Prepared for TfL

MCIL2 (14/03/2017)

Working towards PDCS

DRAFT

Contents

Cover photo: view from City Hall roof terrace 28 January 2017 © Richard Linton GLA

1 Introduction

1.1 The Current MCIL Charging Schedule

1.1.1 As part of the funding arrangements with Government for the Crossrail project, the GLA and TfL committed to raise £600 million from general property development in London by March 2019. TfL and the GLA are well on track to meet this commitment from the Mayoral Community Infrastructure Levy (Mayoral CIL or MCIL) and the Crossrail Section 106 (S106). MCIL is a charge on new development above 100 square metres (sq m) and the charge is set out in a Charging Schedule supported by Supplemental Planning Guidance. More details can be found in the "Use of Planning Obligations in the Funding of Crossrail, and the Mayoral Community Infrastructure Levy" updated in March 2016.

1.1.2 Before the introduction of MCIL, JLL, acting as viability consultants to TfL and the GLA, assisted in preparing viability evidence to support the proposed rates and to ensure that the levy did not make development across the capital unviable by placing an undue financial burden on developers. The viability evidence and the draft charging schedules went through the Examination in Public (EiP) in November / December 2011.

1.1.3 Mayoral CIL came into force on 1 April 2012 and has raised circa £342 million to Q3 2016-17. The rates vary by London borough, broadly reflecting the average house prices across three charging groups. The rates, excluding indexation are as follows:

- **Band 1 (£50 per sq m)** – Camden, City of London, City of Westminster, Hammersmith and Fulham, Islington, Kensington and Chelsea, Richmond-upon-Thames, Wandsworth
- **Band 2 (£35 per sq m)** – Barnet, Brent, Bromley, Ealing, Greenwich, Hackney, Haringey, Harrow, Hillingdon, Hounslow, Kingston upon Thames, Lambeth, Lewisham, Merton, Redbridge, Southwark, Tower Hamlets
- **Band 3 (£20 per sq m)** – Barking and Dagenham, Bexley, Croydon, Enfield, Havering, Newham, Sutton, Waltham Forest

When using the term "borough" for convenience we include the City of London. Since the Charging Schedule was adopted two Mayoral Development Corporations have been formed; the OPDC and LLDC. These are collection authorities for CIL purposes and charge CIL at the rates referred to above according to the geography of the underlying borough.

1.1.4 The MCIL charging groups have been coloured red, blue and green for ease of analysis and comparison. Table 1 below provides a breakdown of MCIL receipts by borough up to December 2016.

Table 1: MCIL receipts by Borough to Q3 2016-17

Borough/Authorities	Total MCIL revenue to Q3 2016-17 (including indexation)
Tower Hamlets	£38,241,100
City of Westminster	£31,177,930
Hammersmith and Fulham	£23,484,321
Southwark	£22,777,993
Wandsworth	£20,635,614
Lambeth	£20,582,965
City of London	£16,023,554
Hackney	£14,567,975
Camden	£13,785,895
Greenwich	£13,485,246
Islington	£13,139,156
Barnet	£12,677,179
Hounslow	£11,222,719
Brent	£10,646,789
Hillingdon	£8,859,294
LLDC	£8,771,795
Kensington and Chelsea	£6,312,413
Haringey	£5,538,333
Bromley	£5,322,620
Lewisham	£5,272,960
Ealing	£4,402,867
Newham	£4,217,633
Harrow	£3,613,860
Merton	£3,558,492
Enfield	£3,385,660
Kingston upon Thames	£3,274,393
Bexley	£2,914,328
Richmond upon Thames	£2,900,316
Croydon	£2,870,503
Waltham Forest	£2,387,147
Sutton	£2,283,702
Barking and Dagenham	£1,206,532
Redbridge	£1,076,479
Havering	£940,107
OPDC	£179,367
Total	**£341,737,237**

Note: LLDC started collecting in [ ] and OPDC started collecting in [ ]. Other boroughs started collecting MCIL in April 2012.

LLDC BCIL came into effect on 6th April 2015. OPDC has not yet started charging – PDCS consultation ran October/November 2016.

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1.1.5 It can be seen that those boroughs which have seen the most development tend to be those where the CIL level is in Bands 1 & 2 i.e. the highest and middle levels.

1.1.6 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central Activities Zone (CAZ), the North Docklands and within a 1km radius of all other Greater London Crossrail stations. Since inception, the Crossrail s106, total contributions have reached £96m drawn from around 150 different developments with no significant issues needing to be addressed in respect of viability implications.

1.1.7 The Crossrail Funding S106 policy mitigates the transport impacts of development and runs until early 2019 by which time the Crossrail service is expected to be operational. It is currently anticipated that TfL's target of raising £600 million for Crossrail through both the S106 policy and MCIL will be met during the financial year 2018/19. It is proposed to transition from the current Crossrail S106 in tandem with MCIL1 arrangements, to only having a MCIL2, from 1 April 2019.

1.1.8 Following the implementation of MCIL in April 2012, the GLA and TfL, supported by JLL, have undertaken two Biennial Reviews of, one in 2014 and another in 2016 to ensure that the rates set continue to be appropriate.

1.1.9 Regulation 59(2) as amended by the Community Infrastructure Levy (Amendment) Regulations 2012 states that CIL applied by the Mayor to funding infrastructure must be applied to funding the provision, improvement, replacement, operation or maintenance of roads or other transport facilities, including, in particular, funding for the purposes of, or in connection with, scheduled works within the meaning of Schedule 1 to the Crossrail Act 2008.

1.1.10 Regulation 14(1) as amended states that *'in setting rates (including differential rates) in a charging schedule, a charging authority must strike an appropriate balance between (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.'*

1.1.11 Policy 6.1 of the London Plan 2016 makes it clear that transport infrastructure is central to the achievement of the wider objectives set out in paragraph 1.53 of the plan. Paragraph 6.2 plan states *'The Mayor recognises that transport plays a fundamental role in addressing the whole range of his spatial planning, environmental, economic and social policy priorities. It is critical to the efficient functioning and quality of life of London and its inhabitants. It also has major effects – positive and negative – on places, especially around interchanges and in town centres and on the environment, both within the city itself and more widely. Conversely, poor or reduced accessibility can be a major constraint on the success and quality of places, and their neighbourhoods and communities. He is particularly committed to improving the environment by encouraging more sustainable means of transport, through a cycling revolution, improving conditions for walking, and enhancement of public transport.'*

1.1.12 Post 2019, when Crossrail construction is expected to complete, the GLA and TfL intend to continue collecting MCIL, (referred to as MCIL 2 for the purposes of this evidence, in order to assist in financing Crossrail 2 or for the funding the improvement, replacement, operation or maintenance of roads or other transport facilities across the capital including the projects set out in table 6.1 of the London Plan 2016. See **Appendix XX** for a copy of table 6.1 of the London Plan.

1.1.13 Crossrail 2 is widely supported. In their report titled 'Funding Crossrail 2' (February 2014) London First describe Crossrail 2 as *'essential to support London's future growth and competitiveness as it becomes a city of 10 million people in the 2030s. Without Crossrail 2, the projected population and jobs growth will put intolerable*

pressure on the capital's transport network from the 2020s onwards. This is not just a quality of life point for Londoners: such an outcome would undermine London's productivity and growth in its contribution to both the wider UK economy.' (p.9) The report further goes on to describe developer contributions by way of Community Infrastructure Levy and the Crossrail Section 106 as being possible sources of funding as per Crossrail, and the intensification of development along the new route providing economic benefit of the scheme.

1.1.14 The National Infrastructure Commission report 'Transport for a World City', published in March 2016, states that: "The Commission's central finding, subject to the recommendations made in this report, is that Crossrail 2 should be taken forward as a priority. Funding should be made available now to develop the scheme fully with the aim of submitting a hybrid bill by autumn 2019. This would enable Crossrail 2 to open in 2033".

1.1.15 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL2 and to consider proposed changes to the Charging Schedule in light of the "Balance Test" in Regulation 14 and other London Plan priorities.

1.2 Considerations when revising the Mayor's Charging Schedule

In setting the context for the proposed revisions to the Mayor's Charging Schedule it is instructive to consider the report by Examiner Keith Holland DipTP, MRTPI, MRICS issued on 22nd January 2012 in connection with MCIL.

1.2.1 Mr Holland noted at the outset that because "the London situation is unique in so far as there is provision for both the Mayor and the Boroughs to impose a Community Infrastructure Levy."

1.2.2 He grouped his responses following the Examination in Public under three headings:

1. The approach adopted by the Mayor,
2. Viability Issues, and
3. The Exceptions Policy.

1.2.3 Mr Holland accepted that undertaking viability analysis across the entire geography of Greater London presented a unique set of challenges as did the circumstances where MCIL would be levied in tandem with BCIL. He considered the basis of undertaking a viability study using residential house prices as a proxy for viability and he accepted the logic that starting with residential, given the quantum of residential development as a proportion of development as a whole, was appropriate. He said *"the approach adopted by the Mayor is logical and reasonable".* He also considered the correlation with evidence of retail and office rents and found that a correlation was sufficiently strong to make the residential value approach suitable for adoption generally across other uses. *(Para 12)*

1.2.4 In considering residential values, the Mayor had put forward evidence based on average house prices and the basis for this (mean vs median) was considered to see if there was another way in which house prices might be judged. Mr Holland concluded *"there is no strong justification on viability grounds for recommending a change in approach." (Para 22)*

1.2.5 When considering what levels of MCIL might be appropriate the balance test set out in the regulations was referenced. In Paragraph 23 Mr Holland states "*the rate must be based on viability considerations balanced against the part that infrastructure proposed will play in the development of the area. The Mayor takes the*

legitimate view that although the benefit will not be spread evenly throughout London, Crossrail will be of strategic benefit for the whole of London and that all Boroughs will benefit to some extent."

1.2.6 In Paragraph 42 Mr Holland considers arguments for reducing or setting a nil MCIL in Opportunity Areas. In Paragraph 43 he summaries his thoughts in the following way; *"the justification for excluding areas from the Mayor's Crossrail S106 arrangements does not apply when looking at a strategic London wide infrastructure project. I also accept the GLA point that to give the OA the advantage of a low or nil MCIL rate on the grounds of promoting desirable development would run the risk of contravening the State Aid rules."*

1.2.7 In concluding on viability matters the Examiner says *"None of the representations were able to convincingly counter the argument advanced by the Mayor that the general impact of this charge would be very modest - in the order of 1% of the value of completed residential units. One percent is within the margin of error for most valuations and cannot be said to generally represent an intolerable burden. On the contrary the evidence presented to the examination strongly points to the MCIL usually being a relatively unimportant factor in relation to viability. Obviously some marginal schemes might be at risk but that is not the test for the acceptability of the level of the charge".*

1.2.8 In the following sections of his report Mr Holland then considers the use of exceptional circumstances relief and the Mayor's decision not to offer this. Having reviewed the legislation the Examiner concluded that *"I am therefore not in a position to make a recommendation that will require the Mayor to change his present stance that relief for exceptional circumstances will not be made available."*

1.2.9 Paragraph 55 sets out the conclusion of the examination and what follows is that paragraph in full "*The Mayor has justified the need to raise a MCIL to help to pay for a strategic transport facility for London. In order to assess the implication for the proposed charge for the viability of development in London as a whole the Mayor has adopted an approach which links viability with 2010 house prices. The reasonable assumption has been made that the higher value areas are likely to be the most robust in terms of development viability. A three band charging schedule is justified on the basis of Borough house prices. Given the extreme complexity of London and the SG [Statutory Guidance] about the nature of evidence required to justify charging schedules, the Mayor has sensibly adopted a very basic but fundamentally sound approach. The available evidence is that the charge proposed by the Mayor would represent a very small part of the cost of development and hence would not seriously threaten the economic viability of development across London."*

1.3 Market background for testing MCIL 2 viability

1.3.1 Any study of viability must be considered against the wider health of the economy and property markets. As we enter into 2017 initial estimates are that GDP was 2.4% higher in 2016 than the year before. This is higher than many commentators expected post the Brexit vote. JLL's in-house view is that this level is likely to moderate a little in 2017 partly due to the take up in employment being hard to repeat due to a reduced available labour pool.

1.3.2 Inflation has risen to 1.6% per annum from close to zero with much of the rise attributed to the exchange rate effect that followed the pound depreciating against the dollar after the Brexit vote. Interest rates are rising in the USA and it is likely that UK will follow this trend.

1.3.3 Turning to the London property markets:

- **Retail** – There has been no let-up in occupier and investor appetite for Central London retail locations. The British Retail Consortium (BRC) reports a year on year increase in footfall for the 3 weeks before Christmas with much of this attributed to an increase in overseas visitors. Looking to the future for

business rates re-evaluation which is effective from April 2017 is likely to have a negative effect on Central London locations and the opening of Crossrail will be positive. [Need a couple of sentences about retail elsewhere in London] Big box retail particularly food stores has been relatively subdued as retailers adjust to changes in consumer preferences.

- **Offices** – The market was patchy during 2016 but finished relatively strongly. In the City and Docklands/East London there was take up of 6.5 million sq ft and there is 5.6 million sq ft under construction in the City (50% to finish this year and of the remainder approximately 50% is represented by 1 building – 22 Bishopsgate which is due to be delivered in 2019). Active demand is line with the 10 year average in the West End take up last year amounted to 3.6 million sq ft (ahead of the 10 year average) and active demand is in the order of 3.8 million sq ft with just 2 million sq ft under development.

- **Industrial** – Vacancy rates remain low, and there is no sign of this easing in the foreseeable future. 2017 will see continuing pressure on industrial land linked to growing housing need. London has been losing its industrial land and as a result we are seeing more interest in the intensification of industrial development. 2017 could see the first proposal for a multi-storey ramped warehouse development for 10 years. There will also be greater demand for local delivery centres and parcel centres in urban areas, driven by online retail and same-day delivery services.

- **Residential** – Legislative changes, such as stamp duty, and the uncertainty around Brexit have led to weaker investment demand from overseas as well as the domestic investment and owner-occupier buyers. In 2017 it is expected that build costs will increase due to the effect of the devalued pound sterling on imports and the Mayor has continued to push for bigger affordable housing contributions. As a result of these factors, in contrast with the nearly 24,000 homes built in London during 2015, 2017 housing supply levels are expected to fall back closer to 16,000. In terms of pricing, Prime Central London is expected to be flat in 2017 with very little house price growth is expected across Greater London over the year as the market absorbs the effect of Brexit uncertainty as well as the knock-on impacts of higher consumer price inflation.

1.3.4 Overall supply remains tight and most markets show momentum despite political uncertainty.

1.3.5 Over the longer term we expect the cyclical nature of the property market to continue. However the underlying pressure of predicted population growth in London and limited land supply should lead to further value growth provided the underlying economy is healthy.

2 Our approach to MCIL 2

2.1 General approach to viability testing for MCIL2

2.1.1 A top down approach to viability testing is preferred for a London-wide viability assessment.

2.1.2 In considering the extant CIL rates Mr Holland stated *"Overall in London the MCIL would result in an average charge equivalent to 0.87% of the value of a house with a range around this mean from 0.48% to 1.13%. The 3 bands result in most boroughs ending up with a charge that is relatively close to the average of 0.87%. Hence the 3 bands represent a reasonable balance between complexity and fairness." (Para 19)*

2.1.3 We believe this remains a good test to assess a proposed change to the levels of MCIL 2. In addition we will take into account:

- changes in values across London since MCIL was introduced and whether the allocation of boroughs to the red, blue and green charging bands continues to be appropriate
- the growth in building costs and values since MCIL was introduced and whether there is any viability headroom to justify an increase in rates for MCIL 2
- the impact of Borough CILs on MCIL 2 viability
- the impact of affordable housing policy

2.1.4 A 'New Approach to Developer Contributions' published by the CIL Review Team (October 2016) and chaired by Liz Peace, highlights complexity as one of the concerns about the way CIL is being implemented , see in particular section 3.8 of the report, attached at **Appendix XX**.

The CIL Review Team reported that consultees found the system inflexible. However they made an exception for MCIL. Paragraph 3.3.5 says 'The only exception seems to be the single rate Mayoral CIL imposed by the Mayor of London covering all development and set at a relatively low level to contribute to the funding for a specific piece of infrastructure, namely Crossrail. Despite some early complaints, this seemed to end up being broadly acceptable to all and indeed was frequently cited as a success story.' Further, at paragraph 3.4.7 the CIL Review Team goes on to state *'…the London Mayoral CIL which provides an interesting example of how a relatively low level and simple levy applied across a wider economic area has been able to provide a contribution towards the funding for one large identified piece of infrastructure. It could well be argued that this is closer to how CIL was meant to operate in its simplicity, universal applicability and use than most of the CILs that have been introduced elsewhere.'*

2.1.5 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for publicly funded education health and facilities.

2.1.6 However commercial uses within the CAZ and North Docklands have their own distinctive viability characteristics and are already paying the Crossrail S106 which the Mayor proposes to roll in to the MCIL2 rates within the CAZ and North Docklands areas. At present because of the way the Mayor allows CIL payments in CAZ and North Docklands to be set off against Crossrail S106 liabilities the S106 is effectively a 'top-up' above the prevailing CIL rates. This policy has been running since 2010 and so the overall quantum of payment is well understood and has been absorbed into the development economics in central London.

2.1.7 In considering commercial rates we will review the S106 charging area (including 1km zones around stations) and will make proposals to amend or simplify it to reflect current viability characteristics.

3 Residential and commercial values

3.1 Residential and commercial development activity

3.1.1 Analysis of MCIL receipts for the full year 2015-16 shows there has been in the order of 2.95 million sq m of net additional gross internal floor area. Data provided by the GLA based on planning applications shows that on average new development shows a circa 50% increase in density on site. This evidence suggests that total chargeable development in 2015-16 amounted to circa 5.9 million sq m.

3.1.2 We set out in Figure 1 below our analysis of the split between residential and commercial development activity.

Figure 1: Residential and commercial development activity estimates based on MCIL receipts data for FY 2015-16

	Gross Internal Area	
Net additional CIL paying floor space (2015-16 receipts)	2,950,000	sq m
100% net increase (based on GLA data) say	5,900,000	sq m
Less:		
Offices 607,000 sq m NIA	-809,333	sq m
Retail/Hotels	-404,667	sq m
Other uses say	-200,000	sq m
Total Gross residential floor space	4,486,000	sq m
Net increase in residential floor space say	2,243,000	sq m
Net increase in gross residential floor space incl. affordable housing at 15%	2,638,824	sq m
Net additional Homes (incl. affordable) GLA data (2015) rounded	29,737	homes
Area of each net additional home say	88.74	sq m
Make up of 2.95m sq m net additional area		
Residential CIL paying floor space	2,243,000	sq m
Commercial CIL paying floor space	707,000	sq m
Total	2,950,000	sq m

Source: TfL, GLA, JLL

3.1.3 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential.

3.1.4 Residential remains the dominant development type in London and therefore continues to be the starting base for our analysis in setting borough by borough MCIL2 rates.

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- Source of Office/Retail/Hotel Data
- Explanation of 'other uses' estimate
- State that the numbers here are for guidance and not to be taken as correct but rather to gauge the proportion of residential to commercial uses.

3.2 Mean vs Median

3.2.1 In the MCIL examination arguments were made for and against basing the analysis of house prices on average (mean) prices or using median house price data. The Examiner noted there was little difference whichever approach was taken.

3.2.2 Table 2, below, shows changes in average and median house price growth since the viability evidence for the original MCIL was prepared in 2010 to 2016. The Land Registry has since rebased their data since 2010 and so we show this in Table 2 for purposes of comparison.

Table 2: Average and median house price changes by MCIL charging groups

Borough	Average House Price (as per HPI data April 2010)	Borough	Average House Price (rebased HPI data April 2010)	Borough	Median House Price (as per ONS data Q1 2010)	Borough	Average House Price (as per HPI data November 2016)	Borough	Median House Price (as per ONS data Q2 2016)
Kensington and Chelsea	£866,295	Kensington and Chelsea	£818,816	Kensington and Chelsea	£700,000	Kensington and Chelsea	£1,303,778	Kensington and Chelsea	£1,200,000
City of Westminster	£623,963	City of Westminster	£590,583	City of Westminster	£525,000	City of Westminster	£1,021,027	City of Westminster	£950,000
Camden	£553,706	Camden	£499,767	Camden	£425,000	Camden	£872,390	City of London	£797,250
Hammersmith and Fulham	£494,064	Hammersmith and Fulham	£488,087	Hammersmith and Fulham	£425,000	City of London	£790,439	Camden	£750,000
City of London	£492,982	City of London	£458,246	City of London	£424,000	Hammersmith and Fulham	£744,965	Hammersmith and Fulham	£745,000
Richmond upon Thames	£430,008	Richmond upon Thames	£417,128	Richmond upon Thames	£387,000	Islington	£673,350	Wandsworth	£605,000
Islington	£423,250	Islington	£393,892	Wandsworth	£359,950	Richmond upon Thames	£650,272	Richmond upon Thames	£600,000
Wandsworth	£373,641	Wandsworth	£379,075	Islington	£350,000	Wandsworth	£609,373	Islington	£599,975
Hackney	£361,035	Barnet	£327,955	Barnet	£300,000	Hackney	£564,536	Hackney	£520,000
Southwark	£355,831	Haringey	£304,766	Tower Hamlets	£297,500	Haringey	£559,173	Southwark	£500,000
Barnet	£345,734	Hackney	£298,084	Lambeth	£285,000	Barnet	£534,221	Lambeth	£488,000
Tower Hamlets	£340,867	Kingston upon Thames	£295,162	Southwark	£285,000	Southwark	£532,071	Barnet	£465,000
Haringey	£333,591	Merton	£294,295	Kingston upon Thames	£280,000	Lambeth	£526,622	Haringey	£462,000
Lambeth	£331,534	Lambeth	£294,294	Hackney	£279,000	Merton	£507,901	Ealing	£459,950
Merton	£318,072	Southwark	£292,880	Brent	£272,250	Brent	£500,605	Merton	£450,000
Ealing	£315,637	Tower Hamlets	£288,964	Ealing	£270,000	Tower Hamlets	£484,861	Tower Hamlets	£446,700
Kingston upon Thames	£311,368	Harrow	£288,144	Haringey	£265,000	Kingston upon Thames	£479,238	Kingston upon Thames	£444,500
Brent	£302,630	Brent	£287,902	Harrow	£265,000	Ealing	£475,704	Brent	£427,250
Redbridge	£286,344	Ealing	£285,639	Merton	£260,000	Harrow	£465,604	Harrow	£425,000
Harrow	£286,017	Bromley	£266,897	Bromley	£250,000	Waltham Forest	£438,294	Waltham Forest	£400,000
Bromley	£283,643	Hounslow	£252,274	Hounslow	£241,475	Bromley	£435,465	Bromley	£399,995
Hounslow	£276,168	Redbridge	£244,146	Redbridge	£235,500	Hillingdon	£407,202	Hounslow	£382,500
Greenwich	£265,237	Hillingdon	£244,122	Hillingdon	£232,500	Lewisham	£404,616	Lewisham	£380,000
Lewisham	£261,444	Enfield	£239,051	Greenwich	£230,000	Redbridge	£397,413	Hillingdon	£375,000
Hillingdon	£259,175	Sutton	£234,859	Enfield	£227,000	Enfield	£395,044	Greenwich	£375,000
Havering	£256,611	Lewisham	£226,054	Lewisham	£220,000	Hounslow	£389,458	Redbridge	£370,000
Enfield	£255,528	Waltham Forest	£225,011	Waltham Forest	£219,500	Sutton	£372,926	Enfield	£360,000
Sutton	£247,133	Greenwich	£222,902	Sutton	£216,500	Newham	£369,236	Sutton	£335,000
Croydon	£245,747	Croydon	£222,847	Croydon	£205,000	Greenwich	£368,226	Newham	£334,500
Waltham Forest	£241,338	Havering	£217,821	Newham	£205,000	Croydon	£367,076	Croydon	£326,500
Bexley	£231,601	Bexley	£202,739	Havering	£204,000	Havering	£358,805	Havering	£314,750
Newham	£221,403	Newham	£202,170	Bexley	£200,000	Bexley	£335,076	Bexley	£310,000
Barking and Dagenham	£213,777	Barking and Dagenham	£162,756	Barking and Dagenham	£160,000	Barking and Dagenham	£288,873	Barking and Dagenham	£265,000

Source: Land Registry, ONS. Latest median house prices published in December 2016 to June 2016 (Q2).

3.2.3 We conclude from this analysis that average house prices remain closely aligned to median price levels and so we continue to use average house prices for present purposes.

3.3 Proposed MCIL 2 charging bands

3.3.1 Based on Table 2 (Average price changes by MCIL charging groups) the Mayor proposes the following changes for MCIL 2 bands. In the case of two Mayoral Development Corporation we have considered the rates being proposed for the underlying boroughs and have proposed a unitary rate for each Authority based on our assessment of the characteristics of the part of the borough or boroughs in which it is located.

- **Band 1** – Camden, City of London, City of Westminster, Hammersmith and Fulham, Islington, Kensington and Chelsea, Richmond-upon-Thames, Wandsworth ***(no change)***
- **Band 2** – Barnet, Brent, Bromley, Ealing, Enfield Hackney, Haringey, Harrow, Hillingdon, Hounslow, Kingston upon Thames, Lambeth, Lewisham, Merton, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield and LLDC & OPDC join the group and Greenwich leaves the group)***
- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the group and Greenwich join the group)***

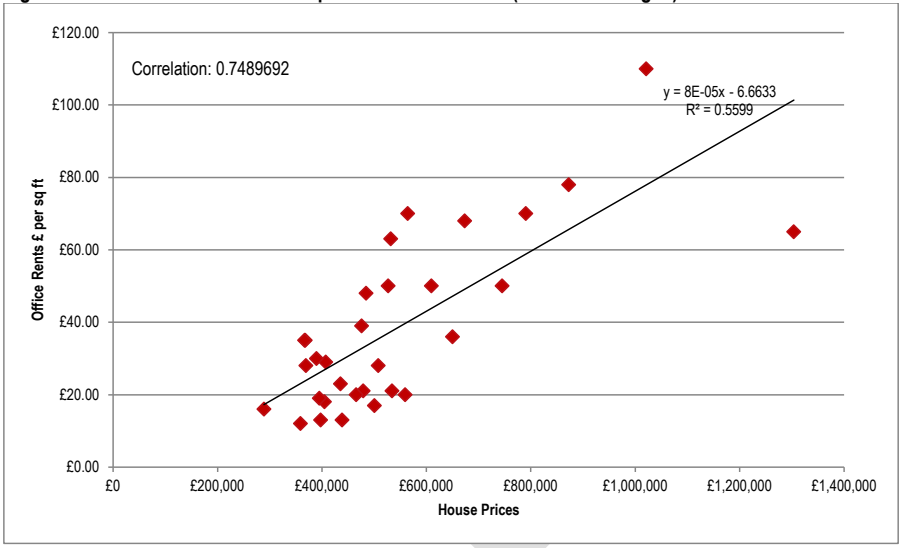
3.4 Are residential values a good lead indicator for high values in other sectors?

3.4.1 In order to establish a workable cross-London proxy for viability we have taken the likely major component of development (residential) and looked at the correlation between this and other uses.

3.4.2 Offices

3.4.3 We have looked at the correlation between residential prices and office rents (where available – see Table 4). As can be seen, there is a reasonably strong correlation price (See also Appendix XX) for correlation co-efficiency analysis).

Figure 2: Correlation between house prices and office rents (London Boroughs)



Source: Land Registry, CoStar, JLL

3.4.4 Retail

3.4.5 Because of the very specific locational characteristics of retail it is more difficult to provide retail evidence on a Borough by Borough basis with any degree of accuracy. However, observation of letting data confirms that the highest values are found in central London locations such as Kensington, Westminster and the City. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross). There are also significant retail centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow, Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton. [Our retail specialists confirm that with the exception of the Westfield centre in Stratford, [and Croydon] higher values are typically found in the boroughs in the Red and Blue MCIL charging bands.

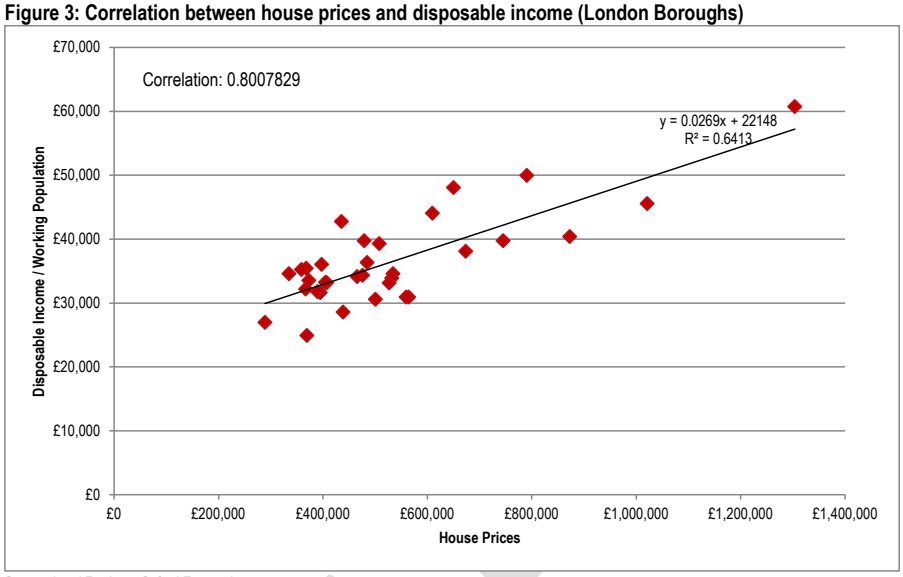
3.4.6 Other categories

3.4.7 'Other categories' include buildings such as those used for leisure and transport e.g. football stadia and airport terminal buildings.

3.4.8 High house prices correlate with high disposal income and therefore, all other things being equal, the likely buying power for commercial activities and therefore the likely demand for this type of floor space in a Borough.

3.4.9 We have confirmed this by comparing house values with disposable income per person of working population in Figure 3 and Table 4 below.

Figure 3: Correlation between house prices and disposable income (London Boroughs)



Source: Land Registry, Oxford Economics

3.4.10 There is no straightforward way of dealing with viability of non-commercial activities. Some will be charities occupying for charitable purposes. The remainder will be mainly public and local government where viability will be a combination of political desire and cost/benefit analysis.

3.4.11 For current purposes we continue to assume that viability of non-commercial uses will match viability for commercial uses except in the case of the state-funded health and education sectors where the pressures on constrained public resources and their likely effect on viability decisions by the relevant authorities have led the Mayor to be minded to continue to set nil rates for these uses. Had we not made this assumption we conclude that it would be difficult to provide a conclusive view about the effects on economic viability when the rationale for development is not based on economic factors.

Table 3: Comparison of house prices, office rents and disposable incomes (London boroughs)

Borough	Average house Price	Office rents £ per sq ft	Borough	Average house Price	Disposable Income / Working Population
Kensington and Chelsea	£1,303,778	£65.00	Kensington and Chelsea	£1,303,778	£60,759
Westminster	£1,021,027	£110.00	Westminster	£1,021,027	£45,563
Camden	£872,390	£77.50	Camden	£872,390	£40,391
City of London	£790,439	£70.00	City of London	£790,439	£50,004
Hammersmith and Fulham	£744,965	£50.00	Hammersmith and Fulham	£744,965	£39,756
Islington	£673,350	£67.50	Islington	£673,350	£38,093
Richmond upon Thames	£650,272	£35.76	Richmond upon Thames	£650,272	£48,065
Wandsworth	£609,373	£50.00	Wandsworth	£609,373	£44,064
Hackney	£564,536	£70.00	Hackney	£564,536	£30,961
Haringey	£559,173	£19.55	Haringey	£559,173	£30,963
Barnet	£534,221	£21.42	Barnet	£534,221	£34,585
Southwark	£532,071	£62.50	Southwark	£532,071	£33,886
Lambeth	£526,622	£50.00	Lambeth	£526,622	£33,123
Merton	£507,901	£27.88	Merton	£507,901	£39,311
Brent	£500,605	£16.70	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.43	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£38.50	Ealing	£475,704	£34,324
Harrow	£465,604	£20.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£12.90	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£22.85	Bromley	£435,465	£42,757
Hillingdon	£407,202	£28.88	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£17.95	Lewisham	£404,616	£33,248
Redbridge	£397,413	£12.95	Redbridge	£397,413	£36,061
Enfield	£395,044	£19.00	Enfield	£395,044	£31,653
Hounslow	£389,458	£30.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£28.19	Newham	£369,236	£24,930
Greenwich	£368,226	£35.00	Greenwich	£368,226	£35,448
Croydon	£367,076	£35.00	Croydon	£367,076	£32,212
Havering	£358,805	£12.00	Havering	£358,805	£35,256
Bexley	£335,076	N/M	Bexley	£335,076	£34,581
Barking and Dagenham	£288,873	£16.00	Barking and Dagenham	£288,873	£26,983

Source: Land Registry, Oxford Economics, CoStar, JLL

3.5 Conclusion

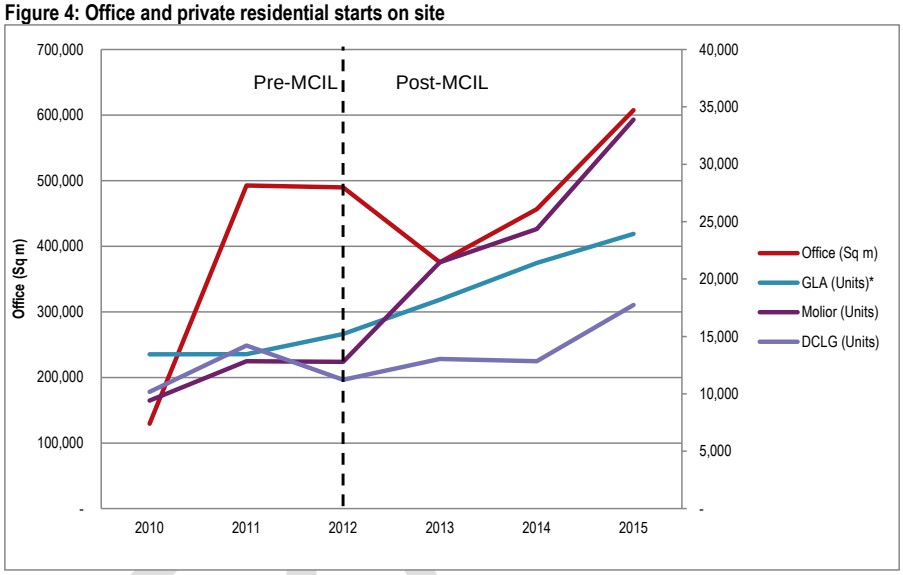
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

3.5.2 The average house price per Borough (mean) is still appropriate for assessing viability characteristics.

4 Do viability characteristics suggest that a rise in core CIL rates could be accommodated?

4.1.1 As a start to answering this question we first look at the impact of MCIL on development activity since its introduction.

Figure 4: Office and private residential starts on site



*GLA completion data used to avoid double counting in start on site data when multiple and duplicate consents are implemented. Source: JLL, GLA, Molior, DCLG

4.1.2 Development has not been hampered since the introduction of MCIL in 2012.

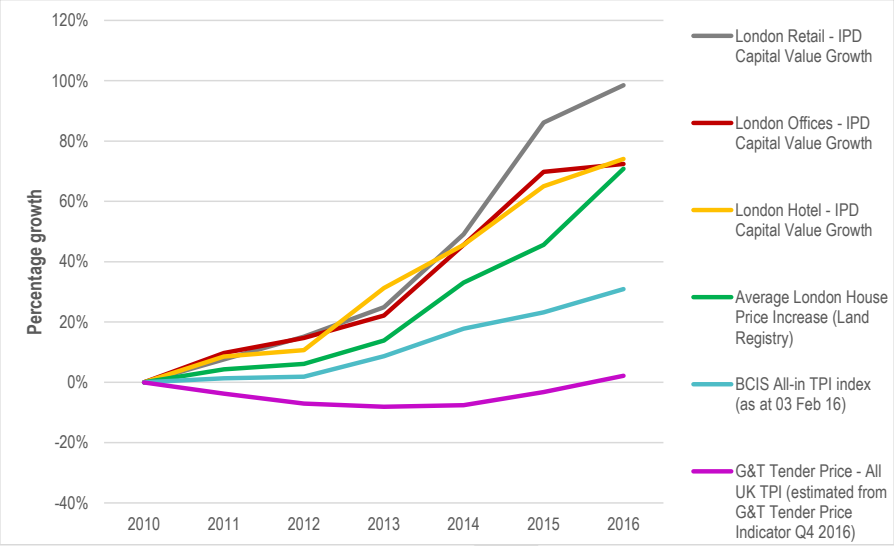
4.1.3 Whether the gap between value and cost has widened since the evidence used to support the introduction of MCIL will be an important indicator of the likelihood of the ability for higher MCIL2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their conclusions are markedly different.

Table 4: Average house price growth compared with build cost growth 2010-2016

Borough	Average House Price Growth (as per rebased HPI data April 2010 to November 2016)	BCIS All in TPI Growth (Nov 2010-Nov 2016) as at 03 Feb 2016	Excess House price growth over BCIS building costs	G&T Tender Price - All UK TPI 2010-2016 (estimated from G&T Tender Price Indicator Q4 2016)	Excess House Price growth over G&T building costs
Waltham Forest	95%	31%	64%	2%	93%
Hackney	89%	31%	58%	2%	87%
Haringey	83%	31%	53%	2%	81%
Newham	83%	31%	52%	2%	80%
Southwark	82%	31%	51%	2%	80%
Lewisham	79%	31%	48%	2%	77%
Lambeth	79%	31%	48%	2%	77%
Barking and Dagenham	77%	31%	47%	2%	75%
Camden	75%	31%	44%	2%	72%
Brent	74%	31%	43%	2%	72%
City of Westminster	73%	31%	42%	2%	71%
Merton	73%	31%	42%	2%	70%
City of London	72%	31%	42%	2%	70%
Islington	71%	31%	40%	2%	69%
Tower Hamlets	68%	31%	37%	2%	66%
Hillingdon	67%	31%	36%	2%	65%
Ealing	67%	31%	36%	2%	64%
Bexley	65%	31%	34%	2%	63%
Enfield	65%	31%	34%	2%	63%
Greenwich	65%	31%	34%	2%	63%
Havering	65%	31%	34%	2%	63%
Croydon	65%	31%	34%	2%	63%
Bromley	63%	31%	32%	2%	61%
Barnet	63%	31%	32%	2%	61%
Redbridge	63%	31%	32%	2%	61%
Kingston upon Thames	62%	31%	31%	2%	60%
Harrow	62%	31%	31%	2%	59%
Wandsworth	61%	31%	30%	2%	59%
Kensington and Chelsea	59%	31%	28%	2%	57%
Sutton	59%	31%	28%	2%	57%
Richmond upon Thames	56%	31%	25%	2%	54%
Hounslow	54%	31%	23%	2%	52%
Hammersmith and Fulham	53%	31%	22%	2%	50%

4.1.4 Whether using BCIS or G&T data the conclusion we draw is that house price inflation has exceeded building cost inflation by a very considerable degree. We have established earlier that there is a reasonable correlation between commercial and residential values. However to be sure that commercial values have outgrown building costs we have looked at this relationship.

Figure 5: Value and price growth compared with build cost inflation



Source: MSCI/IPD, Land Registry, BCIS, G&T, JLL

4.1.5 Central London retail, office and hotel values have grown at an even greater rate than residential.

5 MCIL and BCIL

5.1 Borough CILs

5.1.1 In the previous chapter we concluded that the gap between cost and value has grown considerably since 2010. This applies to both residential and commercial uses. However during the same period many boroughs have adopted their own charging schedules so in this chapter we consider the impact of this additional imposition.

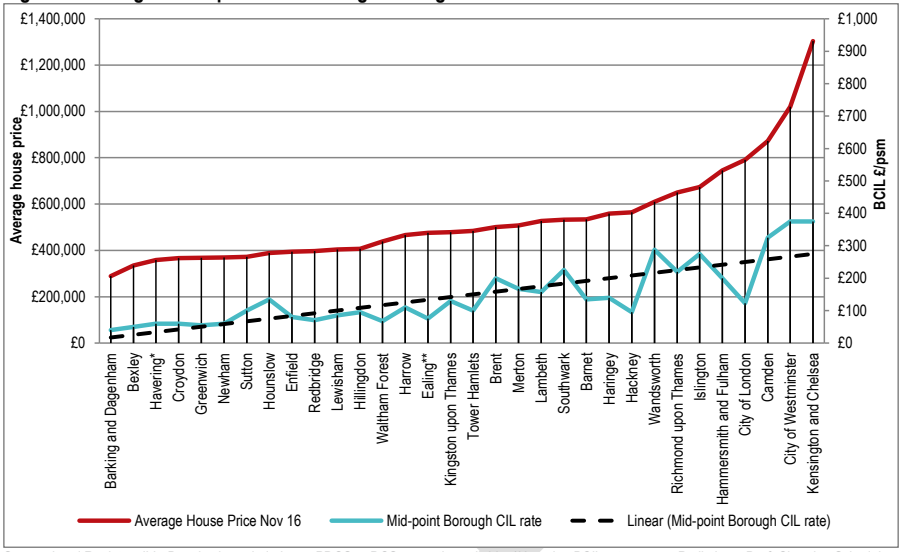
5.1.2 We have reviewed the residential Borough CIL rates and have looked at the relationship between the 2016 average house price and CIL rates.

Table 5: Average house price and residential BCIL rates

Borough	Average House Price November 2016	Low Residential BCIL £ per sq m	High Residential BCIL £ per sq m	Mid-point Residential BCIL £ per sq m
Barking and Dagenham	£288,873	£10	£70	£40
Bexley	£335,076	£40	£60	£50
Havering*	£358,805	£70	£50	£60
Croydon	£367,076	£0	£120	£60
Greenwich	£368,226	£40	£70	£55
Newham	£369,236	£40	£80	£60
Sutton	£372,926	£100	£100	£100
Hounslow	£389,458	£70	£200	£135
Enfield	£395,044	£40	£120	£80
Redbridge	£397,413	£70	£70	£70
Lewisham	£404,616	£70	£100	£85
Hillingdon	£407,202	£95	£95	£95
Waltham Forest	£438,294	£65	£70	£68
Harrow	£465,604	£110	£110	£110
Ealing**	£475,704	£100	£50	£75
Kingston upon Thames	£479,238	£50	£210	£130
Tower Hamlets	£484,861	£0	£200	£100
Brent	£500,605	£200	£200	£200
Merton	£507,901	£115	£220	£168
Lambeth	£526,622	£50	£265	£158
Southwark	£532,071	£50	£400	£225
Barnet	£534,221	£135	£135	£135
Haringey	£559,173	£15	£265	£140
Hackney	£564,536	£0	£190	£95
Wandsworth	£609,373	£0	£575	£288
Richmond upon Thames	£650,272	£190	£250	£220
Islington	£673,350	£250	£300	£275
Hammersmith and Fulham	£744,965	£0	£400	£200
City of London	£790,439	£95	£150	£123
Camden	£872,390	£150	£500	£325
City of Westminster	£1,021,027	£200	£550	£375
Kensington and Chelsea	£1,303,778	£0	£750	£375

Source: Land Registry, JLL, Bromley is excluded – no PDCS or DCS currently available. *Ealing BCIL rates as per Draft Charging Schedule (March 2015) **Havering BCIL rates as per Preliminary Draft Charging Schedule (February 2015)

Figure 6: Average house prices and average Borough CIL rates



Source: Land Registry, JLL, Bromley is excluded – no PDCS or DCS currently available. *Havering BCIL rates as per Preliminary Draft Charging Schedule (February 2015) **Ealing BCIL rates as per Draft Charging Schedule (March 2015)

5.1.3 Boroughs have, as predicted when the MCIL evidence was scrutinised, built into their charging schedules rates more targeted to their local geography. Wandsworth for example have adopted a residential rate of £574 per sq m in the 'Nine Elms Residential Area A' reflecting high residential values along the Thames, £265 per sq m in 'Nine Elms Residential Area B' in the Vauxhall/Nine Elms area which is set back from the river, with £250 per sq m across the rest of the borough with the exception of the 'Roehampton Charging Area' which is set at zero, reflecting varying development viability characteristics in different parts of the borough.

5.1.4 However as might be anticipated the general trend is that BCIL rates rise as house prices increase. See figure 6 above.

5.1.5 We next consider whether the imposition of MCIL development activity has impacted development volumes. By examining the data in Table [5] below it can be seen that the green boroughs paying the lowest MCIL per sq m, are substantially in the bottom third of a list of boroughs/authorities. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1.

5.1.6 However also found in the bottom third is a borough with high house prices and a number in the middle band. As BCIL rates rise in line with house prices (the basis that was used for MCIL) it is reasonable to conclude that there would be no correlation between development and MCIL/BCIL in combination.

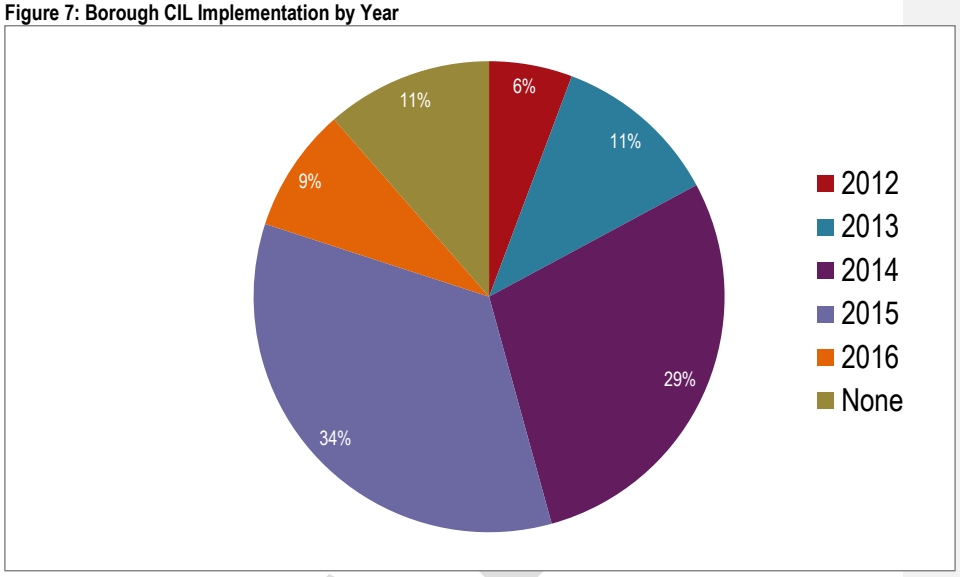
Table 6: MCIL receipts (excluding indexation) by revenues and net additional GIA in sq m to Q3 2016-17

Borough	Total MCIL revenue excluding indexation to Q3 2016-17	MCIL rate per sq m (excluding indexation)	Net additional development (GIA sq m) to Q3 2016-17
Tower Hamlets	£33,226,940	£35	949,341
City of Westminster	£27,853,421	£50	557,068
Hammersmith and Fulham	£20,516,892	£50	410,338
Southwark	£20,134,067	£35	575,259
Wandsworth	£18,308,958	£50	366,179
Lambeth	£18,463,412	£35	527,526
City of London	£14,506,765	£50	290,135
Hackney	£12,847,714	£35	367,078
Camden	£12,476,615	£50	249,532
Greenwich	£12,015,455	£35	343,299
Islington	£11,729,324	£50	234,586
Barnet	£11,391,709	£35	325,477
Hounslow	£10,046,845	£35	287,053
Brent	£9,547,160	£35	272,776
Hillingdon	£7,680,248	£35	219,436
LLDC	£7,639,096	£35/£20	218,260*
Kensington and Chelsea	£5,588,604	£50	111,772
Haringey	£4,787,390	£35	136,783
Bromley	£4,743,828	£35	135,538
Lewisham	£4,587,054	£35	131,059
Ealing	£3,995,905	£35	114,169
Newham	£3,780,260	£20	189,013
Harrow	£3,136,808	£35	89,623
Merton	£3,184,001	£35	90,971
Enfield	£3,037,537	£20	151,877
Kingston upon Thames	£2,859,849	£35	81,710
Bexley	£2,619,413	£20	130,971
Richmond upon Thames	£2,523,974	£50	50,479
Croydon	£2,533,527	£20	126,676
Waltham Forest	£2,143,309	£20	107,165
Sutton	£1,994,814	£20	99,741
Barking and Dagenham	£1,078,069	£20	53,903
Redbridge	£974,009	£35	27,829
Havering	£832,889	£20	41,644
OPDC	£149,473	£35/£50	4,271*
Totals	**£302,935,337**		**8,068,538**

*For the purposes of this calculation we have assumed an MCIL rate of £35 per sq m for LLDC and OPDC. The area may be slightly understated as a result.

5.1.7 Finally for completeness we look at when BCIL charging schedules were introduced. The majority came into effect in the years 2014 and 2015 based on evidence that pre-dated their introduction. The marked increases in value occurred in 2015 and 2016 (see above) It is likely that viability characteristics will have improved since the evidence for most BCIL charging schedules was compiled.

Figure 7: Borough CIL Implementation by Year



Data includes LLDC and OPDC

Table 7: Borough CIL Implementation by Year

Year	Total Boroughs/Authorities
2012	2
2013	4
2014	10
2015	12
2016	3
None*	4

*Bromley, Havering, Ealing and OPDC have not commenced charging.

6 Flat or variable rates

6.1.1 There is a trade-off between not importing unfairness into the MCIL charging schedule whilst still keeping the regime simple to understand and to operate.

6.1.2 When the MCIL schedule was introduced the Mayor adopted low flat rates across all uses allowing boroughs to reflect specific viability issues within their boroughs by reflecting varied rates with their borough charging schedules. For commercial uses in Central London and North Docklands there was the additional consideration of the S106 policy which runs in tandem with MCIL.

6.1.3 This policy has worked well and informal consultation through the CIL collection group (Mayor and boroughs/authorities) and with developers suggests that this clear and easy to understand regime is welcomed so we have continued this idea in considering proposal for MCIL2. This conclusion is corroborated by the findings in the CIL Review Team in their report attached at **Appendix XX.**

7 Proposed MCIL 2 charging schedule

7.1.1 We have established that there should be room for some increases in MCIL2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

7.1.2 We set out below Table 8 the proposed core rates for MCIL2 to be operative from April 2019.

Table 8: Proposed MCIL 2 charging rates from April 2019

Charging band	Boroughs	Proposed MCIL 2 rate from April 2019 per sq m
Band 1	Camden, City of London, City of Westminster, Hammersmith and Fulham, Islington, Kensington and Chelsea, Richmond-upon-Thames, Wandsworth	£80
Band 2	Barnet, Brent, Bromley, Ealing, Enfield, Hackney, Haringey, Harrow, Hillingdon, Hounslow, Kingston upon Thames, Lambeth, Lewisham, Merton, Redbridge, Southwark, Tower Hamlets, Waltham Forest, LLDC, OPDC	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich Havering, Newham, Sutton	£25

7.1.3 For comparison purposes we set out in Table 9 these proposals rates together with the existing rates including indexation.

Table 9: Proposed MCIL 2 charging rates from April 2019 compared to existing MCIL rates including indexation

Proposed MCIL 2 charging band	Current rates - no indexation (per sq m)	Current rate + indexation to Q3 2016 (per sq m)*	Current rate + indexation to Q3 2016 + forecast to Q2 2019 (per sq m)*	Proposed MCIL 2 rate from April 2019 (per sq m)
Band 1 - current and proposed core CIL rates	£50.00	£64.57	£65.25	£80.00
Band 2 - current and proposed core CIL rates	£35.00	£45.20	£45.67	£60.00
Band 3 - current and proposed core CIL rates	£20.00	£25.83	£26.10	£25.00

*Indexation as per BCIS All-in TPI (as at 03 February 2017)

7.1.4 In Central London (CAZ & North Docklands) the Mayor proposes additional MCIL 'top ups' as part of the combination of the S106 and MCIL into one MCIL2 regime. The 100m zones around the outer London Crossrail stations included in the current S106 policy are not incorporated into the proposals to aid simplicity and due to the relatively small additional amounts yielded by the policy. The boundaries of the CAZ/ North Docklands are considered further in chapter 9.

As a result the Mayor proposes the following CIL rates per sq m in Central London:

Table 10: Proposed Central London MCIL 2 charging rates from April 2019

Use	Proposed Central London MICL 2 rate (per sq m)
Office	£185.00
Retail	£165.00
Hotel	£140.00
Residential/other uses	MCIL 2 Borough rate (£80.00 / £60.00)

7.1.5 These rates are applied to the chargeable net area floor space as set out in the CIL Regulations.

7.1.6 For the purposes of comparison we present the current MCIL and S106 rates including indexation and the proposed Central London MCIL 2 rates for commercial uses in the table below.

Table 11: Proposed Central London MCIL 2 charging rates from April 2019 compared to existing MCIL and Crossrail S106 rates including indexation

	CAZ				North Docklands			
	Current rates - no indexation (per sq m)	Current rate + indexation to Q3 2016 (per sq m)*	Current rate + indexation to Q3 2016 + forecast to Q2 2019 (per sq m)*	**Proposed top up 2019 to preserve existing relativities (per sq m)**	Current rates - no indexation (per sq m)	Current rate + indexation to Q3 2016 (per sq m)*	Current rate + indexation to Q3 2016 + forecast to Q2 2019 (per sq m)*	**Proposed top up 2019 to preserve existing relativities (per sq m)**
Offices								
S106 rate / Central London MCIL 2 rate	£140.00	£153.77	£162.09	**£185.00**	£190.00	£208.69	£219.98	**£185.00**
Current and proposed core CIL rates	-£50.00	-£64.57	-£65.25	**-£80.00**	-£35.00	-£45.20	-£45.67	**-£60.00**
Office top up	£90.00	£89.20	£96.84	**£105.00**	£155.00	£163.49	£174.30	**£125.00**
Retail								
S106 rate / Central London MCIL 2 rate	£90.00	£98.85	£104.20	**£165.00**	£121.00	£132.90	£140.09	**£165.00**
Current and proposed core CIL rates	-£50.00	-£64.57	-£65.25	**-£80.00**	-£35.00	-£45.20	-£45.67	**-£60.00**
Retail top up	£40.00	£34.28	£38.95	**£85.00**	£86.00	£87.70	£94.42	**£105.00**
Hotel								
S106 rate / Central London MCIL 2 rate	£61.00	£67.00	£70.62	**£140.00**	£84.00	£92.26	£97.25	**£140.00**
Current and proposed core CIL rates	-£50.00	-£64.57	-£65.25	**-£80.00**	-£35.00	-£45.20	-£45.67	**-£60.00**
Hotel top up	£11.00	£2.43	£5.38	**£60.00**	£49.00	£47.06	£51.58	**£80.00**

*Indexation as per BCIS All-in TPI index and forecasts (as at 03 February 2017) for MCIL rates and as per CPI for the Crossrail S106 rates (Oxford Economics forecasts)

8 Assessment of impact on economic viability

8.1 Testing the impact of the proposed MCIL2 rates

8.1.1 Our way of responding to this question is to look at the size of CIL in the context of the other "moving parts" in the development appraisal.

8.2 Original MCIL as a percentage of highest and lowest average house prices within each charging group

8.2.1 For the purpose of considering this question in setting the original MCIL rates in 2011-12, we analysed the CIL payable on a typical residential unit of 83.33 sq m in size as a percentage of the highest and lowest average house prices within each charging group (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption of 73% in gross internal area and at a 100% net increase to represent a 'worst case scenario' where there is no set off for CIL payable against existing floor area. Although our analysis of planning application data suggests a unit size of 88.74 sq m this data includes affordable and specialist housing types and so for the purposes of considering the impact of MCIL 2 we have continued to use a 'typical' residential unit of 83.33 sq m to aid comparability with the previous MCIL evidence.

8.2.2 We present the findings from the original viability evidence below in Tables 11 and 12.

Table 12: Original MCIL payable on a typical residential unit of 83.33 sq m GIA at 73% and 100% net increase in GIA (2011-12)

Group	MCIL rate per Sq M	MCIL payable at 73% net increase in GIA	MCIL payable at 100% net increase in GIA
Group 1	£50	£3,050	£4,167
Group 2	£35	£2,135	£2,917
Group 3	£20	£1,220	£1,667

Table 13: Original MCIL as a percentage of highest and lowest average house prices by Group assuming 73% and 100% net increase in GIA, as per original evidence (2011-12)

Group	Borough	Average House Price (as per HPI data April 2010)	MCIL payable (no indexation) assuming 73% Net increase in GIA	MCIL as percentage of highest and lowest average house price in each group assuming 73% net increase in GIA	MCIL payable (no indexation) assuming 100% Net increase in GIA	MCIL as percentage of highest and lowest average house price in each group assuming 100% net increase in GIA
Group 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
Group 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
Group 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
Group 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
Group 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
Group 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

8.2.3 Since the original MCIL evidence was prepared planning application data provided by the GLA demonstrates that the typical net increase in floor space is in the order of 50%. This figure is calculated using all housing data (including affordable) and is based on information supplied in planning applications.

8.2.4 We present in Tables 13 and 14 the impact of the original MCIL as a percentage of the highest and lowest average house prices within each charging group, but adopting a 50% net increase in GIA assumption in line with current practise.

Table 14: MCIL payable on a typical residential unit of 83.33 sq m GIA at 50% and 100% net increase in GIA (2011-12)

Group	MCIL rate per Sq M	MCIL payable at 50% net increase in GIA	MCIL payable at 100% net increase in GIA
Group 1	£50	£2,083	£4,167
Group 2	£35	£1,458	£2,917
Group 3	£20	£833	£1,667

Table 15: MCIL as a percentage of highest and lowest average house prices by Group assuming 50% and 100% net increase in GIA, based on original evidence (2011-12)

Group	Borough	Average House Price (as per HPI data April 2010)	MCIL payable (no indexation) assuming 50% Net increase in GIA	MCIL as percentage of highest and lowest average house price in each group assuming 50% net increase in GIA	MCIL payable (no indexation) assuming 100% Net increase in GIA	MCIL as percentage of highest and lowest average house price in each group assuming 100% net increase in GIA
Group 1 highest average house price	Kensington and Chelsea	£866,295	£2,083	**0.24%**	£4,167	**0.48%**
Group 1 lowest average house price	Wandsworth	£373,641	£2,083	**0.56%**	£4,167	**1.12%**
Group 2 highest average house price	Hackney	£361,035	£1,458	**0.40%**	£2,917	**0.81%**
Group 2 lowest average house price	Hillingdon	£259,175	£1,458	**0.56%**	£2,917	**1.13%**
Group 3 highest average house price	Havering	£256,611	£833	**0.32%**	£1,667	**0.65%**
Group 3 lowest average house price	Barking and Dagenham	£213,777	£833	**0.39%**	£1,667	**0.78%**

8.2.5 As expected, the original MCIL as a percentage of average house prices using a net increase in floor area assumption of 50% is lower, ranging from 0.24% to 0.56% (Table 14) as opposed to 0.35% to 0.82% (Table 12) on the original 73% net increase assumption.

8.3 Testing MCIL 2 proposals as a percentage of highest and lowest average house prices within each charging group

8.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables 15 and 16:

Table 16: Proposed MCIL 2 payable on a typical residential unit of 83.33 sq m GIA at 50% and 100% net increase in GIA (2011-12)

Group	MCIL rate per Sq M	MCIL payable at 50% net increase in GIA	MCIL payable at 100% net increase in GIA
Group 1	£80	£3,333	£6,667
Group 2	£60	£2,500	£5,000
Group 3	£25	£1,042	£2,083

Table 17: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by Group assuming 50% and 100% net increase in GIA

Group	Borough	Average House Price (as per HPI data November 2016)	Proposed MCIL 2 payable (no indexation) assuming 50% Net increase in GIA	**Proposed MCIL 2 as percentage of highest and lowest average house price in each group assuming 50% net increase in GIA**	Proposed MCIL 2 payable (no indexation) assuming 100% Net increase in GIA	**Proposed MCIL 2 as percentage of highest and lowest average house price in each group assuming 100% net increase in GIA**
Group 1 highest average house price	Kensington and Chelsea	£1,303,778	£3,333	**0.26%**	£6,667	**0.51%**
Group 1 lowest average house price	Wandsworth	£609,373	£3,333	**0.55%**	£6,667	**1.09%**
Group 2 highest average house price	Hackney	£564,536	£2,500	**0.44%**	£5,000	**0.89%**
Group 2 lowest average house price	Hounslow	£389,458	£2,500	**0.64%**	£5,000	**1.28%**
Group 3 highest average house price	Sutton	£372,926	£1,042	**0.28%**	£2,083	**0.56%**
Group 3 lowest average house price	Barking and Dagenham	£288,873	£1,042	**0.36%**	£2,083	**0.72%**

8.3.2 The proposed MCIL 2 rates as a percentage of the highest and lowest average house prices in each group on a net increase in gross internal floor area assumption of 50% ranges from 0.26% to 0.64% and between 0.51% and 1.28% in a worst case scenario where there is no set off for existing floor area.

8.4 Analysis of proposed MCIL 2 rates

8.4.1 On a worst case scenario (i.e. where a site is previously undeveloped) MCIL 2 proposals do in some cases exceed 1.00% (but no higher than 1.28%) of average house prices. However, in circumstances where there is no existing building, the hurdle of existing use value which must be exceeded to achieve a viable development is likely to be lower, and therefore the capacity to absorb CIL is likely to be higher.

8.4.2 In all cases payments in the order of 0.26% - 1.28% are relatively modest and might, for example, be compared with stamp duty land tax of between 1% and 12% of purchase price when transactions occur.

8.4.3 Major movements in building costs and values over the development cycle are likely to have far greater impacts on viability than CIL at the levels suggested in this paper.

8.4.4 Across the charging groups the percentage of the proposed MCIL 2 payable on a typical unit is broadly in line with the original MCIL. For the borough with the lowest average house prices in Group 2 however, the proposed

MCIL payable increase modestly from 1.13% on the original rates of the average house price to 1.28%, assuming no net off for any existing floor area in a worst case scenario.

8.4.5 To test the viability headroom we have undertaken an illustrative appraisal based on Hounslow's borough CIL viability evidence because they have the lowest average house prices in our proposed middle band for charging purposes.

8.4.6 Hounslow's viability evidence was published in 2014. The Council's viability consultants undertook notional residual appraisals to benchmark residual land values against an existing use value [plus margin] and set the Borough's CIL rates at a level leaving a 'buffer' of circa 30%. On their lowest charging rate of £70 per sq m, the buffer equates to £35 per sq m.

8.4.7 We have taken the value and cost for the lowest value area in Hounslow as per the Council's 2014 viability evidence (residential values of £290 per sq ft / £3,122 per sq m) and made the assumption of a 20% developer's profit on cost would be required to form the an illustrative appraisal based on 1 sq m of floor space and assuming a 100% net increase in GIA for the development as undertaken by the Council (see para 5.8 of viability evidence). The 2014 scenario we have undertaken calculates for the amount available for total development costs, including land, fees and finance, after the Borough CIL and Mayoral CIL allowances have been deducted, with a viability buffer of £35 per sq m remaining.

8.4.8 The Land Registry House Price Index shows an increase in average house prices in Hounslow in the order of 27% between 2014 and 2016. The BCIS All-in TPI index shows a cost increase in the order of 17% over the same period.

8.4.9 We have replicated the appraisal to reflect values and cost changes since the Borough's viability evidence was prepared by increasing the value by 27% and the total development costs by 17%, (including land, fees and finance), after the Borough CIL and proposed Mayoral CIL 2 allowances have been deducted. Our findings (see Table 17 below) show that the differential between cost and value growth over the period since the Council's viability evidence was undertaken now provides for a significantly higher buffer of £305 per sq m even after accounting for the increased proposed MCIL 2. On this basis, notwithstanding that on a typical unit the proposed MCIL 2 rates equate to 1.28% of the average house price as at 2016 (see Table 16 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 18: Hounslow viability and buffer analysis – 2014-2016

Appraisal inputs	2014 (per sq m)	2016 (per sq m)
Value per sq m	£3,122	£3,966 (+27% average price increase)
Developer's profit at 20% on cost	£520	£661
Total amount available for development costs including CIL	£2,601	£3,305
BCIL	-£70	-£70
MCIL	-£35	-£60
Amount left for total development costs including land and 'buffer'	£2,496	£3,175
Amount left for total development costs including land	£2,461	£2,870 (+17% BCIS All-in TPI increase)
Buffer	£35	£305

Inflation assumptions: Land Registry HPI Average Price November 2016 (£389,458) and March 2014 (£306,569) reflects an increase of 27% in value.

BCIS All-in TPI index as at 03 February 2017: November 2016 index (288) and February 2014 (247) reflects an increase of 17% in costs.

8.4.10 For the most part the higher rates in the central London zone (CAZ and Docklands) are a consolidation of the MCIL and S106 policies. However, the rates for retail and hotel have been increased to reflect a better fit with viability (the S106 policy was set relative to the adverse impacts of congestion on the transport network).

8.4.11 In order to consider the possible impacts of the increased levels of the proposed Central London MCIL2 (compared to the Crossrail S106 liability) we have considered the evidence provided by BNP Paribas Real Estate dated June 2015 for the Westminster CIL examination. Their table 1.14.2 is inserted as our table 18 below. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £160 per sq m. The hotel rate increases from £70.62 to £122.50 per sq m,

8.4.12 The increase of circa £52.50-£55.00 per sq m compares to the buffer identified for the Fringe area in the Westminster CIL viability analysis (see below) of between circa £400 (hotel) and £1,025 (retail) per sq m. This suggests that the proposed increase in MCIL2 can be absorbed in the development economics of the Fringe area which has the lowest values in Westminster and is a relatively small part of the borough compared to the size of the core and prime areas.

Table 8: Westminster viability and buffer analysis (Maximum CIL rates – commercial) June 2015

Development type	Area	Maximum CIL rate £s per sq m	Suggested rate after buffer £s per sq m	Viability 'buffer'
Offices	Prime	£3,100	£200	94%
	Core	£2,569	£150	94%
	Fringe	£1,996	£50	97%
Retail (A-class uses, SG retail, nightclubs and casinos)	Prime	£3,407	£200	94%
	Core	£3,880	£150	96%
	Fringe	£1,075	£50	95%
Hotel	Prime	£3,289	£200	94%
	Core	£2,036	£150	93%
	Fringe	£454	£50	89%

Source: Table 1.14.2 titled 'Maximum CIL rates – commercial' Community Infrastructure Levy: Viability Assessment prepared for Westminster City Council (June 2015), BNP Paribas Real Estate (p.6)

[City of London]

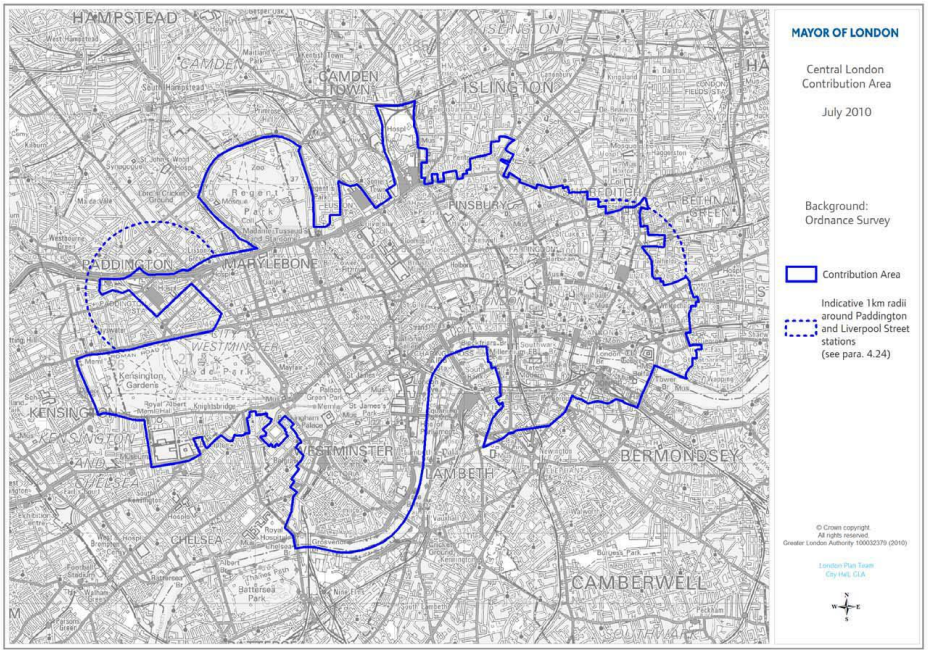
[Tower Hamlets]

Commented [GR3]: JLL to insert buffer analysis from the City and Tower Hamlets CIL viability reports.

8.4.13 It can be seen that the difference between the Maximum CIL rates and the suggested (now adopted) rates provide more than sufficient buffer to absorb the proposed increases in Central London MCIL 2 rates for, offices, retails and hotel uses.

9 MCIL 2 Central London Commercial Zone

Figure 8: Current Crossrail S106 boundary (excluding North Docklands)



9.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre radii around Crossrail stations at Paddington and Liverpool Street based on impact of development on congestion are edged dashed blue.

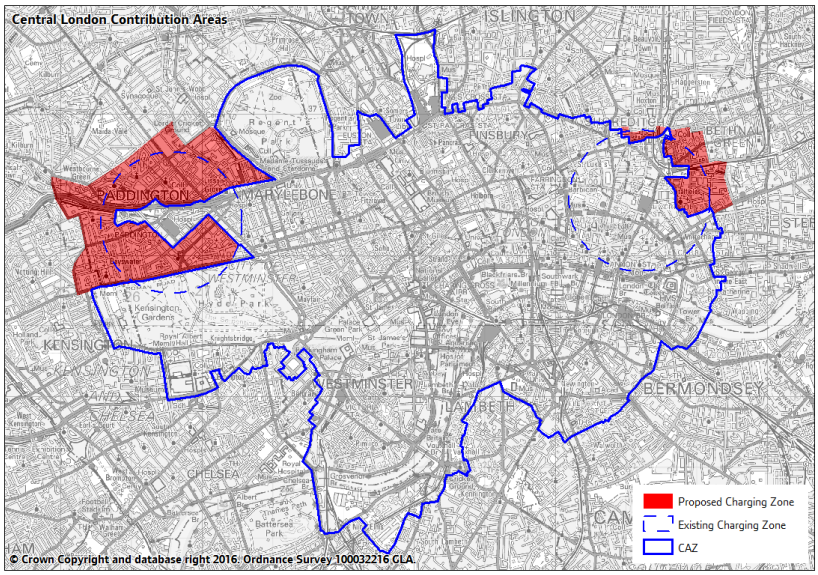
9.1.2 As part of the MCIL 2 viability analysis we have prepared an updated MCIL 2 Central London Commercial Zone that reinstates part of Lambeth, Wandsworth and Southwark as per the London Plan CAZ boundary and that incorporates the 1km zones around Paddington and Liverpool Street stations along natural road boundaries to avoid situations where parts of buildings are captured. These 'natural boundary' modifications are shaded red on the plan in Figure 9. A consolidated boundary for MCIL 2 purposes (excluding North Docklands) is presented in Figure 10.

9.1.3 The inclusion of the parts of the CAZ south of the river that are currently excluded reflects the very significant commercial developments taking place in this area. Of particular significance is the major pre-letting of much of the office content of the Battersea Power Station development to Apple as well as the commercial content of the

Shell Centre redevelopment. The levels of rent/value in these south of the river locations demonstrate that these are now properly part of Central London for viability purposes.

9.1.4 In a similar manner we have sought to rationalise and simplify the boundaries of the North Docklands area by using roads and river as boundaries rather than a circular zone around the Canary Wharf Station. The proposed boundary is shown on Figure 11.

Figure 9: Proposed MCIL 2 Central London contribution area (excluding North Docklands) incorporating Lambeth and Southwark and areas around Paddington and Liverpool Street stations shaded red.



Key

Map

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Figure 10: Proposed MCIL 2 Central London contribution area (excluding North Docklands) boundary incorporating Lambeth and Southwark and areas around Paddington and Liverpool Street stations.

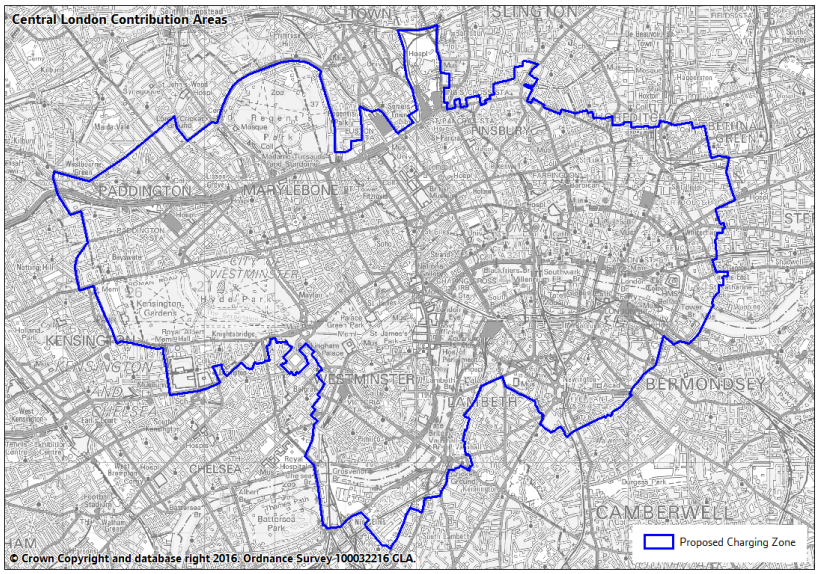


Figure 11: Current Isle of Dogs S106 contribution area (North Docklands)

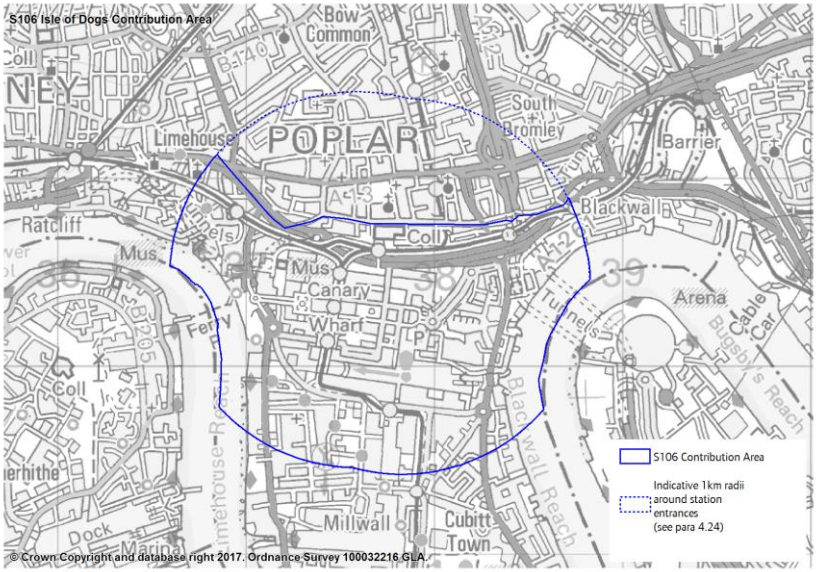
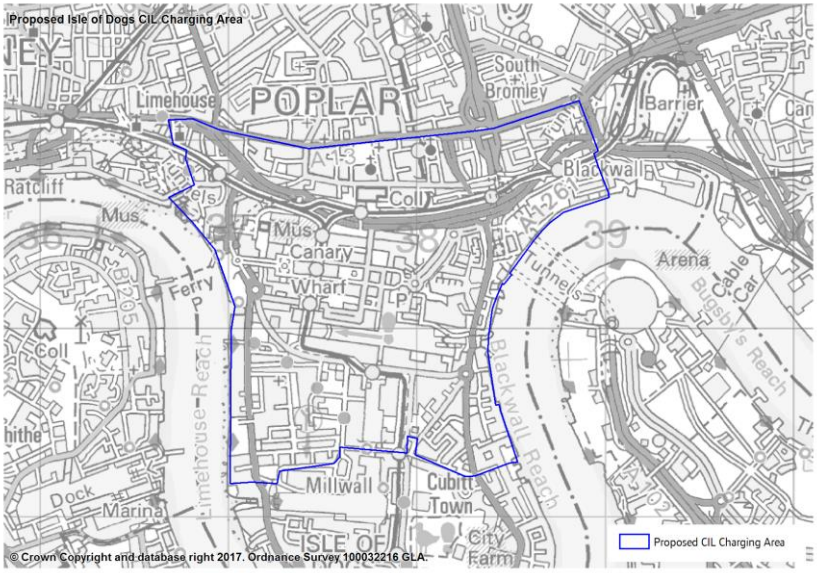


Figure 11: Proposed MCIL 2 Central London contribution area – North Docklands



10 Other Zones Considered

10.1.1 The Mayor considered the possibility of including station zones for MCIL around the stations anticipated to be on the Crossrail 2 route. The Mayor decided not to take this approach for the following reasons:

- It would increase the complexity of the MCIL 2 charging schedule.
- Crossrail 2 is still being worked up and therefore station locations cannot be predicted with certainty.
- Our advice is that it is unlikely that viability impacts will be discernable at this early stage.

10.1.2 The Mayor also considered continuing with the kilometre zones around Crossrail station in outer London that were established in the s106 policy but in the interest of simplicity it is proposed not to propose such zones for MCIL 2 purposes.

11 Affordable Housing

11.1.1 A review of Borough Affordable Housing Policies shows that the vast majority have 35% or more affordable housing as their target. The reality is that when looking at data sifted to give a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% is being achieved. There may be many reasons for this but the most likely of these are reduction in affordable housing grant, funding or similar which might otherwise be used to help bridge the gap between cost and value for deeply discounted products such as affordable rented units, high existing use values which would otherwise deter change of use, and the application of viability in planning decisions which has meant developers may not have taken all factors into account affordable housing requirements into account when bidding for sites and then use the price paid for the site or an unadjusted market values in viability assessments to reduce affordable housing percentages .

Commented [JP6]:

11.1.2 The Mayor has publicly stated his commitment to increasing the level of affordable housing supply in London, with the aim of ensuring that half of all new homes delivered in London would be affordable. His first step on that route was the issuing of the draft Affordable Housing and Viability SPG which was published for consultation in November 2016 and it is intended that future iterations of the London Plan will reflect this overall trajectory.

11.1.3 Whatever changes are made to the MCIL rates we will demonstrate that as a percentage of overall development costs MCIL remains a very small element of the overall cost of production and whilst in some instances where underlying viability is an issue it might make matters marginally worse there will be many other instances where the additional CIL can easily be accommodated within the economics of the transaction as has been shown by the "buffer analysis" undertaken for some boroughs as part of their supporting documentation behind their Charging Schedules. Overall we suggest that whether or not affordable housing percentages that are achieved is likely to much more dependent on housing policy, the grant regime and the cost of building housing rather than the MCIL rates and therefore we conclude that whatever impact raising MCIL will have it is likely to be minor.

Table 19: Affordable Housing Policy by Borough

Borough	Borough Policy Target % (or practice as at 2002)	Borough Policy Target In 2010	Adopted Borough Policy Target As At December 2015 (Numerical / Percentage)	Emerging Borough Policy Target
Barking & Dagenham	None	None, use London	Use London Plan Policy	n/a
Barnet	30	50%	40% (Sept 2012)	n/a
Bexley	25	35%	50% and a minimum of 35% of units to be affordable	n/a
Brent	30-50	50%	50% (July 2010)	n/a
Bromley	20	35%	35% (March 2008)	Plan currently being reviewed

Borough	Borough Policy Target % (or practice as at 2002)	Borough Policy Target In 2010	Adopted Borough Policy Target As At December 2015 (Numerical / Percentage)	Emerging Borough Policy Target
Camden	50 Proposed	50% for >50 dwellings10-50% for <50 dwellings	50% for >50 dwellings, 10-50% for <50 Dwellings (Nov2010)	Between 1 and 24 additional homes – starting at 2% for 1 home, increasing by 2% for each added housing capacity. >25 Dwellings - 50%
City of London	None	50%	30% on site and 60% off site (Jan 2015)	n/a
Croydon	40	40-50%	50% (April 2013)	Plan currently being reviewed (50%)
Ealing	50	50%	50% (April 2012)	n/a
Enfield	25	40%	40% (Nov 2010)	n/a
Greenwich	35	35% min	35% minimum (July 2014)	n/a
Hackney	25	50%	50% (Nov 2010)	n/a
Hammersmith & Fulham	65	50%	40% (Oct 2011)	Plan currently being reviewed (min 40% 2015)
Haringey	30	50%	50% Affordable Housing on site (March 2013)	Plan currently being reviewed (40% 2016)
Harrow	30	London Plan	40% (Feb 2012)	n/a
Havering	None	50%	50% (2008)	Emerging
Hillingdon	25	365u/pa (50%)	35% (Nov 2012)	Plan currently being reviewed (35% Oct 2015)
Hounslow	50	445 u/pa	40% (Sept 2015)	n/a
Islington	25	45%	50% (Feb 2011)	n/a
Kensington & Chelsea	33	Min of 200 units per an from 2011/12 with site specific policy of 50%affordable by Floor area	50% (Dec 2010)	Plan currently being reviewed (50% Jul 2015)
Kingston upon Thames	50	35%	50% (April 2012)	n/a
Lambeth	35-50	40% (50% With grant)	50% when public without (Sep 2015)	n/a
Lewisham	30	35%	50% (June 2011)	Emerging
London Legacy Development Corporation			35% minimum (July 2015)	n/a

Borough	Borough Policy Target % (or practice as at 2002)	Borough Policy Target In 2010	Adopted Borough Policy Target As At December 2015 (Numerical / Percentage)	Emerging Borough Policy Target
Merton	30	London Plan	40% (July 2011)	n/a
Newham	25	London Plan	50% (Jan 2012)	n/a
Redbridge	25	50%	50% (March 2008)	Emerging
Richmond upon				
		50% overall (40%		
Sutton	25	50%	50% (Dec 2009)	Emerging
		50% overall, 35-		
Waltham				
				Currently
Westminster	-	50% overall	30% (Nov 2013)	Emerging

Source: London Plan Annual Monitoring Report 12, 2014-15, July 2016 Update, Greater London Authority, p96-98.

12 MCIL 3?

The combination of the MCIL and S106 policies brings with it some idiosyncrasies.

The S106 charging system was set relative to the harm caused by congestion relating to various uses. CIL was calculated on viability grounds.

The combination of the impact of two regimes is well bedded into developers' thinking. The Mayor wants to move the rates so they are more coherent looking at viability issues alone. In particular prime Central London residential which attracted no S106 "top up" should have a CIL charge closer to that proposed to be levied to commercial uses.

It is likely that a rationalising of the residential rate and emerging new commercial locations will bring with them a review of the boundary of Central London. Areas that might be added could include Kensington & Chelsea, Victoria/Pimlico and areas north of the Euston Road.

Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. However for the purposes of looking forward to 2024 we have ignored this possibility.

As the property development industry is long term by nature we are signalling now the rates that the Mayor might have wished to propose in 2019 but for the need to offer a smoother transition. These rates will revisited at a later date and are offered as forward guidance to assist in decision making.

Table 20: Proposed MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Band 1	£80.00	£89.35	***£100.00***
Band 2	£60.00	£67.01	***£70.00***
Band 3	£25.00	£27.92	***£40.00***

*BCIS index forecast to Aug-21 as at 03 February 2017. JLL have extrapolated at trend to Nov-2023 (preceding November to Q2 2024 anticipated MCIL 3 charging date)

Table 21: Proposed Central London MCIL 3 charging rates from April 2024

Use	Proposed Central London MICL 2 rate (per sq m)
Office	£210.00
Retail	£185.00
Hotel	£150.00
Residential	MCIL 3 Borough rate (£100.00 / £70.00)

[Central London MCIL 3 Residential Rate]

Commented [GR7]: For discussion with CIL Steering Group

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