MCIL Evidence and Approach

As Mr Holland noted in his report in 2012 the Mayor's proposals reflect the unique situation in London where MCIL runs in parallel with Borough CILs.

The approach to viability taken when MCIL was established was to seek to find a method that could be applied across London using available evidence. Residential values were used as a proxy – an approach that was supported by the Chief Examiner.

In considering an approach for reviewing the MCIL charging schedule we have identified the following:

1. A charging schedule and supporting viability evidence that is appropriate for Mayor's charging schedule given its strategic purpose and the need to provide robust evidence but without excessive detail.
2. The Liz Peace review pointed to the ease of operation and simplicity of MCIL in identifying it as an exemplar of CIL in operation.
3. Borough CIL's are now in operation with the majority of them having viability testing undertaken some years ago. These Borough CIL's allowed Boroughs to reflect with more granularity the specific value characteristics across their geography.
4. The Crossrail S106 policy has been imbedded in property viability assessments. In Central London (the Central Activities Zone excluding Waterloo, the North of the Isle of Dogs and in 1km zones around Crossrail stations) higher charges than those typically levied through MCIL have been payable and as a result the s106 levy has been considered as a "top up" above the core MCIL charge.

Given the plaudits offered for the way MCIL has operated to date the Mayor has approached the MCIL 2 draft charging schedule in a similar manner.

- A flat rate across Boroughs
- A new Central London commercial uses levy mimicking the former S106 policy
- Three charging bands with Boroughs classified according to average house prices
- The Central London commercial rates (which for S106 purposes had to reflect impacts on congestion) are now more closely aligned to viability
- The boundaries of the [Central London] zone have been modified to incorporate the whole of CAZ reflecting changes in underlying viability since 2012

Having considered the responses at the preliminary draft charging schedule there appears to be no appetite to increase complexity by changing the flat rate across the borough approach although inevitably there are parties with particular interests who suggest adverse impacts on particular schemes or geographies.

The overall tenor of those respondents that cited potential issues was the cumulative impact of Mayor, Borough and other planning policies. Some respondents point specifically to the impacts on Opportunity Areas.

The test is whether the proposed rates set an appropriate balance between the need to fund infrastructure and the potential implications in terms of viability.

The impact of any levy needs to be assessed at the margin. There will always be schemes that are not viable and will not go ahead regardless of CIL. There will be others where the payment of CIL can easily be afforded. Finally there will be those on the cusp of viability – will these schemes or locations be delayed or cancelled because of MCIL?

The preferred approach by many development consultants supporting Borough CIL charging schedules has been to undertake viability testing across a variety of locations and uses usually measuring residual land values against a benchmark of Existing Use Value plus margin. Buffers have been allowed to avoid Borough rates being set at the limits of viability.

Our approach is to consider the operation of the CIL regime in practice. The trend for MCIL collected has been of continuous annual increases in the amount of CIL raised notwithstanding the introduction of Borough CIL during this period and the indexation of the rates charged.

Development volumes have commensurately increased. This confirms our opinion that the big factors for development viability economics are trends in values, building costs and confidence in the future and that the impact of CIL has not been as significant determinant on whether a scheme has proceeded or not.

Another way of testing this proposition is to consider the position where both MCIL and the Crossrail S106 policy are combined. If the Crossrail S106 obligations (set substantially above the relevant Borough CIL rates) were impacting development this would be evidenced by a negotiation of the S106 top up. However based on responses from the Boroughs in question and evidence supplied where “strategic” applications have been referred to the Mayor very few reductions in the S106 contributions have been negotiated and none in the last three years.

This supports the view that the underlying level of MCIL has been affordable and in Central London so have the higher levels of S106 for commercial uses.

Against this background are the proposed increases in MCIL likely to change the direction of travel? By reference to Table [ ] it can be seen that the Red and Blue boroughs have achieved the greatest development volume and average house prices in these Boroughs are in the bracket £XXX - £XXX.

An increase in CIL above the indexed MCIL 1 figures is in the order of £15 psm or less than __% of the capital value of a completed residential unit. It is unlikely that a change of this magnitude will alter the go/no go decision for a developer.

In the Central Area the rise in rates is approximately £23 psm for offices, £60 psm for retail and £70 psm for hotels.

An office building in the City might typically be appraised at capital value £13,791 psm (£65 psf/4.75%) after allowance for purchaser’s costs.

The proposed increase for MCIL 2 is approximately £23 psm (gross internal area) or £30.66 psm (net internal area). The increase in MCIL as a proportion of the likely end value of the completed investment is 0.22%. The overall CIL charge is less than 2% of the capital value.

For retail the position is usually that the viability characteristics are masked to some extent by other uses within the development. Only in selected prominent shopping streets is retail value likely to be the principal factor when considering viability. We have extracted details of rent levels and pricing that relates to the sale of 190 Oxford Street in early 2017. Rent levels are between £550 and £672 ITZA or between £141 psf and £181 psf overall. The yield achieved was 3.3% net of purchaser’s costs.

Using £160 psf/£1722.22 psm and a 3.3% yield the capital value is in the order of £48,864 psm, net of purchaser’s costs.

The CIL increase of £60.80 psm gross or say £70 psm net represents approximately 0.15% of capital value psm.

Finally we look at the sale of the 4 star Doubletree Hotel by Hilton in John Islip Street, SW1P 4DD. This 464 room hotel has a reported area of 233,112 sq ft/21,657 sq m or c500 sq ft/46.43 sq m GIA per room. The report sale in January 2017 at £187.5m breaks back to £8657.70 psm capital value. The CIL increase of £69.38 psm equals approximately 0.8% of the completed capital value.

Overall the increased CIL proposed represents between 0.15% - 0.8% of the capital value of the completed investment. Taking the worst case a fall of 0.8% of the value on a scheme that otherwise would have produced 20% profit on costs (including land) would reduce the projected profit on cost to 19% which is unlikely in our opinion to be of sufficient significance to change the decision on whether to proceed or not.

RWJ 10/10/2017