[21]	Suggested CIL after buffer (£s per sqm)	CIL as % of maximum viable rate	CIL and % of Gross Development Value[22]
Cubit Town (E14 3), Victoria Park, Fish Island, Bow and Mile End (E3 2, E3 4)	80	35	44%	0.83%
South Bromley-by-Bow (E3 3), Bow Common, Poplar (E14 6)	100	35	35%	0.74%
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)	100	35	35%	0.74%
Shadwell, South Whitechapel (E1 1, E1 2), E14 7 and Blackwall (non- riverside) and Leamouth (E14 0, E 14 2)	160	65	40%	1.2%
Tower Limehouse & West Isle of Dogs (E1W 3, E1W 8), Shoreditch (E2 7) and Blackwall (riverside) (E14 0)	300	200	67%	3.23%
Spitalfields (E1 6)	300	200	67%	2.88%
Canary Wharf (E14 4, E14 5 & E14 9), Aldgate (E1 7, E1 8), Tower of London and St Katherine's Docks (EC3 N4, E1W 1) and Wapping (E1W 2	300	200	67%	2.68%

[21] The percentages for residential schemes are based on the appraisals for site type 4.
[22] The percentages here assume that CIL is levied on the entire floorspace of the development (except for affordable housing, which benefits from social housing relief) and that there is no deduction for existing floorspace. These percentages therefore represent the worst case scenario.