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Camden Community Infrastructure Levy: Viability Update Study

Prepared for

London Borough of Camden

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Contents

1	Executive Summary	3
2	Introduction	6
3	Methodology and appraisal inputs	17
4	Development appraisals	22
5	Appraisal outputs	29
6	Assessment of the results	31
7	Conclusions and recommendations	34

Appendices

Appendix 1 - B1 Use appraisal results
Appendix 2 - Hotel appraisal results

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1 Executive Summary

1.1 The London Borough of Camden ('the Council') adopted its Community Infrastructure Levy ('CIL') Charging Schedule on 1 April 2015[1]. The CIL rates are consequently embedded into both planning requirements and the land market.

1.2 The Charging Schedule is based on evidence gathered in September 2012, at which point the residential market had recovered - to a degree – from a deep recession, with sales values increasing significantly from the lowest point in the cycle in June 2009, exceeding the previous peak values of August 2008 in August 2010. The residential markets have remained sufficiently buoyant and there is no evidence that the Council's adopted CIL rates (indexed to current costs) deter schemes from coming forward.

1.3 By contrast, as at September 2012, although the B1 office and hotel markets had recovered to a degree from the recession in 2007-2009, they were still below the values seen prior to the recession. Since this point however, the market has seen a marked improvement and in particular, central London has seen significant growth in values and a number of new developments coming forward. The Council has also seen an increase in the number of applications for new B1 use developments, including research and development space. In addition, there has been an increase in applications for hotels within the Central Area/current CIL Zone A ('CIL Zone A') of the Borough. The market for such commercial uses outside CIL Zone A has remained steady with less of a marked increase in developments coming forward and market movement. Consequently, the adopted CIL rates (indexed to current costs) outside CIL Zone A remain appropriate for offices and hotels, balancing delivery of development and contributing towards infrastructure to support growth.

1.4 In light of the above, the Council commissioned BNP Paribas Real Estate to undertake a review of the potential for developments of B1 uses and hotels to accommodate CIL rates in the Central Area/CIL Zone A of the Borough. This review therefore seeks to establish whether there is scope for such developments to viably contribute a greater amount than currently sought towards the delivery of necessary supporting infrastructure identified by the Infrastructure Delivery Plan ('IDP').

1.5 Accordingly, this report considers the rates adopted in the Central Area/CIL Zone A for B1 uses and hotels in combination with the cumulative impact of the requirements of the Council's adopted Local Plan. This is in line with the requirements of the National Planning Policy Framework ('NPPF'), National Planning Practice Guidance ('NPPG') and the Local Housing Delivery Group guidance 'Viability Testing Emerging Local Plans: Advice for planning practitioners' (June 2012).

Methodology

1.6 The study methodology compares the residual land values of a range of development typologies on sites throughout the Borough to their value in its current use (plus a premium), herein after referred to as 'benchmark land value'. If a development incorporating the Council's policy requirements including a given level of CIL generates a higher residual land value than the benchmark land value, then it can be judged that the site is viable and deliverable. Following the adoption of emerging Local Plan policies, developers will need to reflect policy requirements in their bids for sites, providing that the residual land value does not fall below a site-specific benchmark land value, determined at the time of each individual application.

[1] GVA CIL Economic Viability Assessment September 2012 (https://consultations.wearecamden.org/culture-environment/camden-cil-preliminary/supporting_documents/GVA%20Camden%20CIL%20Report%20Final%20Sep%202012.pdf)

1.7 The study utilises the residual land value method of calculating the value of each development typology. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance, sustainability requirements, Section 106 contributions 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.

1.8 The viability analysis in this study provides a high level understanding of the viability of potential development sites in the CIL Zone A of the Borough within the context of the cumulative impact of the Council's planning policies. It should be noted that some schemes may still require more detailed site and scheme specific viability analysis when they come forward through the development management process where further detailed information on infrastructure or site costs becomes available.

Key findings

1.9 The results of this study are reflective of current market conditions, which will inevitably change over the medium term. It is therefore important that the Council keeps the viability situation under review so that policy requirements can be adjusted should conditions change markedly.

1.10 Some schemes tested were unviable due to market factors, rather than the impact of the Council's policy requirements. These schemes will not come forward until changes in site-specific market conditions and their current unviable status should not be taken as an indication that the Council's requirements cannot be accommodated on other schemes. In addition, it is worth noting that some schemes would be unviable even if the Council adopted a zero CIL. We therefore recommend that the Council pays limited regard to these schemes, as they are unlikely to come forward unless there are significant changes to main appraisal inputs such as rents, investment yields and construction costs.

1.11 The key findings of the study are as follows:

B1 Use development

1.12 The Council has identified that there is an increasing amount of B1(c) Research and Development space coming forward in the Borough, for which there is currently no CIL charge in the adopted charging schedule. We consequently undertook research into market evidence for B1(a) Offices and B1(c) Research and Development space. Our research using online sources did not identify a differential between the two uses in the marketing and letting of such space. Discussions with active local agents identified that in their experience laboratories within Camden are either treated as ancillary office space and rentalised as such, or are provided on a serviced laboratory basis. In the instances where B1(c) space is offered on a serviced provider basis, the provider tends to be an educational facility who would qualify for charitable relief in the calculation of CIL. Given this position, we recommend that the Council considers consolidating these uses into a single B1 Use CIL charge within the Borough.

1.13 The majority of the B1 use development is located within the Central Area (CIL Zone A), which has seen significant market improvement since the previous viability study supporting the adopted charging schedule was undertaken. We also understand that the office market has matured in the Kings Cross development with space securing tenants such as Google, Louis Vuitton, Universal Music and Havas. There is a considerable amount of consented commercial floorspace that has been built out and there remains a fair amount more in the pipeline still to be delivered. Our research into Offices in the Central Area (CIL Zone A) of Camden has identified that rents for space have risen significantly since the viability study underpinning the last charging schedule was undertaken and yields have sharpened improving the viability of such schemes substantially.

1.14 The results of our appraisals for offices in the Central Area including Kings Cross (CIL Zone A) indicate that developments of such uses would be able to absorb a CIL rate of £110 per square metre, which in our experience would allow for a more than appropriate buffer to account for market changes (see **Appendix 1**). This CIL liability would amount to circa 1.5% of development costs.

Hotel development

1.15 As with B1 use development, the hotel market has improved significantly since the last charging schedule was assessed and adopted. This has been reflected in the significant quantum of applications for hotel developments and schemes having come forward in the central Area (CIL Zone A) of the Borough. The results of our appraisals for hotels in the Central Area (CIL Zone A) indicate that developments of such uses would be able to absorb a CIL rate of £110 per square metre (see **Appendix 2**) whilst allowing for a buffer from the maximum rate. This CIL liability amounts to circa 1.6% of development costs.

Summary

1.16 Table 1.16.1 below summarises our recommended revisions to Camden's CIL Charging Schedule in light of the results of our appraisals. The proposed rates are shown in bold whilst the adopted Charging Schedule rates are shown below with the corresponding 2019 indexed figures (in line with the requirements of CIL Regulation 40 (as amended)) are shown in italics.

Table 1.16.1: Potential revisions to CIL Charging Schedule

Use	CIL Tariff (£ per sq. m)		
	Zone A (Central)	Zone B (Rest of Camden)	Zone C (Highgate, Hampstead)
Residential below 10 dwellings (or 1,000 sq m)	**£613** £500 *(£613.90)*		
Residential of 10 or more dwellings (or above 1,000 sq m) and private care residential homes with a degree of self-containment	**£184** £150 *(£184.17)*	**£306** £250 *(£306.95)*	**£613** £500 *(£613.90)*
Retail (including bar / restaurant / entertainment and other town centre uses)	**£30** £25 *(£30.69)*		
B1 – Office, Research and Development	**£110** £45 *(£55.25)* / £0[2]	**£30** £25 *(£30.69)* / £0[2]	
Student housing	**£214** £175 *(£214.86)*	**£491** £400 *(£491.12)*	**£491** £400 *(£491.12)*
Hotel (including tourist hostels)	**£110** £40 *(£49.11)*	**£36** £30 *(£36.83)*	**£36** £30 *(£36.83)*
Health, Education, Community meeting spaces, Police, Fire, Water Waste Management and related infrastructure, Care homes with no self-containment subsidised by the public sector	**£0** £0	**£0** £0	**£0** £0
Industry, warehousing	**£0** £0	**£0** £0	**£0** £0
Other commercial uses	**£30** £25 *(£30.69)*	**£30** £25 *(£30.69)*	**£30** £25 *(£30.69)*

[2] Currently Adopted CIL Charging Schedule (April 2015) specifies a charge on offices as opposed to B1 development.

2 Introduction

2.1 The Council has commissioned this study to contribute towards a partial review of its adopted CIL Charging Schedule, which has been in place since 1 April 2015. The adopted CIL rates are consequently embedded into both planning requirements and the land market.

2.2 The evidence base that underpinned that adopted CIL Charging Schedule was compiled in in September 2012, at which point the residential market had recovered, with sales values increasing significantly from the lowest point in the cycle in June 2009, exceeding the previous peak values of August 2008 by August 2010. By contrast, as at September 2012, B1 office use and hotel markets had recovered to a degree from the recession in 2007-2009. However, since this point the market has seen significant growth in rents and compression in yields, resulting in higher capital values, with a number of new developments coming forward in the Central Area of the Borough. The Council has also seen an increase in the number of applications for new B1 use developments, including research and development space, and hotels in this area.

2.3 In light of these market trends, the Council commissioned BNP Paribas Real Estate to undertake a review of the potential for developments of B1 uses and hotels to accommodate CIL rates in the Central Area (CIL Zone A) of the Borough. This review therefore seeks to establish whether there is any scope for such developments to viably contribute a great amount than currently sought towards the delivery of necessary supporting infrastructure identified by the IDP.

2.4 In terms of methodology, we have adopted standard residual valuation approaches to test the viability of these uses based on a number of typologies, including the impact on viability of the Council's planning policies alongside the adopted level of CIL and alternative amounts of CIL. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique), mean that conclusions must always be tempered by a level of flexibility in application of policy requirements on a site-by-site basis.

2.5 We would highlight that the purpose of this viability study is to assist the Council in understanding changes to the capacity of schemes to absorb alternative CIL rates to those in the adopted Charging Schedule and to support any proposed changes to the Charging Schedule through Examination in Public. The Study therefore provides an evidence base to show that the requirements set out within the NPPF, CIL Regulations and NPPG are met. The key underlying principle is that charging authorities should use evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area.

2.6 As an area wide study this assessment makes overall judgements as to viability of development within the London Borough of Camden and does not account for individual site circumstances which may only emerge when an application comes forward. The assessment should not be relied upon for individual site applications. Scheme specific testing may still be required at the point where they come forward[3].

2.7 This position is recognised within Section 2 of the Local Housing Delivery Group guidance, which identifies the purpose and role of viability assessments within plan-making. This identifies that: *"The role of the test is not to give a precise answer as to the viability of every development likely to take place during the plan period. No assessment could realistically provide this level of detail. Some site-specific tests are still likely to be required at the development management stage. Rather, it is to provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability of*

[3] However, the NPPG notes that once plan policies are adopted, land values should adjust to reflect the requirements and that price paid for the land should not be used as a justification for failing to provide policy compliant developments (see for example paragraph 002).

development needed to deliver the plan".

Economic and housing market context

2.8 The International Monetary Fund ("IMF") accurately anticipated in its World Economic Outlook Report ('WEO') that growth would slow in 2018, with its initial forecast of 1.4%. This was revised to 1.5% between April 2017 and April 2018, at which point it was briefly increased to 1.6% but was revised down to 1.4% in July 2018, where it has remained up to the IMF's most recent WEO Report published in July 2019.

2.9 The IMF growth forecasts for 2019 and 2020 show a small increase in GDP but at low levels by historic standards. The forecasts were revised downwards in April 2019 from those published in January 2019 at 1.2% (down from 1.5%) and 1.4% (down from 1.6%) respectively. These remain broadly the same in July 2019, however the 2019 figure has been revised up by 0.1% to 1.3%. The July WEO Report identifies that this baseline projection, *"…The upward revision reflects a stronger-than-anticipated first quarter outturn boosted by pre-Brexit inventory accumulation and stockpiling. This is likely to be partially offset by payback over the remainder of the year. Monthly GDP for April recorded a sharp contraction, in part driven by major car manufacturers bringing forward regular annual shutdowns as part of Brexit contingency plans. The forecast assumes an orderly Brexit followed by a gradual transition to the new regime. However, as of mid-July, the ultimate form of Brexit remained highly uncertain".*

2.10 This sentiment is shared by the more recent Bank of England ("BoE") Monetary Policy Committee's ("MPC") August 2019 Inflation Report, which identifies that, *"Brexit-related developments, such as stockbuilding ahead of previous deadlines, are making UK data volatile. After growing by 0.5% in 2019 Q1, GDP is expected to have been flat in Q2, slightly weaker than anticipated in May. Looking through recent volatility, underlying growth appears to have slowed since 2018 to a rate below potential, reflecting both the impact of intensifying Brexit-related uncertainties on business investment and weaker global growth on net trade. Evidence from companies, up to the middle of July, suggests that uncertainty over the United Kingdom's future trading relationship with the European Union has become more entrenched. The labour market remains tight. Annual pay growth has been relatively strong. Consumer spending has remained resilient. CPI inflation was 2.0% in June and core CPI inflation was 1.8%".*

2.11 The BoE and IMF continue to highlight the key sources of risk to the global outlook to be "*trade and technology tensions that dent sentiment and slow investment*" (IMF July 2019 WEO). The BoE August inflation report identifies that, *"Since May, global trade tensions have intensified and global activity has remained soft. This has led to a substantial decline in advanced economies' forward interest rates and a material loosening in financial conditions, including in the United Kingdom. An increase in the perceived likelihood of a no-deal Brexit has further lowered UK interest rates and led to a marked depreciation of the sterling exchange rate".* The IMF July 2019 report sets out that, *"Global growth remains subdued. Since the April World Economic Outlook (WEO) report, the United States further increased tariffs on certain Chinese imports and China retaliated by raising tariffs on a subset of US imports. Additional escalation was averted following the June G20 summit. Global technology supply chains were threatened by the prospect of US sanctions, Brexit-related uncertainty continued, and rising geopolitical tensions roiled energy prices".*

2.12 Inflation, which was a particular concern in 2018 economic reporting, has eased in 2019 with both the BoE and IMF attributing the easing in inflationary pressures to the drop in energy prices. The BoE reports that *"CPI inflation had been 2.0% in May. It was likely to fall below the 2% target later this year, reflecting falls in energy prices. Core CPI inflation had been 1.7% in May, and core services CPI inflation had remained slightly below levels consistent with meeting the inflation target in the medium term".* The BoE August Report forecasts that "*after falling in the near term, CPI inflation is projected to rise above the 2% target, as building excess demand leads to firmer domestic inflationary pressures. Conditioned on*

prevailing asset prices, CPI inflation reaches 2.4% by the end of the three-year forecast period".

2.13 The UK's low unemployment rate, which was reported by the IMF to be *"close to historic lows"* in April 2018, is identified to have continued to fall through 2019. Of interest the BoE January 2018 Report identified that the unemployment rate had fallen, "*to a little below the MPC's estimate of the equilibrium rate made in February 2018. The MPC judges that fall has reflected a cyclical rise in labour demand… The number of vacancies relative to the size of the workforce — a key indicator of labour demand — has risen to a historical high… And the rate at which those already in employment are switching to new jobs — which will partly reflect the degree to which employers are competing to hire employees — has risen to close to its pre-crisis level".* When unemployment falls below the equilibrium rate, wage and inflationary pressures will tend to build, as companies need to pay more to recruit and retain staff. The August 2019 BoE Report identifies that, *"although pay growth has risen over the past year, it remains lower than before the financial crisis, despite a lower unemployment rate. That is likely to reflect subdued growth in productivity — the amount of output that can be produced per worker — which has reduced the wage rises that companies can afford to offer their employees".*

2.14 The BoE's August 2019 Monetary Policy Summary confirmed that, "*The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 31 July 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%."* The rate remains low by historic standards and we consider that any additional rise in interest rate that may occur will likely be introduced slowly and steadily to eliminate economic shock. Forecasters still expect interest rates to rise gradually over the next few years, and anticipate rates to reach 2% by 2021.

2.15 The housing and commercial property markets are inherently cyclical. The downwards adjustment in property prices during the financial crisis in 2008/9 was followed by a period of recovery up to 2012, at which point London office markets in particular began an increased growth trajectory recovering and in some instances exceeding pre-recession rent and yield levels. This increased confidence and recovery subsequently spread to increased regional investment and market improvement.

2.16 We set out in Figures 2.16.1 and 2.16.2 below London office market rents and yields respectively.

Figure 2.16.1 London office markets rents

Source: BNP Paribas Real Estate Research

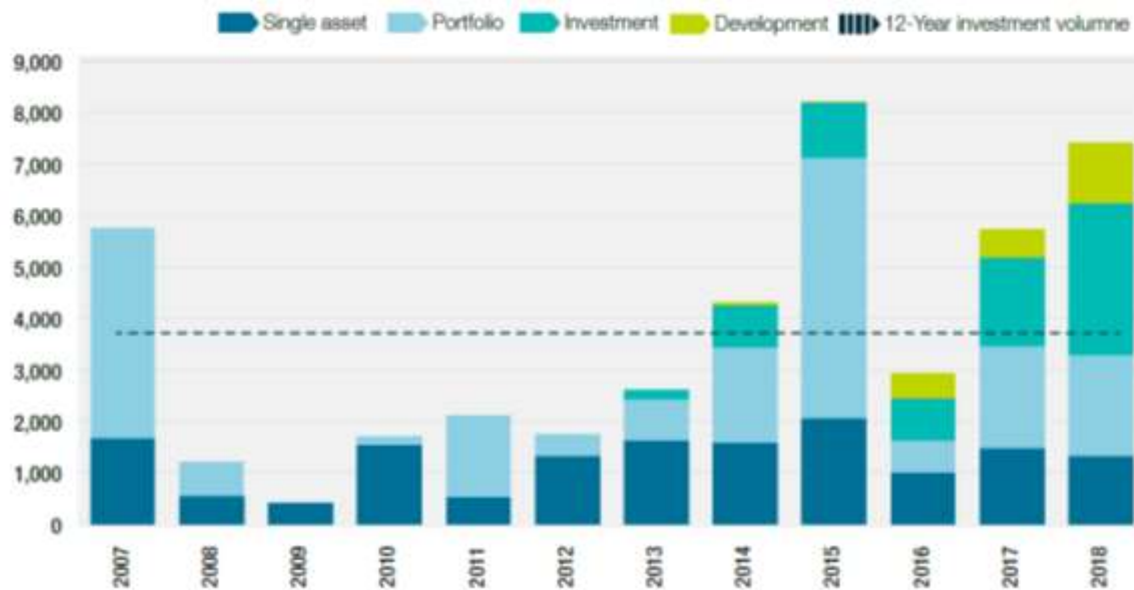
Figure 2.16.2 London office markets yields

Source: BNP Paribas Real Estate Research

2.17 Our Central London Office Market Update Q4 2018 identified that *"Despite continued uncertainty surrounding the UK's exit from the European Union, Central London's solid fundamentals have continued to act as a major draw for occupiers and investors. The capital's rich and diverse offering of luxury retail, theatre, fashion and art underpin its world leading cultural status. The Technology sector continues to grow and thrive with London retaining the top spot in Europe for technology investment funding in 2018, raising £1.8bn. Furthermore, Central London's status as Europe's leading start-up hub was reaffirmed by 6.5% annual growth in the number of start-ups registering in London last year. The long anticipated arrival of Crossrail later this year will secure the capital's long term status as a world class City, despite short term instability"*. Our Q2 2019 Central London Office Report provided an update to this position, identifying that *"Despite weak GDP figures, employers are continuing to expand their workforce. Oxford Economics suggests Inner London office based employment grew by 2.6% in 2018 and expect 1.7% growth in 2019, albeit a slowdown in the pace of growth this still outpaces growth in wider London (1.5%). Regardless of the political uncertainty and the upcoming Brexit deadline, occupiers are continuing to lease new space across Central London with take-up in H1 2019 reaching 5.9m sq ft, in-line with the long term half year average"*. In addition, the our Q2 report goes on to identify that, *"continued low vacancy of the best quality space has resulted in prime rental growth across several submarkets"*. This position is shared by a number of other property company's reports on the market including Cushman and Wakefield and JLL.

2.18 Figure 2.18.1 below, published in Knight Frank's UK Hotel Capital Markets Investment Review 2019, sets out details of the UK investment volumes between 2007 and 2018. Knight Frank reports that 2018 was a *"phenomenal year of investment activity in the UK hotel market, due to an exceptional level of portfolio hotel transactions, combined with resilient trading performance, has propelled full year 2018 total investment volume to £7.4 billion."* As can be seen in Figure 2.18.1 there has been a significant increase in hotel development activity in the last three years.

Figure 2.18.1 UK total hotel investment volumes 2007-2018



Source: Knight Frank Research – UK Hotel Capital Markets Investment Review 2019

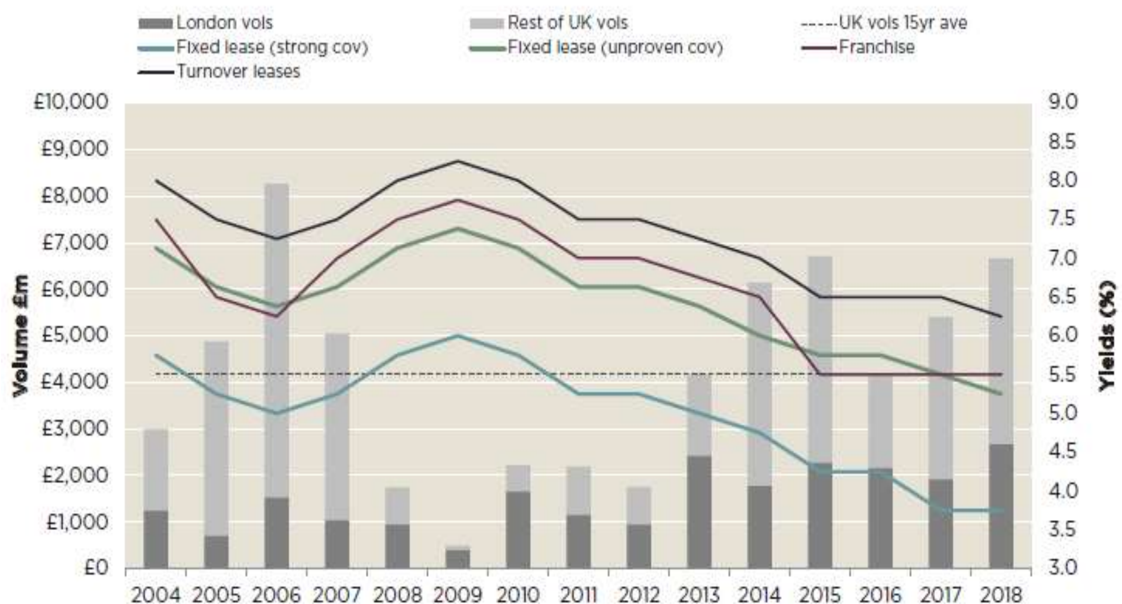
2.19 Knight Frank goes on to identify that *"despite the prolonged Brexit negotiations and the uncertainty surrounding how the UK will make its exit from the EU, London continues to remain attractive to hotel investors, with opportunistic investors stimulated by the uncertainty created by the UK's decision to leave the EU and attractive levels of growth prospects over the longterm. The continued strength of the global economy at the start of 2018, the liquidity of the UK property market and the competitive value of the pound are all factors that have helped attract safe haven capital flows to the UK and, in particular, London, as a leading global city".*

2.20 The Knight Frank report further identifies that *"the acquisition of hotel sites and the forward funding of hotel projects equated to 21% of total investment in London, with the conversion of office or retail space deemed a viable option to overcome barriers to entry, particularly for full service upper-upscale and luxury hotel developments*".

2.21 James Roberts, Knight Frank's Chief Economist sets out in the Newmark Knight Frank Global outlook 2019 Report that, "*The prime yield compression stage of the property investment cycle has either completed, or is close to the end, in the leading global cities. However, tight development pipelines over several years have created leasing supply crunches, particularly for offices and logistics property. This is coinciding with stronger occupier demand. We see the search for returns pushing investors up the risk curve to pursue refurbishment and development opportunities; or diversifying into the specialist sectors. In the coming years, investors will adapt to a world with fewer certainties, but plenty of opportunities for those prepared to be more adventurous".*

2.22 Savills 'UK Hotel Investment Report 2019' identifies that, *"Transaction volumes and prime yield Year-end 2018 volumes topped 2017 totals and exceeded the 15-year average by 59%. This continued investor appetite has resulted in the marginal hardening of yields."* They go on to identify that London saw *"transaction volumes of £2.7bn in 2018, exceeding the previous 2013 peak by 10.2%".* The improvement in the market since the recession in 2009 is illustrated in Figure 2.22.1 below, particularly picking up from 2013 onwards.

Figure 2.22.1 Transaction volumes and prime yield



Source: Savills Research – UK Hotel Investment Report 2019

National Policy Context

The National Planning Policy Framework ('NPPF')

2.23 In March 2012, the old suite of planning policy statements and planning policy guidance was replaced by a single document – the National Planning Policy Framework ('NPPF'). The NPPF has subsequently been supplemented by the National Planning Practice Guidance ('NPPG'). In February 2019, the government issued a revised NPPF and amendments to the NPPG were issued in May 2019 and September 2019.

2.24 The 2012 NPPF provided more in-depth guidance on viability of development than Planning Policy Statement 3, which limited its attention to requiring local planning authorities to test the viability of their affordable housing targets. The 2012 NPPF required that local planning authorities have regard to the impact on viability of the cumulative effect of all their planning requirements on viability. Para 173 of the 2012 NPPF required that local planning authorities give careful attention *"to viability and costs in plan-making and decision-taking"*. The 2012 NPPF required that *"the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened"*. After taking account of policy requirements, land values should be sufficient to *"provide competitive returns to a willing landowner and willing developer"*. The 2019 NPPF places less emphasis on viability and states that, *"plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan"* (Para 34, emphasis added).

2.25 The meaning of benchmark land value for the purpose of establishing viability in accordance with the NPPF and NPPG has been the subject of considerable debate since the publication of the 2012 NPPF. For the purposes of testing the viability of a Local Plan, the Local Housing Delivery Group concluded that the current use value of a site (or a credible alternative use value) plus an appropriate uplift, represents a competitive return to a landowner. Some members of the RICS consider that a competitive return is determined by

market value, although there is no consensus around this view. The government's 2019 NPPF removes the requirement for "competitive returns" in the 2012 NPPF and is silent on how landowner returns should be assessed. The May 2019 NPPG indicates that viability testing of plans should be based on existing use value plus a landowner premium.

CIL Policy Context

2.26 As of April 2015 (or the adoption of a CIL Charging Schedule by a charging authority, whichever was the sooner), the S106/planning obligations system' i.e. the use of 'pooled' S106 obligations, was limited to a maximum of five S106 agreements. Camden implemented its first CIL Charging on 1 April 2015 so had a means of collecting contributions towards community infrastructure at the point at which the limitations on the pooling of planning obligations through S106 came into effect. However, changes in the CIL regulations in September 2019 have removed the pooling restrictions, giving charging authorities a degree of flexibility in how they use Section 106 and CIL. The adoption of a CIL charging schedule is discretionary for a charging authority.

2.27 It is worth noting that some site-specific S106 obligations remain available for negotiation, however these are restricted to site specific mitigation that meet the three tests set out at CIL regulation 122 and paragraph 56 of the NPPF and to the provision of affordable housing.

2.28 The CIL regulations state that in setting a charge, local authorities must strike "*an appropriate balance*" between revenue maximisation on the one hand and the potentially adverse impact upon the viability of development on the other. The regulations also state that charging 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).

2.29 The 2019 CIL Regulations amendments have sought to streamline the adoption process of charging schedules. From September 2019, the previous two-stage consultation has been amended to require a single consultation with stakeholders. Following consultation, a charging schedule must be submitted for independent examination. The NPPG identifies at Para 032 Ref ID: 25-032-20190901 that, *"It is for charging authorities to decide how they wish to consult. The regulations do not specify for how long or how many times charging authorities should consult because charging authorities are best placed to decide how to engage with their local communities and other relevant parties. Where authorities are introducing the levy for the first time, or making significant changes to their levy, the expectation is that charging authorities will consult for a minimum of 4 weeks. Conversely, where only minor changes are proposed a shorter consultation period may be considered appropriate"*. It will then be for Examiners to*, "consider whether charging authorities have given adequate time for consultation on a draft charging schedule, particularly for consultations of less than 4 weeks. In doing so, they should take into account the scale and complexity of the changes proposed"*.

2.30 The payment of CIL is 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 (as amended) still allow a number of reliefs and exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if a material interest in the land is owned by the charity and the development is to be used wholly or mainly for its charitable purpose) are subject to relief. Secondly, local charging authorities may, if they choose, elect to offer exceptional relief from CIL on proven viability grounds. A local charging 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, as permitted by Regulation 50. In each case, an independent expert with suitable qualifications and experience must be appointed by the claimant with the agreement of the local authority to assess whether paying the full CIL charge would have an unacceptable impact on the

development's economic viability.

2.31 The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed if the scheme has not commenced. To be eligible for exemption, Regulation 55 states that the Applicant must enter into a Section 106 agreement; and that the Authority must be satisfied that granting relief would not constitute state aid. It should be noted however that CIL cannot simply be negotiated away or the local authority decide not to charge CIL.

2.32 CIL Regulation 40 includes a vacancy period test for calculating CIL liability so that vacant floorspace can be offset in certain circumstances. That is where a building that contains a part, which has not been in lawful use for a continuous period of at least six months within the last three years, ending on the day planning permission first permits the chargeable development, the floorspace may not be offset.

2.33 The CIL Regulations enable local authorities to set differential rates (including zero rates) for different zones within which development would take place and also for different types of development. The CIL Guidance set out in the NPPG (Para 023 Ref ID: 25-022-2019090125-022-20140612) clarifies that CIL Regulation 13 permits charging authorities to levy *"apply differential rates in a flexible way [including] in relation to geographical zones with the charging authority's boundary; types of development; and/or scales of development"*. Charging authorities taking this approach need to ensure that such different rates are justified by a comparative assessment of the economic viability of those categories of development. Further, the NPPG clarifies that the definition of "use" for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987, although that Order does provide a useful reference point. The NPPG also sets out (Para 024 Ref ID: 25-024-2019090) that charging authorities may also set differential rates in relation to, scale of development i.e. by reference to either floor area or the number of units or dwellings.

2.34 The 2010 CIL Regulations set out clear timescales for payment of CIL, which are varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allow charging authorities to set their own timescales for the payment of CIL under Regulation 69B if they choose to do so. This is an important issue for a Charging Authority 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). To this end, we note that Camden has an Instalments Policy in place for their adopted Charging Schedule.

2.35 The Government published the findings of the independent CIL review alongside the Housing White Paper in February 2017. The White Paper identified at Para 2.28 that the Government *"continue to support the existing principle that developers are required to mitigate the impacts of development in their area, in order to make it acceptable to the local community and pay for the cumulative impacts of development on the infrastructure of their area."* The White Paper summarised the main finding of the CIL review to be that *"the current system is not as fast, simple, certain or transparent as originally intended."*

2.36 As a result, the Government committed *to "examine the options for reforming the system of developer contributions including ensuring direct benefit for communities, and will respond to the independent review and make an announcement at Autumn Budget 2017"*. Revised regulations came into effect on 1 September 2019, which introduced the following changes:

- Consultation requirements to be amended to remove the current two-stage consultation process and replace this with a single consultation.
- Removal of the pooling restrictions contained within Regulation 123.
- Charging authorities will no longer be required to publish a Regulation 123 list.

- Changes to calculations of chargeable amounts in different cases, including where granting of amended scheme under Section 73 leads to an increased or decreased CIL liability.
- Removal of provisions which resulted in reliefs being lost if a commencement notice was not served before a developer starts a development. A surcharge will apply in future but the relief will not be lost.
- Introduction of 'carry-over' provisions for a development, which is amended by a Section 73 permission, providing the amount of relief does not change.
- Charging authorities are to be required to publish an annual infrastructure funding statement, setting out how much CIL has been collected and what it was spent on. Similar provisions to be introduced for Section 106 funds.
- Charging authorities to publish annual CIL rate summaries showing the rates after indexation.

Mayoral CIL

2.37 The Council is required to calculate, collect and enforce the Mayoral CIL. Camden falls within Mayoral CIL Zone 1 in the adopted Mayoral CIL Charging Schedule (MCIL2). A CIL charge of £80 per square metre is levied on most development (i.e. 100 square metres or more, or a development which creates at least one dwelling, even where this is below 100 square metres excluding health, education and affordable housing floorspace). In addition, office, retail and hotel uses located in the Central London area are liable for higher MCIL2 rates of £185 per sq m, £165 per sq m and £140 per sq m respectively.

2.38 This study takes into consideration the implications of the appropriate costs associated with MCIL2.

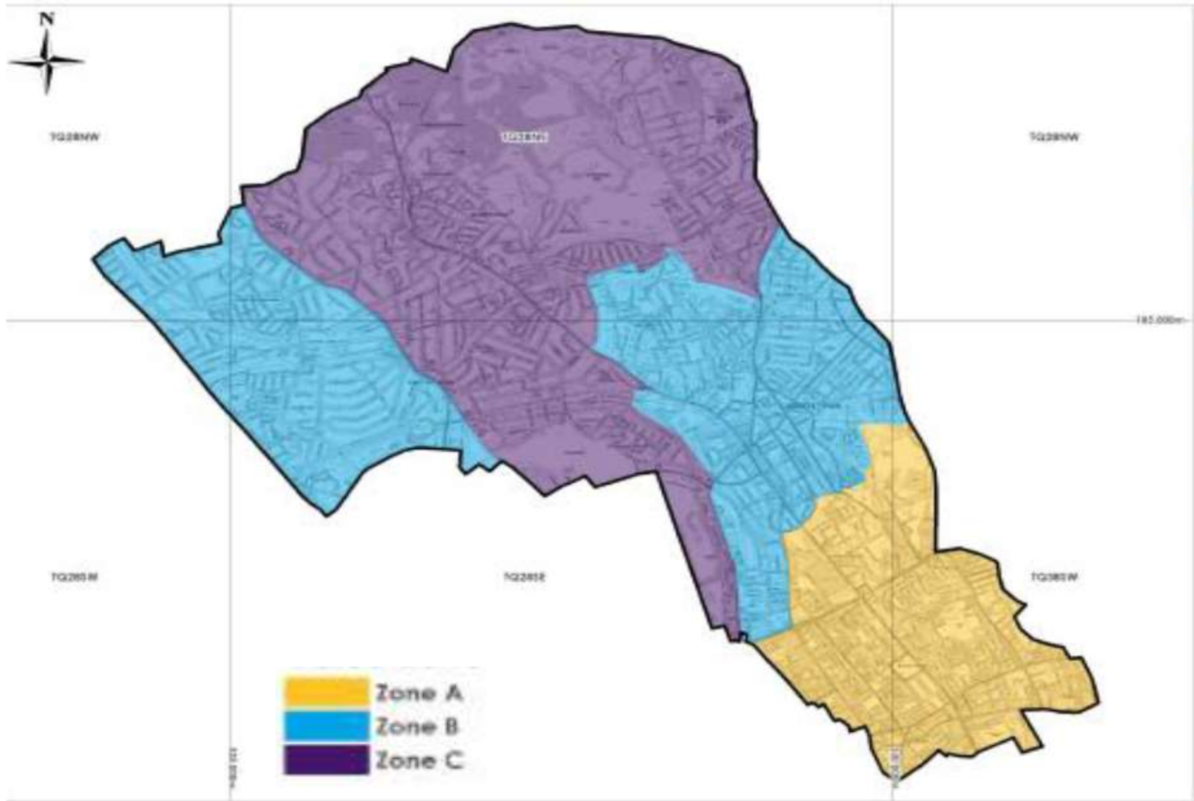
Camden CIL

2.39 The Council approved its current CIL Charging Schedule in March 2015 and it came into effect on 1 April 2015. Table 2.39.1 below summarises the rates of CIL charged and Figure 2.39.1 provides a map of the CIL Charging Zones.

Table 2.39.1: CIL rates in the adopted Charging Schedule

Use	CIL Tariff (pounds per sq. m)		
	Zone A (Central)	Zone B (Rest of Camden)	Zone C (Highgate, Hampstead)
Residential below 10 dwellings (or 1,000sqm)	£500		
Residential of 10 or more dwellings (or above 1,000sqm) and private care residential homes with a degree of self-containment.	£150	£250	£500
Retail (including bar / restaurant / entertainment and other town centre uses)	£25		
Office	£45	£25	
Student housing	£175	£400	£400
Hotel (including tourist hostels)	£40	£30	£30

Figure 2.39.1: Map of CIL rates in the adopted Charging Schedule



Source: Camden CIL Charging Schedule April 2015

Local Policy context

2.40 This study takes into account the policies and standards set out within Camden's adopted Local Plan policies (adopted July 2017). These policies and standards include *inter alia* sustainability, developer contributions towards infrastructure and maximising the supply of self-contained housing from mixed-use schemes. In addition, there are numerous policy requirements that are now embedded in base build costs for schemes (i.e. costs of good design and meeting building regulations, secure by design, landscaping etc.). This study takes into account the cumulative impact of these polies as required by the NPPF.

Development context

2.41 In line with London as whole, Camden has and continues to experience significant change with substantial population growth and increases in demand for housing and employment. Developments in Camden range from conversions of existing buildings to small in-fill sites to major regeneration schemes.

2.42 In particular, Camden has seen significant regeneration in and around the Kings Cross area over the last decade, initially driven by the 2012 Olympic Games, which drove the need for a significant investment. This is one of the largest redevelopments in London extending to 67 acres of former rundown predominantly underused industrial land. Work is still ongoing; however, the placemaking has transformed the area into a new part of the city with a significant number of new homes, offices attracting tenants including Google, a diverse retail and leisure offer as well as schools and a university.

2.43 The commercial property market has improved since the current CIL Charging Schedule evidence was produced, particularly in the Central Area/CIL Zone A. This in conjunction with the wider regeneration taking place, has resulted in the Council having experienced a significant increase in planning applications for and delivery of B1 floorspace and hotels in the Central Area of the Borough.

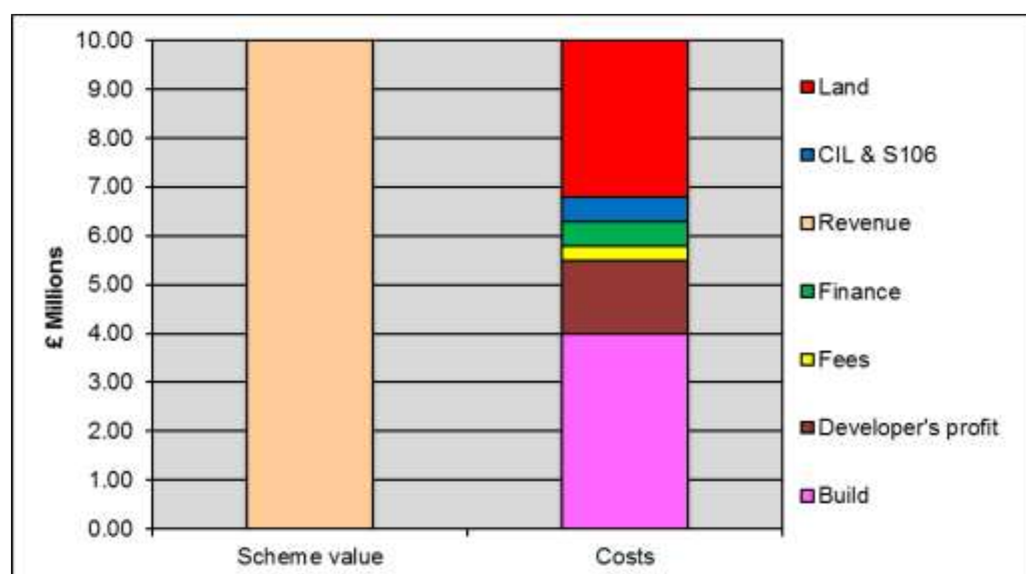
3 Methodology and appraisal inputs

3.1 The NPPG on CIL identifies at Para 020 Ref ID: 25-020-20190901 that *"charging authorities should use an area based approach, involving a broad test of viability across their area, as the evidence to underpin their charge*". The NPPG goes on to identify that, *"there are a number of valuation models and methodologies available to charging authorities to help them in preparing this evidence. Charging authorities should use evidence in accordance with planning practice guidance on viability".*

3.2 Our methodology follows standard development appraisal conventions, which is advocated by the NPPG on Viability, using locally-based development typologies and assumptions that reflect local market circumstances and emerging planning policy requirements. The study is therefore specific to Camden and reflects the Council's planning policy requirements.

Approach to testing development viability

3.3 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. For a commercial scheme, scheme value equates to the capital value of the rental income after allowing for rent free periods and purchaser's costs. The model then deducts the build costs, fees, interest, CIL, Section 106 contributions and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the red portion of the right hand bar in the diagram.



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

3.5 Problems with key appraisal variables can be summarised as follows:

- Development costs are subject to national and local monitoring and can be reasonably accurately assessed in 'normal' circumstances. In boroughs like Camden, some sites will be previously developed. These sites can sometimes encounter 'exceptional' costs such as decontamination. Such costs can be very difficult to anticipate before detailed site surveys are undertaken but should in normal circumstances be reflected in bids for sites from developers;

- Assumptions about development phasing, phasing of Section 106 contributions and infrastructure required to facilitate each phase of the development will affect residual values. Where the delivery of a planning obligation is deferred, the lower the 'real cost' to the applicant (and the greater the scope for increased affordable housing and other planning obligations). This is because the interest cost is reduced if the costs are incurred later in the development cashflow; and

- While Developer's Profit has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the higher the profit level required by lenders. While profit levels were typically up to around 15% on costs of commercial development at the peak of the market in 2007, banks currently require schemes to show a profit level that is reflective of current perceived risk. Typically, developers and banks have been targeting 20% profit on cost/15% on GDV for commercial schemes dependant on the nature of the scheme.

3.6 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[4]' or another appropriate benchmark to make development worthwhile. The margin above existing use value may be considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.

3.7 Clearly, however, landowners have expectations of the value of their land, which often exceed the value of the current use. Ultimately, if landowners' reasonable 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. However, the communities in which development takes place also have reasonable expectations that development will mitigate its impact, in terms of provision of community infrastructure, which will reduce land values. 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

3.8 In February 2019, the government published a revised NPPF, which indicates at para 34 that *"Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, green and digital infrastructure). Such policies should not undermine the deliverability of the plan"*. The NPPF is not prescriptive on the type of methodology local planning authorities should use when assessing viability. The NPPG on Viability indicates that benchmark land value should be based on existing use value, plus a premium for the landowner. It goes on to note *"the premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements"* (Para 013, Ref ID 10-103-20190509).

[4] For the purposes of this report, existing use value is defined as the value of the site in its existing use, assuming that it remains in that use. We are not referring to the RICS Valuation Standards definition of 'Existing Use Value'.

3.9 Guidance from other planning bodies is also helpful in understanding benchmark land value. The Mayor's Affordable Housing and Viability SPG focuses on decision making in development management, rather than plan making, but indicates that benchmark land values should be based on existing use value plus a premium which should be *"fully justified based on the income generating capacity of the existing use with reference to comparable evidence on rents, which excludes hope value associated with development on the site or alternative uses".*

3.10 The Local Housing Delivery Group published guidance[5] in June 2012, which provides guidance on testing viability of Local Plan policies. The guidance notes that "*consideration of an appropriate Threshold Land Value [or viability benchmark] needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy*".

3.11 In light of the weaknesses in the market value approach, the Local Housing Delivery Group guidance recommends that benchmark land value "*is based on a premium over current use values*" with the "*precise figure that should be used as an appropriate premium above current use value [being] determined locally*". The guidance considers that this approach "*is in line with reference in the NPPF to take account of a "competitive return" to a willing land owner*".

3.12 The examination on the Mayor of London's first CIL charging schedule in January 2012 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." (paragraph 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).

3.13 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).

3.14 It is important to stress, therefore, that there is no single threshold land value at which land will come forward for development, particularly in urban areas. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of demand for the site's current use in comparison to others; how offers received compare to the owner's perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single threshold land value, it is difficult for policy makers to determine the minimum land value that sites should achieve. This will ultimately be a matter of judgement for each planning authority.

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

3.15 Respondents to consultations on planning policy documents in other authorities in London have made various references to the 2012 RICS Guidance on 'Viability in Planning' and have suggested that charging authorities should run their analysis using benchmark land values based on market values. This would be an extremely misleading measure against which to test viability, as market values should reflect *existing policies already in place*, and would consequently tell us nothing as to how future (as yet un-adopted) policies might impact on viability. It has been widely accepted elsewhere that market values are inappropriate for testing planning policy requirements.

3.16 Relying upon historic transactions is a fundamentally flawed approach, as offers for these sites will have been framed in the context of current planning policy requirements, so an exercise using these transactions as a benchmark would tell the Council nothing about the potential for sites to absorb as yet unadopted policies. Various Local Plan inspectors and CIL examiners have accepted the key point that Local Plan policies and CIL will ultimately result in a reduction in land values, so benchmarks must consider a reasonable minimum threshold, which landowners will accept. For local authority areas such as Camden, where the vast majority of sites are previously developed, the 'bottom line' in terms of land value will be the value of the site in its existing use. This fundamental point is recognised by the RICS at paragraph 3.4.4. of their Guidance Note on 'Financial Viability in Planning":

"For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted should be able to meet the cost of planning obligations while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project (the NPPF refers to this as 'competitive returns' respectively). The return to the landowner will be in the form of a land value in excess of current use value".

3.17 The Guidance goes on to state that "*it would be inappropriate to assume an uplift based on set percentages … given the diversity of individual development sites*".

3.18 Commentators also make reference to 'market testing' of benchmark land values. This is another variant of the benchmarking advocated by respondents outlined at paragraph 3.15. These respondents advocate using benchmarks that are based on the prices that sites have been bought and sold for. There are significant weaknesses in this approach which none of the respondents who advocate this have addressed. In brief, prices paid for sites are a highly unreliable indicator of their actual value, due to the following reasons:

- Transactions are often based on bids that 'take a view' on squeezing planning policy requirements below target levels. This results in prices paid being too high to allow for policy targets to be met. If these transactions are used to 'market test' CIL rates, the outcome would be unreliable and potentially highly misleading.

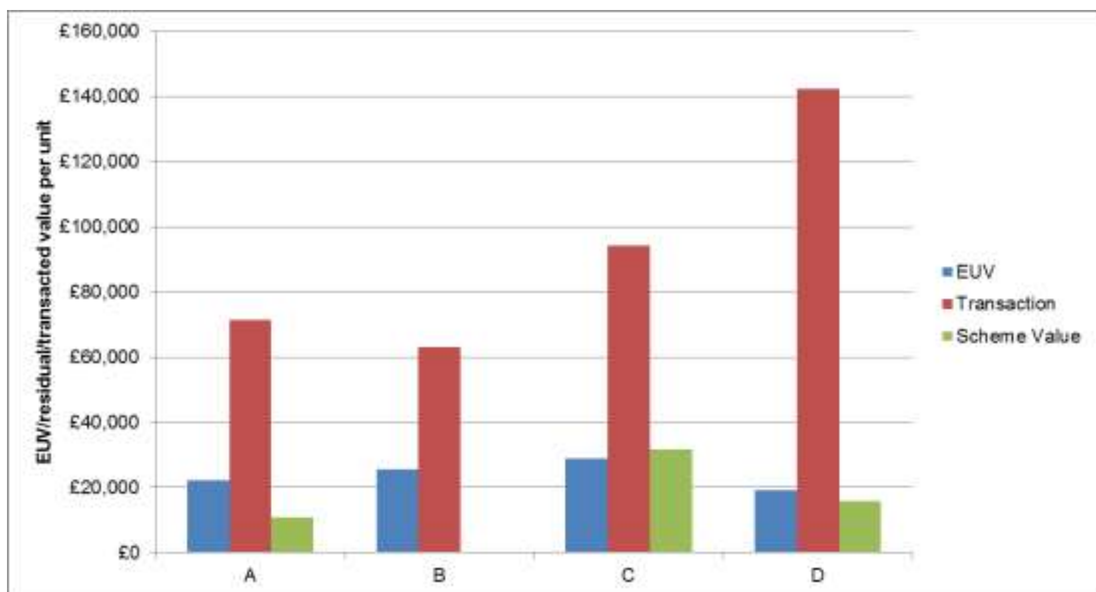
- Historic transactions of housing sites are often based on the receipt of grant funding, which is no longer available in most cases.

- There would be a need to determine whether the developer who built out the comparator sites actually achieved a profit at the equivalent level to the profit adopted in the viability testing. If the developer achieved a sub-optimal level of profit, then any benchmarking using these transactions would produce unreliable and misleading results.

- Developers often build assumptions of growth in sales values into their appraisals, which provides a higher gross development value than would actually be achieved today. Given that our appraisals are based on current values, using prices paid would result in an inconsistent comparison (i.e. current values against the developer's assumed future values). Using these transactions would produce unreliable and misleading results.

3.19 These issues are evident from a recent BNP Paribas Real Estate review of evidence submitted in viability assessments where the differences between the value ascribed to developments by applicants and the amounts the sites were purchased for by the same parties. The prices paid exceeded the value of the consented schemes by between 52% and 1,300%, as shown in Figure 3.19.1. This chart compares the residual value of four central London development proposals to the sites' existing use values and the price, which the developers paid to acquire the sites (all the data is on a per unit basis).

Figure 3.19.1: Comparison of scheme residual value to existing use value and price paid for site



3.20 The issue is recognised in the May 2019 revisions to the PPG, which draw attention to the propensity for prices paid for sites to exceed benchmark land values *"due to different assumptions and methodologies used by individual developers, site promoters and landowners"* (Para 014, Ref ID 10-014-20190509). As a consequence, the NPPG goes on to identify in the same para that market evidence, "*should not be used in place of benchmark land value [as] there may be a divergence between benchmark land values and market evidence"*.

3.21 NPPG recognises the concerns we have outlined above in relation to the differences between purchase prices/market values, the proposed residual value of the scheme and an existing use benchmark value. As a consequence, the NPPG stresses on no fewer than five separate occasions that, "*price paid for land*" should not be reflected in viability assessments.

3.22 For the reasons set out above, the approach of using current use values is a more reliable indicator of viability than using market values or prices paid for sites, as advocated by certain observers. Our assessment follows this approach, as set out in Section 4.

4 Development appraisals

B1 Use development

4.1 We have appraised a series of B1 development scenarios reflecting the likely average rent levels achieved on lettings of such commercial space in developments throughout the Borough. Our assessment assumes an intensification of the site, based on three current commercial uses of the site, providing a range of current use values. In each case, we assume that the existing building is 50% of the size of the new development, with a lower rent and higher yield reflecting the secondary nature of the building.

4.2 We have undertaken research into B1 uses (B1(a) Offices and B1(c) Research and Development space) as the Council has identified that there is an increasing amount of both types of space coming forward in the Borough. There is currently a CIL rate on Office space but not on Research and Development space in the adopted Charging Schedule. Our research using databases such as Costar Suite and EGi did not identify any differential in capital values between the two uses in the marketing and letting of such space i.e. it was all marketed as just "B1" or "B1(a)". We subsequently undertook further research consulting active local agents in our City Office Agency Team as well as other active local agents in the market who identified that, in their experience, laboratories within Camden are either treated as ancillary office space and rentalised as such, or are provided on a serviced laboratory basis. In the instances where B1(c) space is offered on a serviced provider basis, the provider tends to be an educational operator who are the freeholders. Such educational institutions would benefit from charitable relief in the calculation of CIL in such developments. Given this position, we consider that it would not be unreasonable to include research and development space within the B1 CIL charge category within the Borough.

Rents and yields

4.3 Our research on lettings of B1 floorspace indicates a range of rents achieved, as summarised in Table 4.3.1. This table also includes our assumptions on appropriate yields to arrive at a capital value of the commercial space. Understandably, higher rents and keener yields are achieved in the southern part of the Borough within and adjacent to the Central Activities Zone, which forms part of the City fringe, midtown and Kings Cross markets (CIL Zone A). New build developments are likely to attract a premium rent above second hand rents, particularly in the southern areas of the Borough where commercial development achieves higher values. The rents and yields adopted in our appraisals are summarised in Table 4.3.1 below and Figure 4.3.1 provides a map of the corresponding market areas.

4.4 Our appraisals of office floorspace test the viability of developments on existing commercial sites. For these developments, we have assumed that the site could currently accommodate one of three existing uses (i.e. thereby allowing the site to be assessed in relation to a range of three current use values ('CUVs')) and the development involves the intensification of site. We have assumed lower rents and higher yields for existing space than the planned new floorspace. This reflects the lower quality and lower demand for second hand space, as well as the poorer covenant strength of the likely occupier of second hand space. A modest refurbishment cost is allowed for to reflect costs that would be incurred to secure a letting of the existing space. A 20% landowner premium is added to the resulting existing use value as an incentive for the site to come forward for development. The actual premium would vary between sites, and be determined by site-specific circumstances, so the 20% premium has been adopted as a 'top of range' scenario for testing purposes.

Build costs

4.5 We have sourced build costs from the RICS Building Cost Information Service ('BCIS') adjusted to the London Borough of Camden, which is based on tenders for actual schemes. We set out the build cost assumptions adopted in Table 4.3.1.

4.6 Adjustments to the base costs are necessary to reflect other factors, which are not included in BCIS. In addition to the base build costs outlined above, the costs in our appraisals include an allowance of 10% for external costs such as landscaping, pavements and street furniture, roads on the site etc.

4.7 In addition to the build costs outlined above, our appraisals include a contingency of 5% of build costs. We have also included an appropriate allowance for professional fees at 10% of build costs.

4.8 We have adopted an allowance of 1% on base build costs for achieving BREEAM excellent on commercial buildings, based on the 2014 BRE / Sweet Group study[6].

Profit

4.9 Developer's profit is closely correlated with the perceived risk of development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to provide an adequate return on capital and to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme.

4.10 On this basis commercial schemes need to show a risk adjusted profit to secure funding. Profit levels are typically around 15% of development value (broadly equivalent to 20% on cost) and we have incorporated this assumption into our appraisals.

Residual Section 106 costs

4.11 To account for Section 106 contributions on commercial floorspace we have incorporated an allowance of £30 per square metre. We consider this allowance to be a reasonable assumption of such costs. However, we note that the actual amount will be negotiated on a site-by-site basis when schemes are brought forward through the development management process and consequently are likely to vary.

Mayoral CIL2

4.12 The Council is required to calculate, collect and enforce the Mayoral CIL. The Mayor adopted a new charging schedule, known as MCIL2, which came into effect on 1 April 2019 superseding the previous Mayoral CIL (MCIL1) and the associated planning obligation/S106 charge scheme applicable in the Central London area[7]. Camden falls within MCIL2 Zone 1 and further part of the south of the Borough is located within the Central London MCIL2 charging area for office, retail and hotel use.

4.13 We have accordingly allowed for the higher charge for offices of £185 per sq m in the Central London area in our assessment.

Self-contained housing

4.14 Policy H2 (Maximising the supply of self-contained housing from mixed-use schemes) in the adopted Camden Local Plan promotes the inclusion of self-contained homes as part of a mix of uses where non-residential development is proposed. In line with the requirements of this policy we have included a contribution towards self-contained housing calculated in accordance with the updated Camden Policy Guidance charge.

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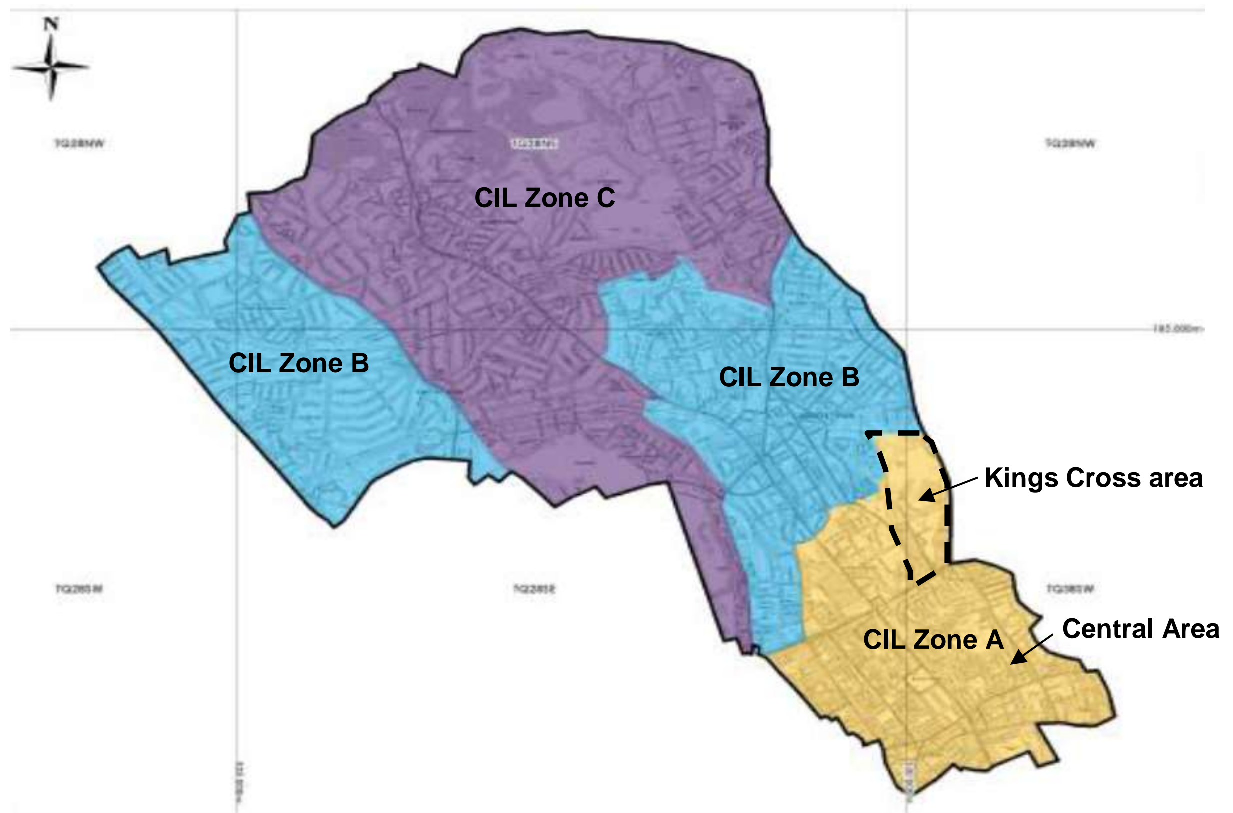
[6] BRE and Sweett group report "Delivering sustainable buildings, Savings and payback" published in 2014

[7] GLA's Crossrail Funding Supplementary Planning Guidance (March 2-16): https://www.london.gov.uk/sites/default/files/crossrail_funding_spg_updated_march_2016v2.pdf

Table 4.3.1 B1 Use appraisal assumptions

Appraisal input	Source/Commentary	Offices
Total floor area (sq ft)	Scheme	16,146 sq ft (1,500 sq m); and 107,640 sq ft (10,000 sq m)
Rent (£s per sq ft)	Based on average lettings sourced from Costar and property market reports from property companies and discussions with active local agents including BNP Paribas Real Estate's City Office Agency Team.	Central Area (CIL Zone A): £65 per sq ft Kings Cross area (CIL Zone A): £75 per sq ft (See figure 4.2.1 below for a map of the market areas)
Rent free/void period (years)	BNPPRE assumption	2 years
Yield	Knight Frank yield schedule and property company reports.	Central Area (CIL Zone A): 4.50% Kings Cross area (CIL Zone A): 4.50%
Purchaser's costs (% of GDV)	Stamp duty 5%, plus agent's and legal fees	6.80%
Demolition costs (£s per sq ft of existing space)	Based on experience from individual schemes	£150 per sq ft
Gross to net (net as % of gross)	Based on experience from individual schemes	82%
Base construction costs (£s per sq m)	BCIS	16,146 sq ft scheme - £214.51 per sq ft 107,640 sq ft scheme - £258.45 per sq ft
BREEAM Very Good (% of base build costs)	BREEAM and Sweett Group Research 'Delivering Sustainable Buildings: savings and payback' 2014	1%
External works (% of base build costs)	BNPPRE assumption	10%
Contingency (% of build costs)	BNPPRE assumption	5%
Letting agent's fee	(% of first year's rent)	10%
Agent's fees and legal fees	(% of capital value)	1.75%
Interest rate	BNPPRE assumption	7%
Professional fees (% of build)	BNPPRE assumption, relates to complexity of scheme	10%
Profit (% of costs)	BNPPRE assumption	20%

Figure 4.3.1 Map of market areas



Source: Map, Camden CIL Charging Schedule 2015 with BNP Paribas Real Estate annotations

Table 4.3.2 B1 Use appraisal assumptions – current use benchmarks

Appraisal input	Source/Commentary	Offices
Existing floorspace	Assumed to be 50% of new space (N.B. appraisals do not discount existing floorspace)	50%
Rent on existing floorspace (£s per sq ft)	Reflects three types of poor quality second hand space (industrial, office and retail as appropriate), low optimisation of site etc. and ripe for redevelopment.	£40 - £50 per sq ft
Yield on existing floorspace	BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc.	5.5% - 5%
Rent free on existing space	Years	2
Refurbishment costs (£s per sq ft)	General allowance for bringing existing space up to lettable standard	£50
Fees on refurbishment (% of refurb cost)	BNPPRE assumption	7%
Landowner premium	BNPPRE assumption – in reality the premium is likely to be lower, therefore this is a conservative assumption	20%

Exceptional costs

4.15 Exceptional costs can be an issue for development viability on previously developed land. Exceptional costs relate to works that are 'atypical', such as remediation of sites in former industrial use and that are over and above standard build costs. However, in the absence of detailed site investigations, it is not possible to provide a reliable estimate of what exceptional costs might be, further these costs will vary on a site by site basis. Our analysis therefore excludes exceptional costs, as to apply a blanket allowance would generate misleading results. An 'average' level of costs for abnormal ground conditions and some other 'abnormal' costs is already reflected in BCIS data, as such costs are frequently encountered on sites that form the basis of the BCIS data sample.

4.16 It is expected however, that when purchasing previously developed sites developers will have undertaken reasonable levels of due diligence and would therefore have reflected obvious remediation costs/suitable contingencies into their purchase price.

Hotel developments

4.17 As part of this review we have also considered the viability of hotel developments. The Central Area has seen a significant quantum of new hotel developments delivered and consented since the current CIL charging schedule was adopted. In light of this activity, the Council has requested that we undertake testing of hotel developments in this part of the Borough.

4.18 We are aware that a number of such developments have come forward as changes of use of existing buildings; however there have also been some new redevelopments as well. We have appraised a redevelopment typology reflecting hotel uses based on values for such uses achieved in the Borough. As with the office testing, our assessment assumes an intensification of the site, based on three current commercial uses of the site, providing a range of current use values. In each case, the existing use value assumes that the existing building is 40% of the size of the new development, with a lower rent and higher yield reflecting the secondary nature of the building.

Capital values

4.19 Table 4.19.1 summarises our assumptions on appropriate capital values adopted for hotel space in the Central Area and Kings Cross (CIL Zone A) of the Borough.

4.20 Our appraisals of hotel floorspace test the viability of developments on existing commercial sites. We have assumed a range rents and higher yields for existing secondary space than the planned new floorspace has previously been delivered on and is likely to come forward on in future. These reflect the lower quality and lower demand for second hand space, as well as the poorer covenant strength of the likely occupier of second hand space. A modest refurbishment cost is allowed for to reflect costs that would be incurred to secure a letting of the existing space. A 20% landowner premium is added to the resulting existing use value as an incentive for the site to come forward for development. The actual premium would vary between sites, and be determined by site-specific circumstances, so the 20% premium has been adopted as a 'top of range' scenario for testing purposes.

Build costs

4.21 We have sourced build costs from the BCIS, which is based on tenders for actual schemes. These costs vary between different uses and exclude external works and fees (our appraisals include separate allowances for these costs). We set out the build cost assumptions adopted in Table 4.19.1 below.

4.22 In addition to the base build costs outlined above, the costs in our appraisals include an allowance of 10% for external costs such as landscaping, pavements and street furniture, roads on the site etc.

4.23 In addition to the build costs outlined above, our appraisals include a contingency of 5% of build costs. We have also included appropriate allowances for professional fees at 10% of build costs.

4.24 We have adopted an allowance of 1% on base build costs for achieving BREEAM excellent on commercial type buildings, based on the 2014 BRE / Sweet Group study[6].

Profit

4.25 As previously identified, hotel schemes need to show a risk adjusted profit to secure funding. Profit levels are typically around 15% of GDV (equivalent to 20% on development costs) and we have incorporated this assumption into our appraisals.

Residual Section 106 costs

4.26 To account for Section 106 contributions on hotel floorspace we have incorporated an allowance of £30 per square metre.

Mayoral CIL2

4.27 As previously noted, the Council is required to calculate, collect and enforce the Mayoral CIL2. We have allowed for the higher MCIL2 hotel charge of £140 per sq m in our assessment, which would be required on such developments in the Central Area and Kings Cross (Camden CIL Zone A).

Self-contained housing

4.28 In line with the requirements of Policy H2 (Maximising the supply of self-contained housing from mixed-use schemes) we have included a contribution towards self-contained housing calculated in accordance with the updated Camden Policy Guidance charge.

Table 4.19.1: Hotel appraisal assumptions

Appraisal input	Source/Commentary	Student Accommodation
Total floor area (sq ft)	Based on Travelodge London Central Kings Cross Hotel	150 rooms (40,000 sq ft)
Capital Value (£s per sq ft)	Based on capital value per room of Travelodge London Central Kings Cross Hotel sold for £40,000,000	£266,667 per room
Purchaser's costs (% of GDV)	Stamp duty 5%, plus agent's and legal fees	6.80%
Demolition costs (£s per sq ft of existing space)	Based on experience from individual schemes	£150 per sq ft
Gross to net (net as % of gross)	Based on Travelodge London Central Kings Cross Hotel	N/A as capital value based on per room and development based on gross floor area.
Base construction costs (£s per sq ft)	BCIS costs. Hotel	£237.55 per sq ft
BREEAM Very Good (% of base build costs)	BREEAM and Sweett Group Research 'Delivering Sustainable Buildings: savings and payback' 2014	1%

Appraisal input	Source/Commentary	Student Accommodation
External works (% of base build costs)	BNPPRE assumption	10%
Contingency (% of build costs)	BNPPRE assumption	5%
Agent's fees and legal fees	(% of capital value)	1.5%
Interest rate	BNPPRE assumption	7%
Professional fees (% of build)	BNPPRE assumption, relates to complexity of scheme	10%
Profit (% of costs)	BNPPRE assumption based on schemes submitted for planning	20%

Table 4.19.2 Hotel appraisal assumptions – current use benchmarks

Appraisal input	Source/Commentary	Student Accommodation
Existing floorspace	Assumed to be 40% of new space (N.B. appraisals do not discount existing floorspace)	40%
Rent on existing floorspace (£s per sq ft)	Reflects three types of poor quality second hand space low optimisation of site etc. that such development has and will come forward on which is ripe for redevelopment.	£35 – 45 per sq ft
Yield on existing floorspace	BNPPRE assumption, reflecting lower covenant strength of potential tenants, poor quality building etc.	5.5% - 5.25%
Rent free on existing space	Years	2
Refurbishment costs (£s per sq ft)	General allowance for bringing existing space up to lettable standard	£50
Fees on refurbishment (% of refurb cost)	BNPPRE assumption	7%
Landowner premium	BNPPRE assumption – in reality the premium is likely to be lower, therefore this is a conservative assumption	20%

Exceptional costs

4.29 We have commented on the inclusion of exceptional costs in area wide testing at paragraphs 4.15 and 4.16 above. However, we reiterate the point that in the absence of detailed site investigations, it is not possible to provide a reliable estimate of what exceptional costs might be and further, these costs will vary on a site-by-site basis. Therefore, to apply a blanket allowance would generate misleading results and given this, our analysis excludes exceptional costs.

5 Appraisal outputs

5.1 Our research on rents achieved on commercial lettings indicates a range of rents. Our office appraisals therefore model a base position and test the range of rates (higher and lower than the base level) and changes to yields. This enables us to draw conclusions on maximum potential rates of CIL. We have run appraisals of a quantum of floorspace, each with rent levels reflecting the range identified by our research.

5.2 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 5.2.1). The maximum CIL rates are then shown per square metre, against three different current use values (see Charts 5.2.2 and 5.2.3). Chart 5.2.2 provides an **illustration** of the outputs in numerical format, while Chart 5.2.3 shows the data in graph format. In this example, the scheme could viably absorb a CIL of between £0 and £275 per square metre, depending on the current use value. The analysis demonstrates the significant impact of very small changes in yields (see appraisals 4 and 6, which vary the yield by 0.25% up or down) on the viable levels of CIL.

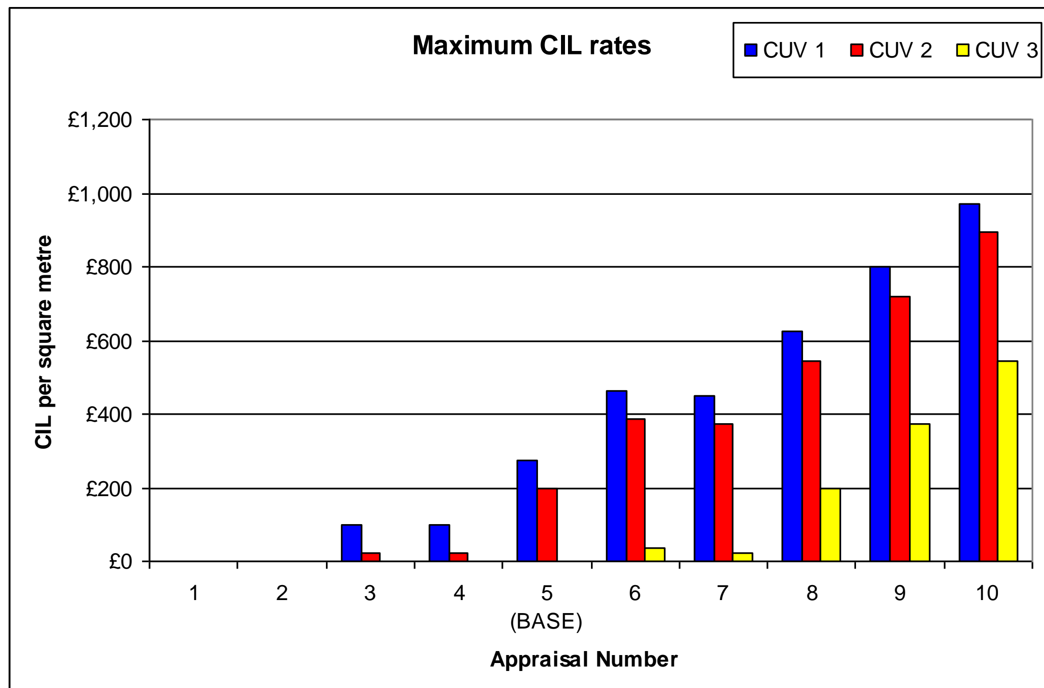
Chart 5.2.1: Illustration of sensitivity analyses

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

Chart 5.2.2: 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 5.2.3: Maximum CIL rates – graph format



5.3 In our hotel appraisals, the capital value has been translated into a rent and yield, based on prevailing yields for such uses. As with the office appraisals, our model then sensitivity tests higher and lower yields and rents, which would equate to higher and lower capital values.

6 Assessment of the results

6.1 This section should be read in conjunction with the full results attached at **Appendix 1** Office appraisals and **Appendix 2** hotel appraisals. In these results, the residual land values are calculated for scenarios with capital values reflective of market conditions in the Borough. These RLVs are then compared to appropriate benchmark land values.

6.2 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are *unviable regardless of LB Camden's CIL (including a nil rate)* and schemes that are viable prior to the imposition of CIL at certain levels. If a scheme is unviable before CIL is levied, it is unlikely to come forward and CIL would not be a critical factor that comes into play in the developer's/landowner's decision making. Other factors (i.e. sales values, build costs or benchmark land values) would need to change to make the scheme viable and unviable schemes would in the meantime remain in their existing use. 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 value inflation.

6.3 The CIL regulations state that in setting a charge, local authorities must "*strike an appropriate balance*" between revenue maximisation on the one hand and the potentially adverse impact of CIL upon the viability of development across the whole area on the other. Our recommendations are that:

- Firstly, councils should take a strategic view of viability. There will always be variations in viability between individual sites, but viability testing should establish the most typical viability position; not the exceptional situations.
- Secondly, councils should take a balanced view of viability – residual valuations are just one factor influencing a developer's decision making – the same applies to local authorities.
- Thirdly, while a single charge is attractive, it may not be appropriate for all authorities, particularly in areas where sales values vary between areas.
- Fourthly, markets are cyclical and subject to change over short periods of time. Sensitivity testing to sensitivity test levels of CIL to ensure they are robust in the event that market conditions improve over the life of a Charging Schedule is essential.
- Fifthly, local authorities should not set their rates of CIL at the limits of viability. They should leave a margin or contingency to allow for change and site specific viability issues.

6.4 CIL rates should not necessarily be determined solely by viability evidence, but should not be logically contrary to the evidence. Councils should not follow a mechanistic process when setting rates – appraisals are just a guide to viability and are widely understood to be a less than precise tool.

6.5 This conclusion follows guidance in Para 020 Ref ID: 25-020-20190901 of the NPPG on CIL, 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: 022 Ref ID: 25-022-20190901 of the NPPG identifies that, *'a charging authority that plans to set differential levy rates should seek to avoid undue complexity'.*

Assessment – B1 Use development

6.6 The adopted charging schedule has a CIL charge of £45 per sq m (£55.25 per sq m indexed) on office development in CIL Zone A (The Central area) and £25 per sq m (£30.69 per sq m indexed) in the rest of the Borough (CIL Zones B and C).

6.7 As previously identified, the evidence base that underpinned the adopted CIL Charging Schedule was compiled in in September 2012. At that point B1 Use markets had recovered to a degree from the recession in 2007-2009. However, since then the market has seen significant growth in rents and compression in yields in the Central area, with a number of new developments coming forward. The Kings Cross office market has also matured and is attracting occupiers such as Google, Louis Vuitton, Universal Music and Havas. The Council has also seen an increase in the number of applications for new B1 use developments, including research and development space.

6.8 The majority of future office development is to be located within the Central London and Kings Cross areas of Camden. There is still a considerable amount of consented commercial floorspace that is yet to be built out, and we understand that there remains a fair amount more in the planning pipeline still to be delivered in this part of the Borough.

6.9 Our research into B1 space in the Central and Kings Cross area (using online databases such as EGi, CoStar Suite and Promis as well as discussions with active local agents) indicates that rents have increased and yields sharpened since the last charging schedule was examined. The highest rental levels are being achieved in the Kings Cross area at circa £75 per square foot with values in the wider central area achieving circa £65 per sq ft. In the rest of the Borough rents achieved on new office space are circa £40 per square foot. (See **Appendix 1** for our appraisals).

6.10 The results of our appraisals identify that:

- B1 developments in the Kings Cross area indicate that a maximum CIL rate of between £949 and £3,491 per sq m could be levied, depending on the size of the scheme and value of the existing use of the site (see Appendix 1).
- The results of our appraisals for B1 developments in the Central area (excluding Kings Cross) indicate that a maximum CIL rate of between £0 and £1,925 per sq m could be levied, depending on the value of the existing use of the site (see Chart 6.10.1 and Appendix 1).

6.11 In light of the above results, we recommend that the Council consider setting an increased CIL charge for the Central Area including the Kings Cross area (CIL Zone A) of £110 per square metre. This rate accounts for a significant buffer below the maximum rates to account for any market changes.

6.12 The CIL rate for B1 use developments in the rest of the Borough will remain at the current indexed CIL charge of £30.69 per sq m.

Hotel development

6.13 The current Charging Schedule applies a rate of £40 per sq m (£49.11 per sq m indexed) on hotel development in the Central Area (CIL Zone A) and £30 per sq m (£36.83 per sq m) in the rest of the Borough (CIL Zones B and C).

6.14 The Council has received a significant number of planning applications and subsequently new developments in the Central Area (CIL Zone A) for hotel uses since the last charging schedule was adopted. This is confirmed by the information set out at section 2 paragraphs 2.17 to 2.20, which shows that hotel market has improved significantly since 2013 and there has been a significant amount of new hotel development coming forward.

6.15 The results of our appraisals of hotel developments in the Central Area (CIL Zone A) suggest a maximum CIL charge of between £0 per square metre and £1,246 per sq m dependant on the benchmark land value. We recommend that the Council consider setting an increased CIL rate of £110 per sq m for such developments in the Central area (CIL Zone A) which accounts for a suitable buffer from the maximum CIL charge of £270 per sq m.

6.16 The CIL rate for Hotel developments in the rest of the Borough will remain at the current indexed CIL charge of £36.83 per sq m.

7 Conclusions and recommendations

7.1 The NPPF states that *"Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan"* (Para 34). The Council adopted its CIL Charging Schedule in April 2015. The CIL rates are consequently embedded into both planning requirements and the land market. At present low rates are charged on B1 and hotel uses within the Central Area (CIL Zone A), which has recovered and matured significantly over the last five years (since Camden's viability testing for the adopted schedule was undertaken in 2012). This report accordingly reviews the B1 and hotel use CIL rates in the Central Area (CIL Zone A) of Camden's adopted Charging Schedule.

7.2 The study takes account of the cumulative impact of Camden's current planning requirements, in line with the requirements of the NPPF, NPPG and the Local Housing Delivery Group guidance 'Viability Testing Local Plans: Advice for planning practitioners'. In addition, we have reflected the impact of the Mayoral CIL2 updated Camden Planning Guidance.

Key findings and suggested revisions to CIL rates

B1 Use development

7.3 We have undertaken research into B1 uses (B1(a) offices and B1(c) Research and Development space) as the Council has identified that there is an increasing amount of such space coming forward in the Borough for which there is currently no CIL charge in the adopted charging schedule. We consequently undertook research into market evidence for all B1 uses (B1(a) offices and B1(c) research and development space). Our research using online sources did not identify a differential between the two uses in the marketing and letting of such space. Discussions with active local agents identified that in their experience laboratories within Camden are either treated as ancillary office space and rentalised as such, or are provided on a serviced laboratory basis. In the instances where B1(c) space is offered on a serviced provider basis, the provider tends to be an educational facility who would qualify for charitable relief in the calculation of CIL in such developments. We recommend that the Council consider consolidating these uses into a single B1 Use CIL charge within the Borough.

7.4 The majority of the B1 use development is located within the central Area (CIL Zone A) which has seen significant market improvement since the previous viability study was undertaken in support of the current CIL Charging Schedule. We also understand that the office market has matured in the Kings Cross development with space securing tenants such as Google, Louis Vuitton, Universal Music and Havas. There is a considerable amount of consented commercial floorspace that has been built out and we understand that there remains a fair amount more in the pipeline still to be delivered. Our research into Offices in the Central Area (CIL Zone A) of Camden has identified that rents for space have risen significantly since the last charging schedule's viability study was undertaken and yields have sharpened improving the viability of such schemed substantially.

7.5 The results of our appraisals for offices in the Central Area including Kings Cross (CIL Zone A) indicate that developments of such uses would be able to absorb a CIL rate of £110 per square metre which in our experience would allow for a significant buffer to account for market changes (see **Appendix 1**). This would amount to circa 1.5% of development costs.

Hotel development

7.6 As with B1 use development, the hotel market has improved significantly since the last charging schedule was assessed and adopted. This has been reflected in the significant quantum of developers seeking planning consent for hotels and hotel developments having come forward in the central Area (CIL Zone A) of the Borough.

7.7 The results of our appraisals for hotels in the Central Area (CIL Zone A) indicate that developments of such uses would be able to absorb a CIL rate of £110 per square metre (see **Appendix 2**) allowing for a suitable buffer from the maximum CIL charge. This would amount to circa 1.6% of development costs.

Summary

7.8 Table 7.8.1 below summarises our recommended revisions to Camden's CIL Charging Schedule in light of the results of our appraisals. The proposed rates are shown in bold whilst the adopted Charging Schedule rates are shown below with the corresponding 2019 indexed figures (calculated as per the requirements of CIL Regulation 40 (as amended)) are shown in italics.

Table 7.8.1: Potential revisions to CIL Charging Schedule

Use	CIL Tariff (pounds per sq. m)		
	Zone A (Central)	Zone B (Rest of Camden)	Zone C (Highgate, Hampstead)
Residential below 10 dwellings (or 1,000 sq m)	**£613** £500 *(£613.90)*		
Residential of 10 or more dwellings (or above 1,000 sq m) and private care residential homes with a degree of self-containment	**£184** £150 *(£184.17)*	**£306** £250 *(£306.95)*	**£613** £500 *(£613.90)*
Retail (including bar / restaurant / entertainment and other town centre uses)	**£30** £25 *(£30.69)*		
B1 – Office, Research and Development	**£110** £45 *(£55.25) / £0*[8]	**£30** £25 *(£30.69) / £0*[8]	
Student housing	**£214** £175 *(£214.86)*	**£491** £400 *(£491.12)*	**£491** £400 *(£491.12)*
Hotel (including tourist hostels)	**£110** £40 *(£49.11)*	**£36** £30 *(£36.83)*	**£36** £30 *(£36.83)*
Health, Education, Community meeting spaces, Police, Fire, Water Waste Management and related infrastructure, Care homes with no self-containment subsidised by the public sector	**£0** £0	**£0** £0	**£0** £0
Industry, warehousing	**£0** £0	**£0** £0	**£0** £0
Other commercial uses	**£30** £25 *(£30.69)*	**£30** £25 *(£30.69)*	**£30** £25 *(£30.69)*

[8] Currently Adopted CIL Charging Schedule (April 2015) specifies a charge on offices as opposed to B1 development.

Appendix 1 - B1 Use appraisal results

Appendix 2 - Hotel appraisal results