

London Borough of Havering

COMMUNITY INFRASTRUCTURE LEVY Draft Viability Appraisal Assessment

October 2014

Prepared by: ERM

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1 INTRODUCTION AND APPROACH

Background

- 1.1.1 The London Borough of Havering, ('the Council') has decided to introduce a Community Infrastructure Levy (CIL) and has prepared a Preliminary Draft Charging Schedule, as provided for in Part 11 of the Planning Act, 2008.
- 1.1.2 The Preliminary Draft Charging Schedule (PDCS) and the proposed CIL rates are informed by:
- Draft Further Alterations to the London Plan (Table 3.1 Housing targets for Havering), 2014;
 - London Plan, 2011;
 - Havering Core Strategy and Development Control Policies Development Plan Document, Adopted 2008;
 - The Infrastructure Evidence Base Report, 2014; and
 - The Community Infrastructure Levy Viability Assessment, 2014.
- 1.1.3 To progress the introduction of CIL, the Council appointed Environmental Resources Management (ERM) to support three specific but inter-related tasks, namely:
- Task 1: Developing a CIL Infrastructure Evidence Base Report;
 - Task 2: Undertaking a CIL Viability Appraisal; and
 - Task 3: Developing proposed CIL rates and producing the PDCS.
- 1.1.4 Task 2, the Viability Appraisal, which is a critical part of the necessary evidence base to underpin the PDCS, is contained in this Report. Elements of Task 3, the justification for the proposed CIL rates, are also addressed.

Scope of the Study

- 1.1.5 This Study involved the following tasks:
- a. review and development of the viability evidence base;
 - b. utilising a bespoke Financial Appraisal model specifically designed to examine and evaluate different CIL rates for different uses, together with other financial variables including affordable housing;
 - c. consideration of the possibility of PDCS zonings within the borough and CIL charge rates for different use categories;
 - d. taking account of recent legislation, guidance and policy affecting CIL and CIL viability assessments; and

- e. assessing the implications for the PDCS of recent Examiners' decisions on the CIL proposals of other (especially neighbouring) Charging Authorities.

Approach

1.1.6 This Report explains ERM's approach to testing financial viability issues as part of the process of establishing a Preliminary Draft Charging Schedule for the London Borough of Havering. Such studies are a requirement under the Community Infrastructure Levy regime, and the various amended Regulations to date (summarised in **Section 2**) and have laid increasing emphasis on the robustness of such studies in establishing CIL rates. Nevertheless, they are only general overviews at particular points in time and cannot take account of exceptional individual site circumstances or future market conditions.

1.1.7 The remaining sections of this Report are as follows:

- **Section 2** presents a summary of National Planning Policy Framework (NPPF), Planning Practice Guidance (PPG), the CIL Regulations, CIL Guidance and the requirements for Viability Assessments;
- **Section 3** describes the general principles of the CIL appraisal methodology, the general assumptions employed and the significance of affordable housing and CIL rates in neighbouring areas;
- **Section 4** explains the specific assumptions in the residential and commercial appraisals;
- **Section 5** describes the appraisal results for residential schemes;
- **Section 6** presents the appraisal results for commercial development; and
- **Section 7** describes the PDCS options for the Council and the ERM recommendation for the Preliminary Draft Charging Schedule CIL Rates.

1.1.8

In support of this Report:

- **Appendix A** sets out the residential appraisal results in the form of comparative tables reflecting the range of financial variables considered and 15% affordable housing as required, compared to different CIL charging rates.
- **Appendix B** replicates Appendix A but with 25% affordable housing.
- **Appendix C** presents the residential results in graphical form.
- **Appendix D** summarises the main appraisal results for various commercial uses in numerical and graphical form.
- **Appendix E** sets out the status and published CIL rates for all London boroughs, where these are available.

2 COMMUNITY INFRASTRUCTURE LEVY POLICY AND VIABILITY ASSESSMENTS

- 2.1.1 To establish a Community Infrastructure Levy on development in the borough, the Council as a Charging Authority must set out the rate or rates it intends to charge, initially in a PDCS. When doing so, the aim is to *'strike what appears to be an appropriate balance between the desirability of funding the total cost of infrastructure required, and the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development'*¹.
- 2.1.2 The statutory requirements for CIL are set out in the Community Infrastructure Levy Regulations 2010, as amended, most recently in the CIL (Amendment) Regulations 2014. Policy and practice guidance is set out in the provisions of the National Planning Policy Framework (NPPF) and in Sections 10 and 25 of the Planning Practice Guidance (PPG). The key provisions that are taken into account in the Study are set out in paragraphs 2.1.3 to 2.1.21 of this Report.

Legislation and CIL Regulations

- 2.1.3 The legislation governing the Community Infrastructure Levy is enshrined in the Planning Act 2008 (Part 11, Sections 105 - 225) as amended by the Localism Act 2011 and the CIL Regulations April 2010 as amended 2011, 2012, 2013 and 2014.
- 2.1.4 A charging authority which proposes to charge CIL must issue a charging schedule. A charging schedule sets out the levy rates for a charging authority area, such as Havering. Havering as a charging authority in setting its rates must have regard, to the extent and in the manner specified by CIL regulations, to *'matters specified by CIL regulations relating to the economic viability of development (which may include, in particular, actual or potential economic effects of planning permission or of the imposition of CIL)'* (s211 Planning Act 2008).
- 2.1.5 The initial stage of preparing a charging schedule focuses on determining the CIL rates. In preparing a charging schedule, charging authorities must have regard to the drafting requirements set out in Part 11 of the Planning Act 2008 (as amended) and the CIL Regulations.
- 2.1.6 In setting the CIL rate it is important, as set out in regulation 14 *'to strike what appears to the charging authority to be an appropriate balance'* between the desirability of funding infrastructure from CIL and *'the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area'*. Havering as the charging authority needs to demonstrate it has *'used appropriate available evidence to inform the preparation of a draft charging schedule'* (s211 (7A)).

¹ Regulation 14 of the CIL Regulations, as amended.

- 2.1.7 In accordance with the regulations, Havering needs to summarise its evidence as to economic viability as part of its background evidence that shows the potential effects of their proposed CIL rates on the economic viability of development across their area. This is the purpose of this Report.
- 2.1.8 Under the regulations Havering can adopt a single rate of CIL for all types of development or set differential rates of CIL for different categories of development, different geographical zones and different scales of development or a mix. Should Havering decide to set differential rates, it should do so only where there is consistent evidence relating to economic viability that constitutes the basis for any such differences in treatment.

National Planning Policy Framework, 2012

- 2.1.9 The NPPF sets out the policy framework for the assessment of viability. It places considerable emphasis on the need for local plans to be deliverable and the need to pay careful attention to viability.
- 2.1.10 Paragraph 173 of the NPPF states that *'the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable'*.
- 2.1.11 Furthermore, *'the Community Infrastructure Levy should support and incentivise new development, particularly by placing control over a meaningful proportion of the funds raised with the neighbourhoods where development takes place'* (paragraph 175).

Planning Practice Guidance, 2014

- 2.1.12 The NPPF is supported by Planning Practice Guidance (PPG). Section 10 of the guidance provides advice on viability and Section 25 on Community Infrastructure Levy. The principles in Section 10 are particularly relevant to the evidence collection for CIL.
- 2.1.13 *'Viability assessment should be considered as a tool that can assist with the development of plans and policies'* (Section 10, paragraph 5). Paragraph 4 of Section 10 notes that *'assessing viability requires judgements which are informed by the relevant available facts. It requires a realistic understanding of the costs and the value of development in the local area and an understanding of the operation of the market'*.

- 2.1.14 Section 25 of the PPG provides detailed guidance on setting a Community Infrastructure Levy. Paragraph 8 is clear that *'charging authorities should set a rate which does not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan'*.
- 2.1.15 The guidance is clear that CIL is *'expected to have a positive economic effect on development across a local plan area'*. When setting the CIL rate *'an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments'* (paragraph 9).
- 2.1.16 This balance is at the centre of the charge-setting process. In meeting the requirements in regulation 14 of the CIL Regulations, Havering should be able to *'show and explain how their proposed CIL rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area'* (paragraph 9).
- 2.1.17 Echoing the NPPF, the guidance is clear that *'development should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened'* (paragraph 9).
- 2.1.18 Havering needs to use *'appropriate available evidence'* as required under s211 (7A) of the Planning Act, 2008. *'Charging authorities need to demonstrate that their proposed levy rate or rates are informed by 'appropriate available' evidence and consistent with that evidence across their area as a whole'* (paragraph 19).
- 2.1.19 Proposed CIL rates should be *'reasonable given the available evidence'* but *'there is no requirement for a proposed rate to exactly mirror the evidence. For example, this might not be appropriate if the evidence pointed to setting a charge right at the margins of viability. There is room for some pragmatism. It would be appropriate to ensure that a 'buffer' or margin is included, so that the levy rate is able to support development when economic circumstances adjust. In all cases, the charging authority should be able to explain its approach clearly'* (paragraph 19).
- 2.1.20 Paragraph 18 is clear that the *'evidence should be presented in a document (separate from the charging schedule) that shows the potential effects of the proposed levy rate or rates on the economic viability of development across the authority's area'*. This is the purpose of this Report.

Conclusion

- 2.1.21 The viability assessment and the proposed setting of the CIL rates for Havering has been undertaken in accordance with the legislation, including the CIL Regulations, and has had regard to the relevant elements of the NPPF and the guidance.

3 GENERAL CIL APPRAISAL PRINCIPLES, ASSUMPTIONS AND KEY DRIVERS

Principles of Development Appraisal

3.1.1 Development appraisal models are in essence simple and can be summarised in the following equation:

$$\begin{aligned} & \text{Completed Development Value} \\ & \quad \textit{Minus} \\ & \quad \text{Total Construction Costs} \\ & \quad \quad \textit{Minus} \\ & \quad \quad \text{Developers Profit} \\ & \quad \quad \quad = \\ & \quad \quad \quad \textbf{Residual Land Value} \end{aligned}$$

3.1.2 Residual Value (what the landowner receives) will normally be the critical variable. If a proposal generates sufficient positive land value, it will be implemented; if not, unless, there are alternative funding sources to bridge the 'gap', the proposal will not go ahead.

3.1.3 The problems with development appraisals all flow from the requirement to identify the key variables – values, costs etc – with some degree of accuracy in advance of implementation. Even on the basis of the standard convention, namely that current values and costs are adopted (not values and costs on completion), this can be difficult.

3.1.4 The difficulties in assessing each of the key variables can be summarised as follows:

- Completed Development Values are largely dependent on comparable evidence which requires sufficient new development in the locality of a similar size and type, to provide a realistic value base.
- Development costs are subject to extensive national and local monitoring and can be reasonably accurately assessed in 'normal' circumstances. Increasingly however, with restrictions on greenfield development and a greater emphasis on brownfield sites, 'exceptional' costs such as decontamination are becoming more common. Such costs can be very difficult to anticipate before detailed site surveys.
- Development value and costs will also be significantly affected by assumptions about the nature and type of affordable housing provision and other Planning Obligations/CIL and on major projects, assumptions about development phasing and infrastructure triggers.
- While Developer's Profit has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the greater the profit level, in part as a contingency against the unexpected.

- Ultimately, the landowner holds the key and will make a decision on whether to release a development site on the basis of the financial return and the potential for market change and thus alternative developments. The landowner's 'bottom line' will be achieving 'development value' that sufficiently exceeds 'existing use value' to make development worthwhile.

Key Drivers

3.1.5 Before considering the base financial factors in appraisal modelling in Havering, it is important to draw attention to key drivers which have figured strongly when Draft Charging Schedules have been formally examined. They are the:

- impact of Affordable Housing and on-site Planning Obligations on CIL Development Viability;
- differential / zonal rates; and,
- established or emerging CIL strategies and rates in neighbouring local authority areas.

Affordable Housing and On-site Planning Obligations

3.1.6 While in principle, it is simple to incorporate and test policy assumptions about affordable housing and on-site planning obligations into a single site specific development appraisal for CIL purposes, it is more complex in a strategic assessment of development viability.

3.1.7 The principal variables are:

- the proportion of the housing units to be affordable;
- the proportions of the affordable housing which are to be social/affordable rented and intermediate tenures, ie. the tenure split;
- affordable housing funding and delivery mechanisms and the availability of Grant or not;
- local affordability criteria; and
- the nature of any restrictions on eligibility for and access to the intermediate housing.

3.1.8 Where the planning authority has clear policies or practices which define all of these, this restricts the range of affordable housing options which need to be modelled. Under most circumstances, the proportion of housing to be affordable and its capital value, (as well as the land requirement) are the most important variables.

- 3.1.9 Currently in Havering, the Council has an adopted affordable housing target (50%) which does not reflect the more recent changes in the availability of grants. The adopted policy target from 2008 predates the 2011 Housing Strategy¹ and subsequent changes to the affordable housing funding regime and the London Plan.
- 3.1.10 The Council is, until the Core Strategy policies are brought up to date, reliant on the London Plan's overall affordable housing requirements and the Council's recent practice when planning permissions have been granted. On this basis, ERM was asked to test an affordable housing input of 25% and 15% without grant but with the London Plan tenure split of 60-40%, affordable rent to intermediate tenures. The Government changes to the Affordable Housing Funding Regime in February 2011, which effectively removed grant eligibility from most development scenarios, would, in our experience, confirm that affordable housing provision on this basis is a realistic range that should be modelled.
- 3.1.11 In terms of other on-site planning obligations, in addition to (in effect) off-site CIL, we have made appropriate assumptions with advice from the Council's officers. Clearly, both contributions (together with the Mayoral CIL), are development costs over and above construction and ancillary costs, and as such will have a financial impact on the development appraisal. In reality, while obligations and CIL are a cost, the provision of necessary infrastructure is often an important prerequisite to sales and lettings. However, the timing of any planning obligation will also be of concern to the applicant, given the potential impact on cash flow. Clearly, from the developer's perspective, the longer payments can be deferred, the greater the saving in terms of real cost incurred and improving cash flow for developers, so long as sales are not adversely affected.
- 3.1.12 In the Technical Report 2 on Viability Assessment² which supported the Borough's SPD on Planning Obligations³, we posed the question, 'who bears the costs of planning obligations and other risks' (including CIL and the capital value of affordable housing units)?' We noted then there was no single answer, since it will vary according to the circumstances of the development. Thus:
- a. when negotiating with the landowner, the prudent developer will normally negotiate an option to purchase which put crudely, will enable any additional costs arising (planning obligations, CIL and affordable housing for example) to be passed on to the landowner. Ultimately, the landowner pays; and/or,
 - b. the developer will build in sufficient contingency into the development appraisal to offset risks. An obvious example would be the so-called 'cascade' provisions in planning agreements, in which funding for affordable housing is not forthcoming or is less than anticipated, then some proportion of affordable housing units revert to intermediate

¹ HM Government, Laying the Foundation: A Housing Strategy for England, 2011.

² London Borough of Havering, Planning Obligations Supplementary Planning Document, Technical Report 2 Viability Assessment, 2013.

³ London Borough of Havering, Planning Obligations Supplementary Planning Document, 2013.

tenures, or eventually market housing, to offset losses which would otherwise fall on the developer. The risks of this and other contingencies will be shared between the developer and landowner on a negotiated basis, albeit, in a 'No Grant' regime, this uncertainty is minimised; or

- c. in certain unusual circumstances, for example when a developer is assembling a site from residential owner-occupiers, the land may well have to be acquired for a fixed or minimum price, which will leave the developer to carry all of the costs of planning obligations and other risks.

3.1.13 Under the CIL regime, these choices faced by developers and landowners remain broadly the same.

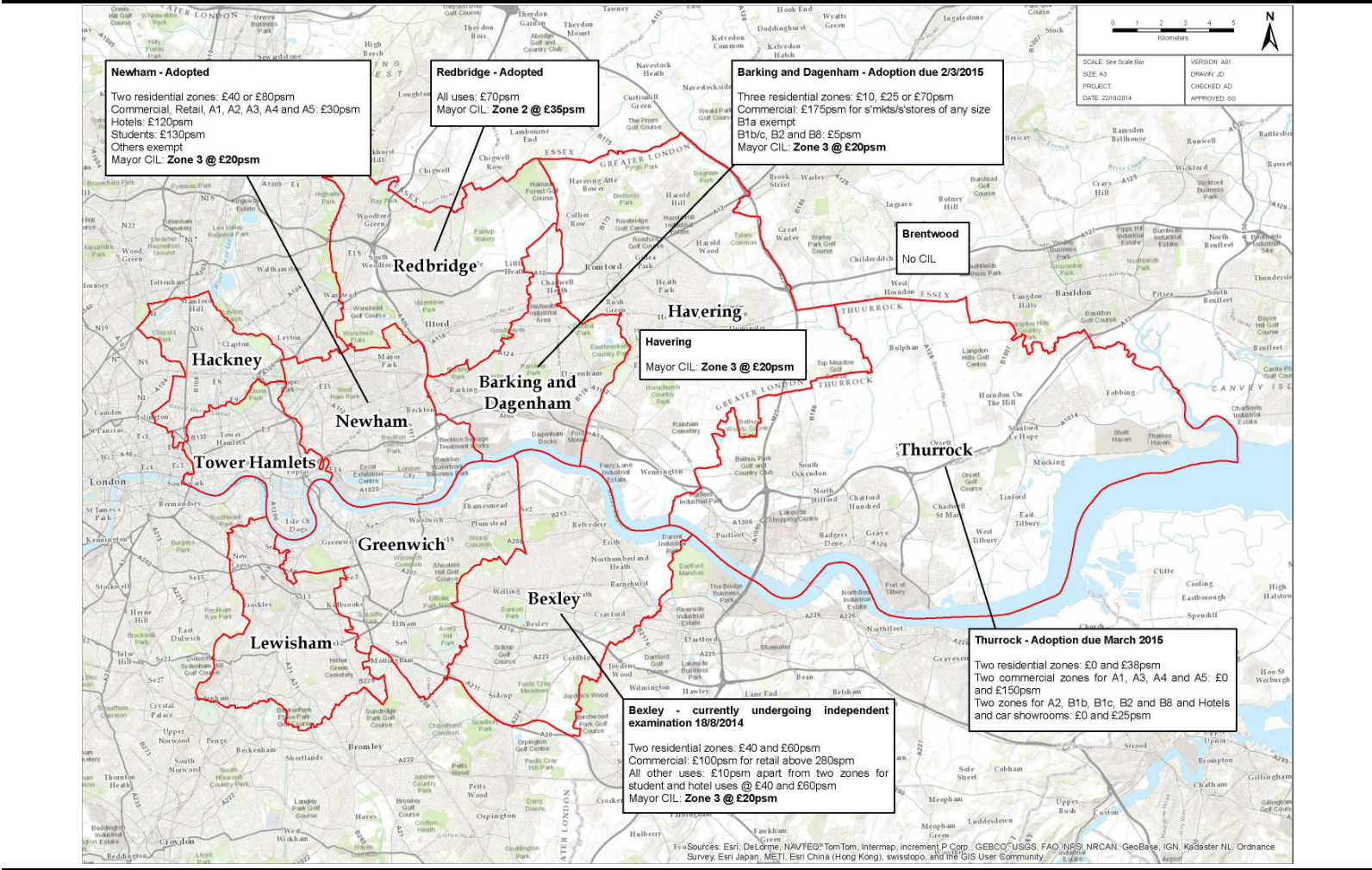
CIL Strategies in Neighbouring Authorities

3.1.14 **Appendix E** to this Report shows the current status of CIL Strategies in the London boroughs, (plus the Mayor of London), who are actively pursuing and/or have completed their CIL preparations.

3.1.15 **Figure 3.1** shows the current CIL proposals in the neighbouring local authorities around Havering. The levels at which these are being set is important in setting Havering's Charge Rates for two main reasons. First, Examiners have now been through the CIL evaluation process many times and are likely to look in part to the neighbouring authorities for benchmarks. Secondly, in the current economic climate, adjacent authorities are often competing for inward investment, and developers are aware of local variations in CIL rates, even if these are not often the main factor in selecting development sites.

3.1.16 It should also be noted that the Mayoral CIL, which is additional to any CIL charges levied by individual London boroughs, is set at different levels in neighbouring boroughs. The rate of Mayoral CIL in Zone 1 boroughs is £50psm; in Zone 2 boroughs is £35psm and in Zone 3 boroughs (including Havering) is £20psm. **Figure 3.1** shows the how the rates of Mayoral CIL vary in neighbouring boroughs.

Figure 3.1 CIL Rates in Neighbouring London Boroughs and Other Districts



4.1.1 As noted in **Section 3.1**, viability appraisal calculations, while simple in general, are complex in reality, mainly because of the range of variables involved. These are initially summarised in principle as follows and then detailed for residential and commercial schemes:

- a. **Sales Values by area.** Sales values – residential and commercial – will vary in all local authority areas and of course are continually changing to reflect market conditions. While residential sales have the benefit of Land Registry data and are therefore transparent to a large extent, commercial sales and lettings are less visible. Thus, value data inputs to CIL financial modelling draw on various sources, some statistical like the Land Registry and Rightmove, but also indirect sources such as local agents views.
- b. **Density.** Density is an important determinant of development value, albeit with commensurate effects on development costs and thus residual land value. It is a particularly important variable in Havering.
- c. **Gross to net floorspace.** Clearly, the greater the density, the lower the gross to net floorspace ratio – that is, more floorspace is taken up by common areas and services and thus less space is available for renting / sale - and this will adversely affect the appraisal calculation.
- d. **Base construction costs.** While base construction costs will be affected by density and other variables such as flood risk, ground conditions etc., they are nevertheless well documented and can be reasonably accurately determined in advance by the developer. In this exercise, a 5% contingency and 5% for ancillaries are shown in **Table 4.4** as a composite 10% cost.
- e. **Profit on value/cost ratio.** Following the standard conventions, developer profits are based on an assumed percentage on values or costs, normally between 15% and 25%. Higher profit figures reflect levels of risk. The higher the potential risk, the higher the profit margin in order to offset those risks. Housing developers often assume over 20% on value as their margin. Recent difficult market conditions tended to inflate margins, but with bank lending restrictions starting to ease, the profit margins being adopted are also easing, at least for the moment, and residential starts across London have improved. For modelling purposes therefore, we have adopted a margin of 20% on value as being reasonable.
- f. **Existing Use Value / Alternative Use Value.** Existing Use Value (EUV) requires particular attention. Clearly, there is a point where the Residual Land Value that results from the development appraisal, what the landowner receives, may be less than the land's

existing use value. The latter varies hugely from site to site and is a central consideration in the modelling exercise.

4.1.2 Referred to as Benchmark Land Value in the Modelling, EUV / AUV is a 'value threshold' which must be exceeded if development proposals are to be viable, effectively a 'bottom line' in the financial sense and a major driver in this modelling. In the residential residual valuations in **Appendices A to C**, all development scenarios and their Residual Land Values have been compared to four illustrative levels of Existing Use Value, based on typical sites which have come forward for development in Havering. The highest EUV, which might for example be secondary Industrial space capable of redevelopment, is assumed at £1,650,000 per hectare (£687,000 per acre). A 'mid-range' EUV at £1,375,000 per hectare (£573,000 per acre) may be low grade warehousing, while a medium- low EUV of £1,100,000 per hectare (£458,000 per acre) is nominally presented as the value of a former school site, and the low EUV of £825,000 per hectare (£344,000 per acre) could be local authority use. If the landowner was prepared to accept less, then providing affordable housing, on-site obligations and CIL is facilitated.

Specific Modelling Variables: Residential

4.1.3 This section summarises the particular assumptions used in this CIL modelling exercise for residential schemes together with further commentary on current conditions and their effect.

Sales Values

4.1.4 Following the much publicised housing market recession, current market conditions across London are remarkably strong (perhaps too strong). Trends in London as a whole at the end of the third quarter 2014, according to Molior London, are as follows:

- Based on annualised data, the number of construction starts in 2014 looks set to exceed the records in 2013, with 40,457 units currently under construction;
- 6,026 units sold in Q3 2014, 12% higher than the average for the previous four quarters; and
- 70% of units under construction have already sold.

4.1.5 Trends in Havering reflect these patterns as shown in **Table 4.1**, with a marked increase in starts and sales during 2013 and 2014.

Table 4.1 Housing Starts and Sales, LB Havering, 2009 to Q3 2014

Havering	2009	2010	2011	2012	2013	Q1-Q3 2014	Total
Starts	17	83	345	266	580	436	1727
Sales	58	83	132	249	586	340	763
Source: Molior London October 2014							

4.1.6 With regard to average house prices in Havering, which cover both existing and new dwellings, the Land Registry data clearly shows the effect of the recession from mid 2008 to mid 2009 and the partial recovery by the beginning of 2011. Since then values fluctuated, but have risen noticeably by 13% in the last year. This of course has contributed to the increase in construction starts, while sales volumes, which had averaged about 240 transactions per month until mid 2013, have risen to approximately 340 per month in the last year.

4.1.7 Average house price levels are a particularly sensitive variable in setting CIL rates. Experience elsewhere confirms, in general, the significance of sales values above or below a threshold of £300psf (£3,228psm) as being important. Areas commanding values above this threshold generally deliver reasonable CIL levels but below that level, greater care is needed in setting CIL rates that are reasonable. While there are certainly signs of the residential market improving in Havering during 2014, sales values being achieved for new build remain crucial in setting a CIL. **Table 4.2** summarises schemes in Havering, recording sales values at the end of the third quarter, 2014.

Table 4.2 Sales Values for Selected Housing Schemes in LB Havering, October 2014

Scheme	Post code	Developer	Price per square foot (£)			Value (£000s)		
			Min	Aver	Max	Min	Aver	Max
Dunningford Chase	RM12	Bellway	274	319	342	305	352	440
Orchard Village Phase 3	RM13	Circle	310	314	321	335	343	350
Kings Place, Harold Wood 1B	RM3	Countryside	351	379	387	460	463	475
Harold Wood 3A	RM3	Countryside	249	331	368	189	225	340
Neave Place, Plot 1 west	RM3	Persimmon				222	238	284
Neave Place, Plot 2 east	RM3	Persimmon				283	300	340
Gooslays Drive	RM3	Persimmon				182	259	315
Oldchurch plc – Former hospital	RM7	Swan	298	303	306	151	153	155
Reflections (Oldchurch)	RM7	Taylor Wimpey	266	296	332	155	163	178

4.1.8 While this data takes no account of any prospective increases in sales values, it nevertheless, suggests that the Council should exercise some caution in setting residential CIL rates.

4.1.9 Of equal importance in setting CIL rates, is the location of current applications and schemes across Havering, including the limited amount of development activity in London Riverside. **Figure 4.3** illustrates the latest Molior London dataset for residential schemes in Havering. Molior is the most respected data source for residential schemes in London, although it does not record all schemes.

Nevertheless, it presents a very clear breakdown of scheme location, not least the comparative lack of residential developments in the south of the borough.

Other Key Variables

4.1.10 **Table 4.3** summarises the main residential modelling variables. The requirement for Mayoral CIL has been factored into the analysis.

4.1.11 **Tables 4.4 to 4.7** provide an illustration of *one* development scenario, with all financial variables identified. This illustration has been replicated for every residential scenario in the full datasets in **Appendices A and B**, and shown graphically in **Appendix C**.

Table 4.3 Summary of Residential Viability Variables for LB Havering

Variable																															
Density range	Model 30, 50, 80, 110, 150, 175, 275, 435 units per hectare based on net deliverable area. Adopted a suitable gross to net from 100% to 80%.																														
Residential Values	Most schemes have been concentrated in the middle and north of the borough with only a small number to date in the south and there is a wide price range from about £250 to £400psf (£2,680psm - £4,300psm).																														
Affordable Housing	Two sets of assumptions have been used, based on advice from LBH officers: 1) Assume 25% affordable housing and a 60-40% tenure split with no grant 2) Assume 15% as (1)																														
Affordable housing values	Having taken advice from LBH officers, and two RPs, we have assumed, for modelling purposes, 70% of OMV based on a blended tenure split rate as above, taking account of the housing mix below.																														
On-site obligations	Instructed to assume £2,000 per unit																														
Housing mix	<table border="0"> <thead> <tr> <th colspan="2">Private</th> <th colspan="2">Affordable rent</th> <th colspan="2">Shared ownership</th> </tr> </thead> <tbody> <tr> <td>1 bed</td> <td>20%</td> <td>1 – 2 bed</td> <td>75%</td> <td>1 bed</td> <td>40%</td> </tr> <tr> <td>2 bed</td> <td>40%</td> <td></td> <td></td> <td>2 bed</td> <td>40%</td> </tr> <tr> <td>3 bed</td> <td>30%</td> <td>3 – 4 bed</td> <td>25%</td> <td>3 bed</td> <td>20%</td> </tr> <tr> <td>4 bed</td> <td>10%</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Private		Affordable rent		Shared ownership		1 bed	20%	1 – 2 bed	75%	1 bed	40%	2 bed	40%			2 bed	40%	3 bed	30%	3 – 4 bed	25%	3 bed	20%	4 bed	10%				
Private		Affordable rent		Shared ownership																											
1 bed	20%	1 – 2 bed	75%	1 bed	40%																										
2 bed	40%			2 bed	40%																										
3 bed	30%	3 – 4 bed	25%	3 bed	20%																										
4 bed	10%																														
Build costs	Up to date BCIS suited to density including contingencies and ancillaries. CSH LEVEL 4 allowance reduced to 4%, based on update work by Davis Langdon and Element Energy in January 2014.																														
Profit Margin	20% on Value.																														
Existing Use Values	The typical existing sites that have been coming forward has been secondary industrials, former hospitals and schools.																														

Figure 4.1 Residential Development Sites in Havering

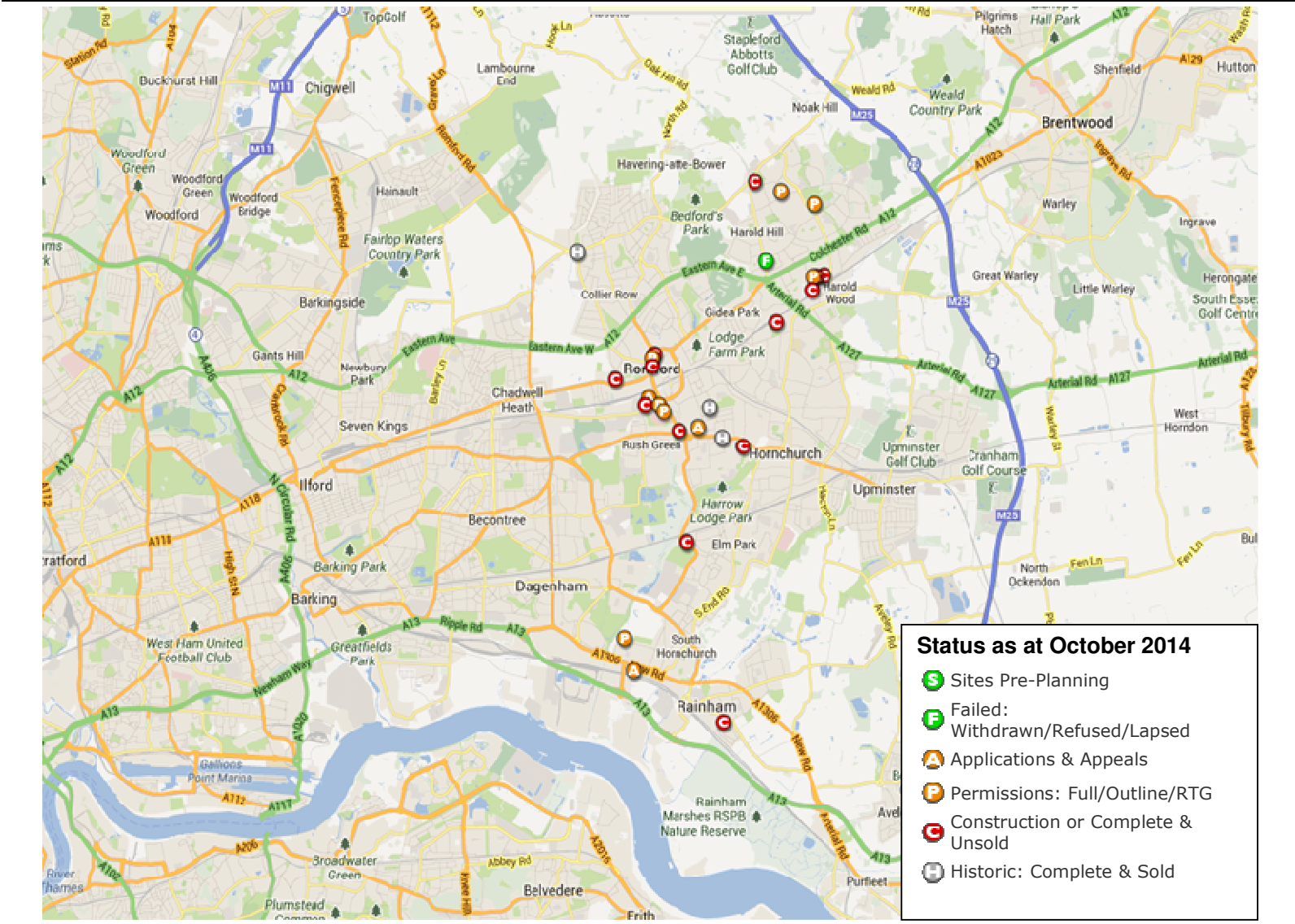


Table 4.4 CIL Residential Viability Model for LB Havering

LOCAL PLAN AND CIL VIABILITY MODEL

This is input source box for reference info that appears on all sheets

Local Authority	London Borough of Havering
Area(s)	CIL viability
Author	
Date	01 October 2014
Reference	

Local Plan Test

Values:

Sales values	1 (lookup)	400 psm
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Affordable housing percentage	3 (lookup)	15%
of which social rented		60%
of which intermediate		40%

Code for Sustainable Homes **Level**

Cost allowance - all tenures (% of base costs)	4%	1 (lookup)
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Grant available check box

CIL rate	16
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CIL rates	Rate per sqm	
1	£0	1
2	£10	2
3	£20	3
4	£30	4
5	£40	5
6	£50	6
7	£60	7
8	£70	8
9	£80	9
10	£90	#
11	£100	#
12	£110	#
13	£120	#
14	£130	#
15	£140	#
16	£150	#

Typology description	Residual Land Values	Total units	Total floor area	Private floor area	Ave unit size	CIL as % of dev costs
30 uph	£2,957,120	30	2,415	2,053	81	4.0%
50 uph	£4,928,533	50	4,025	3,421	81	4.0%
80 uph	£6,036,445	80	6,370	5,406	80	4.2%
110 uph	£6,577,288	110	8,710	7,387	79	4.3%
150 uph	£3,425,694	150	11,070	9,371	74	4.7%
275 uph	-£4,521,891	275	21,137	17,882	77	5.3%
325 uph	-£6,124,679	325	24,980	21,133	77	5.4%
375 uph	-£8,244,229	375	26,456	22,392	71	5.5%
435 uph	-£11,726,285	435	28,814	24,404	66	5.7%

Benchmark Land Values

BLV no	Description	£s per ha
BLV1	BLV 1	£1,650,000
BLV2	BLV 2	£1,375,000
BLV3	BLV 3	£1,100,000
BLV4	BLV 4	£825,000

Growth 3 (lookup)

Value growth	0.00%
Cost growth	0.00%

Table 4.5 CIL Residential Viability Model for LB Havering

LOCAL PLAN AND CIL VIABILITY MODEL

Local Authority	London Borough of Havering
Area(s)	CIL Viability
Author	0
Date	01 October 2014
Reference	0

SITE TYPOLOGIES

Total number of units identified from Site Details

Typology descriptions and total units	
Description	No of units
30 uph	30
50 uph	50
80 uph	80
110 uph	110
150 uph	150
275 uph	275
325 uph	325
375 uph	375
435 uph	435
Total number of units identified	1,830

UNIT MIX enter for each typology identified

Flats (percent of units)				Houses (percent of units)			Totals
1 bed flat	2 bed flat	3 bed flat	4 bed flat	2 bed house	3 bed house	4 bed house	
20.00%				40%	30%	10%	100%
20.00%				40%	30%	10%	100%
20.00%	10.00%	10.00%		30%	20%	10%	100%
20.00%	15.00%	15.00%		25%	15%	10%	100%
20.00%	25.00%	25.00%		25%	5%		100%
20.00%	40.00%	30.00%	10%				100%
20.00%	40.00%	30.00%	10%				100%
35.00%	35.00%	25.00%	5%				100%
40.00%	40.00%	20.00%					100%

DESCRIPTION

(for results sheet)

DESCRIPTION	DENSITY AND NET SITE AREA	
	Units per ha	Gross to net
Houses and Flats	30	100%
Houses and Flats	50	100%
Houses and Flats	50	100%
Flats and houses	80	100%
Flats and houses	110	100%
Flats	150	100%
Flats	275	100%
Flats	325	100%
Flats	375	100%
Flats	435	100%

UNIT SIZES enter for each unit type (net sellable area) - square metres

	Flats				Houses		
	1 bed flat	2 bed flat	3 bed flat	4 bed flat	2 bed house	3 bed house	4 bed house
Private	50.0 sqm	70.0 sqm	90.0 sqm	115.0 sqm	75.0 sqm	95.0 sqm	120.0 sqm
Affordable	50.0 sqm	70.0 sqm	98.0 sqm	115.0 sqm	75.0 sqm	95.0 sqm	120.0 sqm

Table 4.6 CIL Residential Viability Model for LB Havering

LOCAL PLAN AND CIL VIABILITY MODEL

Local Authority	London Borough of Havering
Area(s)	CIL viability
Author	0
Date	01 October 2014
Reference	0

SALES AND AFFORDABLE HOUSING VALUES

VALUE BANDS for private sales

Sub Market	£ per sq metre
A Value 1	£2,680
B Value 2	£2,892
C Value 3	£3,154
D Value 4	£3,416
E Value 5	£3,678
F Value 6	£3,940
G Value 7	£4,202
H Value 8	£4,300
I Value 9	£4,400

GROUND RENTS from flats (£s per annum)

	Private	Affordable
One bed	£100	£0
Two beds	£150	£0
Three beds	£200	£0
Four beds	£250	£0
Capitalisation rate		5.50%

Investment value

	Private	Affordable
One bed	£1,818	£0
Two beds	£2,727	£0
Three beds	£3,636	£0
Four beds	£4,545	£0

Select affordable value option from drop down box Option 2: Capital values calculated from net rents & yields

AFFORDABLE HOUSING CAPITAL VALUES (price paid to developer)

Option 1 User defined capital values per unit

	Social rent			NBHB		
	Capitalised rent per unit	Indicative HCA funding per unit	Value per unit	Equity + rent	Indicative HCA funding per unit	Value per unit
One bed flats		£154,000	£154,000			£0
Two bed flats		£215,600	£215,600			£0
Three bed flats		£301,840	£301,840			£0
Four bed flats		£354,200	£354,200			£0
Two bed house		£231,000	£231,000			£0
Three bed house		£292,600	£292,600			£0
Four bed house		£369,600	£369,600			£0

NOTE: workaround on the affordable rented values:
These are entered in "GCA grant funding" under option and linked to 70% of average market value in "averag

Option 2 Capital values for affordable housing calculated from net rents & yield assumption

	Social rent				NBHB							
	Net Target rent per annum	Yield	Capital value	Indicative unit funding	Value per unit	Average market value	% of equity sold	Value of equity sold	Rent (% of retained equity)	Rent per annum	Yield	Capital value of retained equity
One bed flats		5.00%	£0	£154,000	£154,000	£220,000	50%	£110,000	2.50%	£2,750	6.00%	£45,833
Two bed flats		5.00%	£0	£215,600	£215,600	£308,000	50%	£154,000	2.50%	£3,850	6.00%	£64,167
Three bed flats		5.00%	£0	£301,840	£301,840	£431,200	50%	£215,600	2.50%	£5,390	6.00%	£89,833
Four bed flats		5.00%	£0	£354,200	£354,200	£506,000	50%	£253,000	2.50%	£6,325	6.00%	£105,417
Two bed house		5.00%	£0	£231,000	£231,000	£330,000	50%	£165,000	2.50%	£4,125	6.00%	£68,750
Three bed house		5.00%	£0	£292,600	£292,600	£418,000	50%	£209,000	2.50%	£5,225	6.00%	£87,083
Four bed house		5.00%	£0	£369,600	£369,600	£528,000	50%	£264,000	2.50%	£6,600	6.00%	£110,000

Table 4.7 CIL Residential Viability Model for LB Havering

LOCAL PLAN AND CIL VIABILITY MODEL

Local Authority	London Borough of Havering
Area(s)	CIL viability
Author	0
Date	01 October 2014
Reference	0

BUILD COSTS

TIMINGS *for cash flow*

PLANNING OBLIGATIONS / CIL

Typology	Build costs (flats) per gross sq m	Build costs (houses) per gross sq m	External works and other costs	Gross to net adjustment for flats	TIMINGS <i>for cash flow</i>				PLANNING OBLIGATIONS / CIL				Fees % of build cost		
					Build start	Build period	Sales period	Sales period start	S106		CIL Charges				
					Quarters	Quarters	Quarters	Quarters from start on site	£s per unit all tenures	Quarter paid	£s p sq m private sales only	Instal-ment 1 - Qtr paid	Instal-ment 2 - Qtr paid	Instal-ment 3 - Qtr paid	
30 uph	£1,507	£942	£220	85.0%	2	4	3	6	£2,000	6	£150	1	3	6	12%
50 uph	£1,507	£942	£220	85.0%	2	4	3	6	£2,000	6	£150	1	3	6	12%
80 uph	£1,615	£942	£220	85.0%	2	4	3	7	£2,000	6	£150	1	3	6	12%
110 uph	£1,615	£942	£220	85.0%	2	6	6	8	£2,000	6	£150	1	3	6	12%
150 uph	£1,723	£942	£220	85.0%	2	8	8	10	£2,000	6	£150	1	3	6	12%
275 uph	£1,776	£942	£220	85.0%	2	10	10	12	£2,000	6	£150	1	3	6	12%
325 uph	£1,776	£942	£220	85.0%	2	11	11	13	£2,000	6	£150	1	3	6	12%
375 uph	£1,830	£942	£220	85.0%	2	11	11	13	£2,000	6	£150	1	3	6	12%
435 uph	£1,884	£942	£220	85.0%	2	12	12	14	£2,000	6	£150	1	3	6	12%

OTHER COSTS

Developer return % GDV	Private	20.00%
	Affordable	6.00%
Code for Sustainable Homes	All tenures	4%
Contingency		10%
Marketing costs % of sales values		3.00%
Legal Fees % of GDV		0.50%
Site acquisition costs % land value		5.80%
Development Finance		7.00%

From test variables

4.1.12 Overall therefore, all the financial variables in the modelling exercise are based on standard appraisal conventions adopted by the development industry. Specific variables are based on either Council policy and/or officer advice, such as housing mix, or on local market factors.

Specific Modelling Variables: Commercial

4.1.13 This section summarises the particular assumptions used in this CIL modelling exercise for commercial schemes together with further commentary on current conditions and their effect.

4.1.14 In general, the commercial property market has followed similar trends to the residential market, namely an extended period of weak demand, with modest levels of new supply and declining values in some areas. In 2013, however, the commercial development sector, especially prime business space property, has shown a marked improvement in London, mainly driven by overseas investors, and a small number of very large investment transactions. While this growth has to date been concentrated in the City, West End and Docklands markets, commercial agents suggest, that stronger economic growth is beginning to lift business space tenant demand more widely, with stable rents and capital values, and very limited new supply. Certainly in previous economic cycles, there has ultimately been a 'ripple out' effect from prime locations to secondary and tertiary areas. During 2014, while there is certainly evidence of increased demand in outer London boroughs including Havering, significant rental growth and thus better investment yields has yet to materialise.

4.1.15 For CIL modelling purposes, this study has therefore considered: supermarkets and superstores, all other (town centre) retail, office space and industrial units. While the modelling approach is based on a size of development (which can be extrapolated), other variables consider a range of financial possibilities, initially based on the most likely local financial circumstance, but then exploring variations above and below that base position. These 'sensitivities', namely commercial rents and yields, build costs, profit, together with existing use values, are summarised for each development type in **Tables 4.8 to 4.11**. The full commercial appraisals are contained in **Appendix D**.

Table 4.8 Summary of Commercial Viability Variables for LB Havering, Supermarkets and Superstores

Variable	per sq. metre	per sq. foot
Size of development modelled	5000 m ²	53,820 ft ²
Base rent	£215 psm	£20 psf
Rental range	£205 – 280 psm	£19 – 26 psf
Yield range	5.5 – 6.0 %	5.5 – 6.0 %
Base Build costs (82% gross to net)	£1150 psm	£107 psf
External works	10%	10%
Fees	10%	10%
Contingency	5%	5%
On-site S106 costs	£215 psm	£20 psf
Finance rate	7%	7%
Profit on cost	20%	20%

Existing space as % of new dev	30%	30%
Current Use Rental range	£118 – 161 psm	£11 – 15 psf
Current Use yield	7.5%	7.5%
Current use Refurbishment cost	£538 psm	£50 psf
Landowner premium	20%	20%

Table 4.9 Summary of Commercial Viability Variables for LB Havering, Other Retail eg Town Centre

Variable	per sq. metre	per sq. foot
Size of development modelled	280 m ²	3,000 ft ²
Base rent	£215 psm	£20 psf
Rental range	£183 – 260 psm	£17 – 24 psf
Yield range	5.75 – 6.5 %	5.75 – 6.5 %
Base Build costs (82% gross to net)	£1237 psm	£115 psf
External works	10%	10%
Fees	10%	10%
Contingency	5%	5%
On-site S106 costs	£0 psm	£0 psf
Finance rate	7%	7%
Profit on cost	20%	20%
Existing space as % of new dev	30%	30%
Current Use Rental range	£118 – 161 psm	£11 – 15 psf
Current Use yield	7.5%	7.5%
Current use Refurbishment cost	£538 psm	£50 psf
Landowner premium	15%	15%

Table 4.10 Summary of Commercial Viability Variables for LB Havering, Offices

Variable	per sq. metre	per sq. foot
Size of development modelled	£2800 m ²	30,000 ft ²
Base rent	£161 psm	£15 psf
Rental range	£130 – 205 psm	£12 – 19 psf
Yield range	7.5 – 8.5 %	7.5 – 8.5 %
Base Build costs (82% gross to net)	£1260 psm	£117 psf
External works	10%	10%
Fees	10%	10%
Contingency	5%	5%
On-site S106 costs	£0 psm	£0 psf
Finance rate	7%	7%
Profit on cost	20%	20%
Existing space as % of new dev	30%	30%
Current Use Rental range	£86 – 130 psm	£8 – 12 psf
Current Use yield	9.0%	9.0%
Current use Refurbishment cost	£538 psm	£50 psf
Landowner premium	15 - 20%	15 - 20%

Table 4.11 Summary of Commercial Viability Variables for LB Havering, Industrial

Variable	per sq. metre	per sq. foot
Size of development modelled	£4,650 m ²	50,000 ft ²
Base rent	£97 psm	£9 psf
Rental range	£65 – 140 psm	£6 – 13 psf
Yield range	8.0 – 9.0 %	8.0 – 9.0 %
Base Build costs (90% gross to net)	£742 psm	£69 psf
External works	10%	10%
Fees	10%	10%
Contingency	5%	5%
On-site S106 costs	£0 psm	£0 psf
Finance rate	7%	7%
Profit on cost	20%	20%
Existing space as % of new dev	50%	50%
Current Use Rental range	£54 – 86 psm	£5 – 8 psf
Current Use yield	9.5%	9.5%
Current use Refurbishment cost	£323 psm	£30 psf
Landowner premium	15 - 20%	15 - 20%

5 KEY MODELLING RESULTS

Residential

5.1.1 The full dataset in **Appendices A to D** incorporates the complete outputs of the Havering CIL modelling exercise, and this section needs to be read in conjunction with those Appendices. The residual land values shown in the results (compared to Existing Use (benchmark) values), are calculated for the range of financial and other variables noted earlier, which reflect market conditions across the borough.

5.1.2 The review of the CIL regulations in **Section 2** of this Report makes clear that in setting a charge, the Council must:

- strike an appropriate balance between maximising CIL revenue and minimising any adverse impacts on development viability;
- consider viability variations at a site specific level and set the charge at a typical viability position;
- examine differential CIL rates if reasonable;
- review charges in the light of any likely policy changes such as the affordable housing funding regime and likely changes in market conditions over time;
- incorporate a viability 'buffer', so that CIL rates are not set too close to the lower limits of viability; and
- be aware of the impact that CIL rates may have on the potential for viable affordable housing delivery.

5.1.3 The last of these is a particularly important factor in Havering in circumstances where no grant towards affordable housing is likely to be available. **Table 4.3** sets out the assumptions regarding the two levels of affordable housing to be modelled and the tenure split, based on advice from the London Borough of Havering's housing officer and local registered providers. This ensures that, as far as possible, realistic affordable housing scenarios have been tested.

5.1.4 While the full tables are included in **Appendix C**, it is useful by way of explanation to consider the summaries in **Figures 5.1 to 5.4**, which summarise a range of:

- possible CIL rates (left to right);
- Sales value across the borough (right column legend);
- benchmark (Existing) Use Value in coloured horizontal lines (right column legend); and

- the resultant Residual Land Values (scale of vertical bars).

5.1.5 **Figures 5.1 and 5.2** are based on 15% and 25% affordable housing and a density of 30 dwelling units per hectare (uph), applying all of the other parameters in **Table 4.3**. **Figures 5.3 and 5.4** show the equivalent results at a residential density of 80uph.

5.1.6 Several conclusions can be drawn from the analysis:

- the range of residential values across Havering is a key factor in determining a reasonable level of CIL. Predictably, in areas of the borough with high values, higher CIL can reasonably be set. The converse is also true.
- Similarly, the range of benchmark (existing use) values also has a significant impact.
- While the examples in **Figures 5.1 to 5.4** show two different densities and two levels of affordable housing, the residual land value outputs are also different, the higher densities generating higher residual values and thus a greater potential to yield higher rates of CIL. However, reference to **Figures 5.3 and 5.4** and **Appendix C** also shows that increasing density does NOT extrapolate. In fact, higher densities gradually reverse the relationship (initially in low value areas), for the simple reason that residential values in Havering are not at a level that generates significantly higher values to overcome the additional build and associated costs incurred at higher densities. This may of course change as market influences such public transport improvements take place, but currently, this is not the case, and is further support for the view that a moderate rate of CIL should be set, at least at present.

5.1.7 Taking all of the evidence together, suggests that a residential CIL rate at or about £70psm, can be supported across most of Havering, but should be subject to continued monitoring of development activity and the key cost and price parameters, which may allow an early review of the rate imposed. This would be chargeable in addition to the adopted Mayoral CIL, set at £20 psm. The Mayoral CIL has already been included in the modelling exercise as a development cost.

Figure 5.1 15% Affordable Housing at 30 dwelling units per hectare

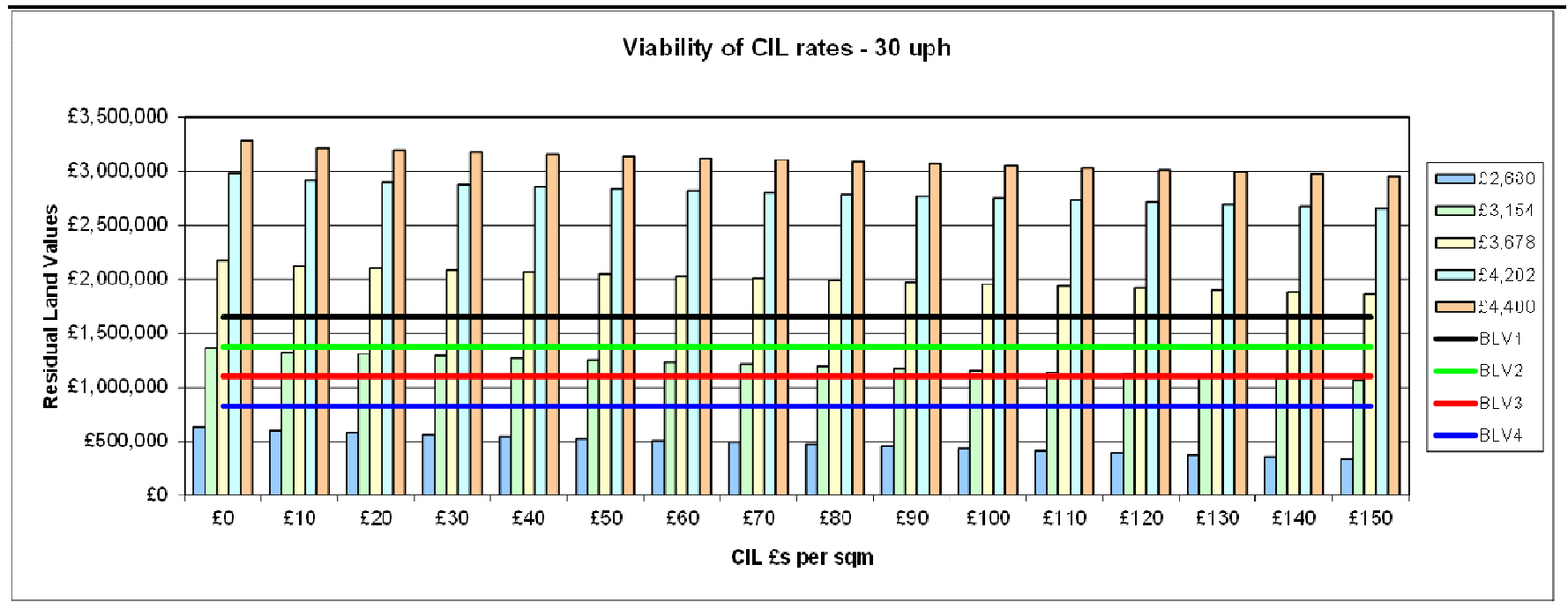


Figure 5.2 25% Affordable Housing at 30 dwelling units per hectare

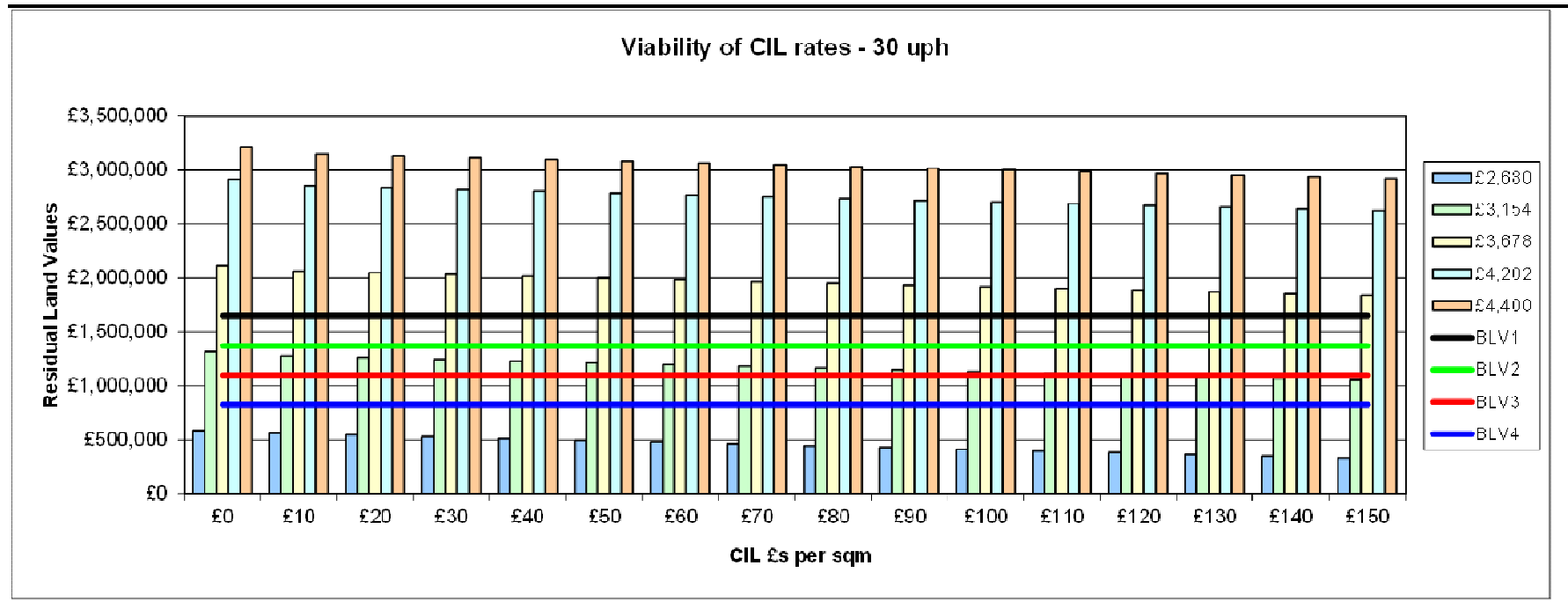


Figure 5.3 15% Affordable Housing at 80 dwelling units per hectare

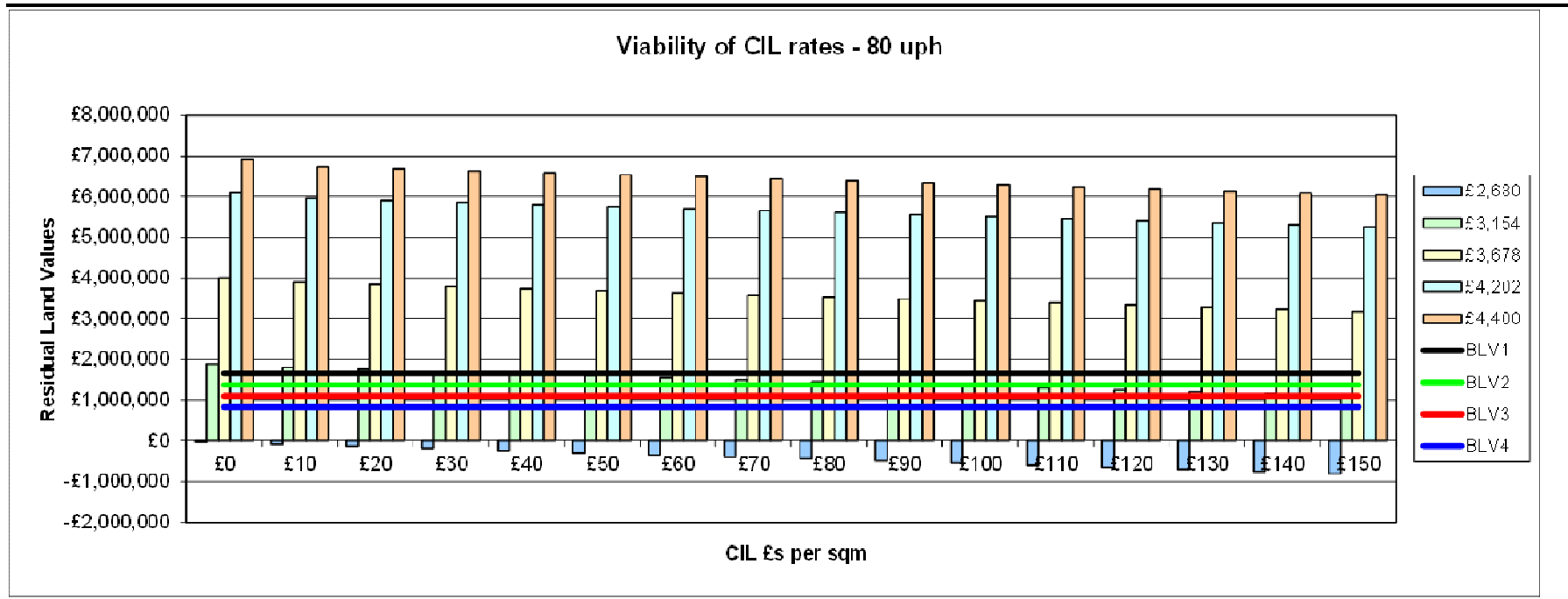
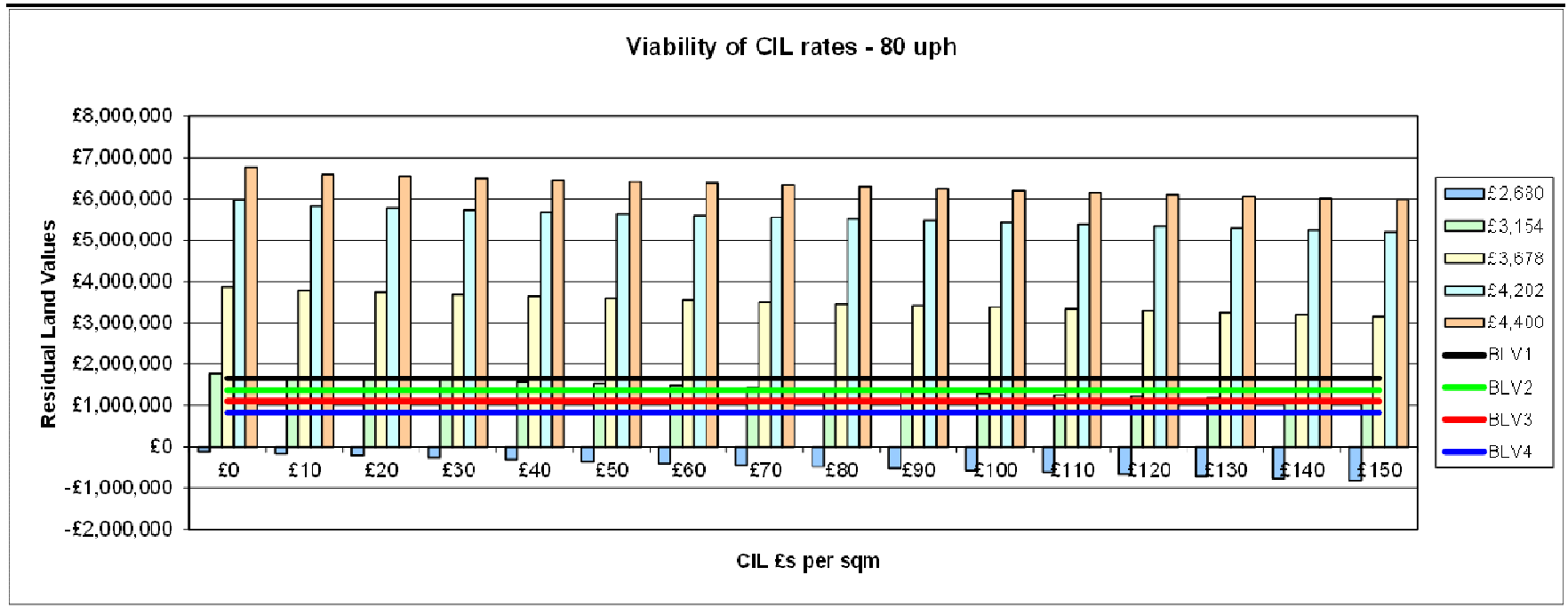


Figure 5.4 25% Affordable Housing at 80 dwelling units per hectare



- 5.1.8 The question of a differential residential rate remains. As can be seen in **Figure 4.3**, the concentration of new developments is in the central part of the borough currently and the adoption of a single standard rate (as in Redbridge would have the advantage that it is simple and robust. However, if only a single standard rate is adopted, this has to be low enough not to preclude development in the lower value parts of Havering and may not yield as much CIL revenue as a series of differential rates, although there is always an element of judgment to be applied when drawing the boundaries and setting the levels of each of those differential rates.
- 5.1.9 In line with practice in most of the neighbouring authorities, we favour the rationale of pursuing a differential approach in Havering. The range of values locally and its effects on viability are reasonably clear. The question then is where should any boundary be? The obvious answer as shown in **Figure 4.3**, is to set the boundary along the A1306, to the south of which current sales evidence is limited and values are averaging only around £270psf (below the threshold noted above in **Figures 5.1** and **5.2**). In the area to the south of the A1306, the Council would be advised, based on the available evidence and modelling, to set a lower rate, around £50psm.
- 5.1.10 In this area, it will be important not only to continue to monitor development activity and the key cost and price variables, but also to undertake an early review, in the light of potentially significant public transport improvements.

Commercial

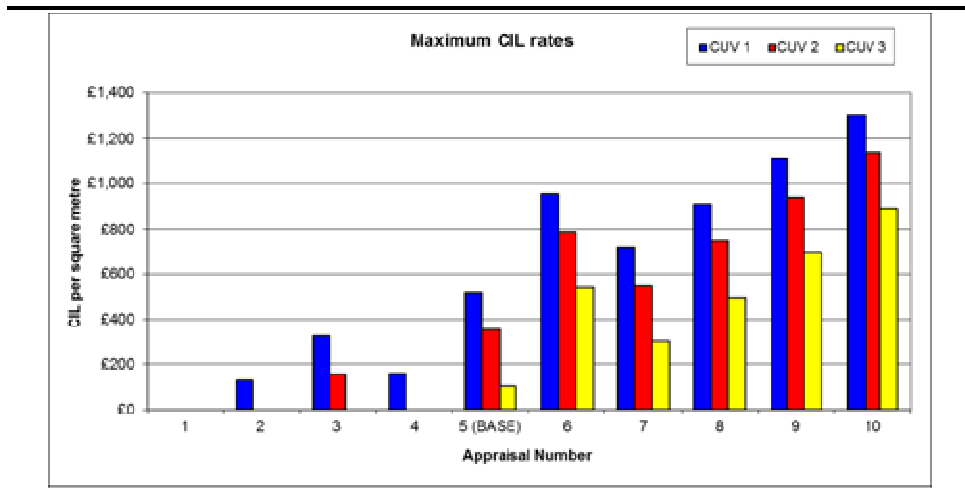
- 5.1.11 The commercial development proposals modelled demonstrate some noticeable variations in viability between uses. The local retail sector shows some potential and, as demonstrated below, has the capacity to support reasonable rates of CIL. The business space market however is more problematic.
- 5.1.12 As noted, rent and yields for commercial space vary according to particular location, building quality, floorspace layout and tenant covenant. The approach, therefore, in the appraisals has been to adopt a 'base' position, as summarised in **Tables 5.1** to **5.4**, and then test sensitivity by adjusting rents and yields, and thus meet the requirement for 'robustness' in viability testing.
- 5.1.13 **Appendix C** details the outcomes, which are summarised in the following section.
- Supermarkets, Superstores and Retail Warehouses*
- 5.1.14 The appraisals for convenience retail developments are generally stronger than other development types, mainly because of the lower investment yields associated with the major national food retail chains, which reflects their historic covenant strength. **Table 5.1** summarises the results where the base CIL appraisal is positive, almost throughout. Based on the lower two current use values, and adopting a suitable 'buffer' we would suggest a CIL rate of £175psm. This could reasonably be applied to any large space users, where the floorspace is greater than 2,000 sq metres. The Mayoral CIL is additional

but included within the modelling exercise as a cost. This is summarised in **Figure 5.5**.

Table 5.1 Viability Assessment of Large Scale Retail Development above 5,000 sq m

	Change in Rent from Base	EUV 1	EUV 2	EUV 3
Appraisal 1	-5%	£324	£156	£0
Appraisal 2	0%	£519	£351	£106
Appraisal 3	5%	£715	£547	£301
Appraisal 4	0%	£157	£0	£0
Appraisal 5 (base)	-	£519	£351	£106
Appraisal 6	0%	£954	£786	£541
Appraisal 7	13%	£1,105	£937	£692
Appraisal 8	17%	£1,301	£1,133	£887
Appraisal 9	20%	£1,496	£1,328	£1,082
Appraisal 10	23%	£1,691	£1,523	£1,278

Figure 5.5 Supermarkets, Superstores and Retail Warehouse Development – above 5,000 sq m



Town Centre Retail Units

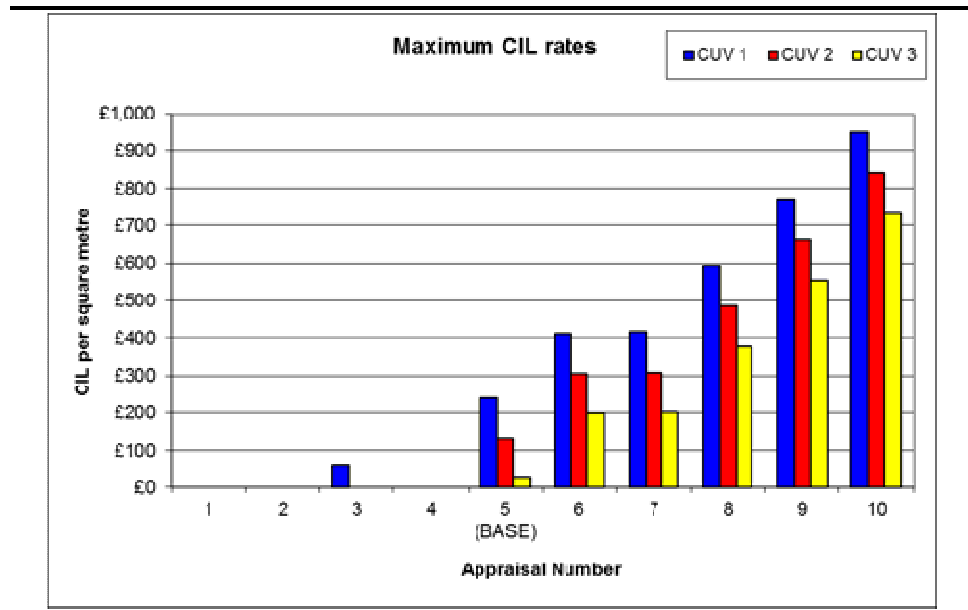
5.1.15 While town centre retail schemes, based on smaller units, are somewhat less financially robust, as the results demonstrate in **Table 5.2**, they nevertheless are still capable of yielding a reasonable rate of CIL.

Table 5.2 Viability Assessment of Town Centre Retail Development

	Change in Rent from Base	EUV 1	EUV 2	EUV 3
Appraisal 1	-18%	£0	£0	£0
Appraisal 2	-11%	£0	£0	£0
Appraisal 3	-5%	£62	£0	£0
Appraisal 4	0%	£0	£0	£0
Appraisal 5 (base)	-	£239	£132	£24
Appraisal 6	0%	£412	£305	£198
Appraisal 7	5%	£416	£309	£202
Appraisal 8	9%	£594	£486	£379
Appraisal 9	13%	£771	£663	£556
Appraisal 10	17%	£948	£841	£733

5.1.16 As illustrated in **Figure 5.6**, based on the lower EUV rates and applying a suitable 'buffer', we would recommend a CIL rate of £50psm. This would apply to all retail developments of less than 2,000 sq m within town centres as defined as Metropolitan, District and Local Centres in the Havering Core Strategy, 2008.

Figure 5.6 Town Centre Retail Development



Office and Industrial Development

5.1.17 In contrast to the retail sector, the office and industrial values are not sufficient to support a positive rate of CIL at this time, but this may change in future. While we have tested a range of scenarios based on different levels of rental growth without identifying a positive CIL rate, should an improving market occur, yields would also improve and this would reduce the level of rental growth required. Currently, the summary results in **Tables 5.3** and **5.4** for Offices and Industrial are conclusive.

Table 5.3 Viability Assessment of Office Development

	Change in Rent from Base	CUV 1	CUV 2	CUV 3
Appraisal 1	-25%	£0	£0	£0
Appraisal 2	-15%	£0	£0	£0
Appraisal 3	-7%	£0	£0	£0
Appraisal 4	0%	£0	£0	£0
Appraisal 5 (base)	-	£0	£0	£0
Appraisal 6	0%	£0	£0	£0
Appraisal 7	6%	£0	£0	£0
Appraisal 8	12%	£0	£0	£0
Appraisal 9	17%	£0	£0	£0
Appraisal 10	21%	£0	£0	£0

Table 5.4 Viability Assessment of Industrial Development

	Change in Rent from Base	CUV 1	CUV 2	CUV 3
Appraisal 1	-25%	£0	£0	£0
Appraisal 2	-15%	£0	£0	£0
Appraisal 3	-7%	£0	£0	£0
Appraisal 4	0%	£0	£0	£0
Appraisal 5 (base)	-	£0	£0	£0
Appraisal 6	0%	£0	£0	£0
Appraisal 7	6%	£0	£0	£0
Appraisal 8	12%	£0	£0	£0
Appraisal 9	17%	£0	£0	£0
Appraisal 10	21%	£0	£0	£0

Hotels

- 5.1.18 The hotel market, especially at the budget end of the range, such as Premier Inn and Travelodge, is active and while there is very little real local evidence to draw upon, several neighbouring authorities have proposed levying CIL on these developments. Our modelling (see **Appendix D**) suggests that this form of development could support a reasonable CIL rate of between £30 and £90psm, depending on existing use values. We would, therefore, propose suggest a CIL rate of £20psm.

All Other Development

- 5.1.19 We have also considered other uses in this study which might merit the application of CIL. We do not favour a 'blanket' rate for other uses as some local authorities have, because of the lack of robust evidence for individual uses such as schools, utilities etc, on which to base a rate. The exception is hotels.

6 CONCLUSIONS

6.1.1 The results of this appraisal study highlight differences in viability for different uses. This presents the Council with a choice of CIL strategy; that is either:

- a standard rate for all uses across the borough which in order to meet the requirements of the Regulations, suggests a 'lowest common denominator' approach , in order that most development proposals remain viable; or,
- a variable rate depending on use, scale of development and location within the borough.

6.1.2 While a standard rate has the advantage of simplicity and has been adopted, for example, in LB Redbridge, the disadvantage is that potential CIL income is lost from higher value uses and thus the Council's ability to fund infrastructure is undermined. As in most authorities, we strongly recommend the differential route.

6.1.3 In terms of sensitivity testing, the CIL rate adopted is comparatively insignificant. Changes in sales values, build costs, profit margins and existing use values are far more likely to affect viability. Nevertheless, the CIL regulations oblige Councils to adopt rates which in most cases, do not make viable proposals unviable, and thus the need for a viability 'buffer'.

6.1.4 In summary, **Table 6.1** represents our recommendations for CIL rates in the borough by land use type, the residential rate being the only use with a variation based on location.

Table 6.1 Recommended Levels of CIL for Principal Types of Development in Havering, excluding the Mayoral CIL

Type of Development	CIL Rates £ per square metre Net additional floorspace
Open Market Residential north of the A1306	£70
Open Market Residential south of the A1306	£50
Office and Industrial	£0
Retail – supermarkets, superstores and retail warehouses above 2,000m ² gross internal area	£175
Retail – below 2,000 m ² gross internal area in defined as defined as Metropolitan, District and Local Centres in the Havering Core Strategy, 2008.	£50
Hotel	£20
All other development	£0

6.1.5 As this study makes clear, development appraisal variables are very sensitive to change and, in a period following an extended property market recession, when market conditions are showing marked improvement, we recommend that the Council maintains close monitoring of market changes, with a view to amending CIL rates, whenever justifiable in the future.