APPENDIX 3

GERALDEVE

Community Infrastructure Levy: Preliminary Draft Charging Schedule Review

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FINAL

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Contents

1 Introduction

Instructions

1.1 Gerald Eve LLP is instructed by the City of London Corporation (the "City Corporation") to provide further advice in relation to the City-wide financial viability assessment ("CFVA") undertaken by Gerald Eve to support the development of a Community Infrastructure Levy ("CIL") Charging Schedule for the City of London (the "City").

1.2 Following consultation of the Preliminary Draft Charging Schedule ("PDCS") the City Corporation has instructed Gerald Eve to:

- review the public consultation comments received and provide a response and suggested amendments, from the perspective of the viability appraisal;
- provide commentary on any changes in the City development market and their impact on CIL viability since the initial study was completed in January 2013; and
- provide a view on whether the proposed increase in the affordable housing in-lieu figure would impact significantly on the viability of the proposed CIL levels for residential development in the City.

1.3 Where appropriate, we have updated the assumptions adopted within our CFVA model and provide commentary on the impacts, if any, of the proposed CIL rates on development viability across the City. In all other respects the basis of this report is in accordance with guidance and regulations set out in our January 2013 CFVA report or as subsequently amended.

1.4 This report has been prepared as at June 2013. In accordance with the National Planning Policy Framework, DCLG Guidance and best practice guidance we have assumed market movements (both positive and negative) within reasonably expected parameters in arriving at the conclusions and recommendations as set out. Inherent within these assumptions is that funding and financing sources remain available for development. In addition, attention is drawn to the fact that this report is based upon the prevailing CIL regulations and guidance. It is noted these may change and if so, it may be necessary to amend parts of this report and indeed our conclusions and recommendations.

2 Review of Public Consultation Comments

Introduction

2.1 The City Corporation consulted on its Preliminary Draft Charging Schedule between 25 March and 13 May 2013. A total of 15 comments were received from consultees. We have reviewed all the comments and have provided a response and suggested amendments, from the perspective of the viability appraisal, in the tables below:

Consultee	Greater London Authority
Viability specific comments	
Could you clarify the position regarding the planning obligation assumptions used by Gerald Eve in your Economic Viability Study? On pages 54-55, Table 5.2 sets out the assumptions about the things you will continue to use section 106 for. The table suggests that this will be limited to our CIL and Crossrail s106, affordable housing and training and skills. Are you allowing for site-specific and other things as well?	
Gerald Eve Response	
In addition to Mayoral CIL, Crossrail S106, Affordable Housing and training and skills contributions the model also includes a contribution towards Policy 4.3 'Mixed Use Development and Offices' of the London Plan for commercial development. Site specific S106 planning obligations and S278 highways agreements which are necessary to make the development acceptable in planning terms will vary considerably from scheme to scheme. In order to allow for this in our appraisals we have made allowances within our construction costs for both external works and exceptional costs which are intended to pick up costs in respect of planning mitigation, in an area-wide assessment.	

Consultee	Dentons
Viability specific comments	
CIL is meant to affect, and diminish, residual land values. The Gerald Eve approach effectively assumes that it does not. That cannot be right. CIL levels, particularly for residential, should be benchmarked against rates in similar and neighbouring areas.	
Gerald Eve Response	
Our financial modelling assumes land as an implicit input with a return being the output that is compared to a benchmark. The assumptions in respect of the area-wide site values are set out in	

our CFVA January 2013 report which complies with relevant guidance. It follows that land values do take account of both policy and future CIL levels and is in accordance with the NPPF and DCLG Guidance.

There is no requirement in the regulations or guidance for benchmarking proposed levels against those proposed by neighbouring authorities. This would be inconsistent with guidance on suggested methodology and the particular circumstance in each local authority area.

Consultee	Quod on behalf of Berkeley Group plus email from the Berkeley Group

Viability specific comments

In relation to the residential appraisals contained in Appendix 10b, we would make the following observations:

- It is unclear how the appraisals deal with affordable housing provision. Paragraphs 8.18 to 8.20 in the main report describe the approach taken and suggest that, although policy standards are higher, most residential schemes agree a lower off site proportion through negotiation and therefore 30% (off site) has been tested. However the appraisals themselves suggest a figure of 26% (off-site) has been applied. Both rates are lower than either the 30% on site requirement or the 60% off site commuted sum that the Corporation is proposing in the Draft Planning Obligations SPD on which it is consulting alongside the PDCS, and which reflects current policy. Given recent CIL Examination reports we would suggest that appraisals should test a policy compliant rate of affordable housing;
- The appraisals do not appear to include any Section 106 obligations although the Draft SPD includes a £3 per square metre tariff for employment and skills, and other potential contributions;
- The CIL appears to be calculated on the basis of GEA rather than GIA as required by the CIL regulations.
- These former two assumptions appear to contradict the list in Table 4 of the PDCS.

We would also welcome some clarification as to how the conclusions about residential viability in paragraphs 10.11 to 10.13 have been arrived at. Figures 10.20 and 10.21 appear to represent some sort of average of the twenty residential appraisals in Appendix 10b. Of these twenty appraisals it would appear only three relate to the riverside zone. There appears to be something of a gap at present in the explanation as to how the individual appraisals lead to the proposed rates in paragraphs 10.12 and 10.13, and that there is far less detail than there is in the case of offices.

It would be useful for the Corporation to publish a review of achieved Section 106 agreements in relation to residential developments as part of the next stage of the DCS.

The Berkeley Group is not objecting to the proposed rates as set out in the PDCS. All comments above should be considered as observations.

Gerald Eve Response

We have amended our appraisal summaries to accord with the financial modelling and our report to clearly show the financial contribution of £151,584 per affordable unit under Policy CS21 of the Core Strategy at 60%.

Our appraisal summary sheets have again been amended to show the training and skills contribution for residential plus the contribution towards the Policy 4.3 'Mixed Use Development and Offices' of the London Plan for commercial development. The area assumptions for calculating the CIL payment have been amended from the Gross External Area to the Gross Internal Area. This equates to a 3% reduction in the chargeable area for the City CIL and we confirm that this does not have any impact upon the overall assessment of residential and commercial viability as concluded in our January 2013 report

Consultee	Dron & Wright on behalf of London Fire and Emergency Planning Authority (LFEPA)
Viability specific comments	
As fire stations are a vital community safety facility, we believe they should be excluded from payment of this levy as this ultimately results in a charging of the levy in one of the very uses that CIL is designed to fund. Payment of such would also render new fire station development unviable. We therefore request that particular reference to this use be included within the schedule, with a nil levy set against it.	
Gerald Eve Response	
LFEPA have stated that payment of the Levy would render new fire station development unviable, however, since no evidence has been put forward by LFEPA or Dron & Wright we are unable to comment on this further. However, we note that the DCLG Guidance (May 2011) Paragraph 12 states that *"The Planning Act 2008 provides a wide definition of the infrastructure which can be funded by the levy, including transport, flood defences, schools, hospitals, and other health and social care facilities. This definition allows the levy to be used to fund a very broad range of facilities such as play areas, parks and green spaces, cultural and sports facilities, district heating schemes and police stations and other community safety facilities..."* It would appear to be consistent to include a fire station as a community safety facility within the definition of "Infrastructure" which can be funded by the Levy. We note that other London Boroughs have specifically excluded fire stations and other emergency services where they may fall into chargeable categories such as "all other development".	

Consultee	English Heritage
Viability specific comments	
English Heritage encourages Local Planning Authorities to consider offering CIL relief in exceptional cases, should they arise, for schemes designed to meet a conservation deficit in the repair of a heritage asset but where the application of CIL would render the scheme unviable.	

English Heritage would strongly advise that the City's conservation staff are involved throughout the preparation and implementation of the Draft Charging Schedule.
Gerald Eve Response
DCLG Guidance (April 2013) states that under the Community Infrastructure Levy (Amendment) Regulations 2013 Regulations *"55 to 58 allow charging authorities to set discretionary relief for exceptional circumstances. Use of an exceptions policy enables the charging authority to avoid rendering sites with specific and exceptional cost burdens unviable should exceptional circumstances arise. Before granting relief, the charging authority will need to be satisfied that the costs relating to the section 106 agreement are greater than those related to the Community Infrastructure Levy, and that the relief would not constitute notifiable State aid"*. It is often the case that where works to heritage assets are concerned, either in refurbishment or extension, that the commensurate costs are above those experienced with non-heritage assets. This may impact on the viability of a proposal and the City Corporation should keep this under review. The City Corporation may wish consider the involvement of its conservation staff throughout the preparation and implementation of the Draft Charging Schedule.

Consultee	Savills on behalf of Thames Water
Viability specific comments	
Thames Water therefore considers that water and wastewater infrastructure buildings should be exempt from payment of the CIL for the following reasons: • It is Thames Water's understanding that it is unlikely that the provision of water and waste water infrastructure could be funded through CIL; • If Thames Water were required to pay CIL this would impact on the ability to deliver important water and wastewater infrastructure required to support growth; • The provision of such infrastructure usually does not result in any increased demand for other types of infrastructure such as schools, open space and libraries for example and therefore has no significant impact on wider infrastructure provision; and • The predominant aims of water and wastewater infrastructure development are to support growth (the same aim as the CIL) and to deliver environmental improvements, rather than to increase the financial value of land on a profit making basis. Consequently, Thames Water does not benefit in the same way as residential or commercial developers through the ability to sell operational sites with planning permission in place for operational buildings. Therefore we also consider that the categories of development that are identified in the draft Schedule as not subject to CIL charging should be extended, as follows, to include developments associated with the provision of water and waste water infrastructure: "Development used wholly or mainly for the provision of water and waste water utilities infrastructure."	
Gerald Eve Response	
Thames Water's comments do not put forward any viability argument so we unable to comment from a viability perspective. However, we note that CIL Regulation 6 and DCLG Guidance (May 2011) Paragraph 38 states that *"buildings into which people do not normally go and buildings into which people go only intermittently for the purpose of inspecting or maintaining fixed plant or machinery, will*	

not be liable to pay the levy". We note Thames Water's comments with regard to the provision of water and waste water utilities infrastructure and, therefore, this definition may fall under the remit of Regulation 6. We would recommend that the City Corporation considers whether water and waste water utilities infrastructure would fall into the category of buildings into which people do not normally go and therefore whether a nil rate should be applied. Clearly, any specification of a nil rate would need to distinguish between Thames Water's infrastructure developments and those with an administrative (or other non-infrastructure) function.

Consultee	Alex Deane (Common Councilman)
Viability specific comments	
None	
Gerald Eve Response	
N/A	

Consultee	Andrew Brabin (Resident)
Viability specific comments	
None	
Gerald Eve Response	
N/A	

Consultee	City Property Association
Viability specific comments	
None	
Gerald Eve Response	
N/A	

Consultee	Safety Regulation Group
Viability specific comments	
None	
Gerald Eve Response	
N/A	

Consultee	David Waller (Resident)
Viability specific comments	
None	
Gerald Eve Response	
N/A	

Consultee	Gerald Hine (Resident)
Viability specific comments	
None	
Gerald Eve Response	
N/A	

Consultee	Gordon Cookson (Resident)
Viability specific comments	
None	
Gerald Eve Response	
N/A	

Consultee	Natural England
Viability specific comments	
None	
Gerald Eve Response	
N/A	

Consultee	Transport for London
Viability specific comments	
None	
Gerald Eve Response	
N/A	

3 Market Commentary

Introduction

3.1 The City Corporation has asked that we review the current status of the City development market and update our viability assessment as necessary. We have carried out a review of each of the core markets in the City: office, retail, residential and hotel.

Market Review

Offices

3.2 Agents reported that take up increased over the course of 2012. CBRE[1] report that annual take up totalled 4.1m sq ft, an increase of 7.8% over 2011 levels, but below the 10 year average of 4.7m sq ft. Although the proportion of space taken by the core banking and finance sector increased marginally in 2012 to 24%, activity remains below the long term average of 28%, owing in part to the challenges faced by the industry arising from increased regulatory burdens and cost constraints.

3.3 2012 was characterised by increased occupier demand from non-financial occupiers, most notably the insurance and TMT sectors, a trend which is likely to continue over the course of 2013. Occupier activity in Q4 2012 was driven predominantly by the insurance sector whose leasing of the St Botolph Building, was the first deal of over 250,000 sq ft in 2 years.

3.4 Quarterly take up has since fallen with 0.9m sq ft transacting in Q1 2013, reflecting the spike in activity of the previous quarter. However, the level of stock under offer rose signalling that activity should remain buoyant.

3.5 Availability of stock stood at 6.9m sq ft at the end of 2012, 12% below the 10 year average of 7.8m sq ft. Availability increased in Q1 2013 to 7.1m sq ft.

[1] CBRE Central London Office Marketview April 2013

3.6 Prime rents remain stable at circa £55 per sq ft. However, demand for Grade A space, increasing levels of pre-let activity and the continuing recovery of the UK economy is predicted to support an average rental growth of circa 2.5% between 2013 and 2017.

3.7 In the interim, central London's status as a safe haven will continue to support activity in the investment markets, most notably from foreign investors. Competition for prime assets remains strong and may result in yield compression over the near term.

3.8 Gerald Eve's opinion of the office market is that whilst there has been the odd spikey deal, overall tone remains consistent with the assumptions previously adopted.

Retail

3.9 CBRE[2] report that average monthly year on year Central London retail sales fell in Q1 2013 to -0.3% from 2.7% in Q4 2012. This was due to a decline in March, which was affected by poor weather and offsets the modest increases in January and February.

3.10 A lack of deal evidence meant that prime rents in many streets were unchanged over the quarter. Promis[3] report that there has been no change in prime retail rents in the City from mid-2012.

3.11 Prime rental growth is forecast to remain low in 2013 with most of the growth having already occurred in 2012, but is expected to strengthen in 2014 supported by more robust economic growth and continued competition from retailers for limited units.

3.12 Therefore, we have not made any changes to our assumptions for retail in our CFVA model.

Residential

3.13 London's prime residential market has enjoyed a strong start to 2013. Recent research undertaken by Knight Frank[4] shows that the value of prime central residential, which

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[2] CBRE Central London Property Market Review Q1 2013

[3] PMA Promis Retail Report for City of London 5 June 2013

[4] Knight Frank Prime Central London Index May 2013

includes the City of London, increased by 3.2% since the beginning of 2013. There has been a 17% increase in sales in the first four months of 2013 compared to the same period in 2012 with this rise concentrated in the under £2m price bracket.

3.14 While we note the comments above in relation to the wider prime central London market, we note that there is a scarcity of new build transactional evidence for the City. We have had regard to Molior's Quarterly Sales Analysis[5] which shows that the average asking prices for the Roman House and the Heron schemes equate to £1,338 psf. We also note that the asking prices for units within these schemes have remained broadly static since Q3 2012.

3.15 Jones Lang LaSalle[6] report that average prices in the City at £1,200 psf. However, this includes the City fringe outside of the City Corporation's boundary and the report shows that the average pricing for schemes within the City is between £1,150 psf and £1,450 psf with prices of £2,000 psf to £2,500 psf being quoted for Trinity Square adjacent to the Riverside zone.

3.16 Therefore, we have concluded that while the wider prime central London market shows an increase in property values, the limited data which is specific to the City would indicate that the broad tone of residential sales remains consistent with the assumptions adopted within our CFVA dated February 2013.

Hotel

3.17 The London hotel market has continued to perform well over the past year. The Olympics did have a negative impact on hotel trading but this was widely expected and trading remains exceptionally strong. Hotel developers continue to be enticed to London based on its robust trading fundamentals and there continues to be a significant level of hotel development, particularly at the budget and upscale ends of the market.

3.18 As aforementioned, the values provided on a per square metre basis, should be used as "high level" guidance only as this is not the conventional way of valuing hotels. In terms of the budget sector, we do not consider there to have been notable movement in rental levels or yields since our last update. For upscale hotels, our opinion of average price

[5] Molior Quarterly Sales Analysis April 2013

[6] Jones Lang LaSalle Residential Eye Central London Development March 2013

per room remains unchanged based on the updated information available to us. Our opinions of value on a per square metre basis therefore remain the same.

Summary

3.19 Following the market review undertaken above, we are of the opinion that the market has not changed sufficiently since our initial report to require any alterations to the assumptions adopted in our CFVA and financial model.

4 Affordable Housing Commuted Sum Review

4.1 The City Corporation is currently considering a scaled back S106 Supplementary Planning Document ("SPD") to be implemented alongside the CIL. The SPD will include the cash-in lieu payment required from residential development where affordable housing is provided off-site.

4.2 The City Corporation is seeking to revise the currently adopted figure of £151,584 per unit within the SPD.

4.3 We understand that the City Corporation is currently proposing revising the figure to £161,500 based upon a blended approach of Land Registry average house price data for the City of London and historically average TCI increases. It is proposed that an annual uplift is adopted which will be based on the Land Registry's average house price figures reported each December.

4.4 Gerald Eve has tested the sensitivity of the CFVA model and proposed CIL rates to an increase in the cash-in lieu commuted sum to £161,500 per unit. We can confirm our analysis shows that the model outputs are within the range of sensitivity analysis which was tested within our January 2013 report and therefore conclude that this has no overall impact on residential development viability. This includes both strategic and marginal sites in terms of development viability.

5 Financial Model Updates

5.1 In this section we summarise the updates which have been applied to our CFVA model following the review of the consultation comments and the City development market above.

CFVA Model Updated Inputs

5.2 The updates made to the inputs in our CFVA are shown in the table below.

Table 1: Summary of Model Updates

Item	Original Input	Updated Input
CIL Chargeable Area	Gross External Area	Gross Internal Area
Affordable Housing contribution in lieu payment	£151,584	£161,500

Source: Gerald Eve

CFVA Updated Model Conclusions

Offices

5.3 The amendment of the CIL chargeable area from Gross External Area to Gross Internal Area has a minor impact of reducing the overall CIL liability for each particular development proxy.

5.4 The results of our updated CFVA model are still within the range of sensitivity analysis which was tested within our January 2013 report. Therefore we are still of the opinion that the appropriate CIL rate range for Offices is £55 to £75 per sq m.

Residential

5.5 The amendment of the CIL chargeable area from Gross External Area to Gross Internal Area has a minor impact of reducing the overall CIL liability for each particular development proxy.

5.6 As highlighted in Section 4 above, an increase in the cash-in lieu commuted sum to £161,500 has no overall impact on residential development viability.

5.7 The results of our updated CFVA model are still within the range of sensitivity analysis which was tested within our January 2013 report. Therefore we are still of the opinion that the appropriate CIL rate range for Residential (Riverside) is £140 to £150 per sq m and Residential (Rest of City) is £75 to £95 per sq m.

All Other Chargeable Development

5.8 The results of our updated CFVA model also lead us to conclude that the appropriate range of CIL for All Other Chargeable Development remains at £55 to £75 per sq m.